



Oracle Corporation Japan

Q3 Financial Results Briefing for the Fiscal Year Ending May 2023

March 22, 2023

Event Summary

[Company Name]	Oracle Corporation Japan	
[Company ID]	4716-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q3 Financial Results Briefing for the Fiscal Year Ending May 2023	
[Fiscal Period]	FY2023 Q3	
[Date]	March 22, 2023	
[Number of Pages]	7	
[Time]	16:30 – 17:14 (Total: 44 minutes, Presentation: 10 minutes, Q&A: 34 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	S. Krishna Kumar	Director, Corporate Executive Officer, CFO
	Yuki Nishio	Director, Investor Relations
[Analyst Names]	Chikai Tanaka	Goldman Sachs
	Mitsunobu Tsuruo	Citigroup Global Markets Japan
	Makoto Ueno	Daiwa Securities
	Yusuke Hori	Mizuho Securities
	Hideaki Tanaka	Mitsubishi UFJ Morgan Stanley Securities
	Hiroto Segawa	Morgan Stanley MUFG Securities
	Yuki Kaneko	BofA Securities Japan
	Hideo Noda	CLSA Securities
	Kaori Chiba	J.P. Morgan Securities
	Satoru Kikuchi	SMBC Nikko Securities
	Jun Tanabe	UBS Securities

Presentation

Nishio: Now, I'd like to turn this call over to S. Krishna Kumar – KK – Senior Vice President, JPAC and Japan CFO.

S. Krishna Kumar*: Thank you, Nishio-san. Good afternoon, everyone, and welcome to Oracle Corporation Japan's Q3 FY 2023 Earnings Conference Call. In Q3, our business continuously progressed in both on-premise and cloud services. We deployed our cloud, especially cloud infrastructure, to various customers in order to modernize their mission-critical systems. We also signed on a lot of Marquee cloud customers in various industries, especially manufacturing, retail and service, and the public sector.

I mentioned this previously as well, but our OCI has been selected as the government cloud for the digital agency. That increases our prospects in terms of generating a big pipeline for us for larger projects, and stimulates our demand over the mid to long term in the government sector.

We continue to be the enterprise technology vendor of choice because we have products and services that help our customers drive cost efficiencies and modernize their businesses. A number of companies continue to implement Oracle Fusion Cloud ERP and EPM to help simplify and standardize financial planning and analysis, increase productivity, reduce costs, and improve controls. Additionally, companies can drive accurately connected plants and leverage predictive intelligence, scenario modeling, and building best practices to navigate uncertainty across their businesses.

We will also be holding CloudWorld in Tokyo this April. As financial analysts, if you are interested to understand our technologies, you are welcome to join it.

Now, moving to the numbers, our total revenue at JPY163.226 billion is growing at 6.3% for the nine months ending February 2023. It's basically driven by a strong growth in our cloud and license revenue. Cloud services and license support revenues were at JPY105.1 billion, grew at 6.1% and now represent 64.4% of total company revenues. Fusion ERP Cloud revenue was up 17%. NetSuite ERP Cloud revenue was up 26.5%. Operating income of JPY52.61 billion increased by 2%. Net income was up 2.3%.

Total revenue and all three margins indicated a record high number in Q3. As I had said in previous earning calls, we had a strong pipeline, and we could bounce back and overcome the effect of seasonality.

Thank you very much. Now, we will open this up for questions.

Question & Answer

Nishio [Q]: So the first question is from Kaneko-san of BofA Securities, Inc.: your revenue exceeded the guidance that was announced early in the fiscal year. Nevertheless, you have said the original plan is intact. You did not change it. Can you explain to me the reason why you did not change the range?

S. Krishna Kumar [A]*: Thank you for the question. Yes, we kept the guidance at the same level as announced at the beginning of the year. Some of you may remember Q4 was a very strong quarter last year, and so the comparison we have with Q4 is a little tough. Having said that, I do think that we should end up somewhere very close to the high end of the range that I communicated. It could be more or less, depending on how we are able to execute some of the larger transactions that are in the pipeline for the quarter.

So, to answer your question, I will not be changing my guidance.

Nishio [Q]: So, a second question from Kaneko-san is: was there any front-loading of large deals or large license deals in Q3, that were brought forward from future quarters?

S. Krishna Kumar [A]*: Not really. I cannot pinpoint specific transactions that came forward or were moved back. You know, this is a normal part of our business. Sometimes, we are able to move deals forward. Other times, our deals slip to the next quarter, or to future quarters. So, it is the normal course of business, nothing different to what we saw in Q3.

Nishio [Q]: So the third question from Kaneko-san is about the business rollout regarding the government cloud: lately, I believe that Oracle Japan is accelerating partnerships with local IT vendors. But I was wondering if the revenue contribution is coming up soon or not. Can you share with us how the business is going on now?

S. Krishna Kumar [A]*: We were always working with the local IT vendors in our business at Oracle Japan. They have been a very integral and very important part of how we service this market. And so, we will continue forward with that partnership, whether it's government cloud or otherwise. Even before the digital agency, a lot of transactions that we do with the government have all of our local IT vendors involved in them as well. So I would say it's business as usual.

Nishio [Q]: The next question is from Mitsunobu Tsuruo of Citigroup Global Markets Limited. The first question is: regarding the price increase in Q3, how will it impact your performance? Also, what is your perspective on any impact on Q4?

S. Krishna Kumar [A]*: The price increase, as was the case for a lot of vendors in Japan, was driven by the fact that the Japanese yen had depreciated quite a bit against the US dollar. So we basically ended up normalizing that effect into our pricing.

As most of you know, we sell enterprise-grade software to large enterprises to run their mission-critical systems on our software. So, to a large extent, our demand is kind of inelastic. These price changes do not really affect our demand or our pipeline. If a customer has to use Oracle to run mission-critical systems, he is still going to come and buy software from us.

So, as you can see from our Q3 numbers, the demand is still there. We've had a great on-premise license quarter. And so it just continues as usual; the customers and the partners have accepted the price change. They understand the realities of the market and that we are just moving on with our business.

Nishio [Q]: The next question is from Segawa-san of Morgan Stanley Securities. The first question is: please give us a detailed update on the inquiries or prospects by industry or by the size of companies.

S. Krishna Kumar [A]*: As I normally say, we don't see any particular trend from specific industries. We are very strong in the financial services industry. We are strong in the telecom industry, and we have very good partnerships with a lot of government consumers and manufacturing as well.

So, overall, our revenues really don't depend on any one particular segment of the market. In general, and I keep saying this, mission-critical systems are required by all industries, across all spectrums. So, in some quarters, we'll enjoy demand from a certain industry, in other quarters from other industries. So there is no bias or there is no dependency on a particular industry for Oracle.

Nishio [Q]: The second question from Segawa-san: the number of headcounts remains the same as previous year. Going forward, what is your plan regarding the number of headcounts? Do you have any plans to increase or not? Also, if you have a specific plan in order to realize that, is there a possibility for Oracle Japan to increase the base salary or compensation on that?

S. Krishna Kumar [A]*: So, let me first answer on headcount. Headcount has been pretty stable over the last few quarters. That does not mean that people don't go in and out. So, we continue to hire into our strategic businesses and we look at the nonstrategic areas sometimes. If people are exiting from there, we don't really backfill their positions. So, we are very, very consciously watching our costs, and we want to be the most efficiently managed company. That's about the headcount; we'll continue to make investments in the right areas.

As far as salary increase is concerned, we take a look at that every year. Depending on the market situation, depending on the status of salaries of our people, we continue to invest in our people, so that will not change.

Nishio [Q]: The next question is from Satoru Kikuchi of SMBC Nikko Securities Inc.: it seems like the royalty rate is rising somewhat. But is it correct to understand that there are no changes in the fee rate of products and services? Is it due to the change in the mix?

S. Krishna Kumar [A]*: Thanks, Kikuchi-san. I think you understand my business more than I do. Yes, our royalty rates on specific products have not changed. But as the mix changes, the royalty rates keep going up or down. That's the only thing; we have not changed specific rates for any products with the corporation.

Nishio [Q]: The next question is from Tsuruo-san, actually their second question: what has been the reaction of customers towards price increases? Have there been any changes regarding how you compete with competitors in terms of price competition or any changes in the win rate of Oracle Japan?

S. Krishna Kumar [A]*: I think I answered this question partially before. As I said, our software for our customers is not a nice-to-have software. It is a need-to-have software, which means that a lot of our demand is inelastic.

Regarding customer reaction, no customer likes it when you increase prices, but the fact is that the industry understands the current situation with the Japanese currency. More than our end customers, I think we work a lot with our partners to tell them in advance about an impending price change. We work very closely with our partners so that they can soften the announcement into the market. So, we did not get any adverse impact due to the price changes. The market seemed to have accepted it very nicely.

Nishio [Q]: The next question is from Hideaki Tanaka of Mitsubishi UFJ Morgan Stanley Co., Ltd.: I would suspect that there was a last-minute demand in Q2 right before the price increase. But was there a rebound – a decrease – in demand after that?

S. Krishna Kumar [A]*: I think it was just the customers; because we were very good at communicating the impending price change with our partners and our customers, some customers who could foresee their demand and were sure about how much software they want did enter into contracts a little early in Q2. The others who could not do that in Q2, unfortunately, had to pay a higher price because they were not ready with their demand requirements in Q2. Again, it's a very normal thing in any business, so I wouldn't read much into it.

Nishio [Q]: The next question is from Tsuruo-san of Citigroup. In the earnings call of Oracle Corporation, it was mentioned that there is a strong demand for ChatGPT. So, for Oracle Japan, are there any related demands, or do you foresee any upcoming demands?

S. Krishna Kumar [A]*: ChatGPT basically has got nothing to do with us. I cannot comment specifically on what happened on the HQ earnings call. But what I can say is that we have already built in a lot of artificial intelligence into our software products, such as our accounting software. I'll give you a very basic example. You can teach the machine to do a lot of your account reconciliations without any human intervention, ensuring that 98% of the job can be done by the machine. This is a standard feature that is available in our financial products.

Similarly, we keep talking about Autonomous Database. Autonomous Database is another artificial intelligence and machine learning product which basically learns from what it gets. It learns from other deployments and does a lot of activities automatically for you. So to make a long story short, artificial intelligence and machine learning is the future, and Oracle is heavily invested in being able to use these technologies for the benefit of our customers.

Nishio [Q]: So the next question is from Makoto Ueno of Daiwa Securities Group Inc.: in Q4, CloudWorld Tokyo will be held. Will it impact your costs? And if so, by how much and what will the costs be?

S. Krishna Kumar [A]*: It's not a material expense. It's not going to impact my P&L.

Nishio [Q]: I will be skipping some of the overlapping questions. So, for now, the final question is from Kikuchi-san of SMBC Nikko Securities, about license sales: if a license was sold in Q2 and delivered in Q3, did you apply the previous pricing? And if so, when it comes to last-minute demand, will that impact or has that impacted Q3 as well?

S. Krishna Kumar [A]*: So virtually, software sales do not happen in the way that you described. If it was hardware, what you're saying could raise some questions. As far as Oracle is concerned, the moment you sign a contract for software, it gets delivered electronically. So the moment there is a valid contract that is signed, you can actually go and recognize the revenue. That's how we recognize our license revenue.

Thank you very much, everyone. [Inaudible].

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
2. *Portions of the document where the audio is obscured by technical difficulty are marked with [TD].*
3. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
4. *This document has been transcribed based on interpreted audio provided by the Company.*