



Oracle Corporation Japan

Q4 Financial Results Briefing for the Fiscal Year Ended May 2023

June 23, 2023

Event Summary

[Company Name]	Oracle Corporation Japan	
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[Event Name]	Q4 Financial Results Briefing for the Fiscal Year Ended May 2023	
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[Date]	June 23, 2023	
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[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	2	
	S. Krishna Kumar	Director, Corporate Executive Officer, CFO
	Yuki Nishio	Director, Investor Relations
[Analyst Names] *	Kaori Chiba	J.P. Morgan Securities
	Hiroto Segawa	Morgan Stanley MUFG Securities
	Hideaki Tanaka	Mitsubishi UFJ Morgan Stanley Securities
	Qiu Tailai	Citigroup Global Markets
	Satoru Kikuchi	SMBC Nikko Securities

Presentation

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

S. Krishna Kumar*: Thank you, Nishio-san. Good afternoon, everyone, and welcome to Oracle Japan's Q4 FY2023 earnings conference call.

In this quarter, we continue to make progress on both our on-premises and our cloud services. We won a lot of marquee customers in various industries, especially the financial sector, manufacturing industries, and public sector.

I have said many times before at this conference, OTI is selected as a government cloud at the digital agency. We are an enterprise technology vendor of choice because we have the products and services that help our customers drive cost efficiency and modernize their businesses.

To give some customer references [TD] searching for our tech cloud NRI who bought a dedicated region from us, have moved their retail brokerage accounting system, the star to Oracle Cloud Infrastructure dedicated region.

RK, KKCS, and Oracle will strengthen our collaboration to implement the comprehensive administrative system, a core package for local governments on Oracle Cloud infrastructure.

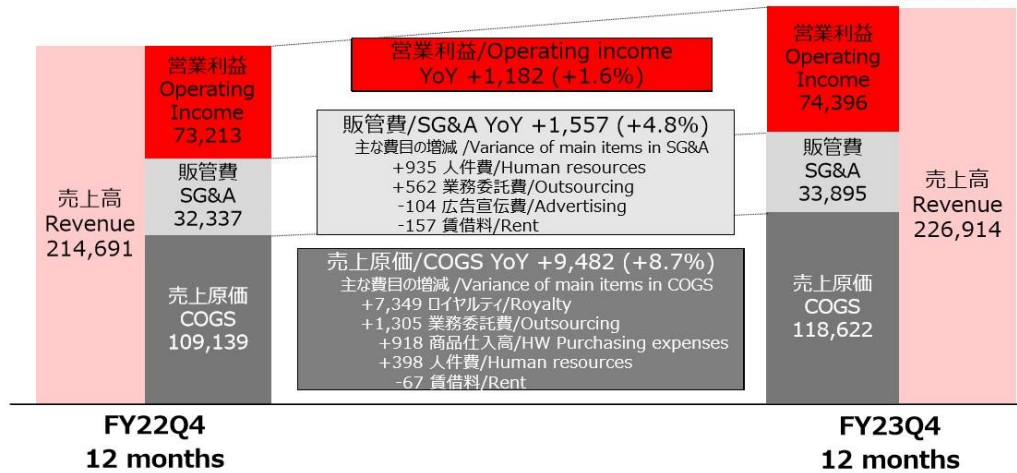
NTT West has selected Oracle Cloud infrastructure to develop a new platform to streamline its internal business operations.

On the SaaS side, also, there are a lot of companies that have chosen the Oracle SaaS application, for example, Pokémon, UCC Holdings, and Mitsuuroko.

I'll move to the numbers now.

2. 営業利益対前年同期比 Operating Income YoY

単位：百万円
Unit: Million JPY



Our total revenue, a JPY226,914 billion gain, grew 5.7% compared to the previous year on the back of a strong growth in our cloud and our license revenues.

4.セグメント別データおよび営業経費 / Segmental Info and Opex

売上高 / Revenue	2023/5					2022/5				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
クラウド&オンプレミスライセンス Cloud & On Premise License	6,883 -13.6%	12,580 25.0%	11,475 16.3%	16,936 -0.9%	47,876 6.4%	7,964 -2.1%	10,061 -18.8%	9,864 4.1%	17,086 -0.5%	44,975 -4.7%
クラウドサービス&ライセンスサポート Cloud Services & License Supports	35,497 5.6%	34,366 5.5%	35,236 7.3%	36,874 9.8%	141,975 7.0%	33,620 10.8%	32,581 6.5%	32,847 6.8%	33,586 7.1%	132,636 7.8%
クラウド&ライセンス Cloud & License	42,381 1.9%	46,947 10.1%	46,711 9.4%	53,811 6.2%	189,851 6.9%	41,584 8.1%	42,642 -0.8%	42,711 6.1%	50,673 4.4%	177,612 4.3%
ハードウェア・システムズ Hardware Systems	3,179 -10.1%	4,278 20.1%	3,816 8.4%	4,965 3.3%	16,240 5.3%	3,537 -11.7%	3,563 -13.9%	3,521 -12.0%	4,807 -2.7%	15,429 -9.7%
サービス Service	5,457 3.6%	5,552 1.1%	4,901 -5.5%	4,910 -13.9%	20,822 -3.8%	5,266 2.1%	5,490 -0.3%	5,189 -0.4%	5,703 6.8%	21,649 2.1%
合計 Total Revenue	51,018 1.3%	56,777 9.8%	55,430 7.8%	63,688 4.1%	226,914 5.7%	50,388 5.8%	51,696 -1.7%	51,421 4.0%	61,184 4.0%	214,691 3.0%

営業利益 / Operating Income	2023/5					2022/5				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
クラウド&ライセンス Cloud & License	16,259 -3.8%	18,255 8.5%	17,957 3.0%	21,408 1.1%	73,881 2.1%	16,901 13.4%	16,828 -6.1%	17,435 6.8%	21,178 1.0%	72,343 3.2%
ハードウェア・システムズ Hardware Systems	132 -15.9%	166 4.8%	132 -15.1%	193 -9.9%	625 -9.0%	158 4.7%	158 -18.5%	155 12.0%	214 0.2%	687 -1.7%
サービス Services	1,108 4.8%	1,244 -11.1%	954 -7.0%	1,450 -11.5%	4,757 -7.1%	1,057 29.9%	1,399 -0.9%	1,027 -5.4%	1,639 27.8%	5,123 11.5%
共通経費 (全社費用) Adjustment	-1,355 15.8%	-1,105 -11.8%	-1,141 0.0%	-1,266 -8.0%	-4,868 -1.5%	-1,170 -11.9%	-1,253 24.7%	-1,140 27.9%	-1,376 7.9%	-4,940 9.8%
営業利益 Operating income	16,145 -4.7%	18,561 8.3%	17,903 2.4%	21,785 0.6%	74,396 1.6%	16,945 16.6%	17,133 -7.5%	17,477 5.0%	21,656 2.2%	73,213 3.3%

営業経費主要科目 (売上原価+販売費及び一般管理費) / Operating Expenses (Sum of COGS and SG&A)	2023/5					2022/5				
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total
ロイヤリティ (Royalty)	18,270	20,131	20,382	23,255	82,040	17,359	17,884	18,163	21,282	74,690
ハードウェア・システムズ仕入原価 (HW Systems Purchasing Expenses)	2,594	3,587	3,227	4,346	13,756	2,930	2,930	2,895	4,079	12,837
人件費 (Human Resources)	7,965	8,342	7,937	8,843	33,089	7,768	7,647	7,734	8,604	31,755
業務委託費 (Outsourcing)	4,229	4,378	4,173	3,669	16,451	3,503	4,160	3,276	3,642	14,583
広告宣伝費 (Advertising)	126	102	40	392	432	100	171	127	137	536
ファシリティ関連 (Facility) *	692	623	803	569	2,689	847	782	854	706	3,190
その他 (Others)	993	1,049	961	824	4,059	931	984	891	1,074	3,883
合計/Total	34,873	38,216	37,526	41,902	152,518	33,442	34,563	33,944	39,527	141,477

* ファシリティアには賃借料、減価償却費、消耗品費、水道光熱費が含まれる / Facility includes rent, depreciation & amortization, supplies expenses and utilities.

Cloud services and license support revenue was JPY141.975 billion, up 7%, and the revenue in Q4 for three months grew 10%.

Infrastructure consumption revenues also had a strong momentum, which includes the autonomous database.

The growth in our remaining performance obligation also indicates our strong backlog for the next couple of years in cloud services.

3. 直近業績要約 Summary of Recent Operating Results

(百万円 Millions of Yen)

	2023/5					2022/5					2021/5	2020/5	2019/5	2018/5
	Q1	Q2	Q3	Q4	Total	Q1	Q2	Q3	Q4	Total	Total	Total	Total	Total
売上高 / Total Revenue	51,018	56,777	55,430	63,688	226,914	50,388	51,696	51,421	61,184	214,691	208,523	211,357	202,389	185,481
売上原価 / Cost of Goods and Sales	26,639	29,777	29,339	32,866	118,622	25,776	26,608	26,166	30,587	109,139	106,764	109,110	106,735	96,673
売上総利益 / Gross Profit	24,379	26,999	26,091	30,822	108,292	24,611	25,088	25,255	30,596	105,551	101,758	102,246	95,653	88,808
販管費 / SG&A	8,233	8,438	8,187	9,036	33,895	7,665	7,954	7,777	8,940	32,337	30,854	33,380	33,316	32,798
営業利益 / Operating Income	16,145	18,561	17,903	21,785	74,396	16,945	17,133	17,477	21,656	73,213	70,904	68,865	62,337	56,009
営業利益率 / Operating Income Margin	31.6%	32.7%	32.3%	34.2%	32.8%	33.6%	33.1%	34.0%	35.4%	34.1%	34.0%	32.6%	30.8%	30.2%
経常利益 / Ordinary Income	16,334	18,499	17,981	21,865	74,681	16,981	17,195	17,472	21,893	73,543	70,904	68,857	62,284	56,082
四半期(当期)純利益 / Net Income	11,326	12,832	12,465	15,384	52,009	11,767	11,917	12,107	15,389	51,182	49,175	47,686	43,360	38,751
総資産 / Total Assets	222,828	234,800	232,530	281,015	-	187,874	194,366	192,131	236,868	-	333,999	294,139	269,518	236,509
流動資産 / Current Assets	71,070	83,358	81,273	130,831	-	35,294	42,219	40,252	84,800	-	81,038	249,832	93,005	192,290
固定資産 / Non-current Assets	151,757	151,442	151,256	150,184	-	152,580	152,147	151,878	152,068	-	252,960	44,306	176,512	44,218
負債 / Liabilities	106,643	104,631	92,090	125,161	-	103,034	96,562	82,210	111,513	-	113,999	102,776	109,230	105,083
純資産 / Net Assets	116,184	130,168	140,439	155,854	-	84,840	97,804	109,921	125,355	-	219,999	191,362	160,288	131,425
設備投資額 / Capital expenditure*	-	-	-	-	540	-	-	-	-	652	105	716	3,094	1,590
減価償却費 / Depreciation	-	-	-	-	1,333	-	-	-	-	1,653	2,049	2,308	2,002	1,795
期末配当 (円) / Year-end Dividends (Yen)	-	-	-	-	162	-	-	-	-	160	1,146	149	136	121
配当性向 (%) / Dividend Payout Ratio (%)	-	-	-	-	39.9	-	-	-	-	40.0	298.5	40.0	40.1	39.9
従業員数 / Number of Employees	2,408	2,379	2,360	2,398	-	2,385	2,387	2,370	2,430	-	2,407	2,504	2,622	2,497

* 設備投資額には差入保証金を含みます / Capital expenditure includes lease deposits.

* FY21配当金内訳は、普通配当154円、特別配当992円、合計1,146円です。 / Breakdown of Dividends for May 2021; a normal dividend of 154 yen, a special dividend of 992 yen and total dividend is 1,146 yen.

業績予想 / FY24 Forecast

	(%)	
	Low	High
売上高 / Revenue	2.0	6.0
1株当たり当期純利益 (円) / EPS (Yen)	406.00	418.00

* 予想実効税率 estimation of effective tax rate=30.8%

Operating income was JPY74,396 billion, increasing 1.6%, and net income was also up 1.6%.

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Total revenue and all three margins indicated record high in the fiscal year. As I had mentioned before Q4 that we have a strong pipeline, and we will overcome the seasonality, and the results are here for you to see.

Thank you very much.

And now, I hand over to questions.

Question & Answer

Nishio [M]: The first question is from Kaori Chiba from JPMorgan.

Nishio [Q]*: This first question has to do with the guidance for fiscal year ending May 2024. The growth rate of EPS, the maximum is lower than the revenue growth rate. Does it mean that your revenue or profitability will deteriorate? And if so, what is the reason behind it?

S. Krishna Kumar [A]*: As you can see in FY2023, we exceeded our revenue guidance, but our EPS was in the middle of our range. The primary reason for that was the deterioration of the Japanese yen, which took some of our costs higher than what we anticipated. Keeping that in mind, we are adopting an approach which looks reasonable to us as of now for our EPS range.

As you can see, we are starting our EPS at the bottom. The end of our range is our EPS for the current year. So that's the bottom end of our range, and our high end is about 480, and that's what we see today.

Nishio [M]: The second question from Chiba-san.

Nishio [Q]*: In Q4, with the hiring of new grants, the total number of employees did increase. And going forward, do you plan to resume the hiring, including the mid-career hires?

S. Krishna Kumar [A]: Just because our headcount numbers have been stable in the last few years does not mean that we are not hiring. We lose people, we hire people. We hire in the right areas. We try and hire into our strategic businesses, and some of the nonstrategic businesses, we let people go whenever they are [taught]. So that is what has been. Basically, we want to drive maximum revenues as efficiently as possible. That has been our objective, and we will continue to do that.

Nishio [M]: Third question from Chiba-san.

Nishio [Q]*: It seems like traction of generative AI in the US is contributing to the performance, the results of your company, perhaps being a parent company. My question is about the approaches or inquiries from generative AI-related companies in Japan.

S. Krishna Kumar [A]*: Yes, that's right. Generative AI is a new phenomenon that will obviously also attract a lot of enterprise attention. And as you would have heard from the US press release, the article is at the forefront in that technology. Our Japanese customers definitely also are interested. And if they are not interested, now they would be interested tomorrow. You will hear more about the generative capabilities of Oracle in the days to come from our different press releases.

Nishio [M]: Segawa-san from Morgan Stanley has placed two questions, but the first one was related to Generative AI. So, moving on to the second question.

Nishio [Q]*: This contract liabilities in May is high, has gone up by 16% on a YoY basis. So, what is the reason behind it? Were there any large-sized deals that you've achieved?

S. Krishna Kumar [A]: We continue to book strong cloud business. So that drives some of the momentum in our own revenues. And we also saw multiple customers signing a lot of multiple support contracts with us, which also partially led to an increase in our RPO. So, it's a combination of both factors.

Nishio [M]: The next question is from Tanaka-san of Mitsubishi UFJ Morgan Stanley.

Nishio [Q]*: Please elaborate a little more on the details of cloud license and support of Q4, such as like Fusion ERP.

S. Krishna Kumar [A]*: We continue to see a lot of momentum across all our cloud services. So, we saw, obviously, our tech cloud services getting a lot of traction. And also, our ERP continues with ERP, both our Fusion and our [inaudible] ERP continue to show a lot of traction in the Japanese market. And we continue to maintain our high growth rates in both of these businesses.

Nishio [M]: So, Tanaka-san, second question.

Nishio [Q]*: This applies to Q4 as well. But even throughout the year, gross margin is coming down on a YoY basis. So, can you tell me about the reasons behind it, and also the outlook going forward?

S. Krishna Kumar [A]*: As I had indicated in my opening comments, also, we did see some increase in our expenses due to the deterioration of the Japanese yen. Some of that impacted on our margins as we went through the year. And I have always maintained that we will continue to see our margins in the early 30s as a percentage. And we have consistently maintained that. I think we should be able to maintain that in the future as well.

Nishio [M]: From Citigroup Securities, Qiu-san. The first question is regarding cloud service license support.

Nishio [Q]*: The revenue growth rate for last fiscal year had increased quarter-by-quarter. So, what is your outlook for this fiscal year? What would be the growth rate?

S. Krishna Kumar [A]*: This particular segment, as you know, includes cloud services, and it includes our support revenue. Our support revenue continues to be strong because customers renew our support, and more than 95% of our customers renewed support every year. And we also incrementally add more licenses every year.

The second portion in this segment is basically our cloud services, which, as I mentioned, are showing strong momentum, and they will continue to grow at a very high rate. So, I think we should see similar growth rates in the future as well for this particular segment. I did not break my total forecast. I do not break my revenues and give you individual segment percentages.

Nishio [M]: The second question from Qiu-san.

Nishio [Q]*: What is your forex assumption for this fiscal year? And please share with us some of the cost items, which are susceptible to exchange rate fluctuations.

S. Krishna Kumar [A]: I am basically not in the business of predicting JPY/USD rates. I'm more focused on my business and growing the top line as efficiently as possible. So currently, our forecast, we have assumed mostly the current rates between JPY and USD.

Nishio [M]: Taken from Kikuchi-san of SMBC Nikko Securities.

Nishio [Q]*: What is the reason behind the cost ratio increase of hardware in Q4?

S. Krishna Kumar [A]*: Hardware or costs are a direct result of our revenue. If the revenues go up, the hardware cost also goes up. So, it's a variable cost, and that's primarily the reason why the costs are up.

Nishio [M]: The second question is from Kikuchi-san.

Kikuchi [Q]*: Have there been any changes in the royalty rate of software products? And also, please share with us the projection and the outlook for the cost ratio of hardware this year.

S. Krishna Kumar [A]*: We have not changed any royalty rates. We will continue to hold the same royalty rates. And if it changes, I will let you know. So, we continue to hold on to the same royalty rates and hardware costs. I think our profitability will continue to improve in the hardware business as well, as we sell more strategic products. So, that's basically our perspective.

Nishio [M]: [Inaudible] Group Securities, [Cusan].

Nishio [Q]*: Which cost items are susceptible to exchange rate auctions?

S. Krishna Kumar [Q]*: Basically, some of the costs that we get from charge from the corporation, whether it's our data center charges, whether it's the stages for using the corporation services, those charges generally get affected by the JPY rate.

Nishio [M]: The next question is from Watanabe-san of [inaudible] Asset Management.

Nishio [Q]*: Please share with us the growth rate in Q4 of Fusion ERP Cloud and NetSuite.

S. Krishna Kumar [A]*: Both Fusion ERP and NetSuite continue to grow in double digits. We are very happy with the consistent growth rates for both of these products, and we continue to penetrate the market. As I mentioned, I gave you some examples of really marquee names that are adopting our Fusion ERP systems.

In the NetSuite side, we started this business only a few years ago, and we are seeing a lot of interest in the market, in the small and medium enterprise market. So, we will continue to see this momentum going through to the next year.

Nishio [M]: Segawa-san from Morgan Stanley.

Nishio [Q]*: This is regarding Generative AI. In terms of strengthening your product competitiveness, what kind of impact will it have? What kind of benefit will it have?

S. Krishna Kumar [A]*: Generative AI is an evolving area, as we speak. So, it is very difficult to predict where it will go. But as far as Oracle is concerned, I can assure you that we were always at the forefront of enterprise technology. And if there is a new technology there for us to adopt, and change, and impact of our products, you can rest assured that we will be one of the pioneers in this technology.

[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.*