Henderson State University

<u>Analysis Report</u>- Oracle Corporation

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Table of Contents

Market Profile	
Oracle Corporation	
Ticker Symbol	ORCL
Exchange	Nasdaq
Industry	A.Software
Sector	Technology
Peer	IBM
Shares Owned	100
Purchase Date	-
Purchase Price	29.00
Current Price	16.42
52-wk Low	15.10
52-wk High	23.62
52-wk Change	-11.27%
52-wk Relative	
1 Year Target Price	20.88
Market/Book	3.81
Market Cap.	85.18B
Beta	1.11
EPS (ttm)	1.10
Price/Earnings	15.29
PEG	0.90
Dividend & (Yield)	N/A
Dividend Payout	N/A
Interest Coverage	--
ROE	27.31

Recommendation:

Hold the current shares

Company History:

Oracle Corporation, an enterprise software company, engages in the development, manufacture, distribution, servicing, and marketing of database, middleware, and application software worldwide. The company was founded in 1977 and is headquartered in Redwood City, California. The company's New Software Licenses segment provides licenses for database and middleware software, including database management software, application server software, business intelligence software, identification and access management software, analytics software, content management software, development tools, and data integration software; and applications software that offers enterprise information for customer relationship management, financial, insurance, human resources, maintenance management, manufacturing, marketing, order fulfillment, product lifecycle management, procurement, projects, sales, services, enterprise resource planning, and supply chain planning sectors. Its Software License Updates and Products Support segment offers customers with rights to unspecified software product upgrades and maintenance releases, and Internet access to technical content, as well as Internet and telephone access to technical support personnel. The company's Consulting segment designs, implements, deploys, and upgrades database, middleware, and applications software. Its On Demand segment provides multi-featured software and hardware management, and maintenance services for clients deploying its software products; and support centers, assistance, technical account management, configuration and performance analysis, personalized support, annual on-site technical services, and other related services. The company's Education segment offers online courses and self paced media training on CD-ROMs. It distributes its products and services to resellers, system integrators/implementers, consultants, education providers, Internet service providers, network integrators, and independent software vendors.

Product Mix

- These businesses are divided into five operating segments. Its software business consists of two operating segments, new software licenses, and software license updates and product support. Its services business consists of three operating segments, consulting, On Demand and education.
- The Company's software business represented 80% of its total revenues and its services business represented 20% of total revenues during the fiscal year ended May 31, 2008 (fiscal 2008).

Stock Chart- Six Months

Recent Headlines

- **Oracle agrees to buy mValent for undisclosed sum, Feb 4, 2009.**
  Oracle Corp. has agreed to buy mValent Inc., a Waltham, Mass.-based maker of software which configures computer applications. Oracle shares rose 40 cents, or 2.4 percent, to $17.45 in midday trading.
- **Oracle Announces Oracle (R) Utilities Quotations Management 1.5, Feb 3, 2009.**
  Oracle Utilities Quotations Management enables utilities to price different products with varying complexity levels. The new version allows utilities to more effectively streamline business processes, establish accurate pricing, reduce risk and increase profitability.

- **Oracle Expands Presence in the Oil & Gas Industry, Reuters, Feb 11, 2009.**

  Oracle is expanding its presence in the Oil and Gas industry with several new customers, over the past several quarters, that have chosen Oracle(R) Applications to manage their asset management, accounting, human capital management and planning and strategy functions. Oracle President Charles Phillips, was recently appointed to The National Petroleum Council by the United States Secretary of Energy.

- **Oracle: Prescient Purchases, Seeking Alpha, Feb 17 2009.**

Oracle generated free cash flow over the last 12 months and used that money to buy 10 small software companies for a merger sum $750million. Its plan is to create software solutions for various industries.

Industry Overview

Current Rank: 19
Portfolio Percentage Rank:
Monetary Policy Indicator: expansive 2nd of 10
Industry Opinion:

Application software industry is growing rapidly. Companies have to have high capital (financial and expertise) for R & D in order to survive and compete in this industry.

Key Issues Affecting the Industry:

Overall economic, political, and market condition, such as inflation, conflict, and law regulation, are affecting the industry, which ultimately will affect the customer demand for the product.

Porter's Five Forces

1. **Rivalry**
   There is a high rivalry among existing competitors. Oracle direct competitors are Microsoft, IBM and SAP.

2. **Threats of Substitutes**
   Threat for substitutes is high. For instance from those companies who offer cheaper price for the same product, or some unauthorized third parties who try to copy and use the patented software.

3. **Buying Power**
   The buying power for customer is high. They are looking for the most reliable, accurate, and user friendly software technology. Price becomes a big consideration for customers especially in this economic crisis.

4. **Supplier Power**
   There is low supplier power.

5. **Barriers to Enter**
   The barriers to enter in this industry are high, such as patents, capital, and a high competition from existing competitors.

Economic Outlook- 10Q

During the quarter the Euro, the British pound, and many other currencies fell substantially compared to the US dollar. This currency impact is reduced, new licensed revenues by 8%, total revenues by 7%, and earnings per share by 9% or $0.03 per share. In the second quarter our new software license revenues were $1.6 billion, up 5% in constant currency and down 3% in US dollar. Technology new license revenues were $1.2 billion, up 12% in constant currency and up 4% in US dollar. BEA contributed approximately $127 million in new licensed revenues this quarter. Applications new license revenues were $469 million, down 9% in constant currency and down 15% in US dollar. Our software licensed updates and product support revenues were $2.9 billion, up 21% in constant currency and up 15% in US dollars. Our service revenues were $1.1 billion up 5% in constant currency, and down 2% in US dollar. Operating income was $2.6 billion, up 25% in constant currency and up 18% in US dollars.

Turning to the balance sheet we have $10.6 billion in cash and investment after our $1.8 billion stock buyback. Our day sales outstanding improved from 55 days last year to 52 days this year as we continued to focus on the quality of our receivables and the effectiveness of our collection efforts. We believe that our bad debt reserve is appropriate and our reserve policy remains consistent with prior periods. Overall we generated a record $7.6 billion in free cash flow over the last four quarters growing 15% over the prior year.

Financial Ratios

Valuation Ratios

	Company	Industry	Sector	S&P 500
P/E Ratio (TTM)	15.66	7.87	5.55	12.60
P/E High - Last 5 Yrs.	28.69	8.08	5.17	29.52
P/E Low - Last 5 Yrs.	14.63	2.05	0.88	6.98
Beta	1.08	0.78	0.97	0.90
Price to Sales (TTM)	3.70	0.66	0.44	1.57
Price to Book (MRQ)	3.81	2.95	2.17	2.51
Price to Tangible Book (MRQ)	--	9.02	3.09	4.66
Price to Cash Flow (TTM)	11.61	2.46	2.68	6.41
Price to Free Cash Flow (TTM)	11.44	7.43	21.36	14.39
% Owned Institutions	--	--	--	--

Dividends

	Company	Industry	Sector	S&P 500
Dividend Yield	N/A	0.29	0.12	3.41
Dividend Yield - 5 Year Avg.	0.00	1.56	1.06	1.90
Dividend 5 Year Growth Rate	--	16.41	17.95	11.46
Payout Ratio(TTM)	0.00	2.51	14.40	38.07

Growth Rates

	Company	Industry	Sector	S&P 500
Sales (MRQ) vs Qtr. 1 Yr. Ago	5.53	2.07	-10.07	-1.23
Sales (TTM) vs TTM 1 Yr. Ago	17.14	3.91	-0.42	9.51
Sales - 5 Yr. Growth Rate	18.81	11.44	11.79	14.14
EPS (MRQ) vs Qtr. 1 Yr. Ago	0.33	-90.89	-263.36	-83.01
EPS (TTM) vs TTM 1 Yr. Ago	20.52	--	--	--
EPS - 5 Yr. Growth Rate	19.92	8.47	12.64	16.83
Capital Spending - 5 Yr. Growth Rate	-3.54	21.65	15.94	10.56

Financial Strength

	Company	Industry	Sector	S&P 500
Quick Ratio (MRQ)	1.90	2.80	2.26	0.94
Current Ratio (MRQ)	1.90	2.92	2.68	1.14
LT Debt to Equity (MRQ)	44.85	9.42	23.24	73.69
Total Debt to Equity (MRQ)	49.24	14.31	39.43	99.78
Interest Coverage (TTM)	--	1.98	0.62	32.34

Profitability Ratios

	Company	Industry	Sector	S&P 500
Gross Margin (TTM)	78.37	17.01	16.64	40.07
Gross Margin - 5 Yr. Avg.	77.36	56.67	43.06	41.86
EBITD Margin (TTM)	42.86	--	--	--
EBITD - 5 Yr. Avg	39.75	25.66	20.53	19.40
Operating Margin (TTM)	35.46	5.29	3.97	--
Operating Margin - 5 Yr. Avg.	34.44	21.22	15.01	17.75
Pre-Tax Margin (TTM)	34.39	5.40	3.86	14.47
Pre-Tax Margin - 5 Yr. Avg.	34.69	22.92	15.50	17.47
Net Profit Margin (TTM)	24.45	3.77	2.65	10.31
Net Profit Margin - 5 Yr. Avg.	24.42	13.85	9.65	12.27
Effective Tax Rate (TTM)	28.91	5.48	11.84	28.27
Effective Tax Rate - 5 Yr. Avg.	29.61	32.67	37.94	29.99

Management Effectiveness

	Company	Industry	Sector	S&P 500
Return on Assets (TTM)	14.30	3.37	2.45	5.79
Return on Assets - 5 Yr. Avg.	14.86	10.00	8.52	6.29
Return on Investment (TTM)	17.44	4.97	3.54	8.08
Return on Investment - 5 Yr. Avg.	20.85	14.15	11.96	8.57
Return on Equity (TTM)	27.31	6.44	4.58	20.59
Return on Equity - 5 Yr. Avg.	28.64	15.58	13.76	16.19

Efficiency

	Company	Industry	Sector	S&P 500
Revenue/Employee (TTM)	279,307	157,391	6,211,030	329,511
Net Income/Employee (TTM)	68,277	16,858	307,098	34,050
Receivable Turnover (TTM)	7.22	1.36	2.16	10.04
Inventory Turnover (TTM)	--	2.44	2.81	7.34
Asset Turnover (TTM)	0.58	0.18	0.32	0.67

DCF Model	
Beta	1.11
Valueline Safety Rating	2
Expected Growth (EPS)	17%
Projected Growth & Dividend Yield	--
Required Rate Return	12.20%
Projected Future P/E	20%
Annualized HPR	23.62%
PV of Future Price	$28.86
Recommendation	Undervalued

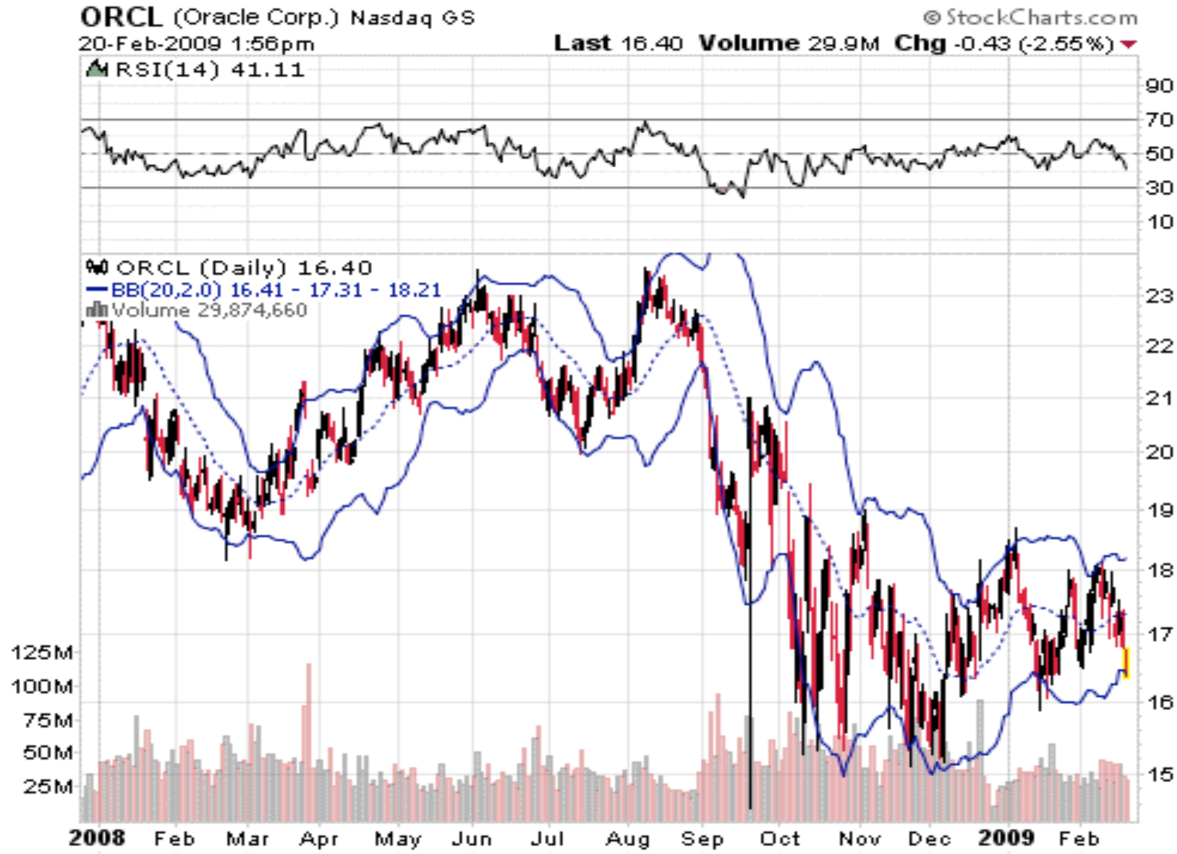
P/E Sensitivity

Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
20.20	39.48	**14.0**	2.82	2.40	16.27%
23.09	45.12	**16.0**	2.82	2.75	18.97%
25.97	50.76	**18.0**	2.82	3.09	21.40%
28.86	**56.40**	**20.0**	**2.82**	**3.43**	**23.62%**
31.74	62.04	**22.0**	2.82	3.78	25.66%
34.63	67.68	**24.0**	2.82	4.12	27.55%
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Earnings Sensitivity

Present Value	Price 2014	P/E 20014	EPS 2014	HPR 2014	Annual Return
22.72	44.40	20.0	**2.22**	2.70	18.64%
24.76	48.40	20.0	**2.42**	2.95	20.41%

Momentum



Analyst's Opinion

Why Buy ORCL?

- Undervalued according to DCF model.
- P/E ratio, profitability ratios and management effectiveness are relatively higher compare to the industry and the S&P 500.
- Software middleware market is growing very strongly in this economic climate; there is a high demand for this industry.

Why not buy ORCL?

- LT debt to Equity 5 times compare to the industry.
- The uncertainty with the economy right now, such as currency effects, and the high competition among existing competitors.
- Large market capital, one of the mature companies. Large capital will make the company tend to have a slow growth in the future.

Final Discussion:

Hold the current shares.

Works Cited

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