

Oracle's fiscal 4Q sales disappoint Wall St. again

June 20 2013, by Michael Liedtke

Oracle is still having trouble closing enough business software deals to keep Wall Street happy. The quarterly results announced Thursday could escalate investors' fears about Oracle's ability to adapt to the changing demands of its customers. Businesses and government agencies are increasingly buying software through monthly or annual subscriptions that enable employees to access applications on any machine with an Internet connection. This "cloud computing" approach is a shift from Oracle's traditional approach of licensing software that is installed on individual computers kept on the premises of its customers.

Oracle has been rolling out more cloud computing options through acquisitions and in-house development, but its recent performance is raising questions about its ability to compete in this growing market. The cloud computing shift is being led by smaller companies that were set up to focus on leasing software over the Internet. This group includes Salesforce.com Inc., Workday Inc. and NetSuite Inc., a company backed by Oracle CEO Larry Ellison.

Like other software makers born decades ago, Oracle and longtime rival SAP are trying to mine new markets while still clinging to the old way of doing things because the familiar sales methods still bring in most of the company's revenue.

"It's a very difficult transition," Forrester Research analyst Andrew Bartels said. "It's something they are clearly nervous about."

Investors are jittery, too. Oracle's stock plunged \$2.99, or 9 percent, to \$30.22 after the numbers came out.

A similar sell-off occurred three months ago when Oracle's previous quarterly report proved to be a letdown.

The latest report covering Oracle's fiscal fourth quarter also contained troubling signs as several key gauges fell below the analyst projections that steer Wall Street's expectations.

Nonetheless, Oracle insists it remains healthy. It boasted that it added more than 500 cloud computing customers in the past quarter, putting the company on a pace to generate more than \$1 billion annually in cloud computing.

Ellison, an executive known for brash statements, promised analysts during a Thursday conference call that Oracle is poised to unveil a series of "startling" partnerships with Salesforce, NetSuite and other cloud computing services that will rely on Oracle's latest database software. "These partnerships in the cloud I think will reshape the cloud and reshape the perception of Oracle technology in the cloud," Ellison said. He added that more details will be provided next week.

In an apparent attempt to win over skeptical investors, Oracle is doubling its quarterly dividend. A payment of 12 cents per share will be made on Aug. 2 to shareholders of record as of July 12. Oracle will also try to boost its stock by spending an additional \$12 billion buying back its own shares. The stock will move from the Nasdaq exchange to the New York Stock Exchange next month if Oracle wins approval of an application announced Thursday.

The Redwood Shores, California, company earned \$3.8 billion, or 80 cents per share, in the three months ending in May. That represents a 10

percent increase from income of \$3.5 billion, or 69 cents per share, at the same time last year.

If not for certain expenses unrelated to its ongoing business, Oracle said it would have earned 87 cents per share. That matched the average estimate among analysts surveyed by FactSet.

But revenue remained unchanged at \$10.9 billion—about \$170 million below analyst forecasts.

In a particularly telling sign, Oracle's sales of new software licenses and cloud computing subscriptions increased just 1 percent from last year. If not for currency fluctuations that undercut Oracle, the company said the increase would have been 2 percent. A relatively strong U.S. dollar means sales made in other currencies get converted into fewer dollars.

The mid-range of an estimate provided by Oracle's management in March called for a 6 percent increase, excluding differences in currency rates. New software licenses and subscriptions are considered to be a key measure of a software maker's health because they set up a steady flow of future revenue.

Oracle Chief Financial Officer Safra Catz blamed weak markets in Australia, Asia and Brazil for dragging down sales in the past quarter.

In the current quarter ending in August, Oracle predicted new licenses and cloud computing subscriptions will rise by 1 percent to 9 percent from the same time last year.

Excluding certain expenses, Oracle anticipates its earnings will range from 56 cents to 59 cents per share in the current quarter. Analysts polled by FactSet had forecast earnings of 58 cents per share.

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