

ORACLE CORPORATION

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RECOMMENDATION	RATING CHANGE	INVESTMENT SCORE
WATCHLIST Upgraded from Avoid	Avoid → Watchlist An arithmetic correction, not a re-rating	54 / 100 Was 47 on the same weighting

Price (28 Aug close)	\$150.85	Market Cap	\$434.5 B	52-Week Range	\$114.50 to \$345.72
Change since 5 Aug	+4.5%	Enterprise Value	\$570.0 B	Beta (5Y)	1.72
Trailing P/E (GAAP)	25.9x	FY27 P/E (guided)	18.7x	Clean trailing P/E	22.1x
FY26 Revenue	\$67.4 B (+17%)	FY27 Revenue guide	\$90 B (+33.5%)	FY27 EPS guide	\$8.05 (+18%)
Free Cash Flow FY26	-\$23.7 B	Total Debt	\$167.4 B	Debt / EBITDA	5.60x
S&P / Moody's	BBB- / Baa2 neg.	5-Year CDS	~200 bp	Altman Z-Score	2.18
Remaining Perf. Obligations	\$638 B	Prepaid / customer GPUs	\$75 B	Next Earnings	8 Sep 2026

Why the Rating Has Changed

Oracle is upgraded from Avoid to Watchlist. The reason is unusual and worth stating plainly at the outset: the world has not changed much since the previous report of 5 August, but one of the four numbers that report rested on was wrong, and correcting it removes a pillar of the Avoid case.

That report's most quoted figure was that Oracle's adjusted earnings per share would grow 5.5% in fiscal 2027 against revenue growth of 32.6%, and it built its valuation conclusion on that gap: "17.9 times forward earnings for 5.5% earnings growth" was described as an average multiple attached to a below-average balance sheet. The arithmetic was correct but the base was contaminated. Fiscal 2026 non-GAAP earnings per share of \$7.631 included one-time net investment gains from the sale of the Ampere chip business and of Bloom Energy warrants. Oracle's own earnings release footnotes the clean figure at \$6.83 and states that its fiscal 2027 guidance of \$8.05 represents growth of 18% "after adjusting for the one-time events". On a like-for-like basis the growth rate is 17.9%, not 5.5%. The previous report used the inflated base and therefore understated forward earnings growth by roughly twelve percentage points.

At \$150.85 Oracle trades on 18.7 times guided fiscal 2027 earnings for approximately 18% clean earnings growth, a price/earnings-to-growth ratio of about 1.05. That is not obviously cheap for a company with this balance sheet, but it is a materially different statement from the one the previous report made, and it does not on its own support an Avoid.

A second omission points the same way. The fiscal 2026 release disclosed that the prepaid and customer-supplied hardware portions of Oracle's large AI contracts now total \$75 billion, and that this "substantially reduces the amount of capital Oracle must raise". The same release specified the fiscal 2027 funding plan: approximately \$40 billion raised through a combination of debt and equity including the previously announced \$20 billion at-the-market equity issuance, with no additional debt expected to be issued in calendar year 2026. The previous report described the funding gap as having "no comfortable option" without engaging with either disclosure. The gap is real and large, but it is more specified, and more customer-funded, than that characterisation allowed.

What has not improved is the part that actually drove the downgrade. Credit is where it was. The S&P issuer rating remains BBB– with the short-term rating at A-3, one notch above speculative grade; Moody's remains at Baa2 with a negative outlook; and the five-year credit default swap continues to trade near 200 basis points, close to its widest in eighteen years and roughly two-and-a-half times the levels seen at Nvidia or Meta. None of the five conditions the previous report named as routes back toward Watchlist has cleanly been met. The upgrade therefore rests on a corrected input rather than on a fired trigger, and that distinction is deliberate. Letting a wrong number ride until a trigger happens to move would be a worse form of anchoring than revisiting the number.

Analytical Framework — What Determines the Outcome

Oracle remains two businesses under one ticker. A mature, high-margin database and applications franchise generates roughly \$32 billion of operating cash flow a year and is not in question. Bolted onto it is a capital-intensive AI infrastructure buildout funded with debt and equity against a \$638 billion remaining performance obligation concentrated in a small number of counterparties. Returns over the next two years depend on four things: whether the funding path can be walked without a downgrade to speculative grade; whether the anchor customers behind the backlog can pay; whether gross margin stabilises as low-margin infrastructure revenue scales; and what multiple the market assigns while those questions resolve. Demand is deliberately not on the list. Demand is the part that works.

1. Earnings Power — The Corrected Picture

Measure	FY2025	FY2026 reported	FY2027 guide	Note
Total revenue	\$57.40 B	\$67.36 B	\$90.0 B	Guided growth of 33.5%
Cloud revenue	—	\$34.0 B (+39%)	—	IaaS \$18.1 B, up 77%
GAAP EPS	—	\$5.83 (+34%)	—	Trailing basis for the 25.9x
Non-GAAP EPS as reported	—	\$7.631 (+27%)	\$8.05	Includes one-time gains
Non-GAAP EPS ex one-offs	—	\$6.83 (+13%)	\$8.05	The correct comparison base
Clean EPS growth	—	—	+17.9%	Not the +5.5% previously published
Gross margin	70.51%	65.82%	~60% cons.	Still eroding on infrastructure mix
Operating cash flow	—	\$32.0 B (+54%)	—	The healthy part of the picture
Free cash flow	\$0.70 B	–\$23.7 B	–\$47.7 B cons.	Shortfall still roughly doubling
Total debt	—	\$167.4 B	—	Against \$31.9 B of cash

Fiscal year ends 31 May. Revenue and EPS guidance are Oracle's own, from the Q4 FY2026 release of 10 June 2026. The ex-one-off figures are taken from that release's footnote 1, not derived here. Free cash flow for FY2027 is third-party analyst consensus, not company guidance. Gross margin for FY2027 is consensus.

The correction does not make the cash-flow problem go away, and this report does not claim it does. Oracle is still guided by consensus toward a fiscal 2027 free-cash-flow outflow of roughly \$47.7 billion on top of the \$23.7 billion already spent, a cumulative \$71 billion against \$31.9 billion of cash on hand. What the correction does is separate two arguments that the previous report ran together. The claim "Oracle is spending enormous sums it does not yet have" survives intact. The claim "and the earnings are not growing to show for it" does not. Earnings are growing at roughly 18% on a clean basis, and revenue at 33.5% on the company's own guide.

The \$75 billion of prepaid and customer-supplied hardware matters for the same reason. A large share of the capital expenditure that produces the negative free-cash-flow headline is not Oracle speculatively building capacity in the hope of filling it; it is capacity a customer has already paid for or supplied the chips for. That is a fundamentally different risk profile from an unfunded buildout, and it deserved a mention in the report that downgraded the stock on funding grounds.

2. Credit — No Improvement, and This Is What Still Caps the Rating

Credit indicator	Current reading	Change since 5 Aug	Significance
S&P issuer rating	BBB– / A-3	Unchanged	One notch above speculative grade
Moody's rating	Baa2, negative outlook	Unchanged	Further downgrade remains open
5-year CDS	~200 bp	Broadly flat	Near an 18-year high; ~78 bp at Nvidia, ~93 bp at Meta
Debt / EBITDA	5.60x	Unchanged	High for an investment-grade software issuer
Interest coverage	4.48x	Declining	Falls further as new debt is drawn

Credit indicator	Current reading	Change since 5 Aug	Significance
Altman Z-Score	2.18	Unchanged	Below 3.0; statistically elevated-distress band
Current ratio	1.12	Unchanged	Little liquidity cushion
CY2026 debt issuance	None planned	Company statement	Removes near-term supply pressure

Credit ratings, CDS levels and peer spreads are as reported by third-party financial media and have not been independently verified against agency publications. Readings are as of late August 2026.

A credit default swap near 200 basis points is not sentiment. It is the price at which sophisticated counterparties will insure Oracle's debt, set by participants paid to be right about solvency rather than about growth. It has not narrowed. The previous report named a move back below roughly 150 basis points, or an S&P outlook revision, as the evidence that would justify a more constructive stance, and neither has happened. This is why the rating moves to Watchlist rather than further. Oracle's equity market and Oracle's credit market still cannot both be right, and that unresolved tension is the textbook definition of a Watchlist situation rather than an Avoid one.

3. Demand, Backlog and Counterparty Concentration

The \$638 billion remaining performance obligation is contracted rather than speculative, and grew \$85 billion sequentially in the fourth quarter alone. The database and applications franchise remains genuinely defensible: migration costs are high, support revenue is sticky, and the Oracle Multicloud AI Database grew 404% in the fourth quarter, making it the fastest-growing product line in the company's history. The July Stargate agreement, under which OpenAI leases roughly 4.5 gigawatts of capacity in a relationship reported to exceed \$300 billion over five years, and the 30 July Google Cloud partnership embedding Gemini across Fusion Applications, AI Agent Studio and NetSuite, are both real and both remain in place.

Concentration is the risk that has not moved at all, and if anything the Stargate confirmations deepen it. The backlog remains dominated by a small number of AI customers, most prominently OpenAI, whose ability to fund commitments of that scale while carrying overlapping obligations to other suppliers is unproven and unrated. Oracle has published no disclosure breaking the remaining performance obligation down by counterparty. Until it does, an investor is asked to take the largest receivable in enterprise software history on trust. The \$75 billion of prepayments blunts this, because prepaid revenue is cash already received, but \$75 billion against \$638 billion still leaves the large majority of the backlog uncollateralised.

Execution is a second-order version of the same worry. Reporting on the buildout has flagged multi-month utility interconnection and pipeline delays at large sites, and Oracle has publicly rebutted suggestions that Stargate capacity was being cancelled. Contracted revenue that arrives two years late is worth materially less than contracted revenue that arrives on schedule, and the difference does not appear anywhere in the remaining performance obligation figure.

4. Valuation

At \$150.85 Oracle trades on 25.9 times trailing GAAP earnings, 22.1 times trailing non-GAAP earnings cleaned of the one-time gains, and 18.7 times the company's own fiscal 2027 guidance of \$8.05. Enterprise value is approximately \$570 billion. Price to free cash flow cannot be computed because free cash flow is negative, which remains the single most informative valuation statistic available on this company.

Set against roughly 18% clean earnings growth, 18.7 times forward earnings gives a growth-adjusted multiple of about 1.05. Compared with a market on roughly 22 times and enterprise software peers well above that, Oracle screens as reasonably rather than expensively priced on earnings. The discount to peers is justified: the balance sheet is weaker, the cash flow is negative, the revenue mix is shifting toward lower-margin infrastructure, and the earnings quality is lower because the growth depends on counterparties whose creditworthiness is not disclosed. But a justified discount already present in the price is a different situation from a multiple that has yet to compress, and the previous report's conclusion that the multiple was unjustifiably high rested on the wrong growth rate.

Scenario	Prob.	Key assumptions	Earnings basis	Fair value
Bull	25%	Capex peaks in FY2027 and free cash flow inflects in FY2028; prepayments fund a rising share of the buildout; OpenAI and peers meet commitments; CDS narrows and S&P moves the outlook to positive; margin erosion halts near 60%	~\$10.50 FY28 EPS at 24x	\$250
Base	45%	Revenue tracks the \$90 B guide; FY2027 EPS lands near the \$8.05 guide and compounds at high teens; free cash flow stays deeply negative through FY2028; rating holds at BBB- with no upgrade; multiple stays compressed	~\$9.40 FY28 EPS at 18x, discounted	\$155
Bear	30%	An anchor customer renegotiates, defers or defaults; a second downgrade takes Oracle to speculative grade; the \$20 B at-the-market issuance dilutes into weakness; RPO write-downs or long interconnection delays follow	~\$6.75 FY27 EPS at 12x	\$85

Probabilities sum to 100%. The probability-weighted fair value is \$157.75, approximately 4.6% above the 28 August close of \$150.85. The distribution remains skewed: 65.7% upside in the bull case at 25% odds against 43.7% downside in the bear case at 30% odds. The bear weighting is reduced from the previous report's 33% because the funding plan is more specified and more customer-funded than that report allowed, not because the

counterparty risk has resolved. Fair values are the analyst's own calculations derived from the stated inputs and are not price predictions.

The expected return of roughly 4.6% is the number that keeps this from being a Buy. An investor is being offered a low-single-digit central case in exchange for a three-in-ten chance of losing more than 40%. That is a better distribution than the previous report described, because the central case is no longer zero, but it is not a distribution worth paying for.

5. Market Sentiment and Positioning

Indicator	Reading	Interpretation
Analyst consensus	Buy; broadly unchanged since the last report	Constructive, with very wide dispersion
Price targets	Consensus near \$248; range roughly \$110–\$400	A 3.6x spread between low and high
Recent actions	Citi positive catalyst watch, target \$330 (late Aug)	Bulls positioning into the 8 Sep print
Short interest	~2.9% of float; elevated after a 33% monthly rise	Bears have not covered into the rally
Insider ownership	40.45%; ~\$45 M sold in recent filings	High alignment, but selling into strength
Institutional ownership	43.38% of shares outstanding	Low relative to megacap peers
Credit market	CDS near 200 bp, not narrowing	Still contradicts the equity's recovery

The dispersion is the most useful sentiment fact and it has not narrowed. A \$110 low target and a \$400 high target on the same security describes a market with no shared view of what this company is worth, which is characteristic of a balance-sheet situation rather than an operating one. Positioning into 8 September is unusually two-sided: sell-side enthusiasm has increased while short interest remains elevated and the credit market has not moved at all.

6. Technical Setup

Indicator	Value	Reading	Versus 5 August report
Price	\$150.85	—	\$144.39 (+4.5%)
SMA 20	\$146.98	Price above	Was \$129.19; price was above
SMA 50	\$141.55	Price 6.6% above — see note	Was \$162.16; price was 12% below
SMA 100	\$164.56	Price 8.3% below	Was \$164.68; price was 12% below
EMA 20 / EMA 50	\$145.22 / \$148.32	Above both	\$134.82 / \$149.40; above 20, below 50
SMA 200	Not computed	Series of 100 sessions is too short	Not computed
RSI (14)	56.0	Neutral	54.7
MACD (12,26,9)	1.92 / signal 1.10	Histogram +0.82; now above zero	–5.00 / –9.78, below zero
ATR (14)	\$6.52 (4.3%)	Still very high daily volatility	\$7.80 (5.4%)
Volume 20d / 50d	25.1 M / 32.7 M	Cooling from the July break	38.5 M / 34.6 M
20-day range	\$130.21–\$159.26	Consolidating above the July low	\$114.50–\$149.07

Indicators computed directly from a 100-session daily OHLCV series ending 28 August 2026 (8 April to 28 August). The 200-day average requires a longer series than was retrievable and is reported as not computed rather than estimated.

One technical point needs stating carefully because taken at face value it would be misleading. The previous report named "a sustained reclaim of the 50-day average at \$162.16" as its technical confirmation. Price is now above the 50-day average. But that is almost entirely because the 50-day average has fallen from \$162.16 to \$141.55 as June's much higher prices rolled out of the lookback window, not because the stock rallied to \$162. The trigger has been met mechanically and not substantively, and it is not treated here as confirmation of anything. The honest reading of the chart is a base forming between roughly \$130 and \$160 above the 24 July low of \$114.50, with price still 8.3% below the 100-day average and materially below the 200-day. The MACD crossing above zero is a genuine improvement; an average true range of 4.3% per session means a 10% move in either direction remains about two days of normal volatility.

7. Scorecard

Component	Score	Weight	Rationale — and what moved
Business Quality	 6/10	15%	Durable legacy franchise, but gross margin still guided toward 60% from 65.8%. Unchanged.
Financial Strength	 3/10	15%	Free cash flow still deeply negative and Z-score 2.18, but \$75 B prepaid and a specified \$40 B funding plan. Was 2.
Competitive Advantage	 6/10	15%	Deep database moat; Multicloud AI Database +404%; OCI still contested. Unchanged.
Management	 6/10	10%	Confirmed the \$90 B revenue guide and raised FY27 EPS guidance; prepayment structure is good capital discipline. Was 5.
Growth Potential	 8/10	15%	Clean FY27 EPS growth of 17.9%, not the 5.5% previously published, on 33.5% revenue growth. Was 7.
Valuation	 6/10	15%	18.7x guided forward earnings for ~18% growth is a PEG near 1.05. Was 5.
Risk (10 = lowest risk)	 2/10	10%	BBB–, Baa2 negative, CDS near 200 bp, undisclosed counterparty concentration. Was 1.
Technical Setup	 5/10	5%	Above the 20- and 50-day and MACD above zero, but the 50-day reclaim is mechanical. Was 4.

Scored 1–10, where 10 is always best, including Risk. Weighted investment score: 54 / 100, against 47 for the 5 August report on the same weighting. The previous report already stated its safety component as higher-equals-safer, so no restatement was required to compare the two totals. Five components rose, three are unchanged, none fell.

8. Recommendation — WATCHLIST (upgraded from Avoid)

Avoid was too strong, and it was too strong for a reason that can be pointed at. The 5 August report made four arguments: the cash burn, the credit deterioration, the counterparty concentration, and the claim that earnings were barely growing despite the revenue surge. The fourth was arithmetically unsound, resting on a fiscal 2026 base inflated by one-time investment gains that Oracle itself footnotes and strips out. Remove it, and give proper weight to the \$75 billion of customer prepayments and the specified fiscal 2027 funding plan, and what remains is a genuinely unresolved situation rather than a case to decline outright.

It is Watchlist and not Buy because the two hardest problems are untouched. Credit has not improved on any measure: the rating is where it was, the outlook at Moody's is still negative, and the credit default swap is still trading near an eighteen-year high while the equity has recovered 31% off its July low. Counterparty concentration has, if anything, increased, and Oracle still publishes no breakdown of the \$638 billion backlog by customer. A probability-weighted fair value of \$157.75 against a price of \$150.85 offers roughly 4.6% of expected return for a three-in-ten chance of losing more than 40%. That is a situation to watch closely, not one to fund.

The timing argues for the same posture. Oracle reports first-quarter fiscal 2027 results on 8 September, nine days from this report's date. That print will speak directly to the two open questions: whether gross margin is stabilising near 60% as infrastructure revenue scales, and whether capital expenditure growth is decelerating relative to revenue. Downgrading or upgrading further on the eve of that disclosure would be guessing at an answer that arrives shortly.

What would move the rating to Buy	Level or evidence required
Credit stabilisation	CDS narrowing below roughly 150 bp, or S&P revising the BBB– outlook to positive
Free cash flow inflection	Reported evidence on 8 September that capex growth is decelerating relative to revenue, not merely guided to
Margin stabilisation	Gross margin holding at or above 60% rather than continuing to erode toward the mid-fifties

What would move the rating to Buy	Level or evidence required
Backlog diversification	A disclosed breakdown showing a declining OpenAI share of remaining performance obligations
Prepayment share rising	The \$75 B of prepaid and customer-supplied hardware growing as a share of the backlog
Price alone	A retest of the \$120–130 zone, which would restore a double-digit expected return on these same estimates
What would move the rating back to Avoid	Level or evidence required
Downgrade to speculative grade	Either agency cutting Oracle below investment grade, forcing index and mandate selling
Counterparty failure	Public evidence of renegotiation, deferral or default by OpenAI or another anchor customer
Backlog impairment	Any write-down of the \$638 B remaining performance obligation, or disclosed multi-year interconnection delays
Margin break	Gross margin guided below the mid-fifties, which would undo the corrected earnings-growth case
Technical breakdown	A decisive close below the 24 July low of \$114.50 on volume above the 20-day average

No entry, stop or target levels are published because this is not a Buy recommendation. The levels above are monitoring thresholds, not a trade plan.

9. Final Verdict

Would an investor commit their own capital to Oracle at \$150.85 today? Not yet, but the reason is now narrower than it was three weeks ago. Oracle is growing revenue at a guided 33.5% and clean earnings at roughly 18%, has \$638 billion of contracted future revenue of which \$75 billion is already paid for or supplied in kind, generates \$32 billion of operating cash flow, and has published a specific plan for the roughly \$40 billion it needs to raise in fiscal 2027 with no further debt issuance planned this calendar year. Those are not the characteristics of a company to avoid.

What holds the rating back is that the credit market has looked at exactly the same facts and has not budged. A five-year credit default swap near 200 basis points, against 78 at Nvidia and 93 at Meta, is the market's assessment that Oracle's obligations carry roughly two-and-a-half times the risk of its nearest AI-infrastructure comparables. That assessment was made by participants with money at risk against the specific thing that is uncertain, and it has not improved while the equity has recovered 31% from its low. When the equity and the credit disagree this sharply and neither has capitulated, the correct position is neither long nor short but attentive.

The single biggest remaining concern is undisclosed counterparty concentration. Oracle has booked the largest backlog in enterprise software history and has not told shareholders how much of it depends on one unrated customer. Everything else in the bear case, the leverage, the dilution, the margin erosion, is manageable if the receivable is good. If it is not, none of the rest matters.

What would change this. Concrete evidence on 8 September that capital expenditure growth is decelerating relative to revenue; gross margin holding at or above 60%; a credit trajectory that stabilises rather than merely stops deteriorating; or a counterparty disclosure that lets an outside investor size the risk they are being asked to take. Any two of those would make this a Buy. Until then, Oracle is worth watching closely and worth owning by nobody who cannot afford to be wrong about OpenAI.

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