Oracle Co. (NYSE: ORCL)
Sector: Technology

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 its 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.

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