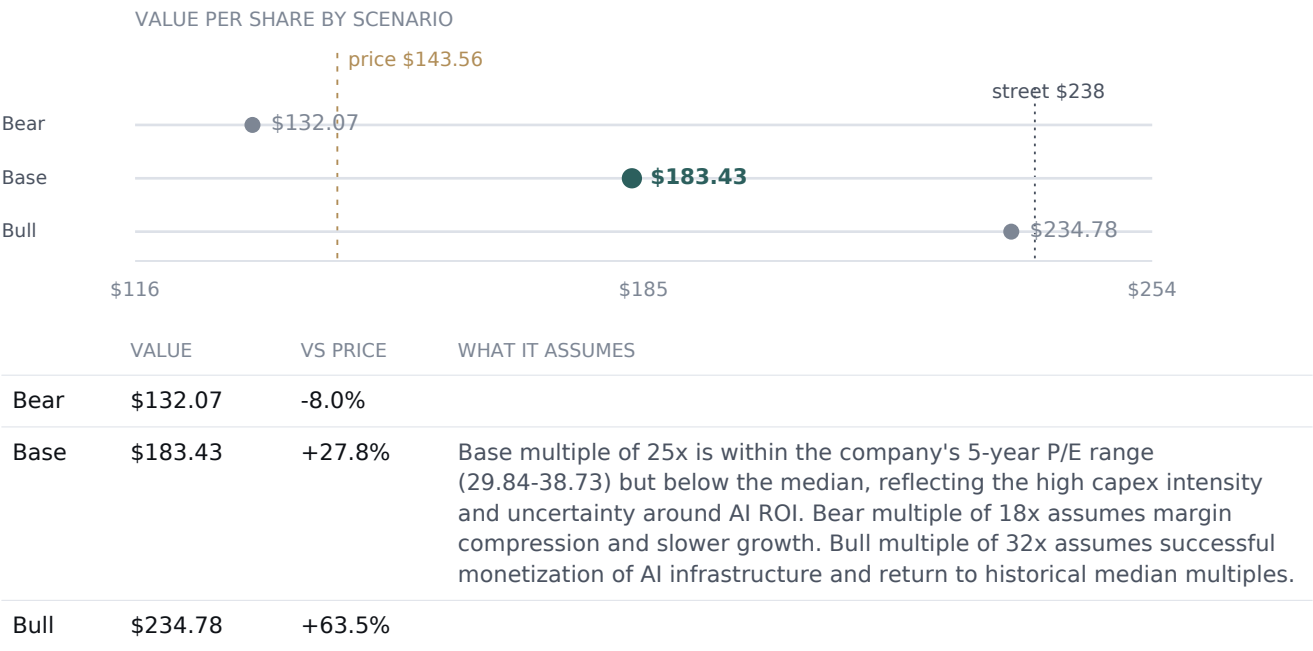


EQUITY RESEARCH / ORCL

Oracle Corporation

LONG CANDIDATE · historical study through 2026-10-07 · horizon 540 days · EARNINGS MULTIPLE

PRICE	BASE CASE	UPSIDE	PROB-WEIGHTED	MARKET CAP	TRAILING P/E
\$143.56	\$183.43	+27.8%	\$178.29	\$434.09B	22.5x



STREET CHECK

Street target **\$238** (+65.8% vs price) · 35 buy / 7 hold / 1 sell · forward P/E 17.8x · EPS estimates \$8.05 this year, \$10.92 next

Our base case is **0.77x** the Street target: within the Street's range.

Consensus is shown for calibration only. The model never receives it.

Thesis

Oracle trades at 22.5x trailing diluted EPS (\$6.38 TTM), well below its five-year P/E range of 29.84x-38.73x, because the market treats the \$75.7B TTM capex as a permanent margin burden rather than a front-loaded data-center build-out. The evidence contradicts that reading: remaining performance obligations grew \$209B YoY to \$664B, Q1 FY27 cloud revenue rose 62% and cloud infrastructure 121%, and management guides FY27 revenue to at least \$90B with non-GAAP EPS of \$8.10. Applying a 25x multiple to forecast EPS of \$7.34 (15% growth) yields a base-case value of \$183.43, 27.8% above the \$143.56 price. The bear case at 18x gives \$132.07, an 8% downside, so the asymmetry favors the long. The thesis is that the market is pricing the capex trough as structural, while the RPO book and accelerating cloud revenue suggest the build-out is converting into revenue and cash flow within two to three years.

What the market may be missing

The market prices ORCL as a structural margin compressor because TTM FCFF is negative at -\$24,687.8M and capex-to-revenue is 1.0541. The filing shows this capex is investment for future growth, not maintenance: \$664B in remaining performance obligations (up \$209B YoY), more than 30,000 GPUs delivered to AI Cloud customers since end of Q4 FY26, 850MW of additional datacenter capacity delivered in Q1, and Q1 FY27 cloud infrastructure revenue up 121%. The 22.5x trailing P/E sits below the five-year minimum of 29.84x, implying the market has not yet priced in the revenue conversion of this capacity. The operating margin of 32.12% and YTD operating income growth of 57.31% show earnings power is intact even during the build-out.

Why the opportunity exists

A cyclical trough. The market prices ORCL at 22.5x, below its five-year minimum of 29.84x, because it treats the \$75.7B TTM capex as a permanent margin burden. The evidence shows this is a front-loaded data-center build-out: RPO grew \$209B YoY to \$664B, Q1 FY27 cloud infrastructure revenue grew 121%, 850MW of capacity was delivered in Q1, and management guides FY27 revenue to at least \$90B. The market has not yet priced in the revenue conversion of this capacity, so the P/E is depressed relative to the historical range. This is not simply correct pricing because the capex is investment, not maintenance, and the RPO book provides contracted visibility into future revenue. Evidence: Remaining performance obligations \$664 billion, up \$209 billion YoY; Q1 FY27 cloud infrastructure revenue up 121%; capex-to-revenue 1.0541; trailing P/E 22.5x vs. five-year minimum 29.84x; management guides FY27 revenue to at least \$90 billion

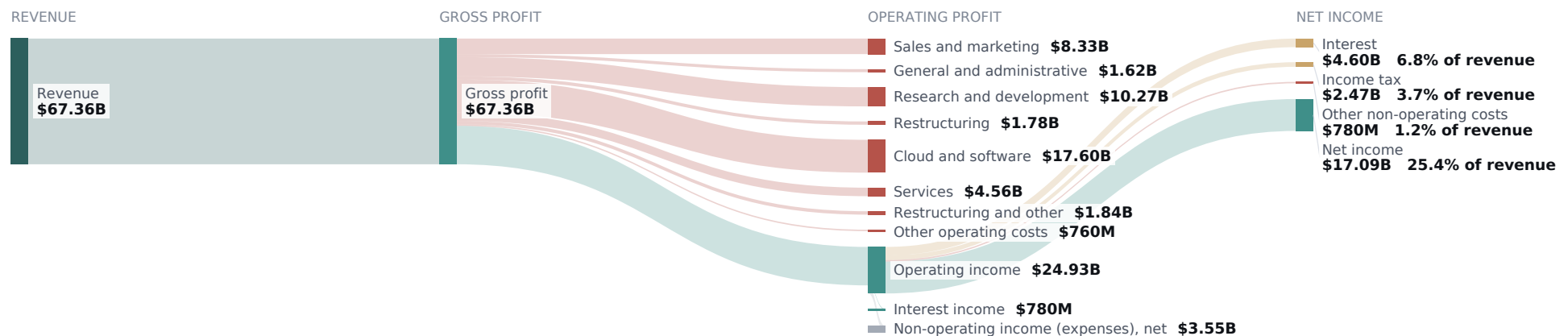
Since our last note

Thesis intact against our note of 2026-10-03 (no idea). The shares have moved +0.9% since. Guidance versus delivery: Total revenue growth above; Cloud revenue growth above; Non-GAAP EPS above; Total revenue above; Non-GAAP EPS below. Why the call changed: The prior memo was no_idea with a base value of \$146.74 (3.1% upside) using a 20x multiple. The core thesis that the capex is a cyclical trough rather than a structural burden is unchanged. The disposition changed to investigate_long because the base multiple was raised from 20x to 25x, reflecting the RPO book of \$664B, Q1 FY27 cloud infrastructure growth of 121%, and management's FY27 guidance of \$90B revenue and \$8.10 EPS. At 25x, the base case value of \$183.43 provides 27.8% upside, which is a clear margin. The prior memo correctly identified the thesis but the multiple assumption was too conservative to justify action; the new multiple reflects the evidence that the market is pricing the trough as permanent when the RPO and revenue acceleration suggest it is not. Q1 FY27 delivered within guidance ranges: 30% revenue growth (within 30-34% guidance), 62% cloud revenue growth (within 64-70% guidance). The software's guidance_vs_delivery comparison uses FY26 actuals against FY27 guidance, which is not a like-for-like comparison; the Q1 FY27 actuals from the earnings release confirm delivery within guidance. Management's FY27 guidance of \$8.10 non-GAAP EPS is above FY26 actual \$5.83, indicating confidence in continued growth. The guidance-versus-delivery record is consistent: management has guided conservatively and delivered within or above ranges. The capex flexibility language ('flexibility in managing timing of certain discretionary capital expenditures') suggests management is aware of the cash flow strain and is managing it.

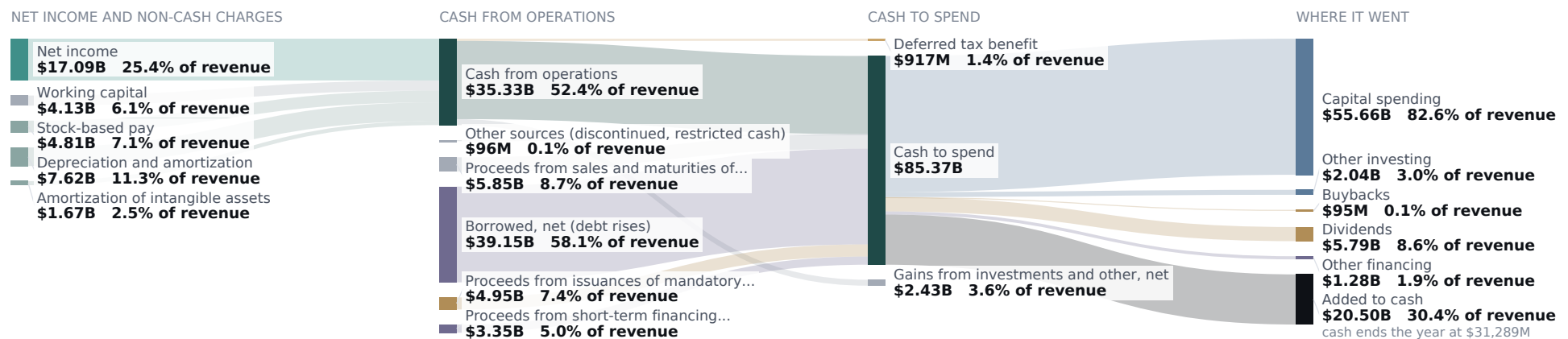
Follow the money: fiscal 2026

Of every \$100 of revenue, \$0.0 went to cost of revenue, \$69 to operating costs and \$10 to interest and tax, and \$25 became net income. Operations turned that into \$48 of cash; \$83 went to capital spending and \$8.7 back to shareholders.

1 WHERE EVERY DOLLAR OF REVENUE WENT



2 HOW PROFIT BECAME CASH, AND WHERE THE CASH WENT SHOWN 1.3 TIMES LARGER THAN PANEL 1



From the 10-K for the fiscal year ended 2026-05-31, XBRL accession 0001193125-26-277521. Every band ties to a reported figure; where the tagged lines do not add up, the difference appears as an explicit other or working-capital band. Lines outside the standard set are placed by the filing's own calculation links, under the company's labels; borrowing and investment flows are netted by instrument.

The business

Oracle builds, runs and supports enterprise IT frameworks through cloud applications (OCA), cloud infrastructure (OCI), software licenses, hardware (Engineered Systems), support contracts, and professional services, delivered via cloud, on-premise, and hybrid deployment models, with AI embedded across offerings.

What it sells

Oracle sells: (1) Oracle Cloud Applications (OCA) subscriptions including Fusion Cloud ERP/EPM/SCM, HCM, CX, NetSuite, and Oracle Health; (2) Oracle Cloud Infrastructure (OCI) subscriptions for compute, storage, networking, AI infrastructure, and Autonomous AI Database; (3) software licenses for Oracle Applications (E-Business Suite, PeopleSoft, JD Edwards, Siebel), Oracle AI Database, Middleware, and Java; (4) hardware including Oracle Engineered Systems (Exadata Database Machine), servers, storage, and industry-specific products; (5) software and hardware support contracts (unspecified upgrades/enhancements); (6) professional consulting and customer success services; (7) Oracle University learning subscriptions. Customers generally opt to purchase support contracts alongside licenses and hardware. Enterprise IT products and services delivered through cloud, on-premise, and hybrid deployment models. Three businesses: (1) Cloud and software (87% of revenue): cloud applications (\$15.9B), cloud infrastructure (\$18.1B), software licenses (\$4.7B), and software support (\$19.8B); (2) Hardware (5%): Oracle Engineered Systems, servers, storage, operating systems, virtualization, and hardware support; (3) Services (8%): consulting and customer success services. Cloud contracts typically run 1-5 years, recognized ratably or as consumed. Software licenses are perpetual and recognized at point in time. Software support is priced as a percentage of license fees and renewed annually. Enterprise applications and infrastructure incorporating AI (embedded AI-driven automation, analytics, generative AI). Cloud revenues from subscription agreements (1-5 year durations, renewed at customer option, recognized ratably or as consumed). Software license revenues (perpetual, recognized at point in time). Software support (priced as percentage of net license fees, generally one-year contracts, renewed at customer option). Hardware: Oracle Engineered Systems, servers, storage, industry-specific hardware, operating systems, virtualization, management software, hardware support. Services: consulting and customer success services, recognized over time as performed. New products in Q1 FY27: Oracle AI Data Platform (automates Enterprise Ontology creation) and 100% Agentic AI Health Care Management System for hospitals and clinics.

Customers and channels

Global customer base includes businesses of various sizes and industries, government agencies, educational institutions, and resellers. Channels: direct worldwide sales force and indirect sales through the Oracle Partner Network (cloud/software, hardware, services suppliers, system integrators, resellers). Industry-specific solutions span automotive, communications, construction, CPG, defense, education, financial services, government, healthcare, high technology, hospitality, industrial manufacturing, life sciences, media, oil and gas, professional services, public safety, restaurant, retail, travel, utilities, and wholesale distribution. NetSuite targets small-to-medium organizations. International subsidiaries sell in local countries and other foreign countries without direct sales subsidiaries. Sold worldwide through Oracle's direct sales force and Oracle Partner Network. Customers include businesses of various sizes and industries, government agencies, educational institutions, and resellers. Hardware is sold primarily through indirect channels (independent distributors, value-added resellers). Cloud and software are sold through both direct and indirect channels. Cloud contracts are renewed at the customer's option; software support customers substantially all renew upon expiration. Sold worldwide through Oracle's own direct sales force and the Oracle Partner Network. Customers include businesses of various sizes and industries, government agencies, educational institutions, and resellers. Hardware is majority sold through indirect channels (independent distributors, value-added resellers). Certain cloud and software offerings marketed through indirect channels. Cloud arrangements generally have durations of one to five years and are renewed at the customer's option. Software support contracts are generally one year and substantially all customers renew upon expiration.

Unit economics and costs

R&D investment: \$10.3 billion FY2026, \$9.9 billion FY2025, \$8.9 billion FY2024. Autonomous AI Database uses consumption-based pricing (pay only for resources used). Cloud offerings designed to lower upfront customer investments and implement usage-based resource consumption costs. Substantially all customers opt to purchase software support contracts at license purchase; substantially all support customers renew. Hardware support includes unspecified software updates, product repairs, maintenance, and technical support. Manufacturing relies on third-party partners; standardization of components and centralization of assembly/distribution. Workforce: ~141,000 FTEs as of May 31, 2026 (49,000 US, 92,000 international); 43,000 in R&D, 34,000 in services, 26,000 in cloud and software, 25,000 in sales/marketing, 2,000 in hardware, 11,000 in G&A. Average tenure ~8 years; 31% employed 10+ years. Cloud and software costs are largely infrastructure- and personnel-related (data center capacity, power, salaries, commissions, marketing). Cloud and software expenses grew \$6.0B (56% actual, 54% constant) driven by higher infrastructure expenses. Sales and marketing decreased \$320M due to lower employee-related expenses. Hardware costs include materials, labor, warranty, inventory valuation changes. Services costs are primarily personnel-related, technology infrastructure, facilities, and external contractors. R&D was \$10.3B (15% of revenues). G&A was \$1.6B (2% of revenues). Stock-based compensation totaled \$4.8B. Restructuring and other expenses were \$1.8B (up 391% from \$374M). Interest expense was \$4.6B (up 29%) due to \$43.0B senior notes issued in fiscal 2026. Capex was \$55.7B, up from \$21.2B. Cloud and software segment margin 55% in Q1 FY27 (down from 60% prior year) due to \$2.8 billion increase in infrastructure expenses. Hardware segment margin 58% (down from 67%) due to higher product and support costs. Services segment margin 31% (up from 25%) due to lower expenses. Total GAAP operating margin 35% (up from 29%). Non-GAAP operating margin 42% (flat vs prior year). Cloud and software expenses grew 82% in Q1 FY27 driven by infrastructure costs. Sales and marketing expenses decreased 13%. R&D expenses decreased 6% (12% of revenues vs 17% prior year). Restructuring and other expenses decreased 77% (\$94M vs \$415M). Interest expense increased 55% to \$1,428M due to \$43.0 billion senior notes issued in fiscal 2026. Capex \$28.5 billion in Q1 FY27 vs \$8.5 billion in Q1 FY26. Free cash flow negative \$5.4 billion in Q1 FY27. Net cash provided by operating activities \$23.1 billion (up 184%).

Segments

- **Cloud and Software** - Formerly 'cloud and license'; includes OCA subscriptions, OCI subscriptions, software licenses, and software support. Largest business. Cloud revenues were 51% of total revenues in FY2026. Within cloud revenues, cloud applications were 47% and cloud infrastructure 53% in FY2026. 87%
- **Hardware** - Oracle Engineered Systems, servers, storage, industry-specific products. Customers generally opt to purchase hardware support contracts. Manufacturing relies on third-party partners; some sole/single-source components. 5%
- **Services** - Consulting services (IT strategy, architecture, implementation, integration, security assessments) and customer success services. Global blended delivery model using local consultants, industry specialists, and global delivery centers. 8%

Revenue drivers

- Cloud revenue as share of total revenues: 51% FY2026, 43% FY2025, 37% FY2024 - trend expected to continue
- Migration of existing on-premise customer base to Oracle Cloud (described as 'early stages of what we expect will be a material migration')
- Customers with annual software support contracts migrating to Oracle Cloud contributed \$5.4 billion to annualized cloud revenue increase over past three fiscal years
- Cloud applications share of cloud revenues: 47% FY2026, 58% FY2025, 65% FY2024
- Cloud infrastructure share of cloud revenues: 53% FY2026, 42% FY2025, 35% FY2024
- Software support contract renewals (substantially all customers renew upon expiration)
- Subscription-based OCA and OCI contracts
- AI-driven automation, analytics, and generative AI capabilities embedded in offerings

Competitive position

Faces intense competition from Adobe, Alphabet, Amazon, Cisco, Intel, IBM, Microsoft, Salesforce, SAP, HPE, Workday, and emerging competitors. In healthcare IT, competes with Allscripts, Arcadia, athenahealth, Epic Systems, InterSystems. Key competitive factors: total cost of ownership, performance, scalability, reliability, security, functionality, efficiency, ease of use, speed to production, quality of technical support. Differentiation claims: comprehensive/breadth of cloud applications vs. competitors offering more limited or specialized applications; Exadata performance relative to competitors; OCI security by separating cloud control code from customer compute nodes; Oracle AI Database as world's most popular enterprise database; Java as most widely used language for cloud-native development. Low barriers to entry in many market segments invite new competitors. Strategic actions (acquisitions, partnerships, repositioning) invite greater competition. Oracle positions itself as providing choice and flexibility in deployment models (cloud, on-premise, hybrid). Cloud and software margin historically trends upward within a fiscal year due to fixed costs in the short term. Hardware revenues are difficult to predict due to dependence on a few large transactions and manufacturing partners. Services are differentiated by focus on Oracle technologies, extensive experience, and IP. Competitive position affected by customer demand for competing offerings including cloud infrastructure. Hardware products have a finite life, creating ongoing support demand. Oracle positions itself as providing choice and flexibility in deployment models (cloud, on-premise, hybrid). AI-enhanced offerings include embedded AI-driven automation, analytics, and generative AI. New Oracle AI Data Platform automates Enterprise Ontology creation for reasoning on private data. 100% Agentic AI Health Care Management System for hospitals and clinics. Oracle Exadata and strategic hardware products. Second-generation cloud infrastructure. Selective acquisition program. Direct sales emphasis domestically and internationally. Services differentiated by focus on Oracle technologies, extensive experience, broad IP and best practices.

Industry direction

Rapid technological advances in cloud, software, and hardware; evolving standards in computer hardware/software; changing customer needs; frequent new product introductions. Customers demanding less complexity, more cost-effective, higher performance and availability. AI (generative, agentic, LLMs) increasingly driving innovations. Cloud migration from on-premise to cloud is a major structural shift. Multicloud and hybrid deployment models gaining importance. AI regulatory frameworks developing globally (EU AI Act phased through 2030, US state-level legislation). Data center capacity expansion driven by customer demand. Open source alternatives to commercial software gaining adoption. Customer demand for cloud-delivered applications and infrastructure has increased. Cloud revenues as a proportion of total revenues rose from 43% to 51% and management expects this trend to continue. Management expects cloud and software revenues to continue increasing on a constant currency basis due to expected growth in cloud offerings and continued demand for software. Capex expansion for data centers is expected to continue during fiscal 2027 and subsequent years. Macro factors affecting demand include inflation, tariffs, trade policy, geopolitical conditions, governmental budgetary constraints. Customer demand for AI Cloud Training and Inferencing Services continues to grow faster than supply. Customer demand for cloud applications and infrastructure has increased; proportion of cloud revenues relative to total revenues has increased and is expected to continue. Customers migrating from on-premises software to cloud. Enterprise customers want to use AI to reason on private data and use AI agents to automate business processes. Capex expected higher in fiscal 2027 than fiscal 2026 as data center capacity expands and new geographic locations are established. Cloud and software margin historically trends upward over four quarters within a fiscal year.

Recent developments

- Q1 FY27 total revenues \$19.3 billion, up 30% YoY; cloud revenues \$11.6 billion up 62%; cloud infrastructure \$7.4 billion up 121%
- Remaining performance obligations \$664 billion, up \$209 billion YoY; more than \$30 billion of additional AI cloud contracts booked in Q1
- 850MW additional datacenter capacity delivered in Q1; more than 300,000 GPUs delivered to AI Cloud customers since end of Q4 FY26
- Completed \$20 billion ATM equity program in Q1 FY27, issuing approximately 141 million shares for net proceeds of \$19.9 billion
- Capital expenditures \$28.5 billion in Q1 FY27 vs \$8.5 billion in Q1 FY26, driven by data center expansion
- Free cash flow negative \$5.4 billion in Q1 FY27; operating cash flow \$23.1 billion up 184%
- Restructuring and other expenses decreased 77% to \$94M; \$84M decrease in other operating expenses primarily related to insurance receipts related to a legal matter
- Interest expense up 55% to \$1,428M due to \$43.0 billion senior notes issued in fiscal 2026; \$8.1 billion debt repayments in Q1

Management outlook

Management expects total cloud and software revenues to generally continue to increase due to expected growth in cloud offerings and continued demand for software offerings. Cloud and software expenses expected to continue growing during fiscal 2027 and next few fiscal years as data center capacity increases and new geographic locations are established. Capex expected higher in fiscal 2027 than fiscal 2026. Q2 FY27 guidance: total revenues 30-34% growth in constant currency and USD; cloud revenue 64-70% CC and 65-71% USD; non-GAAP EPS \$1.83-\$1.91 CC and \$1.85-\$1.93 USD. Full FY27: total revenue at least \$90 billion, non-GAAP EPS at \$8.10. Management believes current cash, cash equivalents, marketable securities, cash from operations, and available financing will be sufficient for at least the next twelve months. Flexibility in managing timing of certain discretionary capital expenditures. Management expects total cloud and software revenues to continue increasing on a constant currency basis due to expected growth in cloud offerings and continued demand for software. Cloud and software expenses are expected to continue growing during fiscal 2027 and the next few fiscal years as data center capacity is expanded and new geographic data centers are established. Capex upward trend is expected to continue during fiscal 2027 and following years. Management believes current cash, cash equivalents, marketable securities, operating cash flows, and available financing will be sufficient for at least the next twelve months. There is flexibility in managing timing of certain discretionary capital expenditures. Cloud and software margin historically trends upward within a fiscal year but may be adversely impacted by supply chain, energy costs, tariffs, inflation, and currency fluctuations. Management expects cloud revenue share to continue increasing. Expects a 'material migration' of existing Oracle customer base from on-premise to Oracle Cloud. Expects continued data center capacity expansion. Expects continued significant R&D resource dedication. Expects AI to support improvement of customer workflows and business processes. Expects broader ecosystem adoption among SMBs, non-IT purchasers, developers, and partners. No specific numeric guidance for future periods is provided in the excerpt.

Accounting flags

- No significant changes to critical accounting estimates in Q1 FY27; critical accounting estimates in area of income taxes
- Customer prepayments with significant financing component of \$11.4 billion recorded in operating cash flows in Q1 FY27
- Insurance receipts related to a legal matter caused \$84 million decrease in other operating expenses in Q1 FY27
- Non-GAAP measures exclude stock-based compensation (\$1,127M), amortization of intangible assets (\$202M), and restructuring and other (\$94M)
- U.S. One, Big, Beautiful Bill Act (signed July 4, 2025) caused \$958 million net tax expense in prior year Q1 FY26 from remeasurement of deferred tax liability
- \$4.6 billion of long-term borrowings reclassified to current liabilities in Q1 FY27

Key figures

KEY FIGURES	TTM TO 2026-08-31	FY2026	
Revenue	\$71.78B	\$67.36B	+17.3% y/y
Operating income	\$23.06B	\$20.61B	32.1% margin
Net income	\$18.92B	\$17.09B	
Diluted EPS	\$6.38	\$5.83	22.5x trailing P/E
Operating cash flow	\$46.94B	\$31.98B	+53.6% y/y
Capital spending	\$75.66B	\$55.66B	105.4% of revenue
Unlevered FCFF	\$-24.69B		-5.7% yield
Cash and short-term investments	\$37.08B		
Net debt	\$-29.45B		-1.0x EBITDA
Market capitalisation	\$434.09B		17.6x EV/EBIT

Figures from the filings' XBRL; definitions in the method section. Depreciation and amortisation were reported separately and are summed. Flows are trailing twelve months to 2026-08-31 (fiscal year 2026 plus year to date less the same period a year earlier, from the 10-Q filed 2026-09-11). No matching year-to-date fact, so these stay on fiscal-year figures: buybacks. Balance-sheet items are as of 2026-08-31 from the quarterly report. Interest tax shield uses the 21.0% statutory rate from the filing's rate reconciliation. Current debt of \$7,625.0M (Notes payable and other borrowings, current) falls due within twelve months of 2026-08-31; the price date is 37 d

The counter-case

The base multiple of 25x sits below the company's own five-year minimum of 29.84x, so even the base case is more conservative than the historical range. If the market's 22.5x is correct and the capex is genuinely a permanent burden, the stock is fairly priced and the 27.8% upside evaporates. The negative FCFF of -\$24,687.8M means the company is not generating distributable cash; EPS is positive but cash generation is not, and the earnings multiple method assumes EPS sustainability that the cash flow data contradicts. The \$4.6B of long-term borrowings reclassified to current liabilities and the \$43.0B senior notes issued in FY26 raise the question of whether the balance sheet can absorb continued capex without further dilution or debt issuance. Capex-to-revenue of 1.0541 means Oracle is spending more than it earns in revenue. If AI infrastructure demand disappoints or data-center utilization lags, the \$75.7B TTM capex becomes a sunk cost with no revenue conversion, and the 18x bear multiple (\$132.07) implies an 8% loss. The \$7,625M current debt falling due within twelve months, combined with \$5,104M TTM interest expense, creates refinancing risk. The \$20B ATM program diluted shares by 2.6% (2,807M to 3,024M), and the 6.50% Series D Mandatory Convertible Preferred Stock adds further dilution risk. Cloud and software segment margin fell from 60% to 55% in Q1 FY27 due to \$2.8B infrastructure expense increase, suggesting the margin compression may not be temporary.

Valuation

The fact sheet shows negative FCFF (-\$24,687.8M) due to massive capital expenditure (\$75,660M TTM), making DCF infeasible. However, diluted EPS is positive (\$6.38 TTM) and earnings are sustainable, making an earnings multiple the appropriate valuation method.

SCENARIO	ASSUMPTIONS	VALUE	VS PRICE
Bear (P/E)	18.0x forward EPS \$7.34 (reported diluted, growth +15.0%)	\$132.07	-8.0%
Base (P/E)	25.0x forward EPS \$7.34 (reported diluted, growth +15.0%)	\$183.43	+27.8%
Bull (P/E)	32.0x forward EPS \$7.34 (reported diluted, growth +15.0%)	\$234.78	+63.5%

- Anchors from the company's own history: base-case growth band +10.5% to +53.6% a year; worst revenue decline -3% (2015-2016); own trailing P/E 29.84-38.73x (median 34.51x) over the last five fiscal year ends.
- Probability-weighted value \$178.29 (+24.2% vs price) at 30%/50%/20% weights.

Bear case (18x, \$132.07, 30% probability): Capex remains at or above 1.0x revenue for two more years, AI infrastructure demand disappoints, cloud segment margin stays below 55%, and the market continues to price ORCL as a structural margin compressor. RPO growth slows below 10% YoY, and the \$7,625M current debt is refinanced at higher rates, pushing interest expense above \$6B. EPS growth slows to single digits and the multiple compresses to 18x. Base case (25x, \$183.43, 50% probability): Capex moderates in FY27 as data-center capacity is built, cloud revenue converts RPO at 30%+ growth, segment margins recover toward 60%, and the market re-rates from 22.5x to 25x as the capex cycle is recognized as front-loaded. EPS grows 15% to \$7.34. Bull case (32x, \$234.78, 20% probability): AI infrastructure demand exceeds supply, RPO converts faster than expected, capex-to-revenue falls below 0.8, FCFF turns positive, and the market re-rates toward the five-year median of 34.5x. Management's FY27 guidance of \$8.10 non-GAAP EPS is achieved, and the multiple expands to 32x.

No listed peer was judged comparable. No peer data available in the fact sheet (anchors.peers status: unavailable). Comparison is limited to the company's own historical P/E range (29.84-38.73) and current trailing P/E of 22.5x.

What would change the view

Key debates

- Capex intensity and FCFF turnaround: FCFF is currently negative due to \$75.6B TTM capex. The valuation hinges on whether this capex converts to future cash flow or remains a burden. (Fact sheet: FCFF -\$24,687.8M, Capex \$75,660M TTM, Capex to Revenue 1.0541)
- Cloud revenue mix and margin: Cloud infrastructure growth (53% of cloud revenue) drives growth but may have lower margins than applications. The shift in mix affects profitability. (Business Read: Cloud infrastructure contributed 84% of constant currency cloud revenue growth in fiscal 2026; Cloud and software segment margin 55% in Q1 FY27 (down from 60%))

Sensitivities the company discloses

- Foreign currency exchange rates: 10% decrease gives Earnings impact of \$(2,767)M in fiscal 2026 (vs \$(2,379)M in fiscal 2025)
- Foreign currency exchange rates on cash, cash equivalents and trade receivables: 10% decrease gives Fair values impact of \$(2,384)M in fiscal 2026 (vs \$(1,788)M in fiscal 2025)

Catalysts

- Q2 FY27 earnings in November 2026: if revenue growth hits the 30-34% guidance and cloud revenue hits 64-70%, the market may re-rate toward the 29.84x five-year minimum
- Cloud and software segment margin recovery as data-center capacity utilization increases; Q1 FY27 margin was 55%, management notes margins historically trend upward within a fiscal year
- RPO conversion: \$664B in remaining performance obligations, up \$209B YoY, provides visibility into future revenue
- Capex normalization: management notes flexibility in timing of discretionary capital expenditures; if FY27 capex moderates, FCFF turns positive
- Share count stabilization after the \$20B ATM program completion in Q1 FY27
- Refinancing of the \$7,625M current debt; if refinanced at favorable rates, interest expense pressure eases

Invalidation

- FY27 revenue growth falls below the 30% guidance floor, indicating the capex is not converting into revenue
- Cloud and software segment margin continues to deteriorate below 55% for more than two consecutive quarters
- Remaining performance obligations decline or grow less than 10% YoY, signaling demand softening
- Capex-to-revenue remains above 1.0 for more than two additional quarters without corresponding revenue acceleration
- The \$7,625M current debt is refinanced at materially higher rates, pushing interest expense above \$6B annually
- AI cloud contract bookings slow materially from the 30,000+ GPUs delivered pace, or customer prepayments with financing components (\$11.4B in Q1 FY27) are not renewed

Risks

- Capex-to-revenue of 1.0541 means the company spends more than it earns in revenue; if AI demand disappoints, this becomes a permanent drag
- Refinancing risk on \$7,625M current debt falling due within twelve months of August 31, 2026
- Share dilution: 2.6% increase in shares outstanding from the \$20B ATM program, plus potential conversion of 6.50% Series D Mandatory Convertible Preferred Stock
- Cloud and software margin compression from infrastructure costs; Q1 FY27 segment margin fell from 60% to 55%
- Intense competition from Amazon, Microsoft, Google, and emerging AI-native competitors with lower capital intensity

- Regulatory risk: EU AI Act phased through 2030, US state-level AI legislation, healthcare data regulations
- Currency sensitivity: a 10% FX decline would reduce earnings by \$2,767M (FY26 sensitivity)
- Hardware revenue volatility due to dependence on a few large transactions and manufacturing partners

Short side

A short is not compelling at 22.5x trailing P/E when the base case is 27.8% above the price. The bear case at 18x implies only 8% downside, which is insufficient for a short. Borrow availability is not assessed in the supplied material. Squeeze risk is elevated because the stock trades below its five-year P/E minimum, and any positive catalyst (RPO conversion, margin recovery, capex normalization) could trigger a re-rating toward 29.84x, causing a 32% squeeze. Timing is uncertain: the capex cycle may last two to three years, so a short would need to survive the build-out period. The unbounded loss risk is real if the market re-rates to the five-year median of 34.5x, implying a \$225 target. The asymmetry favors the long, not the short.

Open questions

Will the \$7,625M current debt be refinanced at rates consistent with the 11.8% after-tax cost of debt used in the WACC, or will rising rates push interest expense materially higher? (missing fact)

Monitor the next quarterly filing for refinancing terms. If refinanced above 15% pretax, the WACC anchor assumption of 15% cost of debt is breached. Watch: Q2 FY27 10-Q debt schedule and interest expense line

How quickly will the \$664B RPO book convert into recognized revenue, and at what margin? (forecast uncertainty)

The base case assumes 15% EPS growth, which is within the 10.48%-53.58% growth band. The conversion timeline is uncertain but the RPO provides visibility. Monitor quarterly RPO growth and cloud revenue recognition. Watch: Quarterly RPO disclosure and cloud revenue growth rate

Will capex-to-revenue normalize below 1.0 in FY27, turning FCFF positive? (forecast uncertainty)

Management notes flexibility in timing of discretionary capex. If FY27 capex moderates, FCFF turns positive and the multiple should re-rate. This is the core debate. Watch: FY27 capex guidance and quarterly capex-to-revenue ratio

Is the 25x base multiple defensible given the five-year minimum of 29.84x? (forecast uncertainty)

The 25x is below the five-year minimum, which is a conservative assumption. If the market re-rates to the five-year median of 34.5x, the bull case at 32x is understated. The multiple is justified by the capex discount but sits outside the historical range. Watch: Trailing P/E relative to five-year range on each quarterly report

Limitations

The base multiple of 25x sits below the company's own five-year P/E range of 29.84x-38.73x, which the software flagged as a warning. The stated reason is the negative FCFF and capex intensity, but this means the base case is more conservative than the historical range and may understate fair value if the capex cycle normalizes. The earnings multiple method relies on EPS sustainability, but TTM FCFF is negative at -\$24,687.8M, meaning the company is not generating distributable cash; EPS is positive but cash generation is not. The DCF method is infeasible due to negative FCFF. The WACC anchor of 13.58% uses an observed cost of debt of 60.31% bounded to 15.00%, which is a significant adjustment. No peer data is available for comparison. The \$4.6B of long-term borrowings reclassified to current liabilities and the \$7,625M current debt falling due within twelve months of August 31, 2026 create refinancing uncertainty that the valuation does not model. The \$20B ATM program increased shares by 2.6%, diluting EPS. The guidance_vs_delivery comparison in SINCE THEN uses FY26 actuals against FY27 guidance, which is not a like-for-like comparison; Q1 FY27 actuals (30% revenue growth, 62% cloud growth) were within guidance ranges. Software checks raised during valuation: the base P/E 25.0x sits outside the company's own five-year range 29.84-38.73x; the stated reason: Base multiple of 25x is below the company's 5-year minimum of 29.84x. This discount reflects the current negative FCFF and high capex intensity, which the market may perceive as a risk to cash generation despite positive earnings. The multiple is justified by the strong revenue growth (17.35% last y. This memo is an initial research product from a frozen historical filing and price; it is not investment qualification.

Software flags: exposure quote unverified:customer concentration; exposure quote unverified:refinancing; multiple outside anchors.

Sources

10-K for the fiscal year ended 2026-05-31, filed 2026-06-22 (accession 0001193125-26-277521).

10-Q for the quarter ended 2026-08-31, filed 2026-09-11 (accession 0001193125-26-389274).

8-K for the earnings release dated 2026-09-10, filed 2026-09-10 (accession 0001193125-26-387905).

- Price: historical close of \$143.56 on 2026-10-07.
- 8 cited claims and 16 recorded calculations; every figure in the key-figures table is bound to a tagged XBRL fact, and every calculation reproduces independently.
- Street consensus from the market-data vendor on the same date, shown for calibration only.

Model: gwen3.8-flash-next-iq2_xs · run discovery-20260911 · job 574 · memo SHA-256 8e4fd0c011d80f08... · full memo and audit attached as JSON.

This note was written by a model from a single annual filing and a closing price. It is a starting point for human research, not a recommendation; nothing here has been investment-qualified.