Oracle (ORCL) Earnings Report: Q3 2016 Conference Call Transcript

The following Oracle conference call took place on March 15, 2016, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Ken Bond; Oracle; SVP of IR
- Safra Catz; Oracle; CEO
- Larry Ellison; Oracle; Chairman & CTO
- Mark Hurd; Oracle; CEO

Other Participants

- Heather Bellini; Goldman Sachs; Analyst
- Michael Turits; Raymond James & Associates, Inc; Analyst
- Kash Rangan; BofA Merrill Lynch; Analyst
- John DiFucci; Jefferies & Co.; Analyst
- Philip Winslow; Credit Suisse; Analyst
- Raimo Lenschow; Barclays Capital; Analyst
- Kirk Materne; Evercore ISI; Analyst
- Brent Thill; UBS; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Oracle's third-quarter 2016 earnings call. As a reminder, the call is being recorded for replay purposes.

I would now like to turn the call over to Ken Bond, Senior Vice President of Investor Relations.

Ken Bond (SVP of IR):

Thank you. Good afternoon, everyone, and welcome to Oracle's third-quarter FY16 earnings conference call. A copy of the press release and financial tables, which includes a GAAP to non-GAAP reconciliation, and other supplemental financial information, can be viewed and downloaded from our Investor Relations website.

On the call today are Chairman and Chief Technology Officer Larry Ellison, and CEOs Safra Catz and Mark Hurd.

As a reminder, today's discussion will include forward-looking statements, including predictions, expectations, estimates or other information that might be considered forward-looking. Throughout today's discussion we will present some important factors relating to our Business which may potentially affect those forward-looking statements. These forward-looking statements are also subject to risks and uncertainties that may cause actual results to differ materially from statements made today.

As a result, we caution you against placing undue reliance on these forward-looking statements, and we encourage you to review our most recent reports, including our 10-K and 10-Q, and any applicable amendments, for a complete discussion of these factors and other risks that may affect our future results or the market price of our stock. And, finally, we are not obligating ourselves to revise our results or publicly release any revisions to these forward-looking statements in light of new information or future events.

Before taking calls, we will begin with a few prepared remarks. With that, I'd like to turn the call over to Safra.

Safra Catz (CEO):

Thanks, Ken. I'm going to focus on our non-GAAP results for Q3, then I will review guidance for Q4, and I'll provide some color, even, on Q1, and then I will turn the call over to Larry and Mark for their comments.

As you can imagine, we are pleased with this quarter. Total revenue was inside my guidance, driven by the fantastic performance of our SaaS/PaaS business, which was well beyond the high end of my guidance. Earnings per share was $0.01 above the high end of my guidance, even with the currency headwind being $0.01 worse than expected.

Q3 currency headwinds were largely as expected, around 4% in most categories, including total revenue. But, as I just said, the currency effect to earnings per share was $0.01 worse than expected at $0.04, instead of the $0.03 I guided to. We will continue to use constant-dollar growth rates on our quarterly calls, so we can have some measure of consistency across the quarters, as well as to reflect how we measure the Business.

I'm going to start with our SaaS and PaaS business, where we continue to see excellent momentum. Bookings grew 77% this quarter, and that's on top of the 129% we reported last year.

SaaS and PaaS revenue was $585 million, up 60% from last year. Sequentially, SaaS and PaaS revenue grew 21%, with PaaS up more than 150% sequentially, and our data-as-a-service business continuing to take off.

Our sustained SaaS/PaaS bookings growth is now translating into significant acceleration of our SaaS/PaaS revenue growth. And in Q4, we could see double-digit sequential revenue growth again.

You can also see the continuing revenue acceleration of our cloud business in the SaaS and PaaS billings and deferred revenue. The gross deferred revenue balance is now over $1.1 billion, and was up 96% in US dollars.

SaaS and PaaS billings grew 32% in US dollars this quarter. We've put the billings numbers up on our website for you to see the details.

The balance of our cloud revenue comes from cloud infrastructure as a service, which was up 2% to $152 million. While SaaS and PaaS revenue will see much higher growth rates, we expect infrastructure-as-a-service revenue growth will be more moderate for now, as it is currently dominated by our hosting business. Total cloud revenues, which is SaaS and PaaS revenue, as well as infrastructure-as-a-service revenue, were $737 million, up 43% from last year.

As our SaaS and PaaS business continues to scale and grow dramatically, the gross margin continues to expand. The Q3 gross margin for SaaS and PaaS was 51%, up from 43% last quarter. And we will see further improvement in Q4; and from there, we will be targeting 80% over time.

On-premise software revenues, including new software license, and software license updates and product support, was unchanged at $6.3 billion. Software license update and product support revenue was $4.7 billion, up 5% from last year. Attach and renewal rates are running at their usual high level.

New software license revenue was $1.7 billion, down from last year, as customers continue to direct new spend to Oracle cloud services. Over this fiscal year, I expect constant-currency on-premise software revenue will be positive, comprised of continued growth in software support that offsets decline in new software license.

Finally, total hardware revenue was down 8%, which included hardware products revenue of $604 million and hardware support revenue of $531 million. Total revenue for the quarter was up 1% at $9 billion.

Non-GAAP operating income was $3.8 billion and the operating margin was 42%. I continue to believe, assuming no more wild currency swings, that this fiscal year -- that is FY16, the one we're in -- will turn out to have been the trough year for operating income.

The non-GAAP tax rate for the quarter was 22.6% and the GAAP tax rate was 21.6%, as we saw some catch-up benefits, largely related to the US R&D tax credit. Non-GAAP EPS was $0.64 in USD, and GAAP EPS was $0.50 in USD. As I mentioned before, had the dollar not strengthened, the GAAP and non-GAAP EPS would have been $0.04 higher. Operating cash flow over the last four quarters was $14.1 billion.

Capital expenditures for the quarter were $368 million, with just a bit over 15% being cloud related. And I expect that cloud-related CapEx for the full year will be dramatically lower than last year, as we utilize the investments that had been made. Now, the non-cloud CapEx was dominated by real estate, led by the Austin, Texas, campus we are building to support our cloud sales organization, as well as moving and consolidating teams and other lines of business currently in other locations.

Free cash flow over the last four quarters was $12.5 billion. We now have nearly $51 billion in cash and marketable securities. Net of debt, our cash position is nearly $11 billion. The short-term deferred revenue balance is $6.9 billion, up 11% in constant currency.

This quarter, we repurchased nearly 61 million shares for a total of $2.2 billion. And over the last four years, we have reduced the shares outstanding by more than 16%.

The Board of Directors increased the authorization for share repurchases by $10 billion. The Board also declared a quarterly dividend of $0.15 per share. Over the last 12 months, share repurchases have totaled $10.5 billion, and we have paid out $2.6 billion in dividends, for a total that is nearly 120% of our free cash flow.

Now, before I turn to guidance, as many of you know, the move to cloud is a generational shift in technology that is the biggest and most important opportunity in our Company's history. We embarked on this transformation over 10 years ago when we began rewriting all of our software to enable our customers to leverage our solutions as cloud solutions. We now have the most complete set of cloud services in the industry, with more than 11,000 of our customers around the world already using these cloud services to help run their business.

We, ourselves, have been going through an operational transformation, which I will actually be sharing more of in our in-house town hall that we will be having for our own employees later today. But we are really aiming to be the easiest company in the business to do business with. And you're going to see some very good, positive changes that we think our customers will love.

Now, as I said, we're not quite at the end of the beginning, as we are actively working to transform our entire Business, but I think you're going to see the results. And we are far enough along that our financial statements will begin to show our success with accelerating revenue growth, operating margin expansion over time, leading to very solid EPS growth.

We feel very good about the progress of our cloud transition and, clearly, customers are rapidly adopting Oracle . My guidance will reflect this, making it easier to see that we are taking share in the industry.

Now to the guidance: I'm going to give you the guidance for Q4, and then some preliminary comments for Q1. All of my guidance today is on a non-GAAP basis and in constant currency.

We expect to see continued volatility in exchange rates, but I'm going to give you constant-currency guidance. But if current exchange rates remain the same as they are right now, we expect to see currency headwind of about 2% on revenue and about $0.02 on EPS.

So, on to the guidance -- for Q4, SaaS and PaaS revenue is expected to grow 57% to 61%. Cloud IaaS revenue is expected to grow negative 1% to positive 3%. Total cloud and on-premise software is expected to grow between 1% and 2%.

Total revenue growth is expected to range from negative 2% to positive 1%. Non-GAAP EPS in constant currency is expected to be somewhere between $0.82 and $0.85, up from $0.78 last Q4, depending on the mix of the revenues and tax rates.

Looking further out, for Q1, SaaS and PaaS revenue growth should be higher than the 59% mid-point of my Q4 guidance. SaaS and PaaS gross margins are expected to be higher than Q4 growth margins. Q1 non-GAAP EPS growth should be very solid. I will revisit Q1 with you as part of the Q4 earnings call in June.

With that, I turn it over to Larry for his comments.

Larry Ellison (Chairman & CTO):

Thank you, Safra, and hi, everybody.

Oracle is now selling more new SaaS and PaaS annually recurring cloud revenue than any other company in the world, including Salesforce.com . We're growing much faster than Salesforce.com -- more than twice as fast -- because we sell into a lot more SaaS and PaaS markets than they do. We compete directly with Salesforce.com in every segment of the SaaS customer experience market, including sales, service and marketing.

But Oracle also competes in huge SaaS markets where Salesforce.com does not compete at all, such as ERP and HCM. It took many years for Oracle to develop the most complete ERP suite in the cloud, including fusion financials, procurement, supply chain, logistics, manufacturing, and much, much more. That long effort is now paying off.

Oracle Fusion ERP is the overall market leader in the enterprise cloud ERP market. We have more than 10 times the number of customers than Workday -- I should say we have more than 10 times the number of ERP customers than Workday. And ERP has always been a much larger market than CRM. Salesforce.com is missing all of that ERP market opportunity.

The breadth of our ERP, HCM and CRM SaaS product portfolio, combined with the technical superiority of our underlying PaaS cloud services, should enable us to sustain our rapid cloud growth for a long period of time. And that, in turn, should make it easy for Oracle to pass Salesforce.com , and become the largest SaaS and PaaS cloud company in the world.

With that, I'll pass it on to Mark.

Mark Hurd (CEO):

Thanks, Larry.

First, I apologize for my voice today. I'm going to do my best to get some information out to you though, even with my voice as it is.

SaaS/PaaS deferred revenue of 96% that Safra mentioned is growing 3 times the rate of Salesforce and twice the rate of Workday. We booked $310 million in ARR in the quarter -- 77% [CD] growth in Q3, up sequentially from 75%. Our PaaS bookings were $106 million in USD.

Our pipeline is huge in SaaS/PaaS. We're on track for $1.5 billion of ARR bookings [for the year] -- customer accounts, SaaS.

We had 942 new SaaS customers in the quarter; over half were Fusion wins. We had 783 customer expansions in the quarter, an all-time high. Our installed base of SaaS customers is now 11,000.

CX -- we had 465 customer wins in Q3, more than 500 expansions. HCM -- 213 new customers in Q3. Over the past two years, we have nearly doubled the number of customers of Workday, and we are seeing a lot of Workday defections.

In ERP, 334 customers in Q3. 175 did not have Oracle on-prem apps before they bought. We are clearly taking share. Our installed base is now well over 1,800 customers.

Together, Fusion HCM and ERP had more go-lives in the last six quarters than Workday's lifetime total. And I would like to use the word in the competition for ERP customers between us and Workday; it is a slaughter.

Go-lives in the quarter -- we are closing in on 1,500 customers that are now live on Fusion. Our Q3 was our best go-live quarter ever.

In PaaS, we had 1,143 new PaaS customers. Our installed base now has nearly 5,000 customers. And while that's a big number from starting from zero, it's still an enormous opportunity, with 310,000 on-prem database customers. This business is going to be extremely large for us.

Our renewals continued to improve. Our renewal rates were higher than previous year.

Now, I'm going to give you a few customer wins, just so you have some context of names and brands in the quarter that committed to our solutions. In Fusion HCM cloud, I'm going to read off some names -- Acosta, Adventist Health, Blue Shield of California, Co-operative Group, Generali, RealNetworks , Sisters of Charity Health System, SuperValu , TechNet, Vanderbilt University, Yum Brands . ERP -- Adventist Health, American Institute of Physics, bluebird bio, Boston Market, Culinary Institute of America, Cal State University, Dresser-Rand, Harvard Medical Facility, Japan Airlines, Orange in France, SuperValu , Scholastic , SunEdison, Vanderbilt University, the University of Kansas, Velcro, Yum Brands .

In sales cloud -- Adventist Health, [Signa], GE Intelligent Systems, Kaiser Permanente, Lego, Omron, RealNetworks , Suncorp, Telecom Italia Brazil, Travelport, Trenitalia. In marketing cloud -- AIG, Bank of Nova Scotia , Canon , Citigroup , Clinton Foundation, Coach , DISH, Forever 21, Kelly Services , Landmark Group, Lego Company, Morningstar , Nestle, Princess Cruises, Quicken Loans, Snapfish, Vodafone.

Now, I only name those for you, and you heard many names mentioned multiple times, and I did that on purpose so you understand some of the cross-pillar opportunities that exist as we go forward -- that we see the connection rate between ERP and HCM, sales cloud and marketing cloud, which we think are amazing opportunities going forward. As Larry described, we are the only one in the market with the breadth of portfolio that we have today.

With that, we'll take your questions.

Ken Bond (SVP of IR):

Operator, please begin the Q&A portion, please.

QUESTIONS & ANSWERS

Operator:

(Operator instructions)

Heather Bellini, Goldman Sachs .

Heather Bellini (Analyst - Goldman Sachs):

Great. Thank you, guys, for taking my question. Mark, I was wondering if you could share with us your new cloud ARR goal of $1.5 billion that you have for this current fiscal year. I believe you are close to $800 million now, which would mean, obviously, you need to sell about $700 million or sign about $700 million in Q4. Notwithstanding, you just give us a lot of good data points on customer wins in the quarter but can you walk us through what gives you confidence in attaining that number?

And then my follow-up would just be to that, any early thoughts on what ARR could look like next year? Could it be above the $1.5 billion for this year? Thank you.

Mark Hurd (CEO):

Sure. First, I feel, Heather, no different than I did maybe a year and a half or so ago when we talked about the leading indicators for our growth in SaaS, PaaS. It starts with our pipeline. The fact that we have our pipeline going into Q4 is the biggest we have ever had. As I said in my prepared comments, it is -- I think I used the term huge. It's a big pipeline.

Second for us is our ability to convert that and our conversion rate. What you really have to track is the relative growth rates in each quarter, and obviously our expectation that we'll have a strong Q4. As I said before, and I'm going to reiterate again, we're going to do nothing but just get better and better at this business. We have, obviously, a large quantity of people in the sales force. We staffed our sales force two or three years ago. We have trained them. We've now trained them multiple times.

We now have references, not only deals that we have closed but, as I mentioned, our go-lives are now scaled up. And so the ability for us now, the breadth of references, and the fact, as I mentioned, that we sell across multiple pillars all give us, we think, tremendous opportunity. So, we're very encouraged.

To next year, I'm not going to give you next-year guidance other than to your point of should it be higher. I think the answer is absolutely yes.

Heather Bellini (Analyst - Goldman Sachs):

Thank you very much.

Operator:

Michael Turits, Raymond James.

Michael Turits (Analyst - Raymond James & Associates, Inc):

Thanks for the questions. This is a follow-up, really, to what Heather said on the bookings side, but maybe on the revenue side. Given that SaaS and PaaS bookings have been so strong in 2016, any early thoughts on what SaaS, PaaS revenue growth could be like in 2017? Could it be higher than it was in

2016?

Safra Catz (CEO):

I think what you're obviously seeing, I've already given you a little bit of guidance on Q4 SaaS and PaaS revenue and telling you that Q1 will be even higher. I think that we are in an extremely virtuous cycle with the business now because success breeds even more success. We have so many customers live. We have so much interest from our customer base and from prospects, et cetera, that as we deliver on our orders that we already have, and get even more orders, we're very upbeat on the growth rate.

Additionally, I think, as we work through some of our metered purchases over the years, those are all going to be turning into revenue as utilization continues to go up. So, we have both the subscription business which just continues to grow, but we're also working our way through metered bookings which turn into revenue when they are utilized. So, we're very upbeat about our position in the cycle.

Mark Hurd (CEO):

Metered revenue was a highlight in the quarter for us. The incline in usage was even higher than what we'd modeled. It was very encouraging.

Safra Catz (CEO):

Did you ask a two-part question or was that it? Did I cover it?

Michael Turits (Analyst - Raymond James & Associates, Inc):

That was half of the two parts. The other half of it would be on the margin side, on cloud. I think you said that you're still working towards 80% gross margin, I think you talked about. Is that what's really contributing to this being the trough year for EBIT on a dollar basis? And what kind of dynamics do you see going forward?

Safra Catz (CEO):

It's really everything coming together. Revenue is going up. Spending, as you can tell, our in-the-cloud capital expenditure is really tailed off and we are using all of that infrastructure that we put in. So, when you're not spending more but your revenues are coming in at these kind of levels, and the whole business also, we also have a situation where the revenue for the whole Company is starting to go up. Then operating income is going to improve.

But our SaaS and PaaS margins are on their way up. They have been really flying high, as we said they would, over the last two quarters, and we expect that to continue as revenue continues to go up and expenses do not go up as much. That's what's going to happen. And it's happening.

Michael Turits (Analyst - Raymond James & Associates, Inc):

Great, Safra. Thanks very much.

Operator:

Kash Rangan, Bank of America Merrill Lynch.

Kash Rangan (Analyst - BofA Merrill Lynch):

You said back in September that op income would trough this year, and six months later you seem to be delivering, so congratulations on making the commitment real. Larry, a question for you on the debase side. When you look at today the market landscape, there's AWS that wants to go after your business, Microsoft just announced SQL server running on Linux, and everybody seems to be offering creator problems, swapping out your Oracle license for their license. Why are they doing this, Larry? Is it because they feel that the industry views Oracle as this big giant that is less flexible with pricing? Is that what the rest of the industry feels like they need to take you guys on?

And I just wanted to see the comparative flare, to see how you look at this. How should we be thinking of Oracle's presence in the database market a few years from now given these threats? And if there's a follow-up, Safra, is there a database-as-a-service model transition happening? How worried or not that licenses and databases could continue to move to the cloud, like the Adobe [artist] model?

Larry Ellison (Chairman & CTO):

Our PaaS business grew at 150% this past quarter. So, our customers -- it's interesting that Microsoft is now offering SQL server on Linux. But people want Oracle in the cloud. People have a huge investment in Oracle products. People are coming after us because we are by far the market leader in database. If you're in the database business, the only one you can come after is us.

So, of course, Amazon , if they're going to be in the database business, is coming after us. And, of course, if Microsoft wants to be bigger in the database business; they have to come after us. We're the biggest player.

We see our customers with literally millions of applications and millions of users on those applications built on top of the Oracle database wanting to move those applications into the cloud. And we do that very well. Our PaaS service is even easier to use and better than Oracle is on premise. So we see the next generation of our database business predominantly in the cloud, though we'll still sell an awful lot of that software on premise.

The beauty of what we offer is the same exact database experience on premise and in the cloud, and the ability for our customers to move a workload from on premise and into the cloud and move data from on premise into the cloud with the push of a button. That's something that Microsoft can't offer.

We have a huge installed base that wants to migrate to the cloud but still wants to have an on-premise infrastructure. And we provide graceful compatibility and coexistence with what's in your data center and what's in the cloud as you begin that decade-long migration to the cloud.

Sorry for the long answer. We've made a bunch of enhancements to our database, including multi-tenancy in memory, a lot of advanced security, to make it easier and safer to go to the cloud. We think that gives us a huge competitive advantage and that our customers aren't going to leave us. Quite the contrary, our customers are going to move a lot of what they have to the Oracle cloud.

Safra Catz (CEO):

And the one to Safra, please, on the model transition and database? Thank you.

Mark Hurd (CEO):

The way you should think about it is, we would be thrilled if every one of our Oracle database customers came over to our cloud instead of running it on premise. That would be fabulous. Now, do we expect many of them? Many of them clearly are doing it but we have such an enormous installed base that some of them will put new applications in the cloud or different test and development in the cloud, or a combination or a hybrid. But we would be delighted.

You should think about it as, if our customers move to the cloud, that means that they not only, of course, pay us for the software but we also offer them a service where we own the hardware and we manage and we do all the labor. So, even though they end up paying us more than they would have historically just for a support license, a support fee, but they themselves, our customers, end up spending a lot less in total because of the massive economies of scale we have in running the Oracle database for them that they would not have on their own.

So, it would be delightful if they'd all move but some are moving and many are moving, which is wonderful. But I think this will take quite a long time. And some will stay on premise indefinitely and that's entirely their choice.

Larry Ellison (Chairman & CTO):

Thank you very much. Let me add one more thing which is, a lot of people over the years have come after us on database. The problem is, if you want to move to SAP HANA you have to rewrite your application. If you want to move to Amazon database, and they have a couple, you have to rewrite your application. That is just a huge barrier for our customers.

Our customers want to run their existing applications faster and more securely in the cloud. They want to make an easy transition. We're very comfortable that we can defend our leading position in the database market.

Operator:

John DiFucci with Jefferies.

John DiFucci (Analyst - Jefferies & Co.):

I know there's a lot of moving parts at this point in your model, and I'd like to ask a two-part question on each side of it. And I think these both go to Mark. First of all, license was a little shy of what the Street was looking for. I realize that, Safra, you don't guide license but the cloud was stronger.

So, is it fair to assume that cannibalization is happening at a more aggressive rate than when Mark last gave us some numbers on it? I think, Mark, at Oracle Open World, you said that at that point 0.8% of the maintenance for SaaS, just SaaS, had transitioned to cloud.

And then on the cloud side, I believe you're seeing some of your first renewals of deals that were likely signed early on amidst significant promotions at attractive rates. So, I think the consensus assumption, or at least my assumption, would be that those renewal rates would be pretty low. But I think you just said that you're seeing good renewal rates, even better than you had seen. So, I was wondering if you comment on that. So, one, cannibalization, and, second, cloud renewals.

Mark Hurd (CEO):

Okay. First on the renewal rate, what I said in my comments were renewal rates were up year over year. They were up, I think I made the statement last quarter that they were up almost 500 basis points. So, that would just give you some idea of our year-to-year improvement in renewals.

John, I would tell you that as good as our renewal rates are, they will get materially better. The first sets of Fusion HCM, Fusion ERP, those numbers, while you're right, they are off promotions, they are not yet to a renewal stage. So, our stickiest -- think of it as our stickiest applications, which will drive very high renewal rates, are not yet baked in to the now very high and improving renewal numbers that we've got. So, that's your second question.

To your first question, to your point, we're making the trade every day. If we can trade license for cloud that's what we're doing. And, so, to your point, yes, you saw more momentum in the cloud business then probably you had modeled, and we look at that as great. So that's what we're continuing to focus on, is continuing to drive movement to the cloud. And if we do -- we modeled this out again at Open World -- that means more money for us, more revenue for us, long run.

So, when we can get a booking, a choice of a booking -- maybe it's good to go through this one more time -- if we get $1 of booking in cloud and $1 of booking in license, and next year we get the support on the license, the next year that $1 we get as a booking we get another $1 of revenue. So, the fact that you see those dollars shift, that is an absolute good thing for us, John.

John DiFucci (Analyst - Jefferies & Co.):

Good. Mark, are you seeing more people that are on existing maintenance move to the cloud, existing customer versus new workloads?

Mark Hurd (CEO):

Let's be clear. Safra said in her prepared comments that our support renewal rates were as high as ever. This really is the points that we've talked about earlier but let's say it again. When people are thinking about dev-test, as an example, there is a movement of dev-test to the cloud, particularly dev-test of new applications. Am I going to now get a new license for dev-test for that new application or am I going to do it in the cloud? And the opportunity to now do it in the cloud is where you're seeing a lot of those new jobs go, and that's certainly to our benefit.

John DiFucci (Analyst - Jefferies & Co.):

Okay. Great. Thank you.

Operator:

Philip Winslow, Credit Suisse.

Philip Winslow (Analyst - Credit Suisse):

Thanks, guys. Congrats on a really strong quarter. A lot of focus has obviously been on the database side of the house so far. I wanted to focus in on the SaaS side of the cloud. Mark, you rattled off some pretty impressive customer win counts and also just names, particularly on the HCM and the ERP side. And if you just look at the ERP, EPM customer win rate, it was a huge quarter it looked like year over year.

If you listen to some of your competitors' calls, they talk about displacements of Fusion and some of your cloud applications, which seems obviously to go against what our checks are saying and what these numbers say. So, hopefully you can clear the air here. What are you seeing competitively, particularly ERP, ACM and the cloud?

Mark Hurd (CEO):

Listen, I don't know on ERP. I could keep giving you these counts. I've heard the Workday guys said they got 200. This reminds me of when I was originally looking for HANAs many years ago and I couldn't find the HANAs. I don't know where there are 200 ERPs from Workday. But I'll even take their number. We are 10X bigger than they are.

In HCM, Phil, I don't know what to tell you. I'll give you a few brands. There's Southwestern Energy . They had Workday and stopped their Workday implementation and use Oracle . Fannie Mae used Workday, no longer does, and now uses Oracle . Arcadis, they used Workday in the US. They went to a global decision for HR, decided on Oracle , and replaced their Workday implementation in the US. MoneyGram started off implementing Workday, it didn't go well, reevaluated, and now have Oracle HCM cloud as their core HR for their enterprise.

Same thing's true at Molina Healthcare . One of the first implementations at Workday, I think, that was in Asia-Pacific was at Symic in Australia. They now stopped their Workday implementation, removed it, and installed Oracle HCM.

Genesys, who is a technology provider here in the Valley, they implemented Workday, stopped, threw it out, and are implementing Oracle HCM. BrightSource switched to Oracle upon a renewal opportunity for HCM with Workday. California Physicians. Safra is giving me the stop.

But, listen, I get all this stuff, I hear all this rhetoric and I'm just trying to give you -- these are real companies that said we're going to stop and we're going to go implement Oracle HCM. That's what I see going in the market. And that's why I continue to read off brand names so we can get away from words and rhetoric and get down to what's really happening.

So, Phil, the numbers in ERP are what they are, the names in HCM. And let's just go back to customer accounts, real customers. You can do the extrapolation, I know you do, of how many customers that they are getting new in the marketplace versus how many new we're getting in the marketplace. Again, I like to just let the names and the numbers speak for themselves. That's my answer, Phil.

Philip Winslow (Analyst - Credit Suisse):

Great. Thanks, guys.

Operator:

Raimo Lenschow from Barclays.

Raimo Lenschow (Analyst - Barclays Capital):

Thanks for taking my question. I wanted to change gears a little bit. The global market, everyone's a little bit nervous. And I'm just looking down at your geographic performance. I see Asia coming back nicely this quarter and then stable in Europe and in the US. Can you just comment a little bit on what you're seeing out there? And I'm sorry, Mark, to stress your voice a little bit longer, but it's probably you. Thank you.

Mark Hurd (CEO):

I think what you say is right. I think that Asia-Pacific -- I don't think we want to call that a macro or make any macro discussions other than I think our performance in Asia-Pacific is much improved. We took one of our really experienced leaders in the Company, and I think he's done a marvelous job in rebuilding our Asia-Pacific team and I think it shows in the numbers. So, I think our Asia-Pacific performance isn't necessarily a macro statement. It's a statement about the improvement in our execution in Asia.

I do think that your comments about the stability in US, we've had very strong performance in many of our SaaS businesses in the United States. Our ERP performance here, our HCM performance here have really been very strong. The same thing would hold true in Europe, as well.

I will say that if there's anything I would comment on in the macro that we do see, is we do see the issues in Brazil probably more than anything else. And we don't generally make macro comments but I would say we have, my opinion, you all don't have to be aware of, but we have a marvelous team in Latin America. If you looked over the past several years, on my chart of market shares, they have gained market share in virtually every single category that we compete in, virtually every year for the past five years. Their performance in cloud, SaaS, PaaS has been superb. But we do see what's gone on in Brazil. Save that, I think the rest of your statements are correct.

Raimo Lenschow (Analyst - Barclays Capital):

Perfect, thank you.

Operator:

Kirk Materne, Evercore ISI.

Kirk Materne (Analyst - Evercore ISI):

Thanks very much. Mark, just a follow-on a little bit on the geographic question, can you just talk about cloud momentum outside the US, what the competitive environment is for some of your SaaS PaaS products? Seeing that you have somewhat of a distribution advantage against some of your competitors there, I was just curious about the maturity of the markets to accept SaaS and PaaS now, and who you're going up against in deals. Thanks.

Mark Hurd (CEO):

What was the last thing you said -- where we're going up against --?

Kirk Materne (Analyst - Evercore ISI):

Just competition internationally for some of the SaaS, PaaS?

Mark Hurd (CEO):

Yes, I think the maturation of the cloud market or, if you will, the acceptance of cloud market, is global. And I think we've seen that over the past couple years. It used to be three or four years ago when I was talking about cloud in Europe I would get incredible amounts of resistance to issues around security, data sovereignty, et cetera. Many of those are beginning to go away.

Now, certainly some of that has been the fact that we now have built out over the past couple of years data center infrastructure in, now, so many locations. We have an incredible -- by the way, I can tell you, Kirk, you realize quickly why you don't want to get into this cloud business because the barriers to entry are extreme when you want to go global. Many of these customers want to know their data is in their country, and that's much of the CapEx we invested a couple years ago that we put in, and that's a big advantage for us. Most of our competitors don't have that infrastructure deployed around the world that we now do.

To your point, we also have a very scaled distribution capability in all of those countries. And I think you have this growing acceptance of cloud at both the SaaS and PaaS layer. I don't have a metric on it, I can just tell you that the acceptance level of -- I'm not going to do my dev-test in the cloud -- and I'm talking about this happening in Korea, in Australia, in Brazil -- is now a regular conversation on all of our customer base. So I would say acceptance is growing extremely high, but added to the fact that our distribution and our breadth of delivery capability on a local basis is, at least in the SaaS market, is unmatched today.

Operator:

Thanks a lot, Mark. Brent Thill, UBS.

Brent Thill (Analyst - UBS):

For Larry and Mark, just on the platform as a service, it's early days but you're showing really good momentum here. Could you just maybe give us a sense of some of the next milestones you'd like to hit here over the short term with PaaS? And, Mark, you made a comment about 5,000 of the 310,000 database customers running PaaS, I would assume that your belief is that all of those database customers are legitimate candidates to be running PaaS over time. Can you maybe walk through the dynamics there?

Mark Hurd (CEO):

Let me go first and then I will let Larry follow up. First, as I said at Open World and I'll reiterate again, if you look at the IT market, the IT market is 30% dev-test. And I actually believe all of that dev-test over the course of the next several years will move to the cloud. I think people will be looking for the most advanced tools, the most modern tools, the most modern capabilities, and I think that's us.

Our ability to deliver Java, deliver 12C, to deliver all the capabilities that we can today makes the PaaS market an exciting market that, frankly, if you look at numbers, is more exciting and bigger in scale and opportunity to even the SaaS market. And you know how well we're doing in the SaaS market.

I will not give you milestones, Brent, today, as I committed to you and I will stick to it. I want to wait until we get a full year under our belt here. At Open World, next financial is analyst meeting, I will go into the same modeling that we did for SaaS.

But make no mistake about it, we are extremely excited about the scale of the opportunity. The pipeline is huge. And I think you're going to see this dev-test thing -- I almost think it's entirely, as a segment, going to move to the cloud, and there's nobody with a better stack of capabilities today. I will let Larry follow up.

Larry Ellison (Chairman & CTO):

Okay, I'm sorry, I'll dropped off for one second, could you repeat the question?

Mark Hurd (CEO):

The question was about the PaaS market and the ability for it to be a very attractive market long run for Oracle .

Larry Ellison (Chairman & CTO):

Again, we expect that, just like the majority of our applications business is well on its way to moving towards the cloud, we expect the majority of databases to move to the cloud. And along with that, that should drag a lot of infrastructure business, where infrastructure-as-a-service, compute-as-a-service will run the application, really can run any application on top of our database which will be delivered via platform-as-a-service.

We are just entering the pure infrastructure-as-a-service market, which opens up another huge PaaS play for us. You really can think there are two markets. There's the SaaS, PaaS market, which we're in now where people are running our applications on top of our database. And then there is, if you will, the infrastructure-as-a-service PaaS market where they are running virtually any custom application they wrote on top of our database platform-as-a-service.

Those are both enormous markets. And we're really strongly in the first, competing with people like Workday and salesforce.com. And much of our database customers are moving over. You'll see a bunch more database customers moving over when they compare our platform-as-a-service with our compute, which allows them to run virtually any application in our cloud much more efficiently, much more securely than anyplace else.

And there our big competitor won't be the saleforces and the Workdays. The big competitor will be Amazon.com. But we're playing in both of those markets. And PaaS will grow driven by SaaS. And PaaS will also grow driven by infrastructure-as-a-service. Huge opportunities.

Ken Bond (SVP of IR):

Okay. Thank you, Larry. A telephonic replay of this conference call will be available for 24 hours. Dial-in information can be found in the press release issued earlier today. Please call the Investor Relations department for any follow-up questions from this call. We look forward to speaking with you in the future. Thank you again for joining us. And with that I'll turn the call back to the operator for closing.

Operator:

This concludes today's conference call. You may now disconnect.