



Oracle Posts Its Best First Quarter in Years

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Jim Shepherd

Oracle Corporation posted outstanding results for its first fiscal quarter, which ended August 31, 2006. All software segments of Oracle's business, including database, middleware, and applications, reported very strong growth. The total revenue for the quarter increased 30% to \$3.6B, and net income and software revenue each grew 29% over the prior year.

The Q1 performance is particularly impressive since Oracle has often struggled in its first quarter, which spans the difficult selling months of June, July, and August. These results and those of the prior two quarters certainly indicate Oracle is executing very well across its organization, and that its strategy of aggressive acquisitions is resulting in growth and profitability. Company executives said their sales pipeline is very strong and gave guidance for fiscal Q2 of 19%-to-21% growth in total software revenue.

While this is unquestionably a very strong performance, we believe it is also an indication of an improving IT spending environment. For the past few months, AMR Research's surveys of end-user IT budgets and application spending show customers are finally beginning to make the technology investments that had been deferred during the recession. It also appears that large vendors, like Oracle, **IBM**, **Microsoft**, and **SAP**, will get a disproportionate share of this increased spending.

Trends like globalization, the shift to more centralized management styles, and vendor consolidation have made CIOs nervous about buying from smaller technology providers. Many organizations have begun to embrace the idea of standardizing on a few very large software vendors that can offer comprehensive product portfolios, global coverage, and financial stability. While Oracle's acquisition blitz over the past two years is certainly responsible for some of this nervousness, it is also one of the primary beneficiaries.

Oracle posted excellent numbers in database and middleware, with a combined 18% growth in software revenue for the quarter. But the star of the show was the applications business, which grew new license revenue by 80% and total software revenue by 57%. Much of this growth has come as a result of Oracle's purchases of a dozen application software companies in the last two years, including multibillion vendors like **PeopleSoft** and **Siebel**.

While it's impossible to sort out the relative growth of the various product lines, there is no question that Oracle is a much larger and better application vendor. For many years, Oracle's management seemed to lavish all of its attention on the flagship database business, and the application business never lived up to its potential. Now, given the massive investments and the dramatic increase in revenue, it seems like applications are all the Oracle executives want to talk about.

Clearly SAP has replaced IBM and Microsoft as Larry Ellison's (Oracle's founder and CEO) favorite target. On yesterday's earnings call, he suggested that SAP's strategy of internal development and organic growth wasn't working, and that SAP would be forced to become much more aggressive about acquisitions. He also indicated that Oracle's purchases of **Retek**, **i-flex**, and **Portal Software** had given the company market share leads over SAP in the retail, banking, and telecom industries. Mr. Ellison said Oracle was very pleased with this approach and that it would continue to acquire vertical industry applications.

Oracle is a stronger company than it has ever been. It has three separate but complementary product areas in database, middleware, and applications that are all performing well and an enormous, worldwide customer base that generates billions of dollars of highly profitable maintenance revenue. The company is also much better managed than it was in the past. The 22 acquisitions in the past two years have not only brought products and customers, but they have also allowed Oracle to significantly upgrade its talent in areas like sales, marketing, product management, and development. Oracle is only just beginning to capitalize on all these customer and product assets, but it has assembled a team that may be up to the challenge.