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Oracle Drags Down Other Software Stocks

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SAN FRANCISCO -- Oracle's (ORCL) lower-than-expected revenue for February dragged down software stocks Thursday.

Shares of the Redwood Shores, Calif., software conglomerate were down \$1.51, or 7.2%, to \$19.43 in recent trading, after the company posted a top line of \$5.35 billion Wednesday, 1.3% below analysts' consensus estimates. The company met expected earnings.

The iShares S&P GSTI Software Index (IGV) was down half a percent at midday. But Oracle's report weighed more heavily on tickers that primarily supply business software.

SAP (SAP), Oracle's chief competitor in application software, was down \$2.85, or 5.5%, to \$49.08.

Although not a direct Oracle competitor, data-center software developer VMware (VMW) was off by \$2.16, or 4.4%, to \$47.45. That stock has gyrated between \$41.58 and \$50.62 over the past week.

Microsoft (MSFT), which also sells hardware and software to consumers, was largely spared the effect of Oracle's news Thursday, down only 34 cents, or 1.2%, to \$28.22 in recent trading.

One key metric from Oracle prompted investor concern about the sector: In constant currency, the company's applications new-license revenue was up just 2%, to \$451 million vs. 52% growth, for the same quarter of last year, noted JMP Securities analyst Patrick Walravens. Within North America, its total applications revenue fell 1% in constant currency. The firm makes a market in Oracle shares.

Recession fears in February made it harder to close deals at the end of the quarter, executives noted on the conference call.

"What you have is a solid [deal] pipeline, but the close rates are dipping a little bit" because of apprehension about the economy, Damon Ficklin, a buy-side analyst for Polen Capital Management, said in an interview. The firm's \$40 million stake in Oracle makes up 6% of Polen's portfolio, he said.

But Oracle also hit some high notes Wednesday, particularly in its database and middleware businesses. Together, they grew 20% year over year to \$1.15 billion. In addition an improved operating margin of 41.3% enabled the company to meet earnings targets.

Noting that Oracle is now in its seasonally strongest quarter, Friedman, Billings analyst David Hilal raised his full-year revenue estimate to \$6.83 billion, from his prior expectation of \$6.7 billion. He also raised EPS expectations by a penny, to 44 cents.

While acknowledging the tough environment, Hilal said in a research note that Oracle's deal pipeline and lower closure-rate assumptions may prove to be conservative. FBR makes a market in Oracle.

Oracle's guidance "seems to be appropriately conservative," Ficklin said. Guidance for new-license growth in the applications business accounts for less than 10% of Oracle's revenue, and its other businesses are doing very well, making the current quarter estimates easier to meet, he added.

CFO Safra Catz's comments Wednesday on the current quarter seem to suggest Oracle has set itself up to beat its own guidance, at least in the applications business.

Cowen analyst Peter Goldmacher wrote, "Once the trading noise subsides, we expect the stock price to trade back up in anticipation of a solid fourth quarter and steadily improving margins, with real valuation support in the \$18 to \$19 range." The firm makes a market in shares of Oracle.