

Oracle Corporation (NYSE: ORCL)



Initiation of Coverage

Target Price: \$271

Prepared by

Haoyang Zou

Industrial Management and Economics

--Institute of Science Tokyo

June 2026

Table of Contents

1: Investment Thesis	3
Thesis 1: AI Infrastructure Expansion	3
Thesis 2: OCI Growth Acceleration	4
Thesis 3: Operational Leverage & Earnings Reacceleration	5
2: Business Overview	6
1. Company Overview	6
2. Oracle’s Competitive Advantage—Moat.	6
3. Transformation Strategy	6
3: Industry Overview—Competitive Landscape.....	8
4: Historical Financial Analysis	9
4.1 Revenue Analysis	9
4.2 Profitability Analysis.....	9
4.3 Cash Flow Analysis.....	10
5: Forecast Assumptions	11
5.1 Revenue Growth Assumptions	11
5.2 EBIT Margin	11
5.3 Capital Expenditure.....	12
6: Valuation—Blended Valuation Approach.....	13
7: Investment Risks	14
Risk 1: AI Investment Cycle Slows	14
Risk 2: Delayed Monetization of AI Infrastructure Investments.....	14
Risk 3: Intensifying Competition.....	14
Risk 4: Execution Risk	14
Risk 5: Geopolitical and Supply Chain Risks.....	14
8: Investment Conclusion	15

1: Investment Thesis

Thesis 1: AI Infrastructure Expansion

AI infrastructure demand will drive a multi-year investment cycle.

Artificial Intelligence (AI) has become one of the most important long-term structural trends reshaping the global economy. Across industries, organizations are accelerating the adoption of AI-driven technologies to improve productivity, automate repetitive tasks and enhance decision-making. From utilities, energy, and defense to hyperscale cloud providers, substantial investments are being directed toward AI infrastructure to support this transformation.

On the consumer side, AI is increasingly serving as a personal tutor, healthcare assistant, and career advisor, while in the enterprise market it is improving operational efficiency by automating repetitive processes such as data analysis, document processing, and workflow management. We therefore believe that AI represents a long-term structural investment cycle rather than a short-lived technology trend.

Unlike previous industrial revolutions, however the AI era requires massive investments in computing infrastructure. Large language models developed by companies such as OpenAI and Anthropic rely on enormous computing capacity, making data centers, networking infrastructure, and reliable power supply the backbone of both AI and future AGI development.

Oracle occupies a critical position in this AI infrastructure value chain through Oracle Cloud Infrastructure (OCI), which provides enterprise-grade cloud services and large-scale AI computing capacity. The company's participation in projects such as Stargate demonstrates its commitment to expanding AI infrastructure to meet rapidly growing enterprise demand. This structural shift provides the foundation for Oracle's accelerating cloud infrastructure business, which we discuss in the following section.

Thesis 2: OCI Growth Acceleration

OCI is positioned to become Oracle's primary growth engine.

Oracle Cloud Infrastructure has become the company's primary long-term growth engine, enabling customers to run mission-critical workloads, enterprise applications, and large-scale AI training and inference. As enterprises increasingly adopt generative AI, demand for cloud computing infrastructure continues to accelerate.

Many organizations are investing in fine-tuning large language models (LLMs) using proprietary datasets to develop industry-specific AI applications. This trend is particularly evident in highly regulated industries such as financial services, healthcare, manufacturing, and the public sector, where AI models require secure, reliable, and high-performance computing infrastructure.

Oracle possesses a unique competitive advantage in serving these customers. Over several decades, the company has established deep relationships with thousands of enterprise clients through its database business. As a result, existing Oracle customers can migrate their databases, applications and AI workloads to OCI more efficiently than switching to competing cloud providers such as Amazon Web Services (AWS) or Google Cloud. This creates high switching costs and strengthens customer retention while supporting OCI adoption.

The strength of OCI demand is already reflected in Oracle's contract backlog. According to Oracle's FY2026's Annual Report, Remaining Performance Obligations (RPO) increased from approximately \$137 billion to \$ 638 billion, representing 363% year-over-year growth. This record backlog significantly improves revenue visibility and provides a solid foundation for sustained cloud revenue growth over the coming years. We believe OCI will remain Oracle's primary growth driver throughout our forecast period.

Thesis 3: Operational Leverage & Earnings Reacceleration

Near-term CapEx pressure creates an attractive long-term entry point.

Over the 5 fiscal years, Oracle's net income has consistently grown faster than its revenue. For example, in FY 2026, the growth rate of net income reached approximately 37.32% while the growth rate of revenue is around 17.087%. This demonstrates Oracle's strong operating leverage, as earnings have grown significantly faster than revenue. Investors are primarily concerned about Oracle's substantial capital expenditures, which increased from \$21.2 billion in FY2025 to \$55.6 billion in FY2026, representing year-over-year growth of approximately 162%. This has contributed to weaker investor sentiment, as the market remains concerned about near-term free cash flow pressure resulting from aggressive infrastructure investment. However, for a long-term investment, we believe these investments will translate into higher revenue growth and stronger earnings over the medium term. As mentioned above, the RPO of Oracle increased 363% year-over-year. Although Oracle is expected to maintain elevated capital expenditures over the next several years to expand OCI capacity and support large-scale AI infrastructure projects such as Stargate, we expect revenue growth to outpace capital spending as newly deployed capacity becomes operational and existing customer commitments begin to convert into recognized revenue. Consequently, we forecast a gradual decline in CapEx as a percentage of revenue rather than an immediate reduction in absolute capital spending. As infrastructure utilization improves, we expect Oracle to benefit from stronger operating leverage, accelerating earnings growth, and expanding free cash flow generation. In our view, the market is overly focused on short-term capital spending while underestimating Oracle's long-term earnings power driven by AI infrastructure demand

Summary

Taken together, these three factors—AI infrastructure expansion, OCI's accelerating growth, and Oracle's improving operating leverage—form the basis of our investment thesis. We therefore initiate coverage with a BUY rating and a 2029 target price of \$271 per share under our base-case scenario and \$401 per share under the bull-case scenario.

2: Business Overview

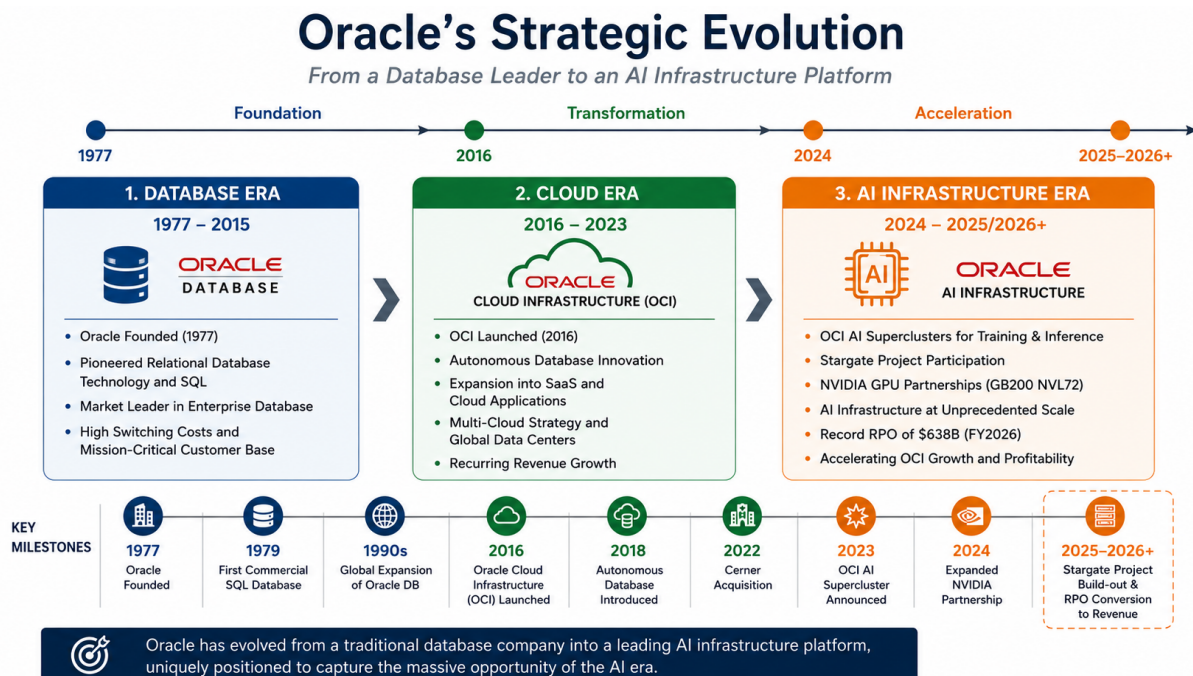
1. Company Overview

Oracle Corporation is one of the world's largest enterprise software and cloud computing companies. Founded in 1977 and headquartered in Austin, Texas, Oracle provides database software, cloud infrastructure, enterprise applications, and AI computing services to organizations worldwide. Over the past several years, Oracle has been transforming from a traditional software company into a leading cloud infrastructure provider through the rapid expansion of Oracle Cloud Infrastructure (OCI).

2. Oracle's Competitive Advantage—Moat.

Oracle has dominated a big portion of database market permeating through banks, governments, hospitals and so on. These organizations rely heavily on Oracle database, and they will spend high switching costs to migrate data to Oracle's competitors such as Amazon Web Services (AWS) which makes the customer retention of Oracle remained elevated.

3. Transformation Strategy



As illustrated in the timeline above, Oracle has undergone three major stages of strategic transformation over the past five years.

From its founding in 1977 until 2015, Oracle primarily focused on its database business, establishing itself as the global leader in enterprise database software. During this period, the company built a large, loyal, and high-quality enterprise customer base across industries such as financial services, healthcare, manufacturing, and the public sector. This extensive customer network later became one of Oracle's strongest competitive advantages.

Oracle's transformation accelerated in 2016 with the launch of Oracle Cloud Infrastructure (OCI). The introduction of OCI enabled the company to expand beyond its traditional database business into cloud infrastructure, autonomous database services, SaaS applications, and enterprise cloud solutions. This marked Oracle's transition from a software vendor to a comprehensive cloud service provider.

The next strategic milestone began in 2024, as the global AI investment cycle accelerated. Leveraging its long-standing enterprise customer relationships, Oracle significantly expanded its AI infrastructure business through OCI. The company's participation in the Stargate project, together with OpenAI and SoftBank, reflects its commitment to building next-generation AI computing infrastructure capable of supporting large-scale AI training and inference workloads. We believe this strategic transformation positions Oracle as one of the key beneficiaries of the global AI infrastructure expansion.

3: Industry Overview—Competitive Landscape

Oracle operates in one of the most competitive segments of the technology industry. The cloud infrastructure market is currently dominated by Amazon Web Services (AWS), which remains the global leader in cloud infrastructure with the largest market share. Other major competitors include Microsoft Azure, which benefits from Microsoft's extensive enterprise software ecosystem, including Windows, Microsoft 365, GitHub and Copilot, and Google Cloud, which leverages Google's leadership in artificial intelligence, advanced data analytics capabilities, Tensor technologies, and its broader technology ecosystem to expand enterprise cloud adoption.

Despite this highly competitive landscape, we believe Oracle possesses a different competitive advantage rather than competing directly on overall cloud market share. Oracle's competitive moat lies in its long-established enterprise database ecosystem. Since its founding in 1977, the company has built deep relationships with thousands of enterprise customers across highly regulated industries such as financial services, healthcare, manufacturing, and the public sector.

More importantly, Oracle's database products are deeply embedded in customers' mission-critical operations. Migrating these databases and enterprise workloads to competing cloud platforms such as AWS or Google Cloud is often costly, time-consuming, and operationally complex. These high switching costs not only support strong customer retention but also provide Oracle Cloud Infrastructure (OCI). Consequently, we believe Oracle is well positioned to capture the growing demand for enterprise AI workloads without competing solely on public cloud market share.

4: Historical Financial Analysis

4.1 Revenue Analysis

Oracle has maintained stable revenue growth over the past 5 years, with cloud revenue becoming an increasingly important contributor. The accelerating adoption of OCI has shifted Oracle's revenue mix toward recurring cloud subscription revenue, improving both revenue visibility and earnings quality. In FY2026, Oracle's total revenue increased by 17.3% year-over-year, representing the strongest annual growth in recent years. This acceleration was primarily driven by the continued expansion of its cloud business. Cloud services revenue increased from approximately \$24.5 billion in FY2025, accounting for 42.7% of total revenue, to nearly \$34.0 billion in FY2026, representing 50.4% of total revenue.

The increasing contribution of cloud services reflects Oracle's successful transition from a traditional software vendor to a cloud infrastructure provider. More importantly, recurring cloud subscription revenue generally offers greater revenue visibility, stronger customer retention, and higher long-term earnings quality than traditional software license sales. We therefore expect cloud services to remain Oracle's primary revenue driver throughout our forecast period.

4.2 Profitability Analysis

Despite the substantial increase in capital expenditure over the past 2 fiscal years, Oracle has continued to improve its profitability. The company's EBIT margin increased from 25.7% in FY2022 to 30.6% in FY2026, while its net margin expanded from 15.8% to 25.4% over the same period. This demonstrates Oracle's strong operating leverage, with earnings continuing to grow faster than revenue despite aggressive infrastructure investment.

We believe this improvement is primarily attributable to the company's transition toward higher-quality recurring cloud subscription revenue, which has become an increasingly important component of Oracle's revenue mix. As Oracle Cloud Infrastructure (OCI) continues to scale, the company benefits from stronger operating leverage, allowing earnings to grow faster than revenue. In addition, Oracle's long-standing enterprise customer relationships and high switching costs contribute to strong customer retention and stable recurring revenue, further supporting margin expansion. We expect these structural advantages to continue driving profitability as OCI utilization improves over the coming years.

4.3 Cash Flow Analysis

Oracle's free cash flow declined significantly in FY2026 despite continued growth in operating cash flow. This was primarily driven by an unprecedented increase in capital expenditures as the company accelerated investments in Oracle Cloud Infrastructure (OCI), AI data centers, and GPU infrastructure. Capital expenditure increased from \$21.2 billion in FY2025 to \$55.7 billion in FY2026, representing approximately 162% year-over-year growth.

While the sharp increase in capital expenditures has raised market concerns regarding near-term free cash pressure, we believe these concerns overlook the underlying economics of Oracle's AI infrastructure investments. Unlike speculative capacity expansion, Oracle has already secured substantial long-term customer commitments through multi-year contracts. This is evidenced by the company's Remaining Performance Obligations (RPO), which surged from approximately \$137 billion to \$638 billion in FY2026, providing exceptional revenue visibility over the coming years.

Furthermore, the economics of AI infrastructure have improved considerably since many of Oracle's largest contracts were signed. As demand of AI computing capacity has increased significantly exceeded available supply, the market value of AI infrastructure capacity has increased substantially. Although Oracle's existing long-term agreements with customers such as OpenAI may prevent the company from fully benefiting from today's higher market pricing of limited capacity, these contracts have already secured stable demand and significantly reduced utilization risk. In our view, the certainty of long-term contracted cash flows outweighs the opportunity cost of foregoing higher near-term pricing.

Looking ahead, we expect newly deployed AI infrastructure to begin converting Oracle's record contract backlog into recognized revenue as additional capacity becomes operational. Although capital expenditures are likely to remain elevated over the next several years, we expect revenue growth to outpace capital investment, resulting in a gradual improvement in free cash flow generation. Consequently, we view Oracle's current cash flow pressure as a temporary consequence of an accelerated investment cycle rather than a deterioration in the company's underlying business fundamentals.

5: Forecast Assumptions

5.1 Revenue Growth Assumptions

Our revenue forecast is primarily driven by continued demand for AI infrastructure and the rapid expansion of Oracle Cloud Infrastructure (OCI). We expect enterprise adoption of generative AI to remain one of the strongest structural growth drivers over the next several years, resulting in sustained demand for AI computing capacity, cloud infrastructure, and database modernization.

Under our base-case scenario, we forecast revenue to gradually grow from approximately 33.5% in FY2027 to 15% by FY 2032. This reflects our expectation that Oracle will continue benefiting from strong OCI demand while growth naturally normalizes as the business reaches a larger revenue base.

Our bull-case scenario assumes stronger-than-expected AI infrastructure demand, faster OCI adoption, and continued expansion of large enterprise contracts, resulting in revenue growth ranging from 40% to 27% over the forecast period.

Conversely, our bear-case scenario assumes a slower pace of enterprise AI adoption and more moderate cloud spending, with revenue growth gradually declining from approximately 25% to 10%.

Overall, we believe Oracle's record Remaining Performance Obligations (RPO) provide strong revenue visibility, making our base-case assumptions both achievable and conservative.

5.2 EBIT Margin

We expect Oracle's EBIT margin to continue improving over our forecast period as Oracle Cloud Infrastructure (OCI) scales and operating leverage becomes increasingly evident.

Our forecast assumes an average EBIT margin of approximately 32% under the base case, 34% under the bull case, and 29.5% under the bear case.

Margin expansion is primarily supported by three structural factors. First, recurring cloud subscription revenue continues to represent a larger proportion of Oracle's total revenue, improving earnings quality and profitability. Second, increasing utilization of Oracle's AI infrastructure allows revenue growth to outpace operating expenses, creating stronger operating leverage. Finally, Oracle's long-established enterprise

customer relationships and high switching costs support stable customer retention and recurring revenue generation.

Accordingly, we expect Oracle's earnings to continue growing faster than revenue throughout our forecast period.

5.3 Capital Expenditure

Oracle is currently undergoing one of the most capital-intensive investment cycles in its corporate history. We therefore expect capital expenditures to remain elevated over the next several years as the company continues expanding Oracle Cloud Infrastructure (OCI), AI data centers, GPU clusters, and projects such as Stargate.

Rather than forecasting an immediate decline in capital expenditures, we assume that CapEx as a percentage of revenue gradually decreases as previously constructed infrastructure becomes operational and utilization rates improve.

Under our base-case scenario, CapEx margin gradually declines from approximately 60% to 20% over the forecast period. Similar normalization trends are assumed under both the bull and bear scenarios, although the timing differs according to expected AI demand.

We believe this assumption reflects the economics of large-scale cloud infrastructure investment. Initial capital requirements are substantial, but as infrastructure utilization increases and customer commitments begin converting into recognized revenue, revenue growth should outpace capital investment, resulting in improving free cash flow generation over time.

6: Valuation—Blended Valuation Approach

To estimate Oracle's intrinsic value, we adopt a blended valuation methodology combining both discounted cash flow analysis and relative valuation using forward P/E multiples.

We assign a 25% weighting to our DCF-derived present value and a 75% weighting to the present value of our FY2029 P/E based target price.

We believe this blended approach more appropriately reflects Oracle's current stage of development. The company is undergoing an unusually capital-intensive AI infrastructure investment cycle, during which free cash flow is temporarily depressed by significant investments in data centers and computing capacity. Consequently, a standalone DCF model may understate Oracle's long-term earnings power by disproportionately penalizing near-term cash flow.

In contrast, forward earnings multiples better capture the value of Oracle's expanding cloud business and future earnings potential once current AI infrastructure investments begin generating meaningful returns. Therefore, we believe a blended valuation approach provides a more balanced assessment of Oracle's intrinsic value.

7: Investment Risks

Risk 1: AI Investment Cycle Slows

Our investment thesis assumes that enterprise AI adoption continues to accelerate over the coming years. A meaningful slowdown in AI infrastructure investment, whether due to weaker enterprise demand, technological disruption, or a deterioration in market sentiment, could reduce OCI growth and delay Oracle's expected earnings acceleration. While we believe the long-term fundamentals of AI remain intact, short-term market corrections could negatively affect Oracle's valuation.

Risk 2: Delayed Monetization of AI Infrastructure Investments

Oracle's current capital expenditure levels assume that recently constructed AI infrastructure will be efficiently utilized and converted into revenue. If the enterprise AI demand grows more slowly than expected or customer deployment are delayed, free cash flow recovery may take longer than our forecast, resulting in lower returns on invested capital.

Risk 3: Intensifying Competition

Oracle competes against well-capitalized cloud providers including Amazon Web Services (AWS), Microsoft Azure, and Google Cloud. Continued pricing pressure, technological innovation by competitors, or slower OCI customer acquisition could negatively affect Oracle's long-term market share and profitability.

Risk 4: Execution Risk

A successful execution of Oracle's AI infrastructure strategy depends on the timely completion of new data centers, efficient deployment of GPU capacity, and effective intergration of large enterprise customers. Delays in project execution or operational inefficiencies could reduce the expected return on Oracle's significant capital investments.

Risk 5: Geopolitical and Supply Chain Risks

Oracle's AI infrastructure expansion depends heavily on global semiconductor supply chain, power infrastructure and data center construction. Geopolitical tension, trade restrictions, or disruptions in the supply of advanced AI chips could delay capacity expansion and negativity affect OCI growth.

8: Investment Conclusion

Oracle is undergoing one of the most significant strategic transformations in its corporate history. Once recognized primarily as a leading enterprise database company, Oracle has successfully repositioned itself as a key provider of AI cloud infrastructure through Oracle Cloud Infrastructure (OCI). We believe the market continues to underestimate the long-term earnings potential of this transformation, focusing excessively on near-term capital expenditures while overlooking the substantial future cash flows supported by long-term customer commitments.

Our positive investment view is based on three fundamental pillars. First, we expect the global AI infrastructure investment cycle to remain a powerful secular growth driver over the coming decade, creating sustained demand for cloud computing capacity and enterprise AI infrastructure. Second, Oracle's expanding OCI business, supported by its long-established enterprise customer relationships and record Remaining Performance Obligations (RPO), provides exceptional revenue visibility and positions the company to capture a meaningful share of enterprise AI spending. Finally, we believe Oracle's current capital-intensive investment cycle represents a temporary drag on free cash flow rather than a deterioration in underlying business fundamentals. As newly deployed infrastructure becomes operational and utilization improves, we expect operating leverage to strengthen, driving accelerating earnings growth and expanding free cash flow generation.

Although risks remain—including intensifying competition, execution challenges, and potential moderation in AI investment—we believe these risks are more than adequately reflected in Oracle's current valuation. Our blended valuation methodology combines the stability of discounted cash flow analysis with the forward-looking nature of earnings multiples to better capture Oracle's long-term earnings power during this unusually capital-intensive investment cycle.

Based on our analysis, we initiate coverage with a BUY rating, deriving a base-case 2029 target price of \$271 per share, representing our estimate of Oracle's intrinsic long-term value. Under our bull-case scenario, continued acceleration in AI infrastructure demand and stronger OCI execution support a target price of \$401 per share.

In our view, Oracle represents one of the most attractive long-term investment opportunities within the enterprise software and AI infrastructure sector. The company's differentiated enterprise ecosystem, high customer switching costs, expanding cloud platform, and increasing exposure to one of the most powerful structural growth trends of the next decade position Oracle to deliver sustainable earnings growth and long-term shareholder value.

We believe Oracle is no longer simply a database company—it is evolving into one of the world's most strategically positioned AI infrastructure providers, and we expect this transformation to create substantial long-term value for shareholders.