

ORACLE CORPORATION

NYSE: ORCL

Equity Research • Independent Investment Analysis

Enterprise Software & Cloud Infrastructure

RECOMMENDATION	RATING CHANGE	INVESTMENT SCORE
AVOID	Watchlist → Avoid	47 / 100
Downgraded from Watchlist	Credit deterioration, not demand	Was 55 on the same weighting

Price (Aug 5, 2026)	\$144.39	Market Cap	\$415.9 B	52-Week Range	\$114.50–\$345.72
Change since Jul 10	+2.7%	Enterprise Value	\$551.5 B	Beta (5Y)	1.72
Trailing P/E (GAAP)	24.8x	FY27E P/E (adj.)	17.9x	EV / EBITDA	18.4x
Revenue (TTM)	\$67.4 B (+17%)	Free Cash Flow (TTM)	–\$23.7 B	FY27E Free Cash Flow	–\$47.7 B
Total Debt	\$167.4 B	Net Debt	\$135.5 B	Debt / EBITDA	5.60x
S&P / Moody's	BBB– / Baa2 neg.	5-Year CDS	203 bp (18-yr high)	Altman Z-Score	2.18
Next Earnings	Sep 8, 2026 (est.)	Consensus Target	\$248.15	Analyst Rating	Buy (44)

Why the Rating Has Changed

Oracle is downgraded from Watchlist to Avoid. The previous report, published on 12 July at a reference price of \$140.64, held the stock on Watchlist and named four specific developments that would move it toward Avoid and four that would move it toward Buy. Since then two of the Avoid triggers have fired and none of the Buy triggers has. That is the whole of the argument, and the rating follows it rather than the share price, which at \$144.39 is almost exactly where it was.

The first trigger was a sharp widening in credit default swap spreads. Oracle's five-year CDS has reached roughly 203 basis points, the widest since 2008. The second was a break below the 52-week low of \$134.57 on heavy volume. Oracle closed below that level for thirteen consecutive sessions from 13 to 31 July, bottoming at \$114.99 on 24 July, an 18% break, on volumes running well above the twenty-day average. On the other side, the Buy triggers required free-cash-flow inflection, credit stabilisation, backlog diversification away from OpenAI, and a sustained reclaim of the 50-day moving average. None has occurred. Consensus now projects fiscal 2027 free cash flow of negative \$47.73 billion, roughly double the negative \$24.54 billion of fiscal 2026 — the opposite of inflection. The 50-day average sits at \$162.16, some 12% above the current price.

What has happened instead is a 25.6% rally off the 24 July low, driven by an expanded Google Cloud partnership announced on 30 July that embeds Gemini models across Fusion Applications, AI Agent Studio and NetSuite, and by a risk-on tape. That partnership is a genuine positive and is discussed below. It is not, however, an answer to the funding question, and it does not appear in the credit market's pricing. The central observation of this report is that Oracle's equity and Oracle's credit are telling opposite stories, and the credit market is the one with money at risk against the specific thing that has deteriorated.

Analytical Framework — What Determines the Outcome

Oracle today is two businesses wearing 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 being funded with debt and modest dilution, against a \$638 billion remaining performance obligation concentrated in a small number of counterparties. Returns over the next two years therefore depend on four

things, in descending order of importance: whether the funding gap can be closed without a downgrade to speculative grade; whether the anchor customers behind the backlog can actually pay; whether gross margin stabilises as low-margin infrastructure revenue scales; and whether the equity multiple compresses further as those questions resolve. Demand is deliberately not on that list. Demand is the part that is working.

1. The Funding Gap

Metric	FY2025	FY2026 (actual)	FY2027E	Comment
Revenue	\$57.40 B	\$67.36 B	\$89.32 B	Growth accelerating to +32.6%
Gross margin	70.51%	65.82%	60.17%	Eroding as infrastructure mix rises
Operating income	\$17.98 B	\$22.39 B	\$35.80 B	Absolute profit still compounding
Adjusted EPS	—	\$7.63	\$8.05	Only +5.5% despite +32.6% revenue
Operating cash flow	—	\$31.98 B	—	The healthy part of the picture
Capital expenditure	—	–\$55.66 B	—	Up 162% year-over-year
Free cash flow	\$0.70 B	–\$24.54 B	–\$47.73 B	Shortfall roughly doubling
Total debt	—	\$167.43 B	—	Against \$31.89 B of cash

Fiscal year ends 31 May. Forward figures are S&P Global consensus as of 3 August 2026 (42 analysts), not company guidance. Adjusted EPS is non-GAAP as reported by the consensus provider.

Two figures in that table carry the report. The first is fiscal 2027 free cash flow of negative \$47.73 billion. Combined with fiscal 2026, that is a cumulative outflow of roughly \$72 billion across two years, against \$31.89 billion of cash on hand. The gap must be funded by debt, by equity, or by cutting the buildout. Debt is already \$167.43 billion at 5.60 times EBITDA with a BBB– rating; equity is dilutive and the share count has already risen 1.68% year-over-year; cutting the buildout means failing to deliver the backlog that is the entire bull case. There is no comfortable option, and this is exactly what S&P Global cited in cutting the issuer rating to BBB– with the short-term rating to A-3.

The second is adjusted EPS growth of 5.5% in fiscal 2027 on revenue growth of 32.6%. That gap is gross margin, forecast to fall from 65.82% to 60.17%, having been 79.08% in fiscal 2022. Oracle is trading high-margin licence and support revenue for low-margin infrastructure revenue, and the incremental capital employed earns a return that consensus does not expect to reach the earnings line for years. Return on invested capital of 11.48% against a weighted average cost of capital of 10.46% says the business as a whole is barely clearing its hurdle rate before the newest and most capital-hungry cohort of assets is included.

2. Credit — What the Bond Market Is Saying

Credit indicator	Reading	Direction since July	Significance
S&P issuer rating	BBB– / A-3	Downgraded	One notch above speculative grade
Moody's rating	Baa2, negative outlook	Outlook negative	Further downgrade left open
5-year CDS	~203 bp	Wider	Highest since 2008
2056 bond spread	~263 bp over Treasuries	+8 bp	Long end repricing the risk
Debt / EBITDA	5.60x	Elevated	High for an investment-grade software issuer
Interest coverage	4.48x	Declining	Falls further as new debt is drawn
Altman Z-Score	2.18	Below 3.0	Statistically in the elevated-distress band
Current ratio	1.12	Tight	Little liquidity cushion

A CDS spread at an 18-year high is not sentiment. It is the price at which sophisticated counterparties will insure Oracle's debt, set by participants who are paid to be right about solvency rather than about growth. The previous report explicitly named narrowing CDS spreads as the leading indicator that would justify moving toward Buy and sharp widening as a trigger for Avoid. The indicator moved, and it moved the wrong way. Treating that as noise while treating a partnership press release as signal would be selective reading.

The counter-argument deserves a fair hearing. Oracle is not close to insolvency: it generates \$31.98 billion of operating cash flow, holds a 65.8% gross margin, and could stabilise its balance sheet within a year simply by halting the buildout. EBITDA is forecast to grow fast enough that leverage ratios could improve even as absolute debt rises. That is true, and it is why this report reaches Avoid rather than Strong Avoid. But the option to stop spending is not free — it forfeits the backlog that supports the valuation — and the market has already demonstrated it will not wait patiently, with a 19% single-week decline in late June and a further 18% break below the prior 52-week low in July.

3. Demand, the Backlog and the Google Partnership

None of the above is a claim that demand is weak. The \$638 billion remaining performance obligation is contracted, not speculative, and fiscal 2027 revenue growth of 32.6% would be the fastest in Oracle's modern history. The database and applications franchise remains genuinely defensible: migration costs are high, support revenue is sticky, and the multicloud distribution strategy of placing Oracle databases inside rival hyperscalers is a clever way to monetise the installed base without owning the metal.

The Google Cloud agreement announced on 30 July is the best news Oracle has had in months and is under-appreciated in the price for the right reason. Embedding Gemini models into Oracle AI Agent Studio, Fusion Applications and NetSuite lets Oracle sell AI functionality to its existing applications customers without procuring a foundation model or building the infrastructure to serve it. That is high-margin, capital-light revenue attached to the part of Oracle that already works, and it is the only development this quarter that improves the earnings mix rather than the revenue line. The stock rose 9.2% on 3 August on the combination of that news and a broad risk-on move.

What it does not do is address counterparty concentration. The backlog remains dominated by a small number of AI customers, most prominently OpenAI, whose own ability to fund roughly \$300 billion of commitments to Oracle while carrying overlapping obligations elsewhere is unproven and unrated. A Gemini distribution deal worth a few points of applications revenue does not offset a receivable of that scale. The previous report asked for evidence of backlog diversification; a model-licensing partnership is not that evidence.

4. Valuation

At \$144.39 Oracle trades at 24.8 times trailing GAAP earnings, 17.9 times consensus fiscal 2027 adjusted EPS of \$8.05, and 18.4 times trailing EV/EBITDA. Price to free cash flow cannot be computed because free cash flow is negative, which is itself the most informative valuation statistic available. The reported PEG of 0.63 rests on a three-year EPS growth forecast of 27.4%; next year's forecast growth is 5.5%, so the PEG understates how much of the return is deferred and conditional.

The previous report described Oracle as "statistically cheap on forward multiples and PEG". That characterisation no longer holds and is corrected here. Paying 17.9 times forward earnings for 5.5% earnings growth, financed by a \$47.7 billion cash outflow, at a credit rating one notch above junk, is not cheap on any risk-adjusted basis. It is an average multiple attached to a below-average balance sheet.

Scenario	Prob.	Key assumptions	Earnings basis	Fair Value
Bull	22%	Capex peaks in FY2027 and free cash flow inflects in FY2028; OpenAI and peers fund their commitments; S&P outlook stabilises; margin erosion halts near 60%	~\$11.00 FY28 EPS at 24x	\$265

Scenario	Prob.	Key assumptions	Earnings basis	Fair Value
Base	45%	Revenue grows near guidance but margin keeps eroding; free cash flow stays deeply negative through FY2028; rating holds at BBB– with a negative outlook; multiple stays compressed	\$8.05 FY27 EPS at 17x	\$137
Bear	33%	An anchor customer renegotiates, defers or defaults; a second downgrade takes Oracle to speculative grade; funding turns dilutive or forces asset sales; RPO write-downs follow	~\$6.50 FY27 EPS at 12x	\$80

Probabilities sum to 100%. The probability-weighted fair value is \$146, approximately 1.4% above the current price — effectively fair value with a badly skewed distribution: 83.5% upside in the bull case at 22% odds against 44.6% downside in the bear case at 33% odds. The bear weighting has been raised from the previous report's 25–30% because two of that report's own Avoid triggers have since fired. Fair values are analytical estimates derived from the stated inputs and are not price predictions.

5. Market Sentiment and Positioning

Indicator	Reading	Interpretation
Analyst consensus	Buy; 29 Strong Buy, 8 Buy, 6 Hold, 1 Strong Sell	Constructive but slowly eroding
Price target	\$248.15 avg; range \$110–\$400	A 3.6x spread between low and high
Recent actions	BofA \$200→\$240 (3 Aug); CLSA initiates Hold \$145 (20 Jul)	A new Hold initiated at spot
Short interest	50.07 M shares, 2.92% of float	Up 32.9% from 37.68 M last month
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 at an 18-year high	Directly contradicts the equity rally
News flow (moomoo digest)	Mixed	Partnership wins against credit and insider selling

The single most useful sentiment fact is the dispersion. A \$110 low target and a \$400 high target on the same stock, with a new Hold initiated within a dollar of spot and short interest up a third in a month, describes a market with no shared view of what this company is worth. That is characteristic of a balance-sheet situation rather than an operating one.

6. Technical Setup

Indicator	Value	Reading	Versus July report
Price	\$144.39	—	\$140.64 (+2.7%)
SMA 20	\$129.19	Price above — short-term bounce	Was below
SMA 50	\$162.16	Price 12% below — not reclaimed	Was below
SMA 100	\$164.68	Price 12% below	Was below
EMA 20 / EMA 50	\$134.82 / \$149.40	Above the 20, below the 50	Below both
SMA 200	Not computed	Series too short; see note below	Not computed
RSI (14)	54.7	Neutral; recovered from oversold	~40s, oversold-adjacent
MACD (12,26,9)	–5.00 / signal –9.78	Histogram +4.79; crossing but still below zero	Negative
ATR (14)	\$7.80 (5.4%)	Very high daily volatility	Elevated
Volume 20d / 50d	38.5 M / 34.6 M	Elevated through the break and bounce	~30 M average
20-day range	\$114.50–\$149.07	New 52-week low set 24 July	\$134.57 was the low

Indicators computed directly from the daily OHLCV series of 100 sessions (13 March – 5 August 2026). The 200-day average requires a longer series than was retrievable and is reported as not computed; third-party sources place it near \$181, roughly 25% above the current price.

The structure is a violent counter-trend bounce inside an intact downtrend. Price sits above the 20-day average and below the 50-, 100- and 200-day, having set a new 52-week low of \$114.50 on 24 July before rallying 25.6%. The MACD histogram has turned positive but the MACD line itself remains below zero, which distinguishes a relief rally from a trend change. An average true range of 5.4% per session means a 10% move in either direction is roughly two days of normal volatility. The level that matters is \$162.16: the previous report named a sustained reclaim of the 50-day as its technical confirmation, and it has not happened. Technicals are used for timing and confirmation only and do not drive the rating here.

7. Scorecard

Component	Score (0–10)		Weight	Rationale — and what moved
Business Quality		6	15%	Strong legacy franchise, but gross margin guided from 65.8% to 60.2%. Was 7.
Financial Strength		2	15%	Free cash flow −\$23.7 B heading to −\$47.7 B; Z-score 2.18. Was 3.
Competitive Advantage		6	15%	Deep database moat; OCI contested. Gemini deal helps distribution. Unchanged.
Management		5	10%	Credible operators, aggressive bet, \$45 M of recent insider selling. Unchanged.
Growth Potential		7	15%	Revenue +32.6% but adjusted EPS only +5.5%. Growth is not reaching holders. Was 8.
Valuation		5	15%	17.9x forward for 5.5% growth is not cheap risk-adjusted. Was 7.
Safety (10 = safest)		1	10%	Counterparty concentration, leverage, dilution and litigation all elevated. Was 2.
Technical Setup		4	5%	Bounced off a new 52-week low; still below the 50-, 100- and 200-day. Was 3.

Weighted investment score: 47 / 100. Applying this same weighting to the previous report's component scores gives 55, so the deterioration is roughly eight points. Note the safety component is stated here as higher equals safer, the inverse of the previous report's convention, so that it can be weighted alongside the others; the underlying judgement is that risk rose from 8 to 9 on that report's scale. Five of eight components fell, one rose, and two are unchanged.

8. Recommendation — AVOID (Downgraded from Watchlist)

Watchlist was the right call in July because the tension between a strong operating story and a stressed balance sheet was genuinely unresolved. It has now begun to resolve, and it has resolved against the equity. The credit rating fell, CDS reached an 18-year high, the consensus free-cash-flow forecast roughly doubled in the wrong direction, gross margin guidance deteriorated, and the stock broke to a new 52-week low. The offsetting positive, the Google partnership, is real but small relative to the funding gap. Holding the rating at Watchlist while the specific indicators that report nominated all moved adversely would be anchoring, not patience.

This is Avoid, not Strong Avoid, and the distinction is deliberate. Oracle is a profitable business with a durable core franchise, \$31.98 billion of operating cash flow, 40% insider ownership and a contracted backlog that is not imaginary. It has the option to stop spending and repair its balance sheet, and a credible bull path exists at \$265. The rating reflects that at \$144.39 an investor is being offered essentially no expected return — a probability-weighted fair value of \$146 — in exchange for a 33% chance of losing 45%. That is a distribution to decline, not a company to write off.

What would move the rating back toward Watchlist	Level or evidence required
Credit stabilisation	CDS narrowing back below roughly 150 bp, or S&P moving the BBB– outlook to stable
Free cash flow inflection	Reported evidence that capex growth is decelerating relative to revenue, not merely guided to
Margin stabilisation	Gross margin holding above 60% rather than continuing to erode toward the mid-fifties
Backlog diversification	A declining OpenAI share of remaining performance obligations, disclosed rather than inferred
Technical confirmation	A sustained reclaim of the 50-day average at \$162.16, ideally on rising volume
Price alone	A retest of the \$115–125 zone would restore a positive expected return even on these estimates

What would move the rating to Strong 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
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. The 8 September results, currently an estimated rather than confirmed date, are the next scheduled opportunity for management to address the funding path directly.

9. Final Verdict

Would an investor commit their own capital to Oracle at \$144 today? No. The reasoning is narrow and does not depend on doubting the demand. Oracle has chosen to fund a historic infrastructure buildout largely with debt, at a scale that consensus now expects to consume \$72 billion of cash across two fiscal years, while concentrating the resulting receivable in counterparties whose own funding is unproven. A rating agency has acted on that. The credit derivatives market has priced it at its worst level since the financial crisis. The company's own forward margin trajectory shows the revenue arriving without the earnings following it.

The single biggest concern is that the equity is being valued on the revenue line while the risk sits on the cash-flow line. Thirty-three percent revenue growth alongside 5.5% earnings growth and negative \$47.7 billion of free cash flow is not a growth story that has been mispriced; it is a capital-allocation bet whose outcome is genuinely unknown, being offered at a multiple that assumes it works. The 25% rally since 24 July has removed the compensation an investor was briefly being paid to take that bet.

What would change this. Concrete, reported evidence that free cash flow is inflecting rather than guided to inflect; a credit trajectory that stabilises rather than deteriorates; disclosure showing the backlog diversifying away from a single counterparty; or a price low enough that the bear case is already in it. Any one of those restores Watchlist. Two of them would make this interesting again. Until then, the prudent position is no position, and the honest statement is that Oracle's equity market and Oracle's credit market cannot both be right.

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against agency publications. Technical indicators were computed from a 100-session daily series; the 200-day average was not computed. Markets involve risk of loss. Investors should conduct their own due diligence and consult a licensed financial adviser before acting.