Oracle (ORCL) Earnings Report: Q4 2016 Conference Call Transcript

The following Oracle conference call took place on June 16, 2016, 05:00 PM ET. This is a transcript of that earnings call:

Company Participants

- Ken Bond; Oracle Corporation; Investor Relations
- Safra Catz; Oracle Corporation; CEO
- Larry Ellison; Oracle Corporation; Chairman & Chief Technology Officer
- Mark Hurd; Oracle Corporation; CEO

Other Participants

- Mark Moerdler; Sanford C. Bernstein & CO; Analyst
- Heather Bellini; Goldman Sachs; Analyst
- Kash Rangan; BofA Merrill Lynch; Analyst
- John DiFucci; Jefferies & Company; Analyst
- Philip Winslow; Credit Suisse; Analyst
- Raimo Lenschow; Barclays Capital; Analyst
- Bradley Reback; Stifel Nicolaus; Analyst
- Kirk Materne; Evercore ISI; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to Oracle's quarter-four 2016 earnings conference call.

I'd now like to turn the call over to Ken Bond, Oracle's Senior Vice President. Please go ahead, sir.

Ken Bond (Investor Relations):

Thank you, Operator. Good afternoon, everyone. Welcome to Oracle's fourth-quarter and FY16 earnings conference call.

A copy of the press release and financial tables, which include the 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 these 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.

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 questions, we'll begin with a few prepared remarks.

With that, I'd like to turn the call over to Safra.

Safra Catz (CEO):

Thanks, Ken. Good afternoon, everyone.

I'm going to focus on our non-GAAP results for Q4 and FY16. I'll then review guidance for Q1 and provide some color on FY17. And then I'll turn the call over to Larry and Mark for their comments.

Clearly we are thrilled with our results, with the most obvious thing being that we dramatically over-achieved again in the cloud. For most companies, as their business grows, the growth rates go down. In our case, as the business grows, the growth rates are continuing to increase.

In our SaaS/PaaS business, we reported 20% growth in FY14, 34% in FY15, and now 52% in FY16. And not to get ahead of myself, but we expect to see even higher SaaS/PaaS growth this year.

We will continue to use constant dollar growth rates on our quarterly call so we can have some measure of consistency across the quarters, as well as to reflect how we measure the business.

This past quarter, the effects of currency movements were slightly less than expected, with a 1% to 2% headwind in most revenue categories, including 1% to total revenue, and a $0.01 headwind to earnings per share. Cloud SaaS and PaaS revenue for the quarter was $691 million, up 67% from last year, and well-above the 61% high end of my guidance, and up 17% sequentially.

Now, as regard to our cloud revenue accounting, we have reviewed it carefully and are completely confident that it is 100% accurate, and if anything, slightly conservative. 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 nearly $1.4 billion, up 64% in US dollars.

SaaS and PaaS billings grew 38% in US dollars this quarter. We've put the billings numbers up on our website for you to see the detail. And though there will be seasonality to some of these numbers, we are now growing faster than both Salesforce and Workday in every way -- revenue growth, deferred revenue growth and billings growth.

As our SaaS/PaaS business continues to scale and grow dramatically, the gross margin continues to expand. The Q4 gross margin for SaaS and PaaS was 57%, up from 40% last Q4. And we expect to see further improvement in FY17, and from there, we'll be targeting 80% over time.

Combined with cloud infrastructure as a service revenue of $169 million, which was up 8%, our total cloud revenue in the quarter was $860 million, up 50% from last year. Total on-premise software revenues were $7.6 billion, with software updates and product support revenue at $4.8 billion, up 4% from last year. Attach and renewal rates remain at their usual high levels, as our growing installed base of customers continue to power earnings and cash flow.

New software license revenues were $2.8 billion, down 10%, reflecting the accelerated migration to cloud. Total hardware, including hardware support, was down 7% with hardware systems product revenue of $725 million and hardware support revenue of $558 million. For the Company, total revenue for the quarter was $10.6 billion, up slightly in constant currency from last year.

Non-GAAP operating income was $4.8 billion, and the operating margin was 45%. The non-GAAP tax rate for the quarter was at 24.4%, and EPS was $0.81 in US dollars. The GAAP tax rate was 24.6%, and GAAP EPS was $0.66 in USD. Had currencies not moved, by the way, non-GAAP EPS numbers would have been $0.01 higher, and GAAP EPS numbers would have been $0.02 higher.

Now, covering the full fiscal year, total software and cloud revenues totaled $29 billion, growing 3% in constant currency. Cloud SaaS and PaaS were $2.2 billion, growing 52%. Cloud infrastructure as a service was $646 million, growing 11%.

On-premise software grew slightly in constant currency to $26.1 billion, as continued growth in software support offset cloud-related declines in new software license. So our SaaS and PaaS business has now grown to the point that we expect the dollar growth in SaaS/PaaS revenue will exceed the dollar declines in new software license in FY17 and beyond.

But more importantly, when you look at our software business, we have an on-premise business basically growing a bit or flattish, and the cloud business layering on top of that growing very fast, and growing as a percentage of the software business. And then you can understand why we start growing significantly this year.

For the year, total revenues grew 2% to $37.1 billion, and operating income was $15.8 billion. And assuming no more wild currency swings this fiscal year, I expect that we will see operating income growth this next year. Our non-GAAP operating margin for the full year was 43%, and non-GAAP EPS were $2.61. Had currencies not moved, non-GAAP EPS would have been $0.17 higher.

Operating cash flow over the last four quarters was $13.6 billion, with capital expenditures for the quarter at $180 million. Free cash flow over the last four quarters was $12.4 billion. We now have approximately $56 billion in cash and marketable securities.

Net of debt, our cash position is approximately $12.3 billion. The short-term deferred revenue balance is $7.7 billion, up 7% in constant currency.

As we said before, we are committed to returning value to our shareholders through technical innovation, strategic acquisitions, stock repurchases, prudent use of debt and a dividend. In terms of acquisitions, we continue to focus on finding the right companies at the right valuations, that make both strategic and financial sense.

This quarter, we repurchased 49 million shares for a total of $2 billion. Over the last 12 months, we repurchased 272 million shares for a total of $10.4 billion. We paid out dividends of $2.5 billion, for a total that is 105% of our free cash flow. And the Board of Directors again declared a quarterly dividend of $0.15 per share.

Now, before I turn to guidance, I would like to provide a brief update on the operational transformation that I highlighted last quarter, as we are working to position Oracle as our customers' strategic partner for the cloud.

The first phase, called the Accelerated Buying Experience, was rolled out in March. It was designed to make purchasing cloud services from us fast and simple, and was built using our own configure price quote, products, sales and service cloud.

We believe that we are the first enterprise technology vendor to use click to accept functionality for our enterprise customers. And that enables our customers to complete their orders with a click of the button.

The results for Q4 were fantastic, as nearly two-thirds of our cloud deals were processed using the Accelerated Buying Experience. And we saw the quote-to-book times reduced dramatically. These results are truly amazing, given we introduced the program in Q4, and salespeople had very little time to get used to it.

Our customers could then start using our services faster. We feel very good about the progress of our cloud transition. And clearly, customers are embracing the move with us.

We now have the most complete set of cloud services in the industry, with thousands of our customers around the world already using these cloud services to help run their businesses. 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. My guidance will reflect this, making it easier to see that we are a force to be reckoned with in the cloud.

Now to my guidance. I'm going to give you my guidance for Q1, and then some preliminary comments for FY17.

All of my guidance is on a non-GAAP basis and in constant currency.

Now with currency, if current exchange rates remain the same as they are now, we expect to see a currency headwind of about 1% on some parts of cloud revenue, but very little effect on total revenue and EPS.

And while we feel fantastic about our own performance and transformation, I'm definitely keeping an eye on the macro environment, especially abroad, and going to be a bit conservative in my outlook. Even with that said, for Q1, I'm raising my earlier guidance for SaaS and PaaS revenue, which we now expect to grow 75% to 80%. And this guidance reflects a bit of additional revenue from acquisitions, and higher guidance for the organic business.

Software and cloud revenue, including SaaS, PaaS and IaaS, new software license and software and support, is expected to grow 5% to 7%. Total revenue growth is expected to range from 2% to 5%. Non-GAAP EPS in constant currency is expected to be somewhere between $0.56 and $0.60, up from $0.53 last quarter -- last Q1, depending on the mix of revenues and of course, the tax rate.

Over the full year for FY17, I expect SaaS and PaaS revenue growth will be higher than the 65%, up from 62% in FY16. SaaS and PaaS gross margins should exit Q4 FY17 much higher than the 57% reported today, as we show steady and continued improvement through the year, as I mentioned earlier. But operating income is also expected to grow in constant currency.

With that, I will turn it over to Larry.

Larry Ellison (Chairman & Chief Technology Officer):

Thank you very much, Safra.

In the fiscal year just started, FY17, Oracle has two specific points of focus. First, we would like to accelerate our SaaS and PaaS growth and make sure we're at least double -- growing at least double the rate of our closest competitors.

And we think we have a fighting chance to be the first SaaS company to make it to $10 billion in revenue. We're the second largest SaaS company in the world now, and we think we can be the largest SaaS company -- by the time we hit $10 billion. We think we're going to be the first one there.

Why do I think that's possible? One is, we're already growing at a very high rate, much faster than our competitors. We've proven we can do this.

Can we keep it up as our business continues to scale? Safra pointed out something that's shocking, that as we scale our business, our growth rates are going up. Why is that?

The explanation is our SaaS portfolio. We compete in virtually every important SaaS area there is. We're a major player in ERP and HCM. We're almost the only player in supply chain and manufacturing. We're the number one player in marketing.

We're very competitive. We're number one -- tied for number one in service. And we compete against Salesforce.com in sales automation.

But in all of these areas we compete, Salesforce.com , which is the largest SaaS company, is really focused on sales automation and some of the other customer experience aspects. They just bought Demandware, they are making acquisitions, they are growing their business. But they are in the customer experience sales area.

They don't compete in the largest category, which is ERP. Also not HCM -- again, supply chain and manufacturing again. And we think that gives us a huge advantage, that our footprint is wider.

And some of these mid-market companies can simply get an all-Oracle footprint, run their entire enterprise in the cloud on Oracle . That is something that Salesforce can't offer. And we think that will serve us very well, and allow us to keep these very high growth rates, while we go for that, to be first at $10 billion.

Okay, that's one thing. So we want to be number one, we think we need to be number one, we think we will be number one in SaaS and PaaS. Second major point of focus is that generation two of our infrastructure as a service data centers have been built and stocked with computers. And now we're beginning to bring our customers into these new data centers. Infrastructure as a service is the third leg of Oracle's cloud strategy.

Obviously, SaaS, we talk about a lot, and PaaS, we talk about a lot, because those two businesses are growing very rapidly for Oracle . So what's going on as infrastructure as a service?

Well, we have had to move to -- we've learned a lot about this business. There's a huge amount of demand, by the way, for our infrastructure as a service, from our existing SaaS customers and our new SaaS customers. But even bigger amount of demand for infrastructure as a service from our database customers.

Our database customers want to move their applications into our cloud, putting their database onto our platform as a service, and then their applications -- so a lot of custom applications -- onto our infrastructure as a service. These two things go together. And we've built, again, the second generation data center, which we think is highly competitive with anything out there -- lower cost, better performance, better security, better reliability -- than any of our competitors. And there's huge demand for it, and we are now starting to bring customers into that.

We think that's another very important driver to Oracle's overall growth. We're growing fast in SaaS, we're growing fast in PaaS. Now we need to grow fast in infrastructure as a service.

We've made the investments, we have the right technology with our second generation data centers. And we're very excited about the potential for Oracle , with the combination of PaaS and infrastructure as a service, for our huge installed base of database customers, and helping them move to the cloud.

I'll turn it over to Mark.

Mark Hurd (CEO):

Okay. Thanks, Larry. Just a few more numbers, and we'll take your questions.

Cloud bookings, over $600 million in USD, 52% growth for us in CD. As a reminder, last year, we grew more than 200%. So this comparison is -- or this number is against that comparison.

In SaaS, roughly $350 million in USD bookings. In PaaS, over $250 million. Just one point of clarification. Our ARR bookings are only for new and expansion.

So I've had some questions about, do we include renewals in our bookings? We do not. Renewals are a separate bucket of bookings, kept separate than our ARR reporting.

As it relates to renewals in the quarter -- our renewals for the quarter were up 200 basis points year over year. SaaS/PaaS revenue, we grew 67%. We grew 17% quarter on quarter. ERP EPM was 58% growth quarter over quarter. In HCM, we had our strongest growth rate in three years.

That says our business has gotten bigger. In CX, all sales, marketing and service revenue growth rates were up double digits. In data as a service, we nearly doubled year over year.

Platform as a service had another breakout quarter; we nearly doubled quarter on quarter. Within doubling quarter on quarter, our database as a service business more than doubled quarter on quarter.

Our SaaS/PaaS billings grew 48% in FY16. Our SaaS/PaaS deferred revenue grew 64%. To Safra's point, and I want to say it again, grew much faster than Salesforce.com and Workday.

Now I want to come to another set of numbers that are actually probably more exciting -- our customer metrics. In the quarter, we closed 1,640 new SaaS customers. Nearly two-thirds were Fusion wins. We had 917 customer expansions -- that's an all-time high for us.

273 customers who bought SaaS also bought PaaS. I want to make sure you understand that connection point. We think that connection will actually grow higher as time goes on.

Our SaaS installed base is now roughly 12,000 customers. In the quarter, we had almost 700 CX customers and 600 expansions. In HCM, 318 new customers -- 900 for the year, nearly 2.5 times that what Workday reported.

In ERP, we had 808 new customers in the quarter. I just want to make sure I didn't misspeak -- it's 808 new customers in the quarter. We doubled the FY16 count in Q4. Almost 50% of those customers never had an Oracle app. Our installed base is now over 2,500 customers, nearly 2.5 times the installed base from last year. We have 1,577 customers now live on Fusion.

We added nearly 1,000 go-live this year. In PaaS, we added 2,005 new PaaS customers. Our installed base is now nearly 9,000 customers.

In closing, this was a big year for us, not only in revenue, but bookings as well, where we sold more than $1.4 billion in ARR. I'm going to make just a couple predictions for the new year. We had a big year in bookings in FY16. We will have a bigger year in FY17.

Our pipeline is actually today up more than our bookings and our revenue reported growth rates. Revenue growth of 52% this year -- our growth rate will be higher than 65% in FY17. And as Larry and Safra both mentioned, as our business get bigger, we continue to grow faster.

So with that, we'll take whatever questions that you might have.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Mark Moerdler with Bernstein Research.

Mark Moerdler (Analyst - Sanford C. Bernstein & CO):

Thank you very much for taking my question, and congrats on your cloud progress. I'd like to drill in specifically into platform as a service. Two parts to my question.

The first is, can you give us more color on your success in PaaS?

And second, specifically, can you help us with understanding how you're expanding the TAM for your database middleware, et cetera? And what are the drivers -- is it newer segments, higher revenue attached from existing customers?

Any help would be appreciated.

Mark Hurd (CEO):

Mark, I'll start, and then I think Larry is going to chip in. No question about the total available market expanse. Because obviously when we win -- just like in SaaS. If we win in SaaS, we actually get all of the middleware, all of the database, all of the hardware. We get, really, all of the service -- so why we get this multiple of support, that when we get an application, the whole stack comes with us. The same thing, in effect, occurs when we get database as a service as well. With it comes all of the other services that come with it as well.

In addition, we get to expand our TAM to a whole new set of customers that otherwise we would never have gotten to. We get now to a whole set of mid-market customers that, frankly, we just didn't have an opportunity to sell to before. Because you had to have a data center, and you had to have a computer, and you had to have a staff. And so now, all of that TAM is expanded as well, with a broader market set we get to and a whole set of market share that comes with it.

Larry Ellison (Chairman & Chief Technology Officer):

The other thing is the network effect between SaaS, PaaS and infrastructure as a service. So if you have, let's say, your ERP application, and it's an Oracle ERP application, then you want to build a bunch of data warehousing applications on top of the data from your ERP system. In a sense, you feel it's perfectly reasonable to have the ERP system at Oracle , and I'll put the data warehousing situation at Microsoft Assure.

But if you actually look at the pricing -- cloud pricing -- the one part of cloud that's expensive is moving data out of data centers. That's one thing they charge you a lot of money for. And that's the kind of industry pricing, the way it works. So moving data between data centers, back and forth, back and forth between data centers, can be quite expensive.

So there is an advantage built in for us that if we have the ERP data and we have the ERP system. We have a built-in advantage by offering our PaaS and our infrastructure as a service as a set of tools to allow you to build your data warehouses and your data marks using that ERP data. So I think that gives us a very significant advantage, the interaction between SaaS and PaaS, and the interaction between PaaS and infrastructure as a service.

I'll go back to infrastructure as a service. Well, why shouldn't I just move to Amazon ? I mean, Amazon has been doing this for awhile, and they've got infrastructure as a service. Well, because we handle the Oracle database much better than Amazon does. We can run very large Oracle databases. We've run [at full power lately]. We just do a better job. This is not the place for me to give you a technical proof, but we do a better job than they do on the -- they run Oracle databases. But we do a much better job. We run it faster, more reliably and more securely.

Well, if I've got the database in an Oracle data center, in the Oracle cloud, it makes sense for me to put the application at a computer right next to that. That's higher performance, much lower cost, because I'm not moving all of the data in and out of an Amazon data center and in and out of an Oracle data center.

Those things are going to be tend to be co-located. So we think we have some built in advantages, being a strong player in SaaS and a strong player in PaaS, and making it very -- all the customers who want to get their infrastructure as a service or their related infrastructure as a service from the same cloud supplier, in the same data center.

Mark Moerdler (Analyst - Sanford C. Bernstein & CO):

Excellent. I really appreciate it.

Larry Ellison (Chairman & Chief Technology Officer):

Thanks.

Operator:

Heather Bellini with Goldman Sachs .

Heather Bellini (Analyst - Goldman Sachs):

Thank you very much. Safra, you mentioned growth in operating income in your prepared remarks. I was wondering if you can help us think about how that translates into growth in operating margins?

Safra Catz (CEO):

We expect operating margins to go up also, as this continues. Obviously cloud margins are going through the roof. That's become obvious. And we expect operating margins to increase. So you've got revenue increasing and operating margins also increasing over time, and operating income increasing also over time.

So we're very -- this is actually a very important time for Oracle financially. Because what you see is that we have stopped having reductions in, really, in any of the numbers, and we've turned up in every way, including EPS. And I know for a while I was telling you this is a transition and all of that. But I feel like we are officially at the complete end of the beginning. Meaning, we are now in the mode of increasing, improving EPS up, operating income up, revenue up -- just everything. We've made the transition, and we are moving up from here.

Larry Ellison (Chairman & Chief Technology Officer):

I'd like to comment something in terms of margins. Our generation two of our data center -- okay, what was wrong with generation one?, no one asked. Generation one was more expensive than we liked it. One of the great things about our gen-two data center is that we think we now have the best bang for the buck -- the best cost performance data center in the world with our gen-two data center.

We think we -- again, we deliver more [format] performance (technical difficulty) cost of any cloud provider. We think that's another huge advantage for us. And we'll be scaling our business on this new very cost-effective, most modern of all of the cloud networks. That's going to help our margins enormously.

Heather Bellini (Analyst - Goldman Sachs):

Great, thank you very much.

Operator:

Kash Rangan with Bank of America Merrill Lynch.

Kash Rangan (Analyst - BofA Merrill Lynch):

Hey, Oracle team, congratulations on the results as well. Mark, I guess two separate questions for you -- I'll try to keep it brief. One is, how would you explain the magnitude of [arc] performance on the SaaS and PaaS revenue growth relative to the mid-point of the guidance? Wondering if the milestone criteria are turning out to be faster than you expected? Or maybe that's not the case.

And secondly, as you look at your SaaS and PaaS revenues, they are a large number. And I'm curious, and I also get questions from investors, is, what exactly is the relative size or magnitude of growth rates of the twin categories vis-a-vis HCM, ERP, and CRM digital marketing? Any color you can give us there, that will be fantastic. Thank you.

Mark Hurd (CEO):

Sure. First, there's no one reason why we beat the revenue. It's all of the reasons. First, it starts with, we booked more than we planned -- sort of point one. And we not only booked more, we booked more faster than we thought. So it improved our linearity as we went.

Our team has done a great job in cloud optimal provisioning perspective. Provisioning meaning, we then sell more, we sell more faster. And then we actually get the customer up and running and live, and that has another effect on revenue linearity. In addition, as I mentioned, our renewals were 200 basis points over prior year. Not to say it was better than we expected, but it was good, it was solid, and that helped as well.

Then we also had more usage on our platform. And we've had this continued sort of, not linear, but geometric increase in the usage of our PaaS platform. So those that are not on subscription, but are [mirrored] just use more. And so when you sort of add up all of those things -- and no one thing was 80% of it, Kash. It was really all of those things together that added up to the beat that you referenced.

Your second question was the relative growth rates of the various businesses. I'd start with, they are sort of all good, would be the way I would describe it. And the question becomes degree of good. I gave you a number specifically on ERP in terms of growth rate. And that number -- I think I gave it to you quarter on quarter in terms of growth rate. And do you know what I'll do? As we get towards financial Analyst Day, I'll do more of a breakout, pillar by pillar.

But they are just all -- I mean, our performance in marketing, our performance in HCM -- I mean, the HCM, I can't help myself here. On HCM, the performance of our team on HCM was just superb. I mean, that's a global statement, Kash. If we went back to the days of four or five years ago, it's just amazing, totally, what our product team has done, our ability to release new product, our ability to get it to market, the references we've gotten. I mean, we did almost 1,000 new HCM customers this year, 2 1/2 times the guide we were talking about three or four years ago.

So it's just it was just a superb quarter for us by pillar. And I think, to be honest with you, Kash, I think based on what I told you in my prepared remarks on the pipeline, I think that it's going to get better.

Kash Rangan (Analyst - BofA Merrill Lynch):

Great to hear that. Congrats again.

Mark Hurd (CEO):

Thanks, Kash.

Ken Bond (Investor Relations):

Next question, please.

Operator:

John DiFucci with Jefferies & Company.

John DiFucci (Analyst - Jefferies & Company):

Thank you. I have a question about the database. You announced R2 of 12c back at Oracle Open World. And I believe there was a webcast scheduled that was postponed that you were supposed to do earlier this month on the database. I realize you can't talk about the timing of general availability of R2, but can you talk about -- I don't know, general anecdotes about early adopters for R2? And then also, your expectations of how this will be consumed by customers, between license and cloud consumption? Because that will help with us, regardless of how we think of it, how we're going to model it. Thanks.

Larry Ellison (Chairman & Chief Technology Officer):

As you know, R2 -- a lot of people don't migrate to the dot-one releases of our database. They wait for the dot-two release so that it is completely stable. We have two key features in version 12 of our database. One is in memory; the other is multi-tenancy. Both of those are in high demand. I think it's made version 12 of our database one of the most rapidly adopted versions in many years.

The question is, what will that adoption look like? I think you'll see early adoption in the cloud. I think cloud is going to lead the adoption. So we now have hybrid customers. A typical customer might have said, okay, I'd like to start experimenting with release 12, and I'm going to put it on these product development computers over here. Well, we're encouraging our customers to look at alternatives. Why don't you just use the latest version in the cloud? And why don't you do your experimentation and your testing and application migration and your upgrades in the cloud? It's going to save you some money and allow you to get access even faster, and we think that's what's going to happen.

We're also offering a version of our cloud hardware, our hardware configuration, that, because of statutory reasons on the bank and for statutory reasons, I really have a hard time moving this application into the cloud. No problem. We'll take our existing cloud -- our cloud hardware, the exact same configuration -- we will move it behind your firewall, and we will let you -- and we will completely manage it for you behind your firewall.

You'll buy it just like it's cloud -- in other words, you won't buy the hardware. There will be no upfront cost for the hardware. There's no upfront cost for the software. It will look exactly like the Oracle cloud. It's just, the boxes will happen to be sitting on your data center floor behind your firewall. So we're giving people more options to go to the cloud, making it easier for them to go to the cloud. Because when our customers go to the cloud, which is what we want them to do -- and we want them to go earlier. And another opportunity to get them to move to the cloud is with accelerated adoption of 12.2 of our database.

That's how we would like them to consume it. If they go to the cloud, they save money, and it's easier for them, and we make more money, and it's better for us. So that's what we will be pushing our people. So again, we're incented and the customer is incented to get to the cloud as quickly as we can. How fast can we make that happen? We made it happen pretty fast in Q4, and we're going to keep pushing this fiscal year.

John DiFucci (Analyst - Jefferies & Company):

Thanks, Larry, that's helpful. But just one clarification. When you talked about cloud hardware configurations on-premise, are you alluding to Exadata? Is that what you're talking about? Especially with the database, because --

Larry Ellison (Chairman & Chief Technology Officer):

Actually, I'm glad you asked the question. Not just Exadata. No, it would be our infrastructure as a service configuration and our Exadata configuration together -- which is PaaS. So Exadata is really PaaS. It's just database as a service, is what Exadata is, when we install it as part of the cloud and we manage it for you.

But we have a separate box where you're running compute and block storage, and all of our other cloud services. We basically -- it's like we opened another cloud data center. Imagine we opened another cloud data center at JPMorgan Chase. I'm not picking on my poor friend Jamie Dimon, because to the best of my knowledge, we don't have a deal to do that at JP Morgan Chase. But anyway, but let's say they are uncomfortable -- again, they've got certain statutes, the regulators want them to do this behind their firewall. They are uncomfortable with them putting it in a public cloud.

We would actually create a little mini version of our cloud data center on the JP Morgan Chase floor. We would manage it for them. They would not buy the hardware. They would not buy the software. They would just buy a cloud subscription, just like it's in our cloud. It just so happens we would locate that hardware -- which we would manage -- we would locate that hardware on their floor behind their firewall for more security. But it would just -- again, it would be part -- it would manage as part of the Oracle public cloud.

The hardware is identical, the software is identical to the Oracle public cloud. We're just allowing our customers that option. We're trying to make it easier for them, and give them more options to get to the Oracle public cloud -- even if you're a highly regulated bank.

John DiFucci (Analyst - Jefferies & Company):

Okay, great, that's helpful. Thank you.

Operator:

Philip Winslow with Credit Suisse.

Philip Winslow (Analyst - Credit Suisse):

Hey, thanks, guys, and congrats on a great quarter, particularly on the cloud, and customer count number on the database with the service side was quite impressive, in particular. A question for Mark. There's been a lot of discussion out there, rumors just in the market about changes to the comp plan, or the sales force focusing on cloud, not license, and then others saying that you're dropping the cloud compensation structure. So wonder if you could just comment on if there are any changes to the comp program, the structure of the sales force, or kind of what they're focused on this fiscal year? That would be great.

Mark Hurd (CEO):

Sure. There really is no change to the, quote-unquote, structure, when you throw that in. So we are actually quite happy with our structure, in that context. Now, we've actually cleaned up a few things. So I made some changes three or four years ago to which group called on what, and there were some things that we've done that -- I would describe them as de minimus, in terms of changes. But who calls on what size of account, et cetera. So there's a little bit of that. But frankly, not much else.

We have made an investment, Phil, as I know you know, in what we call Oracle Direct. This is selling -- really, a lot of inside sales, with a little bit of outside sales that supplements it. And we continue to raise the bar for those teams. It is a lower cost of sale, it is a much more modern way of selling, and it is our primary vehicle into what you would think of as SMB. And we continue to expand their use, expand the amount of headcount, invest in tools. We talked last, I think, last quarter about investment we made in Austin and the CapEx we spent to build out that very modern center.

So think of more of that, Phil -- more people, more support for that team. And they are actually calling higher -- in terms of the size of accounts that they call on -- very effective for us, more people. But when you look at our spending, our spending actually doesn't go up nearly as much as the amount of resource that we get as part of those investments.

In terms of the comp plan itself, there is no decrease in cloud comp. That's just pure nonsense. If anything, we believe we pay to all salespeople that would like to make money. You sell cloud at Oracle , you'll make more money than anywhere else in the industry. And that's our model, and that's what we've done.

In terms of on-prem comp, in just applications -- these are applications that are not our GBU applications -- so think of them as our horizontal applications. We now do not retire quota for a license sale. We retire quota just on cloud. They do receive some, quote-unquote, comp, in the context as it relates to a license sale.

But Phil, to understand, today in horizontal apps licenses, the vast majority of all of our licenses are in ERP. And the vast majority of those are add-on seats within ERP into our exiting base, more users. And then within that, we've put a special team in place that actually focuses on handling that within our user base. So I understand there's some noise about it, but I would describe this as a non-event.

Philip Winslow (Analyst - Credit Suisse):

Great. Thanks for the clarification.

Mark Hurd (CEO):

But wait. I want to add, because I just can't help myself, but as of today, we have -- all of our salespeople have a territory, they have a comp plan, they have a boss. And virtually all of our salespeople since the end of the year -- I want to make sure I say this -- since the end of our fiscal year, have today been trained on all of our newest offerings.

So I've had this goal -- Larry and I have talked about this for years, that we would get to the point that by the time we would start a year, instead of it taking forever -- by the way, most companies take a quarter, four months, five months to get all this done. Our objective has been that salespeople leave the fiscal year on May 31, and as soon as possible, they get out of the year, they have a quota, they have a comp plan, they have a boss, they have a territory, and they've been trained on everything we've got. And I can tell you as we sit here today, that is almost entirely complete for the entire Oracle Corporation.

Philip Winslow (Analyst - Credit Suisse):

Thanks, guys.

Mark Hurd (CEO):

Thank you.

Operator:

Our next question comes from the line of Raimo Lenschow with Barclays.

Raimo Lenschow (Analyst - Barclays Capital):

Hey, thanks for taking my question. I want to move up a little bit and talk about geographies on two aspects. First of all, Mark, can you talk a little bit about the success you have in cloud in the different regions? And then secondly, more bigger picture, obviously worries about end-demand, et cetera, in the different regions. And maybe you can comment on what you're seeing out in the field in general for the whole business? Thank you.

Mark Hurd (CEO):

I'm sorry, I missed one word -- did you say end-demand?

Raimo Lenschow (Analyst - Barclays Capital):

Yes.

Mark Hurd (CEO):

Okay, by region. I think our performance in Asia Pacific was superb. That's come from where we've been over the past couple of years, but I don't know that I would describe that as a market phenomena. I'm just going to make my comments in the context of Oracle .

I think our team in Asia, which we've recruited over the past 18 months, did a superb job, all through the year. I think it culminated in a very strong quarter. We saw very strong growth, really, across every line. I mean, license performance was quite strong, both SaaS and PaaS growth rates were superb. So very positive on Asia.

You know, I feel the same way in Europe. There's a mixed economy over in Europe. We don't actually talk about it much around here, because I think our performance in Europe has been consistent over the years. I think our performance was emblematic of that through the fiscal year, and was good and solid in Q4. So I feel very good about it. I think that's the way I would describe things outside the US.

LAD -- we continue to deal with all of the issues in Brazil. I would say within the context of overall LAD, relative to the market, I think our team performed fantastic. Our movement to the cloud in LAD is perhaps as fast as anything we have across our Company.

And then you get to the US, and I think applications are moved to the US was the quickest, the fastest, and it shows up in the maturity of these wins that I talked about, are in the US. There's very exciting movements. Our business in applications in the US is a cloud business. It is not a license business. It is a cloud business. North America Tech has been strong in terms of its PaaS platform bookings.

And I would say, I'd also like to throw in our GBUs. I have to mention the strength of their performance in cloud. The growth rate in our GBUs was superb, led by both our retail business or our hospitality business, and our health sciences GBU. They had a great win at Pfizer in the quarter, and they have really kicked their competitor metadata pretty strong over the course of the year. And I'd like to publicly give them the credit for that. They've done a great job. So maybe more data than you wanted, but that's my view going across the globe.

Raimo Lenschow (Analyst - Barclays Capital):

Perfect. Very helpful, thank you.

Mark Hurd (CEO):

Thank you.

Operator:

Bradley Reback with Stifel.

Bradley Reback (Analyst - Stifel Nicolaus):

Great, thanks very much. Safra, could you maybe give us some sense of what the CapEx requirements for the business should be here in 2017? Thanks.

Safra Catz (CEO):

So overall, CapEx should be a little bit more than it is this year, very little bit more. And all of that would be actually from the real estate -- on our real estate side, as we build out our campus in Texas. And also we have a little bit more real estate around the country.

On the cloud CapEx, which is the one I think you guys have really been focusing on, as you know, in FY15, it was quite high. It dropped really dramatically, like 30%, this past year. And it will go up a little bit, but not anywhere near where it was in FY15. So I think generally, it's going to be around where it is right now. And any increases are entirely as the result of just some real estate things that will benefit us for decades, really, as we purchase pieces of property -- stuff like that.

Mark Hurd (CEO):

To Safra's point, our cost per seat for a sales rep is declining. So our cost of housing them, our (accounts])-- we have to make these CapEx investments, but salary, bonus -- everything as we move with such, into this modern selling effort. We have more people, but our cost per seat is actually declining.

Safra Catz (CEO):

Okay.

Bradley Reback (Analyst - Stifel Nicolaus):

Great. Thanks very much.

Operator:

Our final question for today will come from the line of Kirk Materne with Evercore.

Kirk Materne (Analyst - Evercore ISI):

Thanks very much. Mark, just given the new customer count in cloud, it would seem you're picking up some momentum in the mid-market, especially around ERP. Can you just discuss what's driving that? Is it just more focus?

And from a sales standpoint, is it having sort of a broader suite offering versus just best of breed products?

Just any color on that would be helpful. Thanks.

Mark Hurd (CEO):

Yes, Kirk, I just think that it's all that stuff. I think -- listen, you can start with the fact that we have good products. And we have good products -- that's a really big advantage. So that's sort of point one. Point two, we've done a lot of training, and our salespeople are, frankly, better, and they come in with good products. They now know a lot more about them, and we have references. And when you have those sort of combinations, things go well for you.

I think we've done a good job putting our people -- to Safra's point about the investments we're making -- we're putting people in these new modern capabilities that are giving them great tools now to go to market. Now, let me say all this against the backdrop of, I think we're actually going to get better at this.

So I think when you look at our -- you can't look at them, I can -- but when I look at our pipelines -- I remember two years ago, I made the statement that I thought our ARR would be good a couple years ago, and a lot of people said why? And it's because our pipeline was up, and I can see it mature through the pipeline. This pipeline we have now is the strongest, best pipeline we've had. And I believe our conversion rate -- meaning, the movement of that pipeline into actually booked orders -- will actually get better for the very reasons we're describing. And so I'm quite optimistic about it.

Kirk Materne (Analyst - Evercore ISI):

Thanks.

Ken Bond (Investor Relations):

Thank you, Mark.

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 with any follow-up questions from this call. We look forward to speaking with you again. Thank you for joining us today. And with that, I'll turn the call back to the operator for closing.

Operator:

Thank you.