

Oracle Corporation

Key OCI Debates, Where We Stand

Summary

Oracle shares are -27% post its 4Q/May print, with investors shrugging-off strong revs growth results and guidance and focusing on several perceived risks – rising AI infra capex, uncertain/uninspiring ROIC, evidence of tightness in the credit markets for new large AI data center debt offerings, delays at a key site under construction in New Mexico and high customer concentration with OpenAI. In this note we focus on each of these OCI-related concerns. Net, we conclude that material risk is already priced into the stock and that some risks (such as New Mexico delays) could be over-stated. We remain Buy-rated.

Potential Positives

We'd note: 1. This week we spoke with an industry check with good visibility into Oracle's Project Jupiter construction project in New Mexico. In contrast to investor concerns (and ours) that the government could block the project, this check attached a 90% chance of the project proceeding (some delay, some higher cost) and noted that the first 200 MW is powered off the grid and is secure. 2. Investors are pricing-in more credit risk (Oracle will likely need to issue more debt in CY27), evidenced in wider spreads on peer group deals and wider CDS spreads, but the hyperscaler prints from last week eased concerns and, as KKR said, there is some "indigestion" but the credit markets remain open. 3. Investors reacted poorly to Oracle's decision to effectively reaffirm (not raise) the FY27 revs/EPS guide on the last call, but we wonder if there is upside given the material AI capacity coming online, coupled with CFO conservatism last quarter.

Lingering Concerns

While Oracle shares have re-rated by +25% since Microsoft's print last week, in our view, further multiple expansion needs to come from an improved narrative about: 1. Oracle's high OpenAI exposure and how a changing AI model market could impact OpenAI's spend with Oracle, if at all, 2. Greater comfort with the ROIC (fully-loaded with depreciation) on AI capex, particularly Oracle's ability to "move up the stack" from offering core GPU access, 3. Competition, as SpaceX, Meta and even OpenAI itself (via the Pike County site) sell/consume AI compute.

Valuation:

Oracle shares trade at 11x CY28e and 16x CY27e non-GAAP EPS, in our view attractive given the unprecedented growth acceleration and AI exposure. While we remain Buy-rated, we're trimming our PT from \$285 to \$245, based on a target multiple of 19x CY28e non-GAAP EPS (from 28x on C27e) to reflect the risks discussed in this report. 19x is a slight premium to the peer group, reasonable given that revs growth should soon be 30%+.

Equities

United States
Software

12-month rating **Buy**

12m price target **US\$245.00**
Prior : **US\$285.00**

Price (05 Aug 2026) **US\$144.28**

RIC: ORCL.N BBG: ORCL US

Trading data and key metrics

52-wk range US\$328.33-114.99
Market cap. US\$422b
Shares o/s 2,914m (COM)
Free float 78%
Avg. daily volume ('000) 6,292
Avg. daily value (m) US\$1,020.4
Common s/h equity (05/26E) US\$43.1b
P/BV (05/26E) 9.8x
Net debt to EBITDA (05/26E) 2.7x

EPS (UBS, diluted) (USD)

	05/26E	
	UBS	Cons.
Q1	1.47	1.47
Q2	2.26	2.26
Q3	1.79	1.79
Q4E	2.14	2.11
05/26E	7.66	7.63
05/27E	8.14	8.06
05/28E	10.82	11.02

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Highlights (US\$m)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Revenues	49,955	52,961	57,399	67,358	89,889	129,006	175,928	209,177
EBIT (UBS)	20,904	23,054	25,034	28,925	37,284	51,450	68,732	85,192
Net earnings (UBS)	14,177	15,709	17,285	22,338	25,128	34,355	47,870	61,338
EPS (UBS, diluted) (US\$)	5.12	5.56	6.03	7.66	8.14	10.82	14.78	18.56
DPS (net) (US\$)	1.35	1.60	1.70	2.03	2.01	2.02	2.02	2.02
Net (debt) / cash	(80,294)	(76,208)	(81,365)	(97,647)	(119,486)	(158,545)	(149,140)	(111,619)
Profitability/valuation	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
EBIT (UBS) margin %	41.8	43.5	43.6	42.9	41.5	39.9	39.1	40.7
ROIC (EBIT) %	32.2	27.6	26.7	23.8	20.9	20.0	21.9	25.1
EV/EBITDA (UBS core) x	10.9	13.4	16.2	14.0	10.1	7.6	5.4	4.3
P/E (UBS, diluted) x	15.8	20.6	26.0	18.8	17.7	13.3	9.8	7.8
Equity FCF (UBS) yield %	5.8	4.5	0.0	(5.4)	(11.4)	(10.8)	3.6	10.3
Dividend yield (net) %	1.7	1.4	1.1	1.4	1.4	1.4	1.4	1.4

Source: Company accounts, LSEG Eikon, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$ 144.39 on 05-Aug-2026 17:36:32 EDT

Share Price Underperformance

Oracle shares are -24% YTD, materially under-performing the peer group of AI infrastructure providers, as illustrated in Figure 1 below. Given that this entire peer group has (until recently) materially lagged semi stocks and even most application software stocks over the last few months, we believe Oracle's share price weakness is clearly a reflection of a broader sentiment erosion towards the AI infrastructure market given concerns about rising capex, uncertain ROI, the need for external credit or equity financing, the challenges associated with standing up large AI data centers and the customer concentration with OpenAI. As we show in Figure 1, these concerns eased materially post the Microsoft and Amazon prints but in our view they continue to weigh on Oracle shares.

Figure 1: Relative Share Price Performance

	Jan 1- Jul 29	Since Jul 29
CRWV	-15%	53%
NBIS	77%	52%
IREN	-22%	40%
MSFT	-19%	27%
ORCL	-40%	25%
AMZN	-2%	23%
GOOG	7%	12%
Average	-2%	33%
Median	-15%	27%

Source: Factset

Key Investor Debates

In our view, a portion of Oracle's underperformance is rooted in more Oracle-specific concerns, issues that we take up in this report, including a discussion as to whether/how they might reverse. There are of course debates on the database and application software sides of the house too, but in our judgment these are not what are weighing on the stock, and we're not hearing anything materially new/incremental in these core software segments to explain the -27% move in the stock since the 4Q/May print (if anything, core software sentiment has marginally **improved** over this period).

- **AI Capex and Uncertain ROI:** Investor tolerance for rising AI capex has over the past few years flipped between positive (more capex is a signal of strong demand) and negative (the industry is over-investing and returns will be weak). Investors are now back to worrying about higher capex, but particularly when upward capex estimate revisions are not accompanied by upward revenue and EPS guidance revisions. This was the outcome of Oracle's 4Q/May call, as the MT guide for revs and EPS was basically reaffirmed despite higher capex, a higher backlog and material AI capacity additions. This had the effect of triggering more concerns about Oracle's AI ROI, and the recent S&P credit downgrade (while Oracle debt remains investment-grade) didn't help.
- **Tighter Credit Markets:** Investors, like us, are monitoring widening credit spreads on AI infra debt deals and widening CDS spreads for Oracle and its peers. While Oracle has stated that it doesn't need to access additional debt financing in CY26, it will likely need to do so in CY27 and investors are concerned about the availability and cost of capital to fund the AI build-out.
- **Pace of Capacity Additions:** While Oracle disclosed that it stood up 1GW of new capacity in 4Q/May, outstanding and comparable to the pace of capacity adds by Microsoft, its out-year revenue guidance is rooted in success in standing up a handful of major AI data centers. The media around delays with one of those sites – Project Jupiter in New Mexico – has weighed on investor confidence that Oracle can advance these major construction projects on schedule.

- **OpenAI Exposure:** Given the consensus view that open source (Chinese and other) AI models are poised to take share from frontier labs and that enterprise token spend optimization efforts might trim 2H growth for OpenAI and Anthropic, investor sentiment about Oracle's high OpenAI exposure has swung back to being perceived as a risk, contributing to the weakness in the shares of each of the hyperscalers with large OpenAI exposure (Oracle, Microsoft, CoreWeave).

Oracle's AI Capex and ROI

In light of the recent post-print weakness in the shares of Oracle, Google and Microsoft, each with increases in their capex guides, let's address this issue first. In Oracle's 4Q/May 2026 quarter, capex of \$16.5 billion was +82% y/y, making FCF modestly negative (and negative for the 5th straight quarter). Full year FY26 capex of \$56 billion was +162%, landing above the \$50 billion guidance set back in Dec 2025, and well above the previous \$35 billion guidance. Looking forward, Oracle guided to the following:

- **FY27:** Capex guide of \$90-95b, landing above the ~\$85b buy-side consensus and representing capex growth of ~70%, below our estimated IaaS/cloud infra revs growth of ~120% in FY27
- **Beyond FY27:** Importantly, Oracle said that peak dollar (not growth) capex will be in FY27 or FY28, the first major cloud infra provider to clarify this and motivating us to trim our FY29+ capex (and raise FCF) estimates. This outlook is based on what Oracle can see today, a "peak capex" timeline that would obviously move to the right if Oracle were to commit to the delivery of materially more capacity for new or existing customers.

Key Inputs to FY27-FY30 Capex Estimates

From a base of \$56 billion in FY26 capex, what are the key inputs into our FY27-FY30 capex estimates? Some are very clear, namely the RPO balance or backlog of commitments (\$638 billion at the end of 4Q/May, amazingly about equal to that of Microsoft and higher than that of AWS) that Oracle needs to service. It is also a function of the durability of overall compute demand over the next 3-5 years, which appears to be very robust based on a plethora of data points, including accelerating hyperscaler growth rates, the clear ramp in enterprise AI consumption, remarkable AI-native growth as well as the "compute constraint" comments from OpenAI and Anthropic. But more specific to Oracle, we are driving our medium-term capex estimates based on:

- **Peak Capex Comment:** While we acknowledge that Oracle's stated peak capex timing (FY27 or FY28) could be a moving target depending on new cloud commits, this disclosure is an important input to our capex estimates beyond FY27, raising the prospect that dollar capex slows beginning in FY29.
- **Timing of Largest Builds:** As we discuss in the next section, most of Oracle's largest AI data center builds are slated for go-live in 2027. When Oracle says that "customer delivery will begin in 2H27", that can of course mean that capex will be heavy in 2028 given 9-12 month ramps, but the timing of Oracle's largest builds supports a view that capex will peak in 2027/2028.
- **Revenue Conversion to Capex:** Oracle has provided revenue guidance through FY30 and hence one method to calculate required capex is to work backwards from this revenue guide using reasonable capex per revenue dollar ratios. From a base of IaaS revs of \$18.1 billion in FY26, we're modeling FY30 IaaS revs of \$157.3 billion, for dollar growth of \$139 billion. On the GPU infra business that is driving much of this revs growth, Oracle used a revs per GW of \$10 billion at its fall 2025 Investor Day (we suspect it is now higher) and we're using a ratio of \$2.5 of capex per dollar of future revs, which admittedly could be lower if Oracle funds the acquisition of Nvidia GPUs via off-balance-sheet methods. This IaaS revenue to capex conversion math backs us into required capex of ~\$345 billion in the 5-year FY26-FY30 period to drive this revenue growth. Given capex of \$56 billion in FY26 and the guide for \$95 billion in FY27, this implies an average of \$65 billion in the FY28-FY30 period, much lower than in FY27 and supporting Oracle's FY27/FY28 peak capex comment.

- Capacity to Capex Conversion:** Another approach to estimating Oracle's medium-term capex is to start with the required GW of expected capacity additions and then work backwards to capex based on a reasonable estimate of the required capex per GW. Oracle has said that "through our partners, we have secured 10+ GW of power and data center capacity coming online over the next three years". One of the most detailed cost-per-GW analysis came from the CEO of Crusoe in an April 2026 Stanford session, and in Figure 2 below we show the detailed cost build-up for a GB200/GB300-based AI data center, summing to \$57 billion. Noting that Oracle partners with data center firms (such as Crusoe and Vantage) to build and deliver "warm shells" (appearing as lease costs), then the capex to Oracle might be closer to \$35 billion. Across 10 GW, that amounts to \$350 billion, very close to the math from the methodology above. It is also worth noting this \$35 billion figure is for a GW of newer GPU vintages like Nvidia's Grace Blackwell chips with a revenue opportunity of ~\$15b revenue per GW (whereas the \$25b of capex and \$10b of revs per GW assumed for Oracle represents a mix of older pricing/GPUs). Both of these capex & revenue per GW assumptions yield roughly the same ~2.5 capex to revenue ratio.

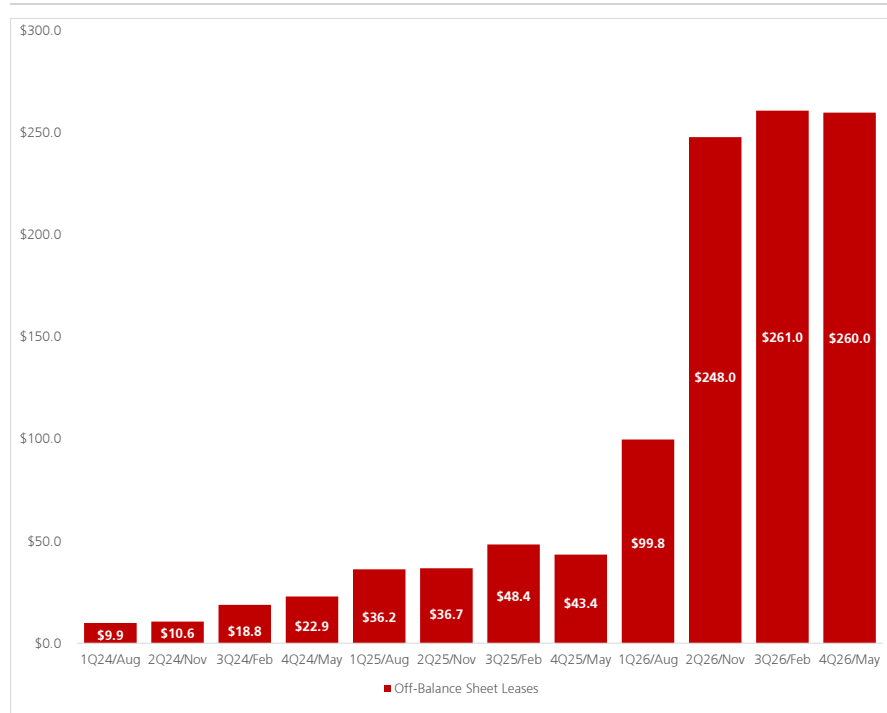
Figure 2: Cost of a Modern AI Data Center

Cost/MW (\$millions)		Description
DC Construction		
Labor	\$4.7	Standing up the powered shell building
Materials	\$3.9	Electrical, mechanical and civil engineers, masons, HVAC, architects etc.
Gas Plant	\$3.0	Steel, cement
Tenant Fitout	\$2.6	Turbines from Mistubishi Heavy, GE Vernova etc.
Electrical Equipment	\$1.8	Fan walls, cooling units, any outfitting of the internal data hall for the end user
Mechanical Equipment	\$1.7	All voltage switch gear, "industrial electrical panel"
Soft Costs	\$1.5	Plumbing, chillers, cooling
Subtotal	\$19.2	Insurance, financing costs, zoning etc.
IT Capex		
GPUs	\$30.0	What goes inside the data hall
Networking	\$4.0	NVDA GB200 / 300s
CPU / Storage	\$3.0	Connecting GPUs to talk to each other
Labor / Shipping	\$1.0	Orchestrating workloads
Subtotal	\$38.0	Installing & transporting IT equipment
Total	\$57.2	

Source: Crusoe

- Trend in Lease Obligations:** As noted above, Oracle's reported capex is not apples-to-apples to that of rivals Microsoft and Amazon given that Oracle partners with data center firms to build and deliver "warm shells", which Oracle leases for long periods. The data center infrastructure is therefore "off balance sheet", with lease obligations (reported in the 10-Q) important to watch as a barometer of early-stage data center builds that – with a lag – will drive subsequent equipment capex. Figure 3 below illustrates the massive jump in lease obligations in Oracle's 2Q/Nov 2025 quarter ahead of the build-out of large new AI data centers. We estimate that these data center leases have an average duration of 15+ years, such that \$260 billion of obligations equates to ~\$17 billion of annual lease expenses (we believe that much of this runs through COGS, with cash lease payments beginning once the data centers are delivered to Oracle and hence the leases fully commence). A few observations. First, assuming equipment capex really ramps about a year after the initial lease is signed, then this explains the material jump in capex in the coming 1Q/Aug and 2Q/Nov quarters. Second, it is encouraging that Oracle's lease commits have begun to level-off post the big 2Q/Nov 2025 jump, perhaps a signal that Oracle is focused on executing on already planned builds rather than taking on material new construction projects.

Figure 3: Oracle Lease Obligations

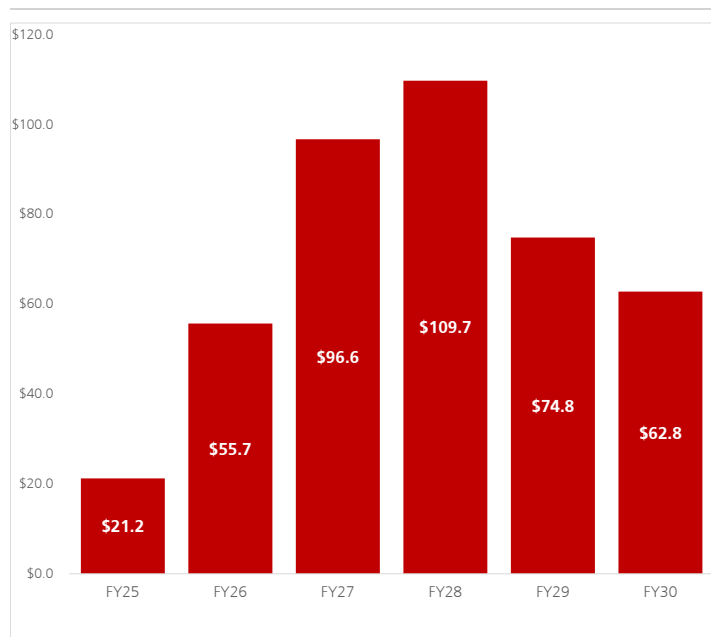


Source: Company disclosures

Bottom Line – Our Capex Estimates

Pulling all of the above inputs together, we offer our capex estimates below in Figure 4. Relative to the consensus sell-side estimates, we are higher for FY28 (\$110 billion compared to Street consensus of \$92 billion) but, in our judgement, likely closer to where investors already are. For FY29, in light of the “peak capex” commentary and other inputs described above, we are now comfortably below the Street (\$75 billion compared to the sell-side consensus of \$88 billion). Bottom line, this refresh of our capex forecasts left our estimates intact with where we set them in mid-June.

Figure 4: UBS Capex Estimates for Oracle



Source: UBS Estimates

Cash Capex is Lower - Offloading GPU Costs

The capex figures above are total or reported. The net cash outlay to Oracle is lower, and Oracle disclosed that of the FY26 reported capex of \$56 billion, only \$48 billion was net cash outlays, driven in part by pre-payments from customers that serve to cover part of the cash needs. For FY27, Oracle's total capex guidance of \$90-95 billion converts to actual cash outlays of ~\$70 billion, with an expected \$20-25 billion met by customer pre-payments, timing issues and "bring-your-own-hardware" (BYOH) deals. Of the \$85 billion increase in sequential RPO in 4Q/May, \$67 billion was for AI infrastructure contracts and of that amount, "the majority" were pre-paid or BYOH deals. Oracle claims that the margins on these pre-pay/BYOH deals are equal to or better than its other contracts. These contract structures are obviously designed to ease the financing burden on Oracle, lowering the amount of debt/equity it needs to raise and helping to preserve its investment grade (IG) credit rating. Oracle is not breaking new ground with such deals, as the neo-Clouds, Meta, xAI and others have already signed similar deals.

Is the ROIC There?

One of the bigger (potentially thesis-changing) takes from the Microsoft and Amazon prints last week was the view that the margins, the return on invested AI capital, may be better than most thought, and thus the AI monetization story is starting to kick-in. Is that also true for Oracle? In our view, it is less clear, less compelling, for Oracle. On the 4Q/May call, Oracle referenced its "previously outlined 30% to 40% (gross) margin profile" on AI infrastructure revs, consistent with comments on the 3Q/Feb call that "looking at the AI capacity we delivered in Q3, our gross margin for that remained above our 30% guidance at 32%". We can obviously calculate incremental Cloud Services & Support gross profit dollar adds divided by incremental Cloud Services & Support revenue dollar adds to get to incremental GMs of ~39% in FY26 (but higher at 51% in 4Q/May), down from ~55-60% in previous years and well below the corporate GM level of 66%.

On the 4Q/May call, the new CFO went one helpful step further and outlined the math on Oracle's return on invested capital. Oracle calculated a high-20% steady-state ROIC "once the revenues have ramped for large projects", excluding upsides such as a longer-than-expected GPU life. According to the CFO, "I'm just calculating return on invested capital as after-tax operating margin plus depreciation, divided by gross investment, so total capex at the project level". In Figure 5 below, we estimate the rough math that Oracle may have been using, and then calculate a fully-burdened ROIC by including (not excluding) depreciation charges to get to a "low-teens" ROIC.

Figure 5: Oracle ROIC Math

ORCL - ROIC Bridge per GW (GPU)	
ROIC Calculation	
Revenue per GW (\$b)	\$10.0
Gross Margin	35%
Operating Margin	33%
Operating Income per GW	\$3.3
Tax Rate	20%
After-Tax Operating Income (NOPAT) per GW	\$2.6
+D&A (capex / 6-year useful life)	\$4.2
NOPAT + D&A	\$6.8
Capex per GW (\$b)	\$25.0
ROIC (matching ORCL's "high 20%" ROIC)	27%
Fully Loaded Calculation	
After-Tax Operating Income	\$2.6
Capex per GW (\$b)	\$25.0
ROIC (Fully Loaded) - Aft-Tax Op Inc / Capex	10%

Source: Oracle, UBS Estimates

Upside to a High-20% Cash ROIC

In our judgement, most investors are not particularly excited about a 30-35% GM profile and a high-20% cash ROIC (low-teens fully-burdened by depreciation) on new AI infrastructure capacity, explaining the weakness in Oracle shares. In our view, the upside case – which we believe has to be proven-out in order for the stock to fully re-rate higher – must be that these GMs/ROIC metrics will improve over time with scale as well as “moving up the stack” and driving growth in revenues per GW of capacity. While Oracle has disclosed a loose estimate of \$10 billion of revs per GW of capacity, investors are aware that SpaceX on its earnings call this week referenced signing deals at \$30-50 billion of revs per GW. There are reasons for this gap, but there may be a strong upward bias to the revs per GW assumption used by Oracle investors. Put another way, the ROIC will ramp as Oracle moves well beyond “selling GPU access” on OCI. This was captured well via a recent conversation we had with a major AI data center developer and operator: *“we don’t do bare metal leasing, returns there are tough. If hyperscalers want to own their own compute, it’s going to be hard to renew a lease where you are selling bare metal. The business I would not want to be in is leasing GPUs to Meta. The downward pressure on the renewal rate will be very acute. We have been told by the hyperscalers that GPU as a service is not something they ever want to do”*.

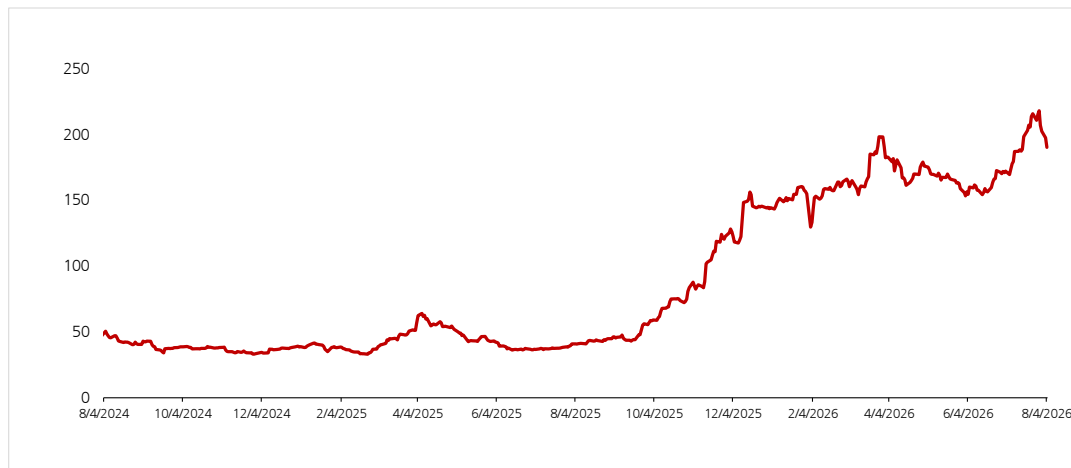
Protecting GMs from Component Inflation

One (still) persistent MT margin or ROIC investor concern is that AI infra providers such as Oracle are locking customers into fixed pricing over multi-year contracts but leaving themselves exposed to component inflation, pressuring margins/ROIC. Oracle, presumably recognizing this perceived risk, addressed this issue on the 4Q/May call, saying that it only does fixed price contracts when it has certainty around the cost inputs. When it does not, then “we do not do fixed price contracts with our customers and we have a mechanism whereby those costs end up being floating”. This in our view helped to alleviate this perceived risk. We spoke with Microsoft last week post their print about this same risk and they too talked-down that risk, saying that a) with large frontier lab customers such as OpenAI, they have fixed price contracts by tranche of capacity that is stood up, such that the following tranche could have different /higher pricing, b) for traditional enterprise customers, the price discounts can be adjusted over the life of deals and c) they have line of sight to component costs given long-term agreements. Net, we expect this perceived risk to fade in the investor discourse over the coming quarters.

Financing This Capex Ramp

Oracle's ability to fund this \$340-350 billion of required capex through FY30 has been an overhang on the stock for some time, with the level of concern oscillating depending on the perceived health of the credit/equity funding markets and the degree of acceptable strain on Oracle's balance sheet. Judging from Oracle's CDS spreads, which have widened-out materially in recent months, it seems that investors are now back to being more worried than before. Let's evaluate whether this apparent anxiety is warranted.

Figure 6: Oracle CDS Spreads



Source: Bloomberg

IG Rating – But Right at the Edge

As at the end of Oracle's 4Q/May quarter, the company had \$130 billion in total short and long-term debt, and given \$31 billion in cash and equivalents, Oracle has ~\$100 billion in net debt. Oracle's ability to absorb \$100 billion in net debt is largely a function of its profitability – its 43% non-GAAP operating margin in FY26 is among the highest in the software sector, as is its FY26 OCF margin of an even higher 48%. In particular, Oracle can absorb high levels of debt because of its hugely-profitable database software business, its cash flow engine. While there are pressure points in this business, namely that many new customers are turning to cheaper relational (Postgres-based) database options and that AI coding agents are better enabling better enterprises to modernize and get off legacy Oracle-based and mainframe-based apps, Oracle's core database business appears to be stable with no evidence of pricing or margin pressure.

This core profitability is anchoring the company's investment grade (IG) debt rating, which Oracle has remained steadfast about protecting at all costs. As we show in Figure 7 below, Oracle's massive AI infrastructure investment cycle has burdened its balance sheet and weighed on these industry-high margins to the point that Oracle remains IG, but is teetering on the edge. Scaling as a tier-1 GPU cloud provider is increasingly about access to capital and hence variations in the cost of capital – heavily influenced by credit ratings – have a very real P&L impact. The fact that Oracle shares have materially underperformed Microsoft, Amazon and Google of late is in our view very correlated to relative balance sheet strength and the need to access external funding versus (in the case of Microsoft) being in a position to self-fund.

In mid-July, S&P downgraded Oracle debt to BBB-, at the very low end of the IG quality range. By comparison, S&P rates Microsoft a AAA – the highest possible – while emerging GPU cloud provider CoreWeave is rated B+ or speculative/high-yield. At the time of the downgrade, S&P reiterated well-understood risks: customer concentration (namely OpenAI), high capex and rising component costs (memory inflation), saying that they "underestimated the scale of the investments required to expand the AI business". S&P warned that it could downgrade again if a) leverage remained above 4.5x, b) if it believe that Oracle is not on a path to be FCF positive by FY29 or c) S&P's view of the AI strategy or overall AI industry changes negatively.

Figure 7: Oracle's Credit Ratings

Investment Grade	Moody's	Standard & Poor's	Fitch
Strongest	Aaa	AAA	AAA
	Aa1	AA+	AA+
	Aa2	AA	AA
	Aa3	AA-	AA-
	A1	A+	A+
	A2	A	A
	A3	A-	A-
	Baa1	BBB+	BBB+
Oracle	Baa2	BBB	BBB
Weakest	Baa3	BBB-	BBB-

Source: Factset

Oracle's Required Financing

On the most recent 4Q/May call in mid-June, Oracle disclosed plans to raise ~\$40 billion in debt and equity in FY27 (ended May 2027), including its already-announced \$20 billion of at-the-market (ATM) equity issuance, and said that the company doesn't anticipate raising additional debt funding in calendar year 2026. Assuming that the \$20 billion ATM equity financing occurs between now and CY26 year-end (we have heard from sources that Oracle's ATM issuance has begun), then these disclosures imply ~\$20 billion of additional debt or equity in the period Jan-May 2027.

What is required beyond FY27? Over the 4-year period FY27-FY30, we're modeling operating cash flow of \$308 billion, using relatively conservative estimates of the GMs on Oracle's GPU infrastructure business, weighed down by lease commitments and other expenses. As noted above, we estimate reported capex of \$344 billion over this same 5-year period, a gap of ~\$36 billion. This gap is wide – over \$45 billion of negative FCF - in each of the next 2 years but then turns positive in FY29, as GPU cloud revs ramp materially and (presumably) as annual capex begins to fall. But as noted above, Oracle's cash capex is lower than reported capex by \$20-25 billion in FY27, such that if Oracle continues to negotiate contracts with BYOH and cash pre-pay provisions, then it is highly likely that there will be **no cash funding gap** over the full FY27-FY30 period. The risks are twofold. First, that our OCF margin assumptions are off and there is material degradation in the core, especially in the high-margin database businesses. Second, while there may not be a funding gap over the 4-year FY27-FY30 period, there most certainly IS a funding gap for FY27 and FY28.

Credit Market Appetite for AI Infra Deals

What will be the appetite of credit markets to fund Oracle's financing needs for the next two years? At the core of investor concerns about Oracle's need for incremental capital is whether the credit markets are even going to be there for Oracle and smaller peers such as CoreWeave and Nebius that also need to externally-finance their data center build-outs. It's a legitimate question to ask given the pending scale of AI infrastructure investments and there are a host of very real issues for the debt markets to be worried about, including the timing lag to monetize AI relative to the up-front investments, AI capacity go-live hurdles and the high concentration of AI infra demand among a small number of model providers. But is there convincing evidence that the appetite to fund the AI build-out is waning, such that Oracle may not have access to sufficient capital at reasonable rates? Are we seeing/hearing of any material cracks in the credit markets for AI investments overall?

Recent Peer Debt Deals

The most recent issuance from a direct peer to Oracle in the broader high-yield market was CoreWeave's mid-June \$1.25 billion senior note deal (the company also issued 2 billion euros of senior notes, for a total of \$3.5 billion). The \$1.25 billion US transaction was completed with a 9.625% yield and a 530bps spread to Treasuries, a spread that through last week had widened out to 825bps. We're told by our credit strategy colleagues that spreads on AI infrastructure deals tend to be very influenced by who is backing the cash flows (if it is an IG-credit tenant that has signed a lease, the notes are trading tight to their spread at issuance). We're also keeping a close eye on hyperscaler issuances. Amazon's July 2026 issuance was 1.6x oversubscribed compared to 3.4x at the start of the year. According to our team, weaker oversubscription rates on deals for repeat issuers can also signal a market that's getting tighter and more selective.

We checked in with our UBS credit strategy team this week and we offer a quote below. Bottom line, indications are that the credit market is still open for AI data center financing, but spreads are wider and appetite has waned somewhat. This implies a higher interest expense drag on future Oracle debt deals, but not a credit availability risk.

"It's evident that the bond market has reacted positively to the recent (Microsoft and Amazon) prints. Across the group we've seen long-end bonds start to recover (curves flattening) after underperforming into earnings, suggesting a degree of greater comfort owning longer-term risk on the back of earnings. Among the higher rated hyperscalers (Amazon, Alphabet and Meta) we've seen the biggest outperformance in Amazon (-14bps tightening in >20y tenors). CDS tell a similar story and have tightened across the board in the hyperscaler cohort, though the underperformance of Meta in general is fairly notable. Similar story with the data centers – aside from ~3 names (TRACTD/TRACTC and Meridian), the broader HY cohort has tightened by -22bps on average / -6bps on a debt weighted basis over the past week after ~70-80bp widening since issuance and the IG structures have tightened by -11-13bps. Tenant risk is still the primary factor driving datacenter bond performance".

Blackstone and KKR – Some Credit “Indigestion”

Over the last month or so, several of the active private credit participants in funding the AI build-out have attended investor events and commented on their AI infra funding efforts and appetite to invest more. In a nutshell, these statements over the last 1-2 months do NOT hint at any material pull-back in appetite. That said, KKR admitted to some market “indigestion” in terms of absorbing large-scale AI-related deals, which again signals wider spreads more so than a seizing-up of credit.

- **Blackstone:** *The most significant driver of our strong results continues to be the large-scale investments we've made in AI-related areas, including data centers, energy and power and the frontier of AI companies themselves. Blackstone has become one of the largest private capital providers in the AI eco-system. We're now creating new companies and platforms that we believe will play a critical role in the advancement of AI. In 2Q alone, we a) teamed with Google to build a new AI cloud provider, powered by their TPU chips, investing up to \$5 billion, b) we partnered with Anthropic to form a company focused on driving enterprise adoption of their AI-powered solutions, c) we joined Broadcom and another manager to create a financing platform, which provided \$35 billion initially to deliver 1 GW of compute, the largest private credit investment in history and d) we launched the Blackstone REIT known as BXDC, something public market investors can access directly to acquire newly constructed data centers. Our data center platform has grown to \$185b of total value and we expect to lease over 3x more capacity this year than any other year in our history.*
- **KKR:** *We are in the midst of a global capex cycle...but there is a bit of schizophrenia out there. We actually think this is a huge opportunity for us as a firm. But there are ways to do it well and there are ways to do it less well. Hyperscaler data center spreads have widened pretty meaningfully just over the last couple of weeks. This stands in contrast to broader IG markets, which still pretty much remain at their highs. It feels like there is indigestion. We're going to care about the counterparty and contract terms. There is a lot to do, even in spite of the volatility.*

New Mexico and Other Data Center Sites

Another major topic of discussion among investors is Oracle's ability to stand up the required AI infrastructure capacity to serve the current backlog as well as expected backlog growth, as the medium-term revenue guidance is predicated on capacity being in place. Oracle disclosed two key things on its 4Q/May earnings call. First is the pace of capacity adds, with Oracle delivering 1.2 GW of capacity in FY26 and guiding to almost 1.0 GW of adds in 1Q/Aug alone (for comparison, Microsoft has added 1 GW per quarter in each of the last three quarters). From an average of 300 MW of capacity per quarter throughout FY26, that implies 3x the normal run-rate in 1Q/Sept, enough to result in a meaningful boost to revenues in FY27. Second, Oracle disclosed the target "customer delivery" timelines for 5 of the largest sites on the most recent 4Q/May call, as we show below.

Figure 8: Oracle's Biggest AI Data Center Builds

Site Name	Expected Go-Live Timeframe	Earnings Call Comment
Stargate Abilene, TX	Over 50% online. Fully live by year-end C26	To begin, let's look at Abilene, Texas. Abilene today has delivered 42% of the total capacity. An additional 35% of capacity will be delivered in the next 90 days, with the remainder delivering in the subsequent quarter.
The Frontier Shackelford, TX	Customer delivery begins in 1H C27	Moving forward to Shackelford, Texas. We contracted this in August of 2025. Customer delivery begins in the first half of FY 2027 – sorry, the first half of calendar year 2027. 115 megawatts of power capacity is already available online, more than one month ahead of schedule.
Project Jupiter Santa Teresa, NM	Customer delivery begins in 1H C27	If we take a look at Doña Ana County, New Mexico, we contracted this in September of 2025. Customer delivery begins in the first half of calendar year 2027 as well. Power design is based on gigawatts of clean, energy-efficient Bloom fuel cells.
The Barn Saline, MI	Customer delivery begins in 2H C27	We look at Saline, Michigan. We contracted this in October of 2025. Customer delivery begins in the second half of 2027. The network core is ahead of schedule and delivered at the end of this calendar year.
Lighthouse Port Washington, WI	Customer delivery begins in 2H C27	And then the final site I want to touch on, Port Washington, Wisconsin. This was contracted in September of 2025 and delivery begins in the second half of calendar year 2027.

Source: Company Disclosures

Project Jupiter in New Mexico

Frankly, we are becoming somewhat immune to a steady stream of media stories about construction delays and component bottlenecks at various large AI data center builds, for Oracle (including countless articles stating that the big Abilene site is running behind) and the broader industry. The reality looks different. Yes, general contractors are signaling various types of bottlenecks (typically electrical equipment, rarely chips) and given these are such mammoth projects, there are inevitably delays. But overall, there is no evidence in the revenue growth rates of the hyperscalers or the neo-cloud providers (which have been accelerating materially) that construction delays/bottlenecks are hampering growth. On the contrary, the disclosed capacity adds of 1 GW per quarter for Microsoft and now Oracle in 1Q/Sept are a material jump from prior periods. In fact on its recent 4Q/Jun call, Microsoft attributed its Azure upside to faster conversions of raw data center capacity to revenue-producing live racks given go-live improvements.

Publicly-Disclosed Source of Delays

That said, there are clearly delays associated with the big Project Jupiter site (designed to house up to 2.5 GW of power capacity, with 1.2 GW firmly committed) in Dona Ana County, New Mexico, an issue that is weighing on Oracle shares. The project was approved in September 2025 and physical construction has begun, evidenced by the image of the site disclosed by Oracle on the 4Q/May call (progress appeared early-stage). In March 2026, the New Mexico state land commissioner (Stephanie Garcia Richard, a Democrat, now running for Lieutenant Governor) rejected the plan for a gas pipeline (due to concerns about the pipeline route and gas emissions) and Oracle responded in April 2026 via a commitment with Bloom Energy to deploy solid oxide fuel cells (based on natural gas). Bloom Energy shares were +22% in response to that deal.

In mid-July 2026, the New Mexico state land commissioner again pushed back, saying that even under the Bloom Energy plan, gas emissions would still be unacceptably high. Some state representatives have proposed a state-wide moratorium on large-scale data center builds (echoing what was passed in New York state) and others have pushed back based on concerns about the process. In terms of upcoming dates, a formal public hearing on the project's air quality permit is scheduled for October 19, 2026 (Oracle and its partners involved in Project Jupiter have filed to move this hearing forward).

Oracle, Bloom Energy, and Energy Transfer - Latest Responses

As noted below, none of the three parties involved in powering the data center (Oracle, Bloom, and Energy Transfer) have explicitly acknowledged delays (although in our view Bloom came close) nor down-ticked on their guidance as a result.

- **Oracle:** As noted in Figure 8 above, Oracle has guided to a 1H CY27 timeline for customer delivery to begin and we have not heard anything to suggest that Oracle is walking that timeline back. In late-June, Oracle tweeted: *"Project Jupiter's energy plan reflects our continued focus on transparency, accountability and responsible development in Dona Ana County. The new approach is designed to reduce local emissions, lower operational water demand and support long-term community and economic benefits in southern New Mexico"*.
- **Bloom Energy:** On its recent late-July earnings call, Bloom took a question about project delays that have been in the news, to which the company responded, *"Bloom is not dependent on one customer or one project. Our contracts are structured with master service agreements, and there is flexibility for us to deploy this equipment, we have strong protections with our contracts. And when we gave you our 2026 revenue guidance, it is not dependent on any single project"*. In our judgement, this answer does not push back on the potential for Project Jupiter delays, only that any delays are baked into the guide.
- **Energy Transfer:** ET is the midstream natural gas company responsible for delivering the gas pipeline to Project Jupiter. When asked about the project's potential delays on their August 4th earnings call, the company responded, *"We have been working with both the Federal Energy Regulation Commission and the Bureau of Land Management and all the stakeholders that are involved and are very confident that they understand the importance of these data center projects and the importance on the ability to execute through the regulatory process... so we're ... very confident this pipeline will be put into service and will be ultimately successful.... maybe delayed a little bit from where we first anticipated, but we're going to get there."*

Independent Check – Delays Will be Overcome

This week we spoke with an independent check with visibility into Oracle's Project Jupiter in New Mexico and we offer the unvarnished feedback below. Bottom line, this call was a relief, making us more comfortable that the risk of Project Jupiter being blocked/scuttled may be less than the investor consensus.

- *The main players on this build are Stack Infrastructure, ClayCo and Kiewit – they are developing and building the site. Oracle is the operator, its role is to manage the data center operations, and OpenAI is the tenant.*
- *The building permits have been granted and construction is underway, it is still moving along, progressing. On site there are two shifts of workers, but they are running behind given the local opposition and hence are not up to the target of having 3,000-4,000 workers on site. There are no finished buildings yet, they are at the foundation, footprint phase. The initial 1.2 GW plan is for data centers or buildings, each with 300 MW of powered capacity.*

- *The delays or pause are a result of New Mexico government push-back to the power/micro-grid plan, air quality issues. There was resistance to the gas pipeline and turbine plan that forced a pivot to using fuel cells from Bloom Energy, how power will be accessed. That resulted in delays given the new energy plan and created cost over-runs. The delays are partly due to local opposition, mostly about the Democratic government in New Mexico pledging to protect citizens from environmental pollution. This is not Texas, that has no problem with some environmental issues. Community opposition is the new obstacle, it's a real thing now. I have heard that there is an RFP out there to secure 500 MW of solar power, just as a back-up plan and perhaps to give the developers some leverage.*
- *Second, I'd say in retrospect, the proposal was likely cobbled together with a "we'll get this done" cowboy attitude and the developers probably underestimated the local government opposition, over-estimated their government connections. But Stack is the key developer for the site, they know what they're doing, they are not rookies.*
- *In my judgement, there is a 90% chance that the initial 1.2 GW build gets approved and built. If anything, the push-back could scuttle the up-sizing of the site, but not the core 1.2 GW. I just don't think the New Mexico state/local push-back will block the project, that would set a whole new precedent and I suspect the US government would get involved if that happened. Air Quality Index or AQI reviews are normal, they are part of every build, this project is no different they'll power through this. This is the wheels of government turning slowly, they'll get there.*
- *Can Oracle hit its 1H27 go-live timeframe? I think so. Remember, they have 200 MW of power secured off the grid, from utilities. So they can use that power to kick-start things, get the first 150 MW of so of capacity live. That's enough to light up 2 of the 4 halls in the data center buildings. The full go-live of 1.2 GW was always going to take 2+ years, let's say to the end of 2028, that remains doable.*

Customer Mix and Competition

The final OCI-related investor concern that we'll address is the customer concentration as well as competitive changes in the AI infrastructure market.

Customer Concentration

OpenAI Exposure

Oracle's RPO/cloud commit balance was \$638 billion as at the end of 4Q/May. While Oracle has not been clear about the size of the OpenAI commitment, if OpenAI's RPO balance is ~\$250 billion, then OpenAI alone would represent ~40% of the total backlog. As such, Oracle shares are often traded as if Oracle is an "OpenAI proxy" stock, a tailwind when OpenAI sentiment is improving and a headwind when sentiment is weakening. Over the last few months, as investors have absorbed shifts in the AI market (more token optimizing, share gains by open/custom models, a maturation of the consumer ChatGPT market), investors have become more concerned about OpenAI's out-year revenue growth profile, which has weighed on Oracle shares.

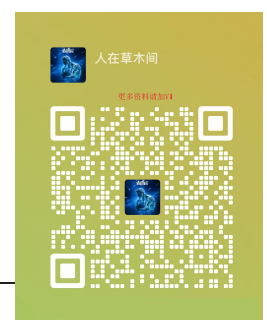
These concerns have abated over the last few weeks, coinciding with a recovery in Oracle shares, due to a) media articles (see link [here](#)) about OpenAI's ARR growth in the month of July being up sharply and b) Microsoft (also with material OpenAI exposure) posting 4Q/Jun Azure numbers that did not show any signs of weakness in spending by OpenAI/Anthropic or from enterprises procuring OpenAI/Anthropic models and 1P products through Microsoft. Moreover, in public comments (events, blogs, tweets, pods), OpenAI executives have not made any comments suggesting that their need for compute has waned (on the contrary, their comments continue to point to a constrained supply of cloud-hosted compute). Bottom line, we conclude that "OpenAI deceleration" concerns are already baked into Oracle shares and may be over-stated.

Rest of the Customer Mix

One recent industry check made reference to the "big 5" Oracle OCI customers, which we presume are OpenAI, Microsoft, Meta, xAI/SpaceX and Nvidia (we wonder if Uber belongs on that short list). There are longer-term risks to this customer segment, including Microsoft (risk of a down-sizing upon renewal if/as Microsoft stands up sufficient 1P data center capacity and Microsoft views 3P capacity from Oracle and others as a "bridge") and xAI/SpaceX (risk of a down-sizing upon renewal if/as SpaceX stands up sufficient 1P data center capacity, a real risk given the very aggressive 2027 GPU capacity plan articulated by SpaceX on its earnings call this week). This may be a lingering investor concern until Oracle shows incremental progress in diversifying its OCI customer base away from behemoth tech firms that are also direct players in the AI infrastructure market. In our view Oracle shares could re-rate on real progress in terms of large-scale OCI wins with traditional non-tech enterprise customers and also more AI-natives apart from the frontier labs (these hyper-growth AI-natives run primarily on the Big 3 hyperscalers as well as the neo-clouds, but we don't hear about them running on OCI as often).

Competition Heating Up

Demand for AI infrastructure is so material that it is no surprise that there are many providers of AI compute infrastructure, from the Big 3 hyperscalers AWS, Microsoft Azure and Google Cloud to smaller emerging AI-focused players including CoreWeave, Nebius, IREN, Nscale, Lambda, Crusoe and others. The newer twist is the emergence of an entirely new class of "inference platform" firms that today run on 3P cloud infrastructure providers, including Fireworks, Baseten and Together. Large hyper-growth TAMs attract a plethora of competitors and to date we've erred on the side of applauding Oracle's success in wedging its way into the short list of major AI infra providers rather than being too concerned about competitors. That is still generally our view, as long as demand and GPU pricing trends remain robust.



That said, there have been a few new competitive trends to absorb. Three have stood out to us: 1. SpaceX (an Oracle customer) stepping into the market over the last few months by selling excess AI compute capacity to Anthropic and Google, as well as disclosing another ~\$13 billion of annualized revs from new customers signed in the month of July alone 2. Meta stating that given such strong demand for AI compute and “a lot of offers for our compute at a significant premium over what we paid for it”, they are likely to begin selling capacity directly to large external customers and 3. Recent news that OpenAI is partnering with Softbank, Nvidia and others to build and run a massive (pitched as up to 10 GW) data center in Pike County, Ohio, a project that as far as we can tell does not involve Oracle or Microsoft (evidence of OpenAI playing a more a direct role).

Bottom line, these trends point to more players in the space over the long-term, potentially more limits on the ability to drive pricing (although demand is so strong that near-term GPU pricing appears to be moving up) and the frontier labs taking more of a direct role in operating their infrastructure, a role that to date is being played by Oracle and Microsoft. What Oracle has is an enterprise edge – SpaceX and Meta have limited inroads to F500 enterprise buyers, while this is Oracle’s stronghold. Hence our desire to see Oracle make more progress on securing large OCI wins with traditional non-tech enterprise customers.

Sentiment and Valuation

Let's finish by linking these fundamental trends/concerns to Oracle shares. Oracle shares are -27% since what was on the surface a very strong 4Q/May print, marked by total c/c revs growth of 20% (high end of the guide), cloud infra growth of 92% (in-line) and a solid margin/EPS beat. The real upside was in the 1Q/Aug Cloud guide, which assuming stable 8-9% SaaS growth implies outstanding infra/OCI growth of 120%, well above our previous +105% estimate as the pace of AI capacity additions accelerates to almost a full 1 GW in 1Q/Aug (similar to Microsoft). The sharp post-print fade in the stock was in our view due to two perceived negatives, including a) the FY27 guide was merely reaffirmed despite the capacity adds, new bookings and RIF savings, although we suspect that the new CFO is starting her tenure by being conservative, and b) FCF estimates moved down as the FY27 capex guide landed above Street estimates. Post-print, the stock has been weighed-down by the issues we discuss in this report – lingering concerns about a need for further capex guidance increases, a tightening of credit spreads and appetite in credit markets for large-scale AI-related infrastructure deals and go-live challenges including what is playing out in New Mexico.

Our call is that the stock now reflects a plethora of perceived risks and that some of these risks (such as concerns that the New Mexico site could be blocked) might be overstated. As such, the set-up is improved as Oracle's AI-exposed peers (Microsoft, Amazon, the neo-clouds) have seen their stocks materially re-rate. The material expected revenue growth acceleration – perhaps the biggest growth acceleration story in all of tech – has barely begun and there may be upside to FY27 numbers. As noted in Figure 9 below, the stock trades at 16x CY27e EPS and at 11x CY28e EPS (below the peer group). Oracle is expected to post much faster revs growth and investors need to price in very high AI exposure. Net, we remain Buy-rated, but in light of the lingering concerns addressed in this report, we're lowering our PT from \$285 to \$245. This is based on a target multiple of 19x C28e non-GAAP EPS, a premium to the peer group, reasonable for 30%+ revs growth.

Figure 9: Peer Group Valuation Multiples

Company	Ticker	Price	% Change	Market Cap	Revenue Growth			EV/FCF			P/E		
		8/4/2026	YTD		CY26E	CY27E	CY28E	CY26E	CY27E	CY28E	CY26E	CY27E	CY28E
Microsoft Corp.	MSFT	\$488.22	1%	\$3,663,381	18%	17%	20%	54.3x	113.1x	77.5x	26.4x	22.7x	18.8x
SAP SE	SAP-DE	\$169.26	(19%)	\$198,931	9%	12%	12%	19.5x	17.1x	15.0x	23.8x	20.4x	17.3x
Autodesk, Inc.	ADSK	\$237.02	(20%)	\$51,370	14%	10%	11%	18.2x	16.3x	14.2x	19.1x	16.9x	14.7x
Oracle Corp.	ORCL	\$143.77	(26%)	\$424,832	26%	39%	44%	NM	NM	NM	19.5x	16.0x	11.3x
ServiceNow, Inc.	NOW	€ 116.63	(24%)	\$126,334	22%	19%	19%	22.9x	18.5x	15.2x	28.6x	23.2x	19.1x
Salesforce, Inc.	CRM	\$191.83	(28%)	\$164,782	11%	9%	10%	12.7x	11.7x	10.8x	13.7x	12.4x	10.8x
Alphabet, Inc.	GOOG	\$361.88	15%	\$4,532,547	23%	22%	19%	NM	NM	NM	17.9x	24.1x	20.5x
Workday, Inc.	WDAY	\$169.75	(21%)	\$41,927	12%	11%	11%	13.6x	11.8x	10.0x	16.0x	13.6x	11.7x
Adobe, Inc.	ADBE	\$256.74	(27%)	\$105,494	12%	9%	9%	10.3x	9.5x	8.7x	10.4x	9.2x	8.1x
Amazon.com, Inc.	AMZN	\$272.58	18%	\$2,940,135	15%	14%	16%	NM	NM	88.3x	22.4x	25.9x	20.0x
Mean:			(13%)		16%	16%	17%	21.6x	28.3x	30.0x	19.8x	18.4x	15.2x
Median:			(20%)		15%	13%	14%	18.2x	16.3x	14.6x	19.3x	18.6x	16.0x

Source: Factset

Oracle Corporation (ORCL.N)

	05/23	05/24	05/25	05/26E	%ch	05/27E	%ch	05/28E	05/29E	05/30E
Income Statement (US\$m)										
Revenues	49,955	52,961	57,399	67,358	17.4	89,889	33.5	129,006	175,928	209,177
Gross profit	36,982	38,536	41,313	45,196	9.4	53,400	18.2	70,105	88,385	105,869
EBITDA (UBS)	23,430	26,183	28,901	36,548	26.5	50,304	37.6	73,377	103,843	128,977
Depreciation & amortisation	(2,526)	(3,129)	(3,867)	(7,623)	-97.1	(13,020)	-70.8	(21,927)	(35,111)	(43,785)
EBIT (UBS)	20,904	23,054	25,034	28,925	15.5	37,284	28.9	51,450	68,732	85,192
Associates & investment income	0	0	0	0	-	0	-	0	0	0
Other non-operating income	0	0	0	0	-	0	-	0	0	0
Net interest	(3,967)	(3,612)	(3,518)	(1,050)	70.2	(5,874)	NM	(8,507)	(8,894)	(8,519)
Exceptionals (incl goodwill)	0	0	0	0	-	0	-	0	0	0
Pre-tax profit	16,937	19,442	21,516	27,875	29.6	31,410	12.7	42,943	59,838	76,672
Tax	(2,760)	(3,733)	(4,231)	(5,537)	-30.9	(6,282)	-13.5	(8,589)	(11,968)	(15,334)
Profit after tax	14,177	15,709	17,285	22,338	29.2	25,128	12.5	34,355	47,870	61,338
Preference dividends	0	0	0	0	-	0	-	0	0	0
Minorities	0	0	0	0	-	0	-	0	0	0
Extraordinary items	(1,421)	(2,704)	(4,506)	(4,218)	6.4	(2,616)	38.0	(3,216)	(3,816)	(4,416)
Net earnings (local GAAP)	12,756	13,005	12,779	18,120	41.8	22,512	24.2	31,139	44,054	56,922
Net earnings (UBS)	14,177	15,709	17,285	22,338	29.2	25,128	12.5	34,355	47,870	61,338
Tax rate (%)	16.3	19.2	19.7	19.9	1.0	20.0	0.7	20.0	20.0	20.0
Per Share (US\$)										
EPS (UBS, diluted)	5.12	5.56	6.03	7.66	27.0	8.14	6.1	10.82	14.78	18.56
EPS (local GAAP, diluted)	4.61	4.61	4.46	6.22	39.4	7.29	17.2	9.81	13.60	17.23
EPS (UBS, basic)	5.18	5.64	6.10	7.73	26.8	8.18	5.7	10.96	14.97	18.80
DPS (net) (US\$)	1.35	1.60	1.70	2.03	19.0	2.01	-0.7	2.02	2.02	2.02
Cash EPS (UBS, diluted) ¹	6.04	6.67	7.38	10.28	39.2	12.35	20.1	17.73	25.62	31.81
Book value per share	0.57	3.33	7.55	14.80	96.0	31.14	110.5	44.32	56.29	71.84
Average shares (diluted)	2,766	2,823	2,865	2,915	1.7	3,089	6.0	3,175	3,239	3,304
Balance Sheet (US\$m)										
Cash and equivalents	10,187	10,661	11,203	31,894	184.7	30,055	-5.8	15,996	25,401	62,922
Other current assets	10,817	11,893	13,376	14,673	9.7	20,563	40.1	35,213	57,467	69,744
Total current assets	21,004	22,554	24,579	46,567	89.5	50,618	8.7	51,208	82,868	132,666
Net tangible fixed assets	17,069	21,536	43,522	99,957	129.7	183,568	83.6	271,296	310,954	329,922
Net intangible fixed assets	62,261	62,230	62,207	62,261	0.1	62,261	0.0	62,261	62,261	62,261
Investments / other assets	34,050	34,656	38,053	52,974	39.2	49,950	-5.7	48,222	48,222	48,222
Total assets	134,384	140,976	168,361	261,759	55.5	346,397	32.3	432,987	504,305	573,071
Trade payables & other ST liabilities	19,029	20,939	25,372	34,565	36.2	44,244	28.0	60,846	78,103	89,453
Short term debt	4,061	10,605	7,271	7,199	-1.0	7,199	0.0	7,199	7,199	7,199
Total current liabilities	23,090	31,544	32,643	41,764	27.9	51,443	23.2	68,045	85,302	96,652
Long term debt	86,420	76,264	85,297	122,342	43.4	142,342	16.3	167,342	167,342	167,342
Other long term liabilities	23,318	23,929	29,452	54,597	85.4	56,208	3.0	57,654	70,322	72,983
Preferred shares	0	0	0	0	-	0	-	0	0	0
Total liabilities (incl pref shares)	132,828	131,737	147,392	218,703	48.4	249,993	14.3	293,041	322,966	336,977
Common s/h equity	1,556	9,239	20,969	43,056	105.3	96,404	123.9	139,946	181,339	236,094
Minority interests	0	0	0	0	-	0	-	0	0	0
Total liabilities & equity	134,384	140,976	168,361	261,759	55.5	346,397	32.3	432,987	504,305	573,071
Cash Flow (US\$m)										
Net income (before pref divs)	12,756	13,005	12,779	18,120	41.8	22,512	24.2	31,139	44,054	56,922
Depreciation & amortisation	2,526	3,129	3,867	7,623	97.1	13,020	70.8	21,927	35,111	43,785
Net change in working capital	513	(488)	(1,500)	4,135	-	5,350	29.4	2,749	7,021	1,083
Other operating	5,623	5,565	6,011	3,132	-47.9	7,784	148.5	8,384	3,816	4,416
Operating cash flow	21,418	21,211	21,157	33,010	56.0	48,666	47.4	64,199	90,002	106,207
Tangible capital expenditure	(8,695)	(6,866)	(21,215)	(55,663)	-162.4	(96,631)	-73.6	(109,655)	(74,770)	(62,753)
Intangible capital expenditure	0	0	0	0	-	0	-	0	0	0
Net (acquisitions) & disposals	(27,721)	(63)	0	0	-	0	-	0	0	0
Other investing	(68)	(431)	(496)	3,809	-	0	-	0	0	0
Investing cash flow	(36,484)	(7,360)	(21,711)	(51,854)	-138.8	(96,631)	-86.4	(109,655)	(74,770)	(62,753)
Equity dividends paid	(3,668)	(4,391)	(4,743)	(5,787)	-22.0	(6,134)	-6.0	(6,305)	(6,432)	(6,562)
Share issues / (buybacks)	(108)	(460)	53	1,354	NM	580	-57.1	703	605	629
Other financing	(209)	(70)	124	96	-22.6	0	-	0	0	0
Change in debt & pref shares	11,686	(5,703)	5,788	44,717	NM	40,000	-10.5	25,000	0	0
Financing cash flow	7,701	(10,624)	1,222	40,380	NM	34,446	-14.7	19,397	(5,828)	(5,933)
Cash flow inc/(dec) in cash	(7,365)	3,227	668	21,536	NM	(13,519)	-	(26,059)	9,405	37,521
FX / non cash items	(4,350)	(2,753)	(126)	(845)	NM	11,680	-	12,000	0	0
Balance sheet inc/(dec) in cash	(11,715)	474	542	20,691	NM	(1,839)	-	(14,059)	9,405	37,521

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.¹ Cash EPS (UBS, diluted) is calculated using UBS net income adding back depreciation and amortization.

Oracle Corporation (ORCL.N)

Valuation (x)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
P/E (local GAAP, diluted)	17.6	24.9	35.2	23.3	19.8	14.7	10.6	8.4
P/E (UBS, diluted)	15.8	20.6	26.0	18.9	17.8	13.4	9.8	7.8
P/CEPS	13.3	16.9	21.0	14.0	11.7	8.1	5.6	4.5
Equity FCF (UBS) yield %	5.8	4.5	0.0	(5.4)	(11.4)	(10.8)	3.6	10.3
Dividend yield (net) %	1.7	1.4	1.1	1.4	1.4	1.4	1.4	1.4
P/BV	NM	34.4	20.8	9.8	4.7	3.3	2.6	2.0
EV/revenues (core)	5.1	6.6	8.2	7.6	5.7	4.4	3.2	2.7
EV/EBITDA (UBS core)	10.9	13.4	16.2	14.1	10.2	7.7	5.4	4.3
EV/EBIT (core)	12.2	15.2	18.7	17.8	13.8	11.0	8.2	6.5
EV/OpFCF (core)	17.3	18.1	61.0	NM	NM	NM	19.4	8.4
EV/op. invested capital	3.9	4.2	5.0	4.2	2.9	2.2	1.8	1.6
Enterprise value (US\$m)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Market cap.	221,266	316,951	435,760	421,510	421,510	421,510	421,510	421,510
Net debt (cash)	33,116	33,116	33,116	89,506	89,506	139,016	139,016	130,380
Buy out of minorities	0	0	0	0	0	0	0	0
Pension provisions/other	0	0	0	0	0	0	0	0
Total enterprise value	254,382	350,066	468,876	511,016	511,016	560,526	560,526	551,890
Non core assets	0	0	0	0	0	0	0	0
Core enterprise value	254,382	350,066	468,876	511,016	511,016	560,526	560,526	551,890
Growth (%)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Revenue	17.7	6.0	8.4	17.4	33.5	43.5	36.4	18.9
EBITDA (UBS)	8.6	11.7	10.4	26.5	37.6	45.9	41.5	24.2
EBIT (UBS)	6.7	10.3	8.6	15.5	28.9	38.0	33.6	23.9
EPS (UBS, diluted)	4.5	8.6	8.4	27.0	6.1	33.0	36.6	25.6
Net DPS	7.2	18.2	6.3	19.0	(0.7)	0.3	0.0	0.0
Margins & Profitability (%)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Gross profit margin	74.0	72.8	72.0	67.1	59.4	54.3	50.2	50.6
EBITDA margin	46.9	49.4	50.4	54.3	56.0	56.9	59.0	61.7
EBIT (UBS) margin	41.8	43.5	43.6	42.9	41.5	39.9	39.1	40.7
Net earnings (UBS) margin	28.4	29.7	30.1	33.2	28.0	26.6	27.2	29.3
ROIC (EBIT)	32.2	27.6	26.7	23.8	20.9	20.0	21.9	25.1
ROIC post tax	26.9	22.3	21.4	19.1	16.7	16.0	17.5	20.1
ROE (UBS)	<-500	291.0	114.4	69.8	36.0	29.1	29.8	29.4
Capital structure & Coverage (x)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Net debt / EBITDA	3.4	2.9	2.8	2.7	2.4	2.2	1.4	0.9
Net debt / total equity %	NM	NM	NM	226.8	123.9	113.3	82.2	47.3
Net debt / (net debt + total equity) %	98.1	89.2	79.5	69.4	55.3	53.1	45.1	32.1
Net debt/EV %	26.4	22.4	16.8	17.5	21.2	24.8	27.4	23.6
Capex / depreciation %	NM	NM	NM	NM	NM	NM	NM	143.3
Capex / revenue %	17.4	13.0	NM	NM	NM	NM	NM	30.0
EBIT / net interest	5.3	6.4	7.1	27.5	6.3	6.0	7.7	10.0
Dividend cover (UBS)	3.8	3.5	3.6	3.8	4.1	5.4	7.4	9.3
Div. payout ratio (UBS) %	26.2	28.4	27.9	26.2	24.6	18.4	13.5	10.7
Revenues by division (US\$m)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Others	49,955	52,961	57,399	67,358	89,889	129,006	175,928	209,177
Total	49,955	52,961	57,399	67,358	89,889	129,006	175,928	209,177
EBIT (UBS) by division (US\$m)	05/23	05/24	05/25	05/26E	05/27E	05/28E	05/29E	05/30E
Others	20,904	23,054	25,034	28,925	37,284	51,450	68,732	85,192
Total	20,904	23,054	25,034	28,925	37,284	51,450	68,732	85,192

Source: Company accounts, UBS estimates. (UBS) metrics use reported figures which have been adjusted by UBS analysts.

Forecast returns

Forecast price appreciation	69.8%
Forecast dividend yield	1.4%
Forecast stock return	71.2%
Market return assumption	9.2%
Forecast excess return	62.0%

Company Description

Oracle is one of the world's largest and most profitable software companies, with \$50bn in FY23 revenue and around 164,000 employees. It is a leading provider of database, middleware, business application software, and cloud infrastructure, as well as engineered software/hardware systems used by large enterprises and public organizations of all sizes around the world. ORCL is headquartered in Austin, Texas and went public in 1986.

Valuation Method and Risk Statement

Our price target is based on a FCF multiple. Risks to our price target to the upside include greater-than-expected market share gains from Workday and SAP leading to Oracle's topline metrics improving and multiple re-rating, while risks to the downside include Oracle's recent sales re-organization creating execution risk and potentially slipped deals leading to Oracle disappointing on near-term expectations, limited traction with Oracle's Cloud offering and tougher competition.

Quantitative Research Review

UBS Global Research publishes a quantitative assessment of its analysts' responses to certain questions about the likelihood of an occurrence of a number of short term factors in a product known as the 'Quantitative Research Review'. The views for this month can be found below. Views contained in this assessment on a particular stock reflect only the views on those short term factors which are a different timeframe to the 12-month timeframe reflected in any equity rating set out in this note. For previous responses please make reference to (i) previous UBS Global Research reports; and (ii) where no applicable research report was published that month, the Quantitative Research Review which can be found at <https://neo.ubs.com/quantitative>, or contact your UBS sales representative for access to the report or the Quantitative Research Team on ubs-quant-answers@ubs.com. A consolidated report which contains all responses is also available and again you should contact your UBS sales representative for details and pricing or the Quantitative Research Team on the email above.

Oracle Corporation

Question	Response
1. Is the industry structure facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting worse, 3 = no change, 5 = getting better, N/A = no view)	5
2. Is the regulatory/government environment facing the firm likely to improve or deteriorate over the next six months? Rate on a scale of 1-5 (1 = getting tougher, 3 = no change, 5 = getting better, N/A = no view)	N/A
3. Over the last 3-6 months in broad terms have things been improving/no change/getting worse for this stock? Rate on a scale of 1-5 (1 = getting a lot worse, 3 = not much change, 5 = getting a lot better, N/A = no view)	4
4. Relative to the current CONSENSUS EPS forecast, is the next company EPS update likely to lead to: (1 = negative surprise vs consensus, 3 = in-line with consensus, 5 = positive surprise vs consensus expectations, N/A = no view)	4
5. What's driving the difference?	
6. Relative to YOUR current earnings forecast, is there relatively greater risk at the next earnings result of: (1 = downside skew risk to earnings, 3 = equal upside or downside risk to earnings, 5 = upside skew risk to earnings, N/A = no view)	3
7. What's driving the difference?	
8. Is there an upcoming catalyst for the company over the next three months?	
9. Is there an actual or approximate date for the catalyst?	
10. Is the catalyst date an actual or approximate date?	
11. What is the catalyst?	