



**Oracle Corporation Japan**

Q2 Financial Results Briefing for the Fiscal Year Ending May 2023

December 20, 2022

## Event Summary

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<b>[Company Name]</b>	Oracle Corporation Japan	
<b>[Company ID]</b>	4716-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Q2 Financial Results Briefing for the Fiscal Year Ending May 2023	
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<b>[Number of Pages]</b>	7	
<b>[Time]</b>	16:30 – 17:10 (Total: 40 minutes, Presentation: 9 minutes, Q&A: 31 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	2	
	S. Krishna Kumar	Director, Corporate Executive Officer, CFO
	Yuki Nishio	Director, Investor Relations
<b>[Analyst Names]*</b>	Hideaki Tanaka	Mitsubishi UFJ Morgan Stanley Securities
	Kaori Chiba	JPMorgan Securities
	Mitsunobu Tsuruo	Citigroup Global Markets
	Satoru Kikuchi	SMBC Nikko Securities
	Yuki Kaneko	BofA Securities

## Presentation

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**Nishio:** Now I'd like to turn this call over to KK, Senior Vice President JAPAC and the Japan CFO.

**Sivaraman\*:** Thank you, Nishio-san. Good afternoon, everyone, and welcome to Oracle Japan's Q2 FY2023 Earnings Conference Call.

We saw in our Q2 continuous progression to cloud transformation of our customers. We deployed cloud to different customers, especially cloud infrastructure to modernize their mission-critical systems. We had a lot of marquee cloud customers in various industries, especially the manufacturing industry and public sector. We had a very strong apps quarter as well. Our strength in the ERP and HCM businesses continues. We won a lot of customers across industry spectrums and big customers across all our businesses. Our license business also won a lot of great projects coming off of a weak Q1. As you might also know, our OCI is selected for government cloud at the Digital Agency in FY2023 and offers opportunities amid a push for government digitization, including acceleration and increasing in investment, larger projects, and more demand for our products over the mid and long term.

Now, briefly, moving on to our numbers. Total revenue at JPY107.796 billion grew 5.6% compared to the previous year, driven by strong growth in our cloud and license revenue, and the revenue in Q2 for three months grew close to 10%. Cloud services and license support revenue was JPY69.864 billion, up 5.5%, and it now represents about 65% of the Company's total revenues. Fusion ERP cloud revenue was up about 20%. NetSuite ERP cloud revenue was close to 30% up. Infrastructure consumption revenues also had very strong momentum, which includes our autonomous database. Our cloud services backlog also grew strongly. Operating income was JPY34.7 billion, increasing 2.3%. Net income was JPY 24,158 billion, up 2% for the six months.

Total revenue in all three margins had a record high in Q2. I spoke in the last earnings call that we had a very strong pipeline, and we certainly won a lot of license projects in advance. Because of which, we could bounce back very effectively this quarter.

With that, I hand it back over for questions.

## Question & Answer

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**Nishio [Q]:** The first question is from Chiba-san of JPMorgan Securities. The first question is, the cloud revenue has gone down versus last quarter. Is this a seasonality factor or are there any other factors in play?

**Sivaraman [A]\*:** Thank you for the question. Yes, it is a seasonality factor. There is a particular large transaction that culminates in Q1, and that's the reason why we see this. This will probably be there for a few more years like this. The right way to compare this is by comparing it with the previous quarter.

**Nishio [Q]:** Next question. The license revenue grew significantly due to some large deals. What is the situation regarding the pipeline in H2? Is this momentum going to continue?

**Sivaraman [A]\*:** Our pipeline continues to be strong. As I've said many times, the way to look at our business is on an annual basis. We see some strong projects, some strong transactions, in H2 as well. Whether I will be able to give you a 25% growth, that's something that I cannot commit to, but I think we will stick to whatever guidance we have given in the past.

**Nishio [Q]:** The third question from Chiba-san is, the labor cost per person has gone up significantly. What is the background of this? And is this situation going to continue?

**Sivaraman [A]\*:** Well, we are always trying to hire good talent from the market, and we are hiring our talent at the market price. We may find sometimes that we hire people who are more expensive than the people who left us. In that sense, yes, I think it will marginally go up. Plus, also, the revenues are good. We've also been paying good commission to our people.

**Nishio [Q]:** Our next question is from Segawa-san of Morgan Stanley Securities. The first question is, please explain to us the situation regarding H2. If the midpoints of the revenue for the entire term is JPY220 billion, in H2, the revenue will be going down by 0.3%. Are there any risks in terms of the revenue in H2?

**Sivaraman [A]\*:** Well, as I said before, we give a guidance. We normally give an annual guidance, and it's up to anybody to interpret it in the way they want to interpret it. We don't change our guidance just because we had a great H1. I will repeat myself again. We see a very good pipeline. We see quite a few large transactions. We see great traction in our cloud business. It depends on how we execute all of this. Hopefully, we will turn out a good H2 as well.

**Nishio [Q]:** Next question from Segawa-san. The question is regarding the government cloud for the Digital Agency. If it is possible to talk about this, we would like to know what would be the future demand, when actual projects will be won, and when will the contributions be made to your performance. If there's anything that you can share now, please let us know.

**Sivaraman [A]\*:** Well, I think the digitalization project of the Digital Agency is a huge project for the Japanese Government. Everybody knows that it is a huge opportunity for IT companies. There won't be just one or two, but there are going to be several projects. The first step to be able to participate in those projects is to get listed by the Digital Agency, which we are now. The second step is now we work very closely with our partners, local Japanese [Sis], to hunt these opportunities and convert them. We have been working very closely with our partners over the last several years in Japan. We continue to do so. This opportunity is big for us and is going to be very good for Oracle in the future.

**Nishio [Q]:** Third question is about the number of employees. If you think about the seasonality, at the end of November, companies tend to lose some employees. But compared to the previous year, it's a slight

decrease but it's hard to say. From the numbers that we see, there could be an increase in the number of employees. What are the measures that you are taking? What is the situation when it comes to gathering new talent, hiring new talent? And what is the competition with your competitors?

**Sivaraman [A]\*:** Well, we are a lean and mean organization. We make sure that we don't spend unnecessarily. We hire to right-size our organization, and we have absolutely no trouble in hiring people from the market or even from our competition.

**Nishio [Q]:** Next question is from Tsuruo-san of Citigroup Securities. The overlapping questions will be skipped. The first question is, what is your outlook for the demand in different areas such as manufacturing industry, non-manufacturing industry, government, and SMBs?

**Sivaraman [A]\*:** As I mentioned in my opening remarks, we did see demand from the manufacturing industry. We see demand from the telecommunication industry and also from government. I think it's a broad-based set of customers that we have that are looking to buy our software. I think, overall, the indications are that it's not going to stop. It is going to continue.

Regarding the SMB market, I think we did see a resurgence this quarter, a significant resurgence this quarter from the small and medium businesses, which obviously helped our numbers as well. I think it's all moving in the right direction.

**Nishio [Q]:** The next question from Tsuruo-san is, right now, the yen-dollar foreign exchange situation is changing rapidly. Does that have an impact on the pricing of your products?

**Sivaraman [A]\*:** We have already indicated to our customers that we will be increasing prices from this quarter. We have taken care of that situation.

**Nishio [Q]:** The question from Kaneko-san from BofA Securities was already covered in the previous question, so we will be skipping [not]. The next is from Tanaka-san of Mitsubishi UFJ. The first question is the license revenue has grown. What was the major driver? Was it the databases, or was it ERPs?

**Sivaraman [A]\*:** We have, for several years, reduced our ERP licenses because we sell ERP mostly on the cloud. We don't sell ERP licenses. Pretty much 90% of our license sales are around the database products.

**Nishio [Q]:** The second question from Tanaka-san of Mitsubishi UFJ Morgan Stanley Securities is, please let us know the reasons why the gross margin went down in Q2.

**Sivaraman [A]\*:** Well, I don't read too much into one quarter's expense or margin numbers. I think, overall, as I've said, we will be in the early 30s for our operating margin and we continue to be there. We are very happy with the progress. I don't interpret based on one quarter.

**Nishio [Q]:** Next question is from Kikuchi-san of SMBC Nikko Securities. What is the reason or factor that led to the growth in sales of the hardware systems? Does this come with the large deals with the software licenses?

**Sivaraman [A]\*:** No, this has got nothing to do with the software licenses per se in this quarter. But in general, our customers buy our hardware because Oracle database and Oracle products run very well on the Oracle hardware. That's why we continue to see good demand for our hardware products.

**Nishio [Q]:** The next question from Kikuchi-san is about the procurement cost for the hardware systems. Compared to last year, it has gone up, and compared to the previous quarter, it has also gone up. Does this mean that, due to the higher cost ratio, the revenue has gone up?

**Sivaraman [A]\*:** No. A couple of reasons. One, maybe product mix change is contributing to it, number one. Number two, the global supply chain situation, as it exists today, is very difficult and some of that is also pushing up some of our procurement costs. Those are the reasons.

**Nishio [Q]:** Our next question is from Kaneko-san of BofA Securities. Regarding the price increase, what is the percentage of the increase? Are there any different percentages for the different products like database and ERP?

**Sivaraman [A]\*:** Our price list is a public document. It is published on our website. Anybody can go and take a look, number one. Number two, we just increased prices on the same rate for all products. We did not increase it by product.

**Nishio [Q]:** Next question is from Tsuruo-san from Citigroup Securities. Was there any impact of the price increase to your performance?

**Sivaraman [A]\*:** No, there was no impact. It's business as usual. There's no impact. Some customers made big purchases, decided to purchase lowly. We still see a lot of pipeline for H2, so I don't attribute anything to the price change.

**Nishio [Q]:** Next question from Tsuruo-san is again about the price increase. Is the price increase already accommodated in the guidance?

**Sivaraman [A]\*:** At the time of the guidance, we did not know of any price increase, but I am not changing the guidance for the full year. We will stick to the same guidance.

**Nishio [M]:** [Speaks Japanese]

**Sivaraman [M]\*:** Thank you.

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### **Document Notes**

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