Oracle

Investor Day Review: Path to Positive FCF and Final $20B Raise Take Center Stage Over Largely Unchanged FY30 Targets

Overweight

ORCL, ORCL US
Price (28 Oct 26):$144.54
Price Target (Dec-27):$200.00

Software - Large Cap / Mid & Small Cap

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We attended Oracle's Investor Day, held in Las Vegas, in which management addressed the key investor focus around need for further capital raises as a consequence of the capital intensity of the business, despite limited updates to the long-term forecasts the company had outlined at the last investor day. In addressing the key investor question around capital, the key highlights from the company's commentary included: 1) reaffirmation of FY27-FY28 as peak capex years, underpinning a path to positive FCF in 2H FY28 and $30B+ in FY29 (supported by moderation of capex into FY29); 2) the sizing of a final $20B capital raise to fund the remainder of the investment cycle (part equity and part debt); 3) the modest capital needs relative to investor concerns stemming from alternative funding structures, including vender financing and Bring-your-own-hardware, which the company will incrementally leverage , halving upfront cash requirements; and 4) disclosure of contract-level economics for its AI infrastructure business, including a ~28% ROI on a fully-ramped 1GW contract, which also highlighted the favorable demand backdrop with pricing for compute increasing to $16B/GW from $10B/GW. Alongside the above, the company did not raise its FY30 revenue target, instead updating to $225B+ (from $225B), while outlining 40%+ PF operating margin and $21.00+ PF EPS (from $21.00); while, it did not provide specific revenue targets for FY28 and FY29. While there will continue to be investor focus on: 1) execution on delivering ~7GW of incremental capacity over the next two years; and 2) the mix of funding structures and its implications for revenue per unit of capacity, the modest capital raise requirements going forward remove a major overhang from the shares and increases our confidence in relation to the re-rating of the shares supporting upside to our Dec-27 price target of $200. Additionally, the alternate funding structures to lower capital requirements are a significant positive for the Neoclouds as well, with the vendors and customers more likely to together look to support capital requirements for all the AI builders.

- **FY30 framework updated, and paired with a more definitive path to positive FCF and confirmation of peak capex in FY27-FY28.** Oracle's reiterated FY30 revenue target implies a 35%+ CAGR off the FY26 base, and management reaffirmed FY27 and FY28 as peak capex years, with capex stepping down in FY29, as the company adds ~7GW of incremental capacity to reach ~10GW by the end of FY28, underpinning the outlook for positive FCF during 2H FY28 and $30B+ of FCF in FY29. On margins, management expects near-term pressure from mix and the ramp of projects, with FY28-FY29 not significantly below 40% before returning to 40%+ in FY30. This is supported by the strong contribution from applications and database, where management expects double-digit SaaS growth and cloud database growth well in excess of 50%. Additionally, the five large-scale sites (~5GW in total) are expected to be delivered between FY26 and mid-FY29, with four of the sites starting first service in CY27, and guidance incorporates up to a couple

Quarterly Forecasts (FYE May)

Adj. EPS ($)	2026A	2027E	2028E
Q1	1.47	1.92A	2.23
Q2	2.26	1.88	2.51
Q3	1.79	1.97	2.89
Q4	2.11	2.27	3.42
FY	7.63	8.05	11.05

Style Exposure

Quant Factors	Current %Rank	Hist %Rank (1=Top) 6M	1Y	3Y	5Y
Value	49	68	81	70	62
Growth	94	97	93	56	83
Momentum	86	78	29	34	28
Quality	36	13	17	2	29
Low Vol	51	54	52	12	5
ESGQ	58	87	99	99	78

Sources for: Style Exposure – J.P. Morgan Global Markets Strategy; all other tables are company data and J.P. Morgan estimates.

See page 7 for analyst certification and important disclosures.

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Price Performance



	YTD	1m	3m	12m
Abs	-25.8%	9.0%	20.5%	-48.5%
Rel	-38.9%	8.2%	16.2%	-60.9%

Company Data

Shares O/S (mn)	3,222
52-week range ($)	285.46-114.50
Market cap ($ mn)	465,694.80
Exchange rate	1.00
Free float (%)	61.5%
3M ADV (mn)	29.72
3M ADV ($ mn)	4,208.4
Volatility (90 Day)	57
Index	S&P 500
BBG ANR (Buy | Hold | Sell)	41|8|1

Key Metrics (FYE May)

$ in millions	FY26A	FY27E	FY28E
Financial Estimates			
Revenue	67,358	90,969	131,515
Adj. EBIT	28,925	37,263	51,175
Adj. EBITDA	29,899	45,353	68,322
Adj. net income	22,235	25,016	35,414
Adj. EPS	7.63	8.05	11.05
BBG EPS	7.48	8.14	11.01
Cashflow from operations	31,977	60,008	87,001
FCFF	(23,686)	(32,491)	(5,499)
Margins and Growth			
Revenue Growth Y/Y (%)	17.4%	35.1%	44.6%
EBIT margin	42.9%	41.0%	38.9%
EBIT Growth Y/Y (%)	15.5%	28.8%	37.3%
EBITDA margin	44.4%	49.9%	51.9%
EBITDA Growth Y/Y (%)	25.4%	51.7%	50.6%
Net margin	33.0%	27.5%	26.9%
Adj. EPS growth	26.5%	5.5%	37.3%
Ratios			
Adj. tax rate	19.9%	19.9%	20.2%
Interest cover	6.5	7.3	10.0
Net debt/Equity	2.3	1.0	0.7
Net debt/EBITDA	3.3	2.4	1.8
ROE	69.5%	33.1%	26.1%
Valuation			
FCFF yield	(5.6%)	(7.2%)	(1.2%)
Dividend yield	1.4%	1.4%	1.4%
EV/Revenue	8.4	6.3	4.5
EV/EBITDA	18.8	12.7	8.6
Adj. P/E	18.9	18.0	13.1

Summary Investment Thesis and Valuation

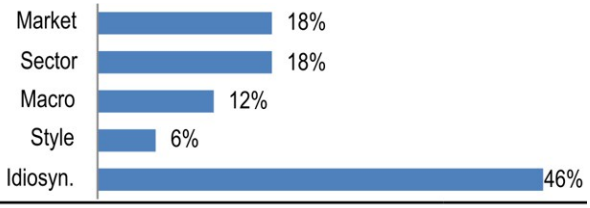
Investment Thesis

We rate Oracle Overweight while establishing a Dec-27 price target of $200 (prior Dec-26 PT of $210) with significant upside to the current share price led by the combination of profit growth helped by largely similar margins on a strong revenue inflection associated with the capacity build-out, as well as an opportunity for a re-rating relative to the valuation multiple the shares trade at, which is a significant discount to comparable peers. Concerns around the capital intensity of the AI infrastructure build-out cycle as well as capital needs for Oracle in the coming years, in addition to near-term anticipation of an equity issuance, are leading ORCL shares to trade at a significant discount to both peer groups of AI infra builders as well as Enterprise software companies, leading to a strong upside opportunity from the current share price.

Valuation

Our Dec 2027 price target of $200 is based on ~12x EV/ pro forma operating income on our 2028 PF operating income forecast of $62B.

Performance Drivers



Factors	6M Corr	1Y Corr
Market: MSCI US	0.63	0.47
Sect: Technology	0.44	0.48
Ind: Software & Serv	0.61	0.62
Macro:		
Economic Surprise	-0.15	-0.15
US 10yr yield	-0.18	-0.08
US 10yr Breakeven	0.04	0.08
Quant Styles:		
Growth	0.41	0.47
LowVol	-0.37	-0.38
Value	-0.02	-0.28

Source: J.P. Morgan Global Markets Strategy for Performance Drivers; company data, Bloomberg Finance L.P. and J.P. Morgan estimates for all other tables. Note: Price history may not be complete or exact.

of quarters of delay at any of the sites.

- **Contract-level economics updated, with a fully-ramped ~28% ROI and funding structures that materially reduce Oracle's upfront capital needs without diluting margins.** Oracle outlined illustrative economics for a 1GW large-scale AI infrastructure contract, which management described as reflective of its current RPO. The contract comprises ~$80B of RPO over an average duration of 5 years, ~$37B of capex and ~$16B of annualized revenue, with fully-ramped gross margin of ~35%, operating margin of ~34%, 100% FCF conversion and ~28% ROI. In our view, this implies payback of the capex within the contract term, leaving re-contracting of the hardware as upside, which management expects at similar or better margins. Further, with effectively all large AI infrastructure contracts structured on a cost-plus basis, management expects margins and ROI to be maintained even if revenues change. Importantly, the company also outlined two alternative funding structures for the same contract: 1) vendor financing of 70% of the hardware over five years, lowering Oracle's initial two-year funding requirement to ~$18B (capex and vendor financing principal payments) with no change to annualized revenue, margins or ROI; and 2) bring-your-own-hardware, lowering initial capex to ~ $6B or less, primarily for network hardware, against ~$11B of annualized revenue, with higher margins and ROI relative to the self-funded model, given the lower capital intensity of the project with the hardware supplied by the customer.
- **Remaining build-out sized with a final $20B capital raise, as alternative funding structures halve upfront cash requirements.** Oracle outlined ~6GW of remaining capacity to be delivered through FY28, which would require ~$220B of capex if fully self-funded based on the illustrative 1GW economics. However, management expects vendor financing, bring-your-own-hardware and customer prepayments to reduce upfront cash requirements by ~50%, with operating cash flows and a final capital raise of $20B covering the balance. The raise will be split evenly between $10B of equity and $10B of debt, which the company expects to execute opportunistically as early as CY26. Following the $10B of new debt, management targets net debt-to-adjusted EBITDA (inclusive of vendor financing and lease liabilities) expected to decline to below 3.5x by FY29, while maintaining investment grade credit ratings as the first capital allocation priority. With FY28 positioned as fully funded and FY29-FY30 as self-funded, we believe the outlook addresses the key investor concern around further access to capital markets highlighted in our preview. That said, in our view, positioning for revenue beyond the current capacity plan will continue to rely on the flexible funding structures outlined to avoid a step-up in net capex.
- **Hardware announcements broaden the accelerator portfolio on OCI to include Google TPUs and custom inference silicon, alongside an expansion of NVIDIA Vera Rubin to multi-gigawatt scale.** Google TPUs will be available on OCI from CY27, the first time they will be offered on a hyperscale cloud outside Google, while Oracle plans to expand Vera Rubin NVL72 Superclusters to multi-gigawatt scale and has begun delivering its first Vera Rubin systems to customers. Management also outlined plans to add AMD's MI455, Cerebras, SambaNova, Positron and OpenAI's custom Jalapeno chip to the OCI portfolio. In our view, the broader accelerator mix, alongside the ability to reallocate capacity across over 1,000 AI infrastructure customers within hours, supports the fungibility of capacity and our view of improving monetization of capacity coming online.
- **Software announcements centered on embedding agentic AI across the applications and database portfolio, led by a broadened collaboration with OpenAI and the onboarding of Snowflake as a first-party service on OCI.** In our view, the announcements are aimed at strengthening software attach to Oracle's growing compute footprint, including: 1) 25 Agentic Applications across Fusion ERP, HCM, SCM and CX powered by Fusion Claw, a new runtime for longer-running and more complex work; 2) an expanded collaboration with OpenAI bringing ChatGPT, Codex and OpenAI models

into Oracle's applications, data and cloud infrastructure, extending the relationship beyond compute; and 3) Snowflake AI Data Cloud as a native, first-party service on OCI, consumable through Oracle Universal Credits. On monetization, management outlined a usage-based "AI units" model layered on top of seat-based subscriptions, enabling revenue growth without incremental seats, with margins supported by Fusion Claw's separation of AI planning from deterministic compute.

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Investment Thesis, Valuation and Risks

Oracle *(Overweight; Price Target: $200.00)*

Investment Thesis
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Valuation
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Risks to Rating and Price Target
Downside Risks

- **Customer concentration and counterparty credit.** We estimate OpenAI represents ~50%+ of Oracle's $664B RPO, directly and via the Stargate project. Should the anchor tenant restructure, reduce, or be unable to pay on its commitments, the headline RPO would overstate collectible revenue, built capacity would need to be re-marketed, and our estimates and price target would carry downside risk.
- **Funding access and cost of capital.** Oracle's build depends on capital markets rather than operations, with free cash flow expected to remain deeply negative through at least FY30 and we expect in excess of $20 bn of average fundraising across debt and equity over the next few years. Should credit or equity market access tighten, ratings fall toward high-yield, or the cost of capital rise materially, Oracle could be forced to slow the build or fund it on dilutive terms, pressuring both estimates and the multiple.
- **Execution on capacity delivery and margin ramp.** The FY30 framework requires Oracle to deliver gigawatts of contracted capacity on schedule and for AI-cloud gross margins to converge from reported mid-teens toward the 30-40% lifetime target as utilization, scale, and higher-margin mix arrive. Delays in energizing data centers, or margins failing to ramp as the asset base scales, could result in downside risk to our estimates.

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Oracle: Summary of Financials

Income Statement - Annual	FY25A	FY26A	FY27E	FY28E
Revenue	**57,399**	**67,358**	**90,969**	**131,515**
COGS	(16,926)	(23,022)	(37,504)	(64,616)
Gross profit	**40,473**	**44,336**	**53,466**	**66,899**
SG&A	(10,253)	(9,950)	(8,657)	(8,284)
Adj. EBITDA	**23,852**	**29,899**	**45,353**	**68,322**
D&A	(6,174)	(9,294)	(15,182)	(24,352)
Adj. EBIT	**25,034**	**28,925**	**37,263**	**51,175**
Net Interest	(3,578)	(4,598)	(6,253)	(6,821)
Adj. PBT	**21,514**	**27,772**	**31,236**	**44,354**
Tax	(1,715)	(2,468)	(4,360)	(7,430)
Minority Interest	-	-	-	-
Adj. Net Income	**17,283**	**22,235**	**25,016**	**35,414**
Reported EPS	4.34	5.83	6.37	9.28
Adj. EPS	**6.03**	**7.63**	**8.05**	**11.05**
DPS	**1.70**	**2.00**	**2.00**	**2.00**
Payout ratio	39.2%	34.3%	31.4%	21.6%
Shares outstanding	2,866	2,914	3,107	3,203

Income Statement - Quarterly	1Q27A	2Q27E	3Q27E	4Q27E
Revenue	**19,345A**	**21,253**	**23,597**	**26,775**
COGS	(7,542)A	(8,414)	(9,982)	(11,567)
Gross profit	**11,803A**	**12,839**	**13,615**	**15,208**
SG&A	(1,918)A	(2,168)	(2,242)	(2,329)
Adj. EBITDA	**10,086A**	**10,015**	**11,754**	**13,498**
D&A	(3,358)A	(3,184)	(4,020)	(4,620)
Adj. EBIT	**8,151A**	**8,759**	**9,509**	**10,844**
Net Interest	(1,428)A	(1,567)	(1,567)	(1,692)
Adj. PBT	**6,949A**	**7,192**	**7,943**	**9,152**
Tax	(847)A	(842)	(1,233)	(1,437)
Minority Interest	-	-	-	-
Adj. Net Income	**5,758A**	**5,753**	**6,275**	**7,230**
Reported EPS	1.56A	1.45	1.55	1.81
Adj. EPS	**1.92A**	**1.88**	**1.97**	**2.27**
DPS	**0.50A**	**0.50**	**0.50**	**0.50**
Payout ratio	32.1%A	34.6%	32.3%	27.7%
Shares outstanding	3,000A	3,060	3,184	3,184

Balance Sheet & Cash Flow Statement	FY25A	FY26A	FY27E	FY28E
Cash and cash equivalents	10,786	31,289	24,561	12,655
Accounts receivable	8,558	10,385	14,084	20,455
Inventories	-	-	-	-
Other current assets	5,235	4,893	7,080	10,089
Current assets	**24,579**	**46,567**	**45,726**	**43,199**
PP&E	43,522	99,957	180,576	249,464
LT investments	-	-	-	-
Other non current assets	100,260	115,235	130,976	158,064
Total assets	**168,361**	**261,759**	**357,277**	**450,726**
Short term borrowings	7,271	7,199	7,625	7,625
Payables	5,113	10,977	13,146	16,703
Other short term liabilities	20,259	23,588	28,651	35,679
Current liabilities	**32,643**	**41,764**	**49,421**	**60,007**
Long-term debt	85,297	122,342	127,712	127,712
Other long term liabilities	29,452	54,597	71,854	99,659
Total liabilities	**147,392**	**218,703**	**248,987**	**287,378**
Shareholders' equity	20,969	43,056	108,291	163,348
Minority interests	-	-	-	-
Total liabilities & equity	**168,361**	**261,759**	**357,277**	**450,726**
BVPS	**7.52**	**15.05**	**35.25**	**51.56**
y/y Growth	*123.3%*	*100.2%*	*134.2%*	*46.3%*
Net debt/(cash)	81,365	97,647	110,068	121,974
Cash flow from operating activities	**20,821**	**31,977**	**60,008**	**87,001**
o/w Depreciation & amortization	6,174	9,294	15,182	24,352
o/w Changes in working capital	(1,500)	4,135	21,237	29,165
Cash flow from investing activities	**(21,711)**	**(51,854)**	**(92,580)**	**(92,500)**
o/w Capital expenditure	(21,215)	(55,663)	(92,499)	(92,500)
as % of sales	*37.0%*	*82.6%*	*101.7%*	*70.3%*
Cash flow from financing activities	**1,098**	**40,284**	**28,397**	**(6,407)**
o/w Dividends paid	(4,743)	(5,787)	(6,279)	(6,407)
o/w Net debt issued/(repaid)	0	3,345	0	0
Net change in cash	**332**	**20,503**	**(4,163)**	**(11,906)**
Adj. Free cash flow to firm	**(394)**	**(23,686)**	**(32,491)**	**(5,499)**
y/y Growth	*(103.3%)*	*5911.7%*	*37.2%*	*(83.1%)*

Ratio Analysis	FY25A	FY26A	FY27E	FY28E
Gross margin	70.5%	65.8%	58.8%	50.9%
EBITDA margin	41.6%	44.4%	49.9%	51.9%
EBIT margin	43.6%	42.9%	41.0%	38.9%
Net profit margin	30.1%	33.0%	27.5%	26.9%
ROE	114.4%	69.5%	33.1%	26.1%
ROA	11.2%	10.3%	8.1%	8.8%
ROCE	19.2%	16.2%	14.4%	15.1%
SG&A/Sales	17.9%	14.8%	9.5%	6.3%
Net debt/equity	3.9	2.3	1.0	0.7
P/E (x)	24.0	18.9	18.0	13.1
P/BV (x)	19.2	9.6	4.1	2.8
EV/EBITDA (x)	22.9	18.8	12.7	8.6
Dividend Yield	1.2%	1.4%	1.4%	1.4%
Sales/Assets (x)	0.4	0.3	0.3	0.3
Interest cover (x)	6.7	6.5	7.3	10.0
Operating leverage	102.4%	89.6%	82.2%	83.8%
Revenue y/y Growth	8.4%	17.4%	35.1%	44.6%
EBITDA y/y Growth	11.0%	25.4%	51.7%	50.6%
Tax rate	19.7%	19.9%	19.9%	20.2%
Adj. Net Income y/y Growth	10.0%	28.7%	12.5%	41.6%
EPS y/y Growth	8.4%	26.5%	5.5%	37.3%
DPS y/y Growth	6.3%	17.6%	0.0%	0.0%

Source: Company reports and J.P. Morgan estimates.
Note: $ in millions (except per-share data).Fiscal year ends May. o/w - out of which

