**FIRST CUT STOCK STUDY**

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| **COMPANY NAME** Oracle | **TICKER** ORCL |
| **DATE OF STUDY** March 2012 | **PRICE** $ 29.85 |
| **PREPARER OF STUDY** Linda Hunt |  |

**Discuss why you consider this company to be a high quality, growth company that should be considered for inclusion in MicNOVA'a portfolio. Include comments on historical sales and EPS growth, pre-tax profit margins, return on equity and debt.** Oracle is a possible core holding that will grow a little faster than other large companies; the one consideration is that Microsoft is a considered a competitor--already in our portfolio. The price is in a good buy range now. While Section 2 indicates some downward trends the numbers are actually good quite level. PTP is in the mid 30s which is in line with other software companies. The ROE is around 21% which is well above my requirement of at least 15%.

**How does the company make money? Is it the best in the industry? Does it have a competitive advantage?**

They have been a leading provider of enterprise software. In January, 2010, they acquired Sun Microsystems, adding hardware to its product portfolio. This has been their weakest division and the plan is to . The company's major businesses are database and middleware software (46& of sales 2011). They have spent more than $38 billion on acquisitions since fiscal 2005. While highly acquisitive over the past decade, Morningstar considers the company did not overpay and they added long-term value. The acquired companies fit well with the corporate business plan to move into cloud computing.

**What is the projected growth rate for sales? \_\_**12%**\_\_\_\_\_\_\_\_\_**

**Why did you select this rate? Discuss from where future growth will come.** Value Line estimates 23.5% 3-5 years out; MI predicts 14.1%. I am not that optimistic since it is playing catch-up in the cloud computing arena. Further, I think the size of the company will reduce the growth rate from historical levels. The cloud-based enterprise software will probably be its biggest source of growth. Much depends on its ability ot grow their market share of the database software market. While there are switching costs (providing a wide moat), the competition from Microsoft and SAP are important considerations.

**What is the projected growth rate for earnings per share? \_\_**12%**\_\_\_\_\_\_\_\_\_**

**Why did you select this rate?** Earnings have grown more rapidly than sales historically, my strategy is to hold my growth rate to the sales rate since economies will eventually come to an end and earnings follows sales.

**What is the projected high P/E? \_\_\_**20**\_\_\_\_\_\_\_\_**

**Why did you select this value?** The signature P/E is 20.6 over the past 10 years. The current P/E is 15.4. The price is in the low mid-range currently, suffering from disappointing 2Q results the end of November, 2011. The 3Q results announced March 20th were positive and are reflected in the SSG. Choosing a high P/E that is very close to the signature P/E is very conservative but then P/Es have been trending down.

**What is the projected low P/E? \_\_\_\_**12**\_\_\_\_\_\_\_**

**Why did you select this value?** The difference between the low and high estimated P/Es is roughly the same as the most extreme volatile years for Oracle.

**What is the projected low price? \_\_\_**$22.90**\_\_\_\_\_\_\_\_**

**Why did you select this value?** This is the forecasted low price based on my EPS growth judgment.

**At the current price the stock is a (check one) \_\_**X**\_\_\_Buy \_\_\_\_\_Hold \_\_\_\_\_\_Sell**

**At the current price the upside downside ratio is \_\_**6.9**\_\_\_\_\_\_ to 1**

**Projected compounded rate of return \_\_**20.9%**\_\_\_\_\_\_\_**

**Your recommendation is to:**

**\_\_\_**X**\_\_\_\_\_ Buy**

**\_\_\_\_\_\_\_\_Place on Watch List**

**Explain:**  Manifest Investing rates Oracle with the highest quality (83.7) in this industry; Microsoft is 76.8 and SAP is 67.7. PAR is 19.0%; 15.2% and 8.2% respectively. The lower valuation is reflected in the uncertainties surrounding Oracle's ability to navigate the transition to cloud computing. This could be a buying opportunity but there is some risk to the unknowns. The CEO, Larry Ellison, has been in that position since 1977 when he cofounded the company. He owns 22% of the outstanding shares. Since the risk will be mitigated by a strong management team it is good to know that Morningstar considers Ellison supported by a "talented and experienced team. They have been disciplined in capital allocation decisions, integrating new companies easily.