Company Deep Dive

Oracle

A software company that turned itself into a debt-financed builder of AI data centers. The backlog is enormous, half of it is one customer, the cash flow is negative and the credit rating is one notch above junk. What the numbers say about whether the bet can pay off.

Global Markets Research · Technology & Credit Desk — Prepared for internal & client distribution by **Andra Markets**

Coverage summary. A year ago Oracle was the market's favourite AI trade: a $300 billion contract with OpenAI lifted its contracted backlog more than fourfold in one quarter, the shares rose by a third in a day and its market value approached $1 trillion. Since then the shares have halved. The business is growing faster than ever, with cloud infrastructure revenue up 121 per cent in the latest quarter and contracted revenue of $664 billion, but the cost of delivering it has turned Oracle into one of the largest and most stretched borrowers in the technology sector. Free cash flow has been negative for more than a year, debt has more than doubled, S&P has cut the rating to BBB- and credit default swaps trade at their widest since 2008. This note examines the backlog, the build-out, the financing and the valuation, and sets out what has to go right for the strategy to work.

Share price / mkt cap	Contracted backlog	Free cash flow, Q1	S&P rating
$142 / $431bn	**$664bn**	**-$5.4bn**	**BBB-**
-59% from Sep 2025 peak	*~half from OpenAI*	*capex $28.5bn*	*one notch above junk*

Exhibit A. Key figures (fiscal year ends in May; Q1 FY27 is the quarter to August 2026)

Metric	Figure	Note
Revenue, Q1 FY27	$19.3bn	+30% y/y
Cloud infrastructure (OCI) revenue	$7.4bn	+121% y/y
Remaining performance obligations	$664bn	+$209bn y/y
Capital expenditure, Q1 / FY27 guide	$28.5bn / $90-95bn	net cash capex guided at no more than $70bn
Free cash flow, Q1 FY27 / FY26	-$5.4bn / -$23.7bn	negative since fiscal 2025
Total debt	~$125bn to $167bn	depending on measure; ~$43bn raised in FY26
Credit ratings	BBB- (S&P) / Baa2 (Moody's)	S&P cut on 9 July; Moody's outlook negative
FY27 guidance	≥$90bn revenue	adjusted EPS of $8.10
P/E on FY27 guidance	~17.6x	share price $142.30 (2 October close)

Figures from company releases, rating agency actions and press reports; ratios are Andra Markets calculations and are approximate. Colour convention (charts only): green marks growth or the upside reference, red marks cash burn, risk or the downside. All body and table text is set in black.

1.0 Executive Summary

Key takeaways

The growth is real and contracted. Oracle's cloud infrastructure business more than doubled its revenue in the August quarter, total revenue grew 30 per cent and management raised its full-year guidance to at least $90 billion. Unlike many AI stories, the demand is written into contracts: remaining performance obligations, revenue that customers have

committed to pay, stand at $664 billion, more than seven years of current annual revenue. The customer list includes OpenAI, Meta, Nvidia, AMD, xAI and TikTok.

The problem is the cost and the concentration. To deliver that backlog Oracle has to build data centers and fill them with GPUs before the revenue arrives, and it is doing so largely with borrowed money. Capital spending was $28.5 billion in a single quarter and is guided at $90 to $95 billion this fiscal year, against an operating business that until recently generated around $20 billion of cash a year. Roughly half of the backlog comes from OpenAI, a company that is growing quickly but still loses money and whose commitment to Oracle, about $60 billion a year from 2027, exceeds its current revenue. Oracle's credit standing now depends heavily on one customer's ability to keep raising capital.

The market has repriced the risk, but not resolved it. At $142 the shares trade at about 17.6 times this year's guided earnings, a discount to most large software peers and far below the valuation of a year ago. Credit markets are more cautious still: S&P cut the rating to the lowest investment-grade notch in July, Moody's has a negative outlook, and the cost of insuring Oracle's debt is at its highest since the financial crisis. The investment case rests on a simple but uncertain proposition, that the data centers being built today will generate strong cash flow from 2028 onwards. If they do, today's price looks low. If OpenAI or other large customers stumble, Oracle carries the assets and the debt.

2.0 Business Overview

Two companies under one name

Oracle today combines two very different businesses. The first is the one that made Larry Ellison one of the world's richest people: database and enterprise software, sold as licences with recurring support fees and, increasingly, as cloud applications. It is mature, highly profitable and slow-growing. In the August quarter, software licence and support revenue was $5.5 billion and fell 3 per cent, while cloud applications such as Fusion and NetSuite grew 10 per cent to $4.2 billion. This is the cash engine that historically funded generous dividends and buybacks.

The second is Oracle Cloud Infrastructure, which rents computing capacity, and above all large clusters of Nvidia GPUs, to companies training and running AI models. It was a late entrant to a market dominated by Amazon, Microsoft and Google, but found a niche by building very large, dedicated clusters quickly and on terms the bigger clouds were reluctant to offer. That business generated $7.4 billion of revenue in the quarter, up 121 per cent, and is now the largest single source of growth. It already brings in more revenue than the licence and support business. The two halves have opposite financial profiles: one asset-light and cash-generative, the other capital-intensive, debt-funded and dependent on a small number of very large customers. The strategy is to use the first to underwrite the second.

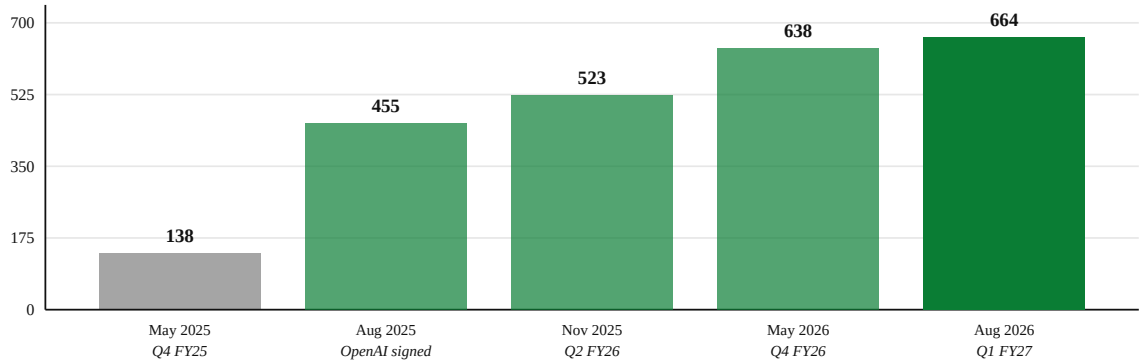
The company is led by co-chief executives Clay Magouyrk, who built the cloud infrastructure business, and Mike Sicilia, appointed in September 2025, with Larry Ellison as chairman and chief technology officer and Hilary Maxson as chief financial officer.

3.0 Backlog and Customer Concentration

$664 billion, half of it one name

Remaining performance obligations are the most important number in Oracle's accounts. They rose from $138 billion in May 2025 to $455 billion three months later, when the OpenAI contract was signed, and have continued to climb to $664 billion. A backlog of this size gives unusual visibility: in principle, Oracle already knows where most of its revenue for the rest of the decade will come from.

Exhibit 1. Remaining performance obligations, selected quarter-ends ($bn)



Source: Andra Markets; Oracle quarterly results and press reports. February 2026 quarter-end not shown. Green marks the post-OpenAI backlog.

The quality of the backlog matters as much as its size. Roughly half of it is attributed to OpenAI, under a five-year agreement starting in 2027 for about 4.5 gigawatts of capacity, worth around $60 billion a year. That single contract is larger than Oracle's entire current annual revenue. OpenAI is the fastest-growing company in the sector, with annualised revenue of around $25 billion early this year, and in March it raised $122 billion at a valuation of $852 billion, which substantially strengthened its finances. But its committed spending with Oracle alone is more than twice its current revenue, and it has made similar commitments to Microsoft, Amazon, Nvidia, AMD and Broadcom. Oracle's backlog is, in effect, partly a claim on OpenAI's future fundraising.

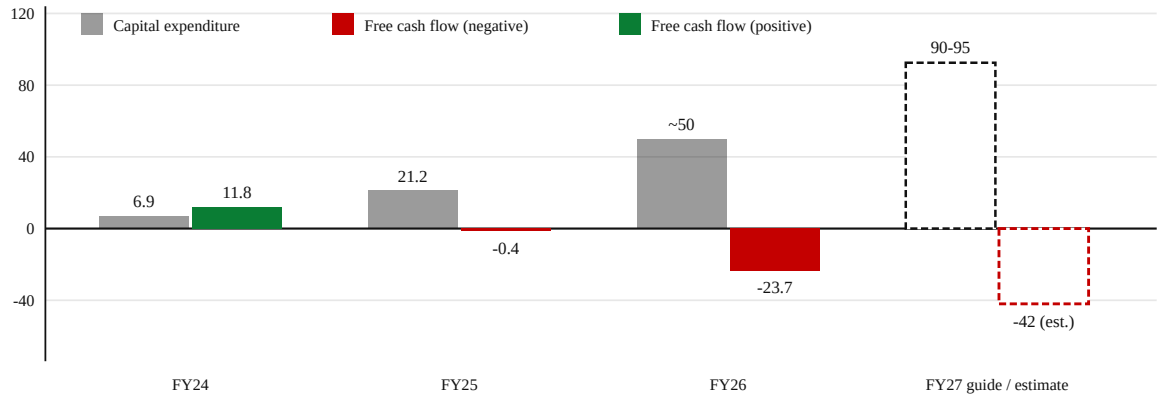
Two further features need to be understood. First, management said most of the latest quarter's increase came from prepayment arrangements and "bring your own hardware" deals, in which customers pay upfront or supply their own chips while Oracle provides the data center and operates it. These are lower-risk for Oracle, but also lower in revenue per contract. Second, the backlog converts slowly: management indicated that only about half of the most recent additions will become revenue within three years. Visibility is high, but much of the value lies in the late 2020s, after the heaviest spending has already been incurred.

4.0 Capital Expenditure and Cash Flow

Building before being paid

Oracle's cash flow statement shows the scale of the transformation. Capital spending was about $7 billion in fiscal 2024 and $21 billion in fiscal 2025; it reached around $50 billion in fiscal 2026 and is guided at $90 to $95 billion this year. In the August quarter alone it was $28.5 billion, more than three times the level a year earlier. Free cash flow, positive at nearly $12 billion two years ago, turned slightly negative in fiscal 2025, fell to minus $23.7 billion in fiscal 2026 and, on S&P's projections, could reach around minus $42 billion this year before turning positive in 2028.

Exhibit 2. Capital expenditure and free cash flow by fiscal year ($bn)



Source: Andra Markets; Oracle annual results and guidance; FY27 free cash flow is S&P's projected free operating cash flow, not company guidance. Dashed bars are guidance or estimates. Red marks cash burn.

Oracle is trying to reduce the cash burden in three ways. It is asking customers to prepay, which is why operating cash flow reached a record $23 billion in the August quarter, well above the profit generated in the period. It is using bring-your-own-hardware arrangements, in which the customer buys the GPUs and Oracle supplies the building, power and operations. And it is relying on suppliers and lessors to fund part of the build, so that net cash capital expenditure, $18 billion in the quarter, is meaningfully lower than the headline figure; for the full year it is guided at no more than $70 billion. These measures shift some of the risk to customers and partners, but they also mean some of the cash flow improvement is borrowed from future periods, since prepaid revenue will not be received again.

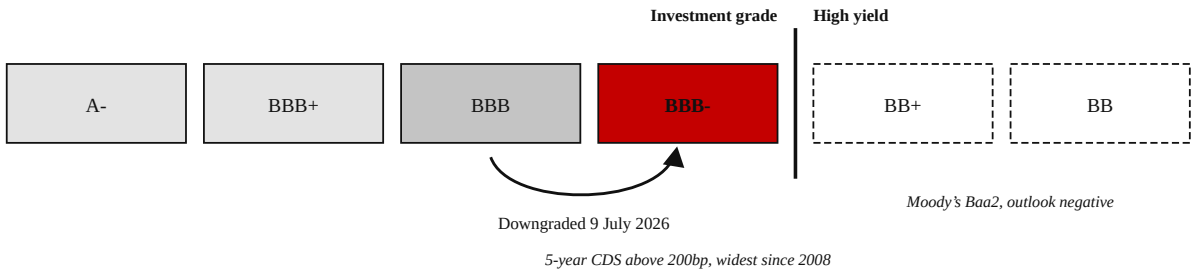
Management's case is that each project, once running, converts close to 100 per cent of its after-tax EBITDA into free cash flow, so that the business becomes self-funding as capacity comes online. That is plausible for a fully utilised data center under a long contract. The risk lies in the period before that point, and in the assumption that utilisation and pricing hold for the full life of contracts written at today's prices, on hardware that loses value quickly as new chip generations arrive each year.

5.0 Balance Sheet and Credit Profile

One notch above junk

The build-out has been financed largely with debt. Oracle raised about $43 billion of new debt and $5 billion of equity in fiscal 2026, including an $18 billion project financing for a New Mexico campus arranged by a group of around 20 banks. In February it set out a plan to raise $45 to $50 billion during calendar 2026, split roughly equally between a single large bond issue and equity, including a programme to sell up to $20 billion of new shares into the market and a mandatory convertible preferred issue. Depending on how leases and other obligations are counted, total debt now stands between roughly $125 billion and $167 billion, and leverage is expected to reach the mid-four-times range relative to EBITDA this year.

Exhibit 3. Oracle on the credit rating scale (S&P long-term rating)



Source: Andra Markets; S&P Global Ratings action (9 July 2026), Moody's outlook and market data as reported. Red marks Oracle's current position.

The rating agencies have been notably accommodating. S&P's July downgrade kept Oracle investment grade on the argument that it will harvest cash flow in the later years of its AI contracts, but the agency acknowledged that current credit metrics do not support the rating and that it is relying on free cash flow turning positive in 2028. It cited concentration on OpenAI as a key risk. Moody's rates Oracle Baa2 with a negative outlook. The market is less patient: five-year credit default swaps have traded above 200 basis points, a level not seen since 2008, and some analysts have argued openly that the numbers are already consistent with a high-yield rating. A fall below investment grade would matter beyond the cost of new debt, because many bond funds cannot hold high-yield paper, and a forced sale of Oracle's large bond stock would itself push borrowing costs higher.

6.0 Profitability of the AI Cloud

Revenue is not margin

The shift in the business mix is visible in the margins. Oracle's legacy software earns gross margins well above 80 per cent; renting GPU capacity earns far less, because the largest cost, the chips, is paid to Nvidia and depreciates over a few years. Management has acknowledged that overall gross margin is falling as new data centers ramp up, and reports

in 2025 suggested early AI infrastructure contracts were earning gross margins in the mid-teens before improving over time. Adjusted operating margin was still 42 per cent in the August quarter, supported by the software base, but the direction is downward as the cloud infrastructure share grows.

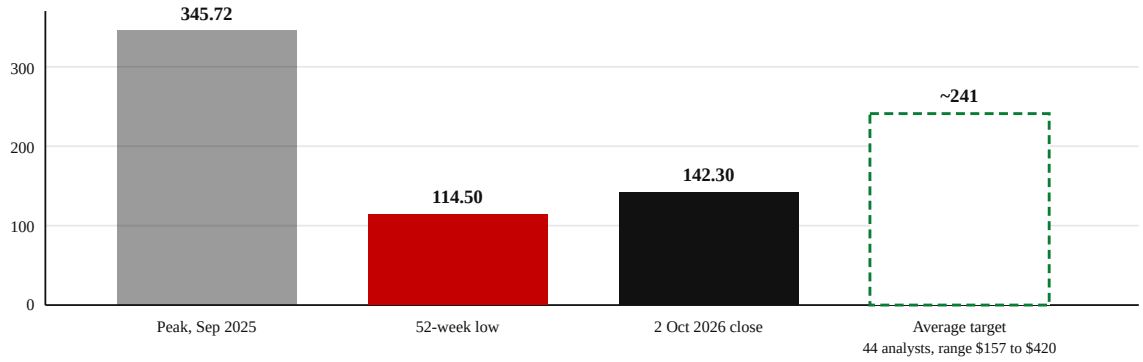
The long-term economics depend on three variables. Utilisation must stay high, which is likely while demand outstrips supply but less certain later in the decade. Prices must hold for contracts signed today, even as each new generation of chips makes older capacity cheaper to replicate; the co-chief executive's argument that "in a world where demand exceeds supply, prices go up rather than down" is true today but cyclical by nature. And depreciation lives must be realistic: if GPUs need replacing sooner than the five or six years typically assumed, reported profits overstate the true economic return. None of these is a reason to expect failure, but each is a reason why revenue growth of 100 per cent does not translate into profit growth of the same order.

7.0 Valuation

Half the price of a year ago

The share price has gone through a complete cycle in a year. It peaked at $345.72 in September 2025, after the OpenAI contract was disclosed, fell by around 30 per cent in the final quarter of 2025, its worst quarter since 2001, and touched a low of $114.50 before recovering to $142.30. At that price Oracle is valued at about $431 billion, or around 17.6 times guided adjusted earnings of $8.10 per share for the current year. That is cheaper than most large software companies and close to the market multiple, which reflects how much of the risk the equity market has already priced. The dividend of $0.50 per quarter yields about 1.4 per cent, though it is now effectively funded with borrowed money while free cash flow is negative.

Exhibit 4. Oracle share price: peak, low, current and average analyst target ($)



Source: Andra Markets; market data and consensus as reported after the September results. Analyst targets are shown for reference and are not an Andra Markets view. Red marks the low, green the consensus target.

The width of the analyst range, from about $157 to $420, is a fair summary of the uncertainty. The bullish case treats the backlog as largely bankable and values Oracle on the earnings it will generate once the capacity is running, which on management's figures implies a much larger and more profitable company by 2028 or 2029. The bearish case focuses on the balance sheet and the counterparty: a business with negative cash flow, rising leverage and half its backlog tied to one customer should arguably trade at a discount, not a premium, and the equity is diluted along the way by the share sales needed to protect the rating. Between the two, the current multiple implies the market is giving partial credit to the backlog while discounting heavily for the risk that some of it will not be delivered, collected or earned at the expected margin.

8.0 Risk Considerations

Where the case could break

The dominant risk is counterparty concentration. If OpenAI's growth slowed, its fundraising stalled or it chose to shift capacity to other providers or its own chips, Oracle would be left with large, specialised facilities, the debt used to build them and a backlog that would need to be renegotiated or replaced. A related risk is execution: Oracle must deliver

gigawatts of capacity across multiple sites on time, against constraints on power, equipment and labour, and delays postpone revenue while interest costs continue to accrue.

The second risk is financial. A downgrade to high yield would raise funding costs and could trigger forced selling of its bonds, while the equity issuance needed to avoid that outcome dilutes existing shareholders. Higher long-term interest rates, now at their highest in more than two decades, raise the cost of every new financing. The third is the economics of the product itself: GPU rental is a business with fast-depreciating assets, falling prices per unit of compute as technology advances, and competition from much larger and better-capitalised clouds. Finally, there is ownership concentration: Larry Ellison remains the largest shareholder and the dominant voice in strategy, and his personal financial commitments elsewhere, including the guarantee behind his family's acquisition of Warner Bros. Discovery, mean that Oracle's share price matters to more than Oracle's own balance sheet.

9.0 Outlook and Monitoring Points

What to watch

The next results, for the November quarter, are due in December, with guidance for revenue growth of 30 to 34 per cent and cloud growth of 64 to 70 per cent. More important than the headline will be the trajectory of free cash flow and net cash capital expenditure against the $70 billion ceiling, the conversion of backlog into revenue, and any change in the share of the backlog tied to OpenAI. In credit, the key indicators are the level of credit default swaps, any further action by Moody's, and the pace of equity issuance under the at-the-market programme. Beyond Oracle itself, OpenAI's fundraising and a possible public listing, reportedly targeted for late 2026, would be the single most important external signal, since it would determine how secure the largest part of the backlog really is. Oracle has positioned itself at the centre of the AI build-out; the coming year will show whether it has done so as a landlord with a strong tenant or as a lender to a customer it cannot afford to lose.

Methodology and Source Notes

Method. This note is a fundamental review of Oracle based on company results to the August 2026 quarter, the 2026 financing plan, rating agency actions, market data as of the 2 October 2026 close and press reporting. Debt totals vary by source depending on the treatment of leases and other obligations, and are given as a range. Earlier capital expenditure and free cash flow figures are from company reports; the fiscal 2027 free cash flow estimate is S&P's projection as reported. The share of backlog attributed to OpenAI is a press estimate, not a company disclosure. This note is analysis, not investment advice.

Principal sources. Oracle Q1 FY27 earnings release and call coverage (September 2026); Oracle 2026 financing plan (February 2026); FinanceFeeds, on backlog composition, capex and cash flow; Fortune and Yahoo Finance, on the S&P downgrade and debt (July to September 2026); Yahoo Finance, on credit default swaps; IntuitionLabs, on the OpenAI contract and project financing; Tiger Brokers, on the 2025 share price decline; CompaniesMarketCap, for market data.

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