

Oracle: Could Be One Of The First Dominos To Fall

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David Desjardins

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Summary

Oracle invested \$55.7 billion in its data center base in fiscal 2026, a number that is expected to increase by about 70% in fiscal 2027 to exceed \$90 billion.

With \$97.6 billion of net debt on its balance sheet, Oracle's credit rating has been recently downgraded to 'BBB-' by S&P, which is just a notch above junk territory.

The company expects to raise an additional \$40 billion in fiscal 2027 through a mix of debt and equity, meaning that total debt will continue to reach new highs.

Even though ORCL's remaining performance obligations of \$638 billion are the largest I have ever seen, approximately half of that can be attributed to OpenAI.

OpenAI is entirely dependent on capital markets remaining wide open to meet its financial obligations. In case the liquidity spigots unexpectedly close, Oracle would also be in the eye of the storm.



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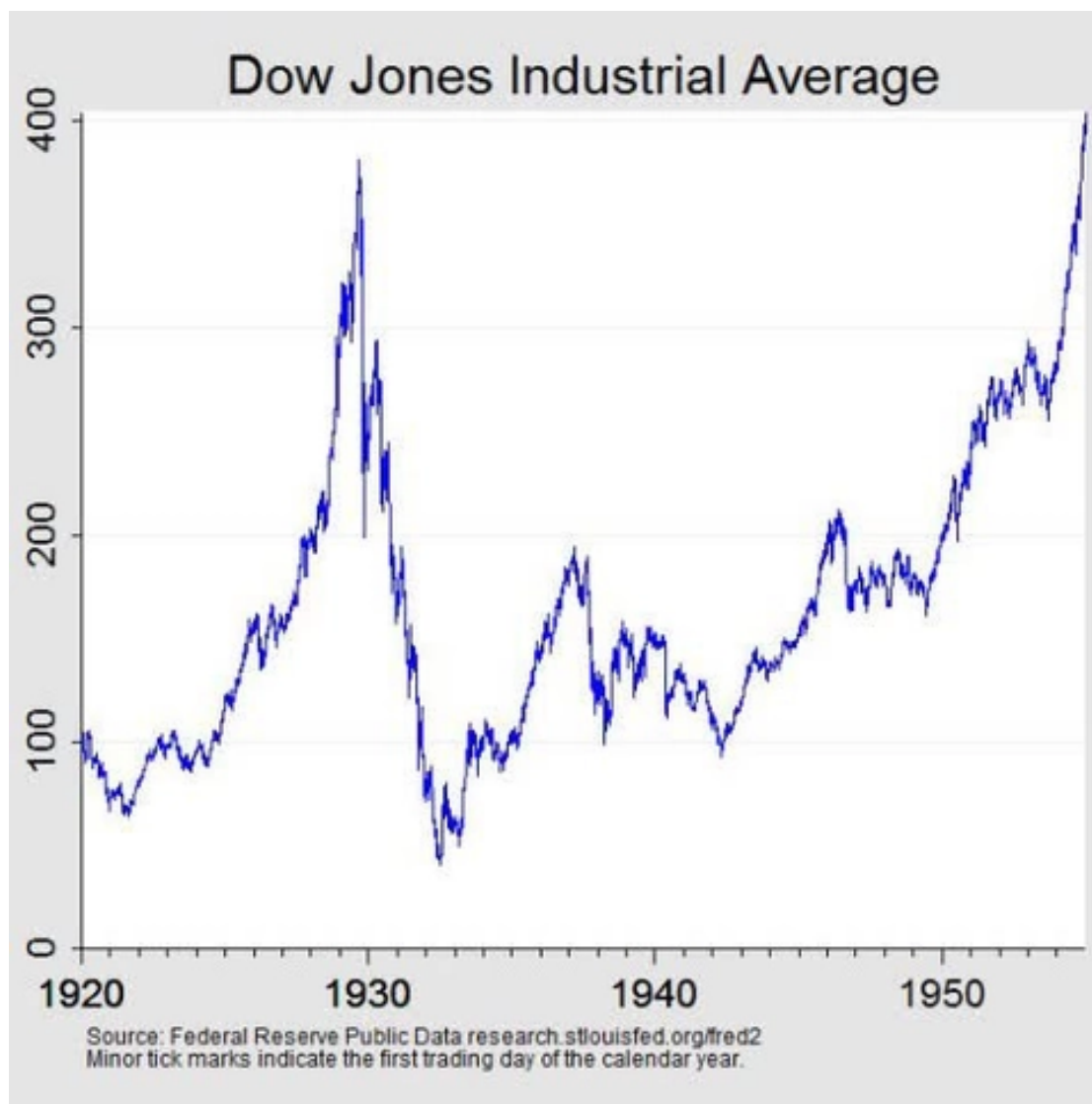
History Moves Forward In Cycles

Using the words of Nvidia's ([NVDA](#)) CEO Jensen Huang, we are currently in the middle of the [largest infrastructure buildout](#) in human history. In terms of raw scale, the [canal boom](#) of the late 1700s and the [railway mania](#) of the mid-1800s pale in comparison. In both cases, those new transportation technologies brought massive changes and efficiency gains to society, but the initial euphoria and optimism eventually proved cyclical. It is as if history writes itself in boom-and-bust cycles, irrespective of the era or the technology in question. As written by [Jesse Colombo](#) on his blog:

The speculative excess had overshot reality, but the capital it unleashed built something lasting. The same pattern, in which innovation fuels investment mania followed by collapse and consolidation, would repeat in railways, radio, and the internet centuries later.

What about the transformative wave of electrification that occurred in the early 1900s in the United States? The pattern is still the same, with a massive boom in the early days followed by a bust of similar magnitude at the end. It is an indisputable fact that electrification changed the world, but on the stock market, it was not a straight line up to the right; it was a cycle. After all, the era now known as the [Roaring Twenties](#) ultimately ended with the stock market crash of October 1929, followed by the Dow Jones going through a [~90% drawdown](#) over the next three years or so. The [Great Depression](#) then continued all the way to 1939, only to be ended by the manufacturing resurgence associated with World War II. As the cycle researcher [Edward Dewey](#) wrote in his excellent book '[Cycles: The Science Of Prediction](#)':

Anyone who starts out in business without knowing what time it is on the economic clock will obviously owe much to luck if he succeeds. And many men who have engaged successfully in business for a long time owe much to their sheer good fortune in having started out when the economic sun was rising.



Dow Jones Industrial Average In The Early 1900s (Federal Reserve History)

To be fair, we are in a completely different economic and monetary environment today, and I don't think another 1929-style crash would even be possible or allowed today. Back in the early 1900s, the money supply was relatively stable, as the dollar was under the gold standard and pegged at a price of [\\$20.67 per troy ounce](#). In today's world of fiat currencies, central banks have a lot more power to liquify financial markets to avoid this kind of deflationary bust. What happened at the onset of the COVID-19 pandemic in the spring of 2020 is a great case in point. Obviously, nothing is free, as the costs of intervention are simply socialized through inflation and monetary debasement. This is precisely why I am so bullish on gold and silver over the long term, but that's a topic for another day.

A Historic Data Center Construction Boom

Now, what is the link between all of that and a company like Oracle ([ORCL](#))? For those following my work, my two [latest articles](#) were on Sandisk ([SNDK](#)) and Micron ([MU](#)), which are two of the largest beneficiaries of the ongoing AI infrastructure boom, along with Nvidia and others. At the end of the day, the capital expenditures of hyperscalers like Oracle are ultimately recorded as revenues by semiconductor manufacturers like Nvidia, Sandisk or Micron. The current data center construction boom is fueled by the capital expenditures of hyperscalers, and to gain a better understanding of where we are in this cycle, I decided to update my '[Strong Sell](#)' rating on Oracle that I issued towards the end of December 2025.

Oracle could be among the first dominoes to fall in the event of a sentiment shift surrounding AI infrastructure investments. The company is increasingly dependent upon OpenAI as a core customer, and in turn, OpenAI is increasingly dependent upon capital markets to meet its financial obligations. When will the music stop?



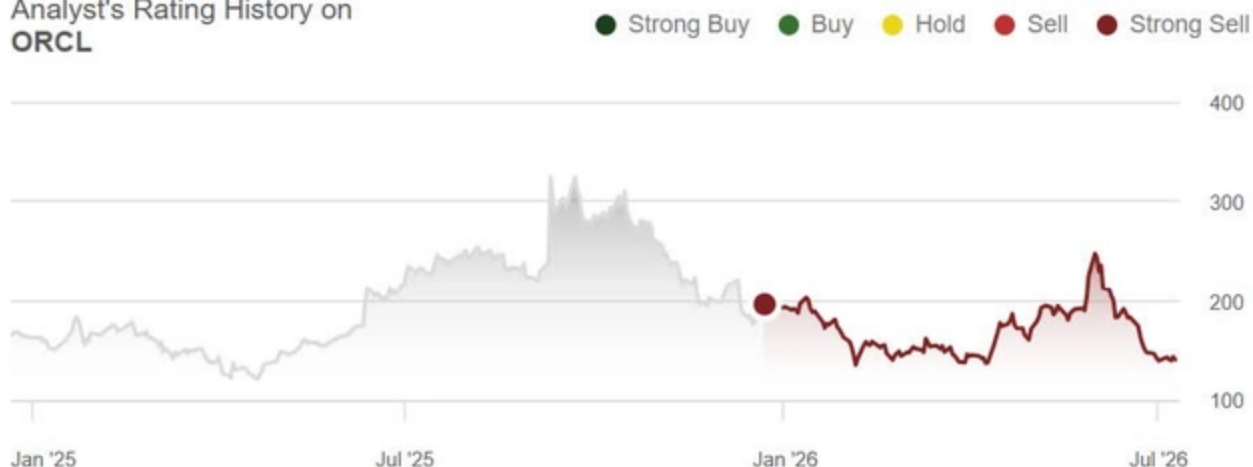
Oracle: All Eyes On The Balance Sheet

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STRONG SELL

[Rating History](#) ^

Analyst's Rating History on ORCL



Oracle Initiating Coverage (Seeking Alpha, David Desjardins)

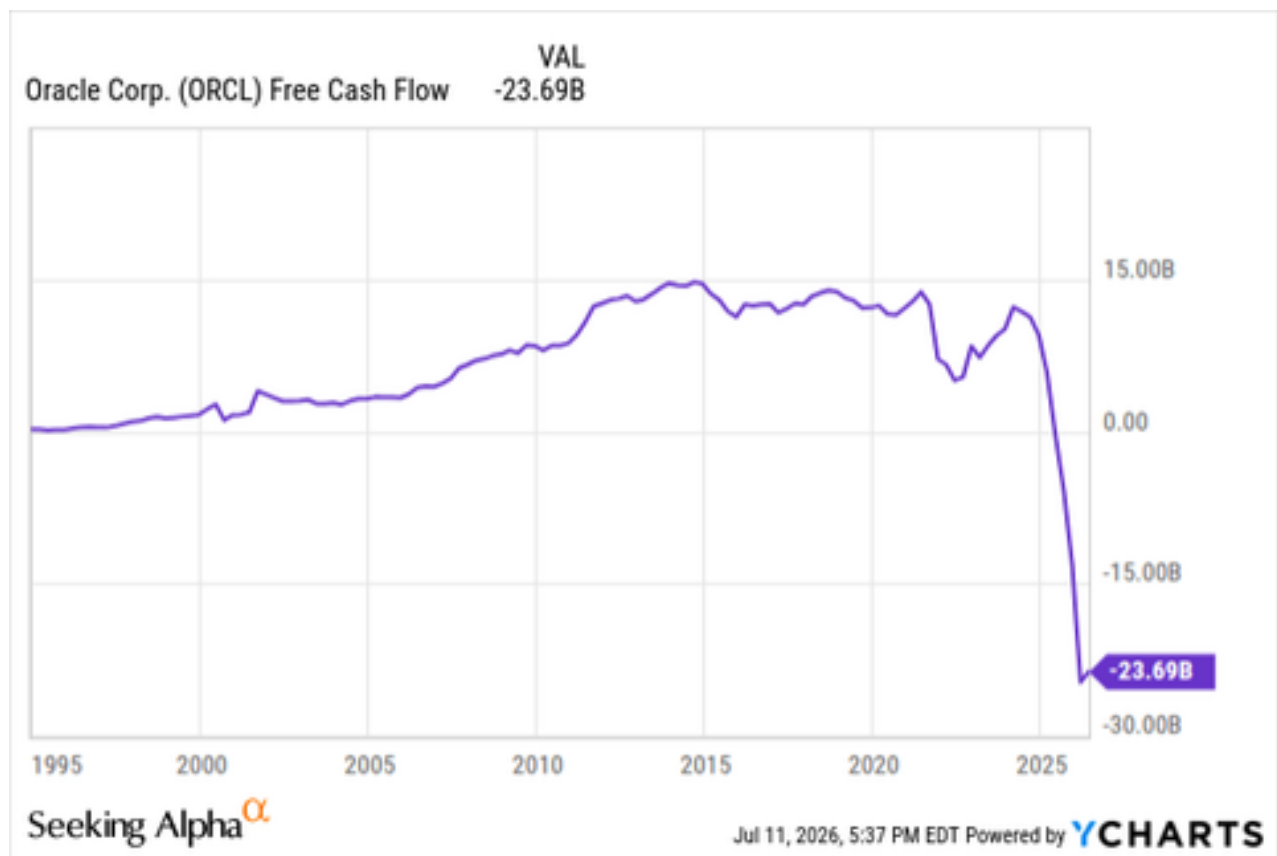
Since the publication of my initiating coverage, Oracle's stock price has declined by almost 30%, and the capital structure has only become more bloated with debt. Just last week, the rating agency S&P [downgraded](#) the company's credit rating to 'BBB-', or just one notch above junk territory. S&P noted that Oracle's capital expenditures guidance between \$90 billion and \$95 billion for fiscal 2027 was much higher than its own forecast of around \$60 billion. To put those numbers in perspective, Oracle reported capital expenditures totaling \$6.9 billion, \$21.1 billion and \$55.7 billion in fiscal 2024, 2025 and 2026, respectively. Using the high end of the guidance range, this means that ORCL's capital expenditures are expected to jump by another ~70% in fiscal 2027 when compared to fiscal 2026. It would also represent a ~350% increase versus the \$21.1 billion recorded in fiscal 2025.

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2026, 2025 and 2024

(in millions)	Year Ended May 31,		
	2026	2025	2024
Cash flows from operating activities:			
Net income	\$ 17,087	\$ 12,443	\$ 10,467
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	7,623	3,867	3,129
Amortization of intangible assets	1,671	2,307	3,010
Deferred income taxes	(917)	(1,637)	(2,139)
Stock-based compensation	4,811	4,674	3,974
Gains from investments and other, net	(2,433)	667	720
Changes in operating assets and liabilities:			
Increase in trade receivables, net	(2,190)	(653)	(965)
Decrease in prepaid expenses and other assets	2,179	266	542
Decrease in accounts payable and other liabilities	(240)	(608)	(594)
Decrease in income taxes payable	(256)	(659)	(127)
Increase in deferred revenues from customer prepayments with significant financing component	4,592	—	—
Increase in other deferred revenues	50	154	656
Net cash provided by operating activities	31,977	20,821	18,673
Cash flows from investing activities:			
Purchases of marketable securities and other investments and acquisitions	(2,039)	(1,272)	(1,066)
Proceeds from sales and maturities of marketable securities and other investments	5,848	776	572
Capital expenditures	(55,663)	(21,215)	(6,866)
Net cash used for investing activities	(51,854)	(21,711)	(7,360)

Oracle Cash Flow Statement Overview (2026 10-K Filing)

In the span of just three years, Oracle's free cash flow went from a positive \$11.8 billion in fiscal 2024 to a negative \$23.7 billion in fiscal 2026, as illustrated in the chart below. What was once a highly cash-generative software and database company has become highly dependent on external capital to fund its aggressive AI infrastructure buildout. Based on management guidance, Oracle will need to raise another \$40 billion through fiscal 2027 through a mix of debt and equity. With surging prices all around the semiconductor supply chain, it is to wonder when this massive capital spending will end. At what point does it become dangerous for Oracle's financial stability to continue on the current path?



Data by [YCharts](#)

As disclosed in Micron's Q3-26 [earnings presentation](#), DRAM and NAND prices surged by a massive ~60% and ~85% quarter-over-quarter, respectively. New supply is only expected to enter the market starting in calendar 2027, and Samsung Electronics ([SSNLF](#)) just announced that it was raising its DRAM prices by [another 20%](#). When it comes to GPUs, every new generation requires more and more memory, with obvious impacts on prices. Nvidia announced at the end of May 2026 that its new [Vera Rubin](#) architecture was now in [full production](#). According to some industry observers, unit prices may reach [\\$7.8 million](#) per rack, which is substantially higher than the [\\$4.0 million](#) price tag for a rack of the previous generation GB300 Blackwell chips. Surging semiconductor prices are one thing, but Oracle must also deal with many other bottlenecks, including those around power, land or labor, among others.

Exhibit 3: We estimate that a single VR200 NVL72 rack will cost ~US\$7.8M

Nvidia NVL72 Bill of Materials	GB300	VR200	Diff.
GPU	\$2,520,000	\$3,960,000	57%
CPU	\$180,000	\$180,000	0%
NVLink Switch chip	\$64,800	\$144,000	122%
Other networking chips	\$261,000	\$576,000	121%
Memory	\$373,939	\$2,001,600	435%
Cooling	\$64,610	\$72,080	12%
Power supply	\$57,600	\$76,000	32%
PCB	\$35,100	\$116,730	233%
ABF Substrate	\$11,160	\$20,340	82%
MLCC	\$1,530	\$4,320	182%
Others	\$402,412	\$623,278	55%
Rack assembly value add	\$22,400	\$28,800	29%
Total	\$3,994,551	\$7,803,148	95%

Source: Morgan Stanley Research estimates.

GB300 Versus VR200 GPU Cost Estimates (Morgan Stanley Research, @rickyho_1989)

On one hand, Oracle's debt load is putting increasing pressure on its balance sheet and credit rating, while on the other, it requires more and more capital to remain competitive in the AI arms race. The capital intensity of the AI data center boom is only increasing with time, and it is to wonder if Oracle has the financial wherewithal to remain a leader in the space.

According to Nvidia, the new Vera Rubin architecture can deliver up to 10x higher inference throughput per watt at [one-tenth the cost](#) per token when compared to the previous Blackwell platform. Once the new Vera Rubin GPUs are fully deployed, what will be the competitiveness and market value of the old Blackwell chips? In this context, depreciation could be a lot faster than what most people expect, and that does not bode well for Oracle's financial health and competitiveness versus the much larger hyperscalers like Microsoft ([MSFT](#)), Alphabet ([GOOG](#)) or Meta ([META](#)). In fact, those companies generate a lot more cash flows from their operations, and their balance sheet is also much stronger. In this environment of surging construction costs and rapid depreciation, I think it will be more and more difficult for Oracle to keep pace and remain competitive.

A Weakening Balance Sheet

Oracle ended fiscal 2026 with net debt of \$97.6 billion, a ~20% increase versus the \$81.4 billion of the prior year period. Looking forward, Oracle expect to raise \$40 billion from capital markets in fiscal 2027. Assuming that the company uses the entirety of its recently announced **\$20 billion** at-the-market equity program, this would leave another \$20 billion of debt to be issued. Considering where the stock is currently trading, issuing \$20 billion of equity would also be quite dilutive, as it would represent ~5% of the current \$405 billion market capitalization. Assuming that all of this capital will be once again poured into its AI infrastructure base, Oracle would end fiscal 2027 with approximately ~\$120 billion of net debt.

ORACLE CORPORATION		
FISCAL 2026 FINANCIAL RESULTS		
CONDENSED CONSOLIDATED BALANCE SHEETS		
(\$ in millions)		
	May 31, 2026	May 31, 2025
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 31,289	\$ 10,786
Marketable securities	605	417
Trade receivables, net	10,385	8,558
Prepaid expenses and other current assets	4,288	4,818
Total Current Assets	46,567	24,579
Non-Current Assets:		
Property, plant and equipment, net	99,957	43,522
Operating lease right-of-use assets	29,690	13,145
Goodwill	62,261	62,207
Deferred tax assets	11,541	11,877
Other non-current assets	11,743	13,031
Total Non-Current Assets	215,192	143,782
TOTAL ASSETS	\$ 261,759	\$ 168,361
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Notes payable and other borrowings, current	\$ 7,199	\$ 7,271
Accounts payable	10,977	5,113
Accrued compensation and related benefits	2,225	2,243
Deferred revenues	9,916	9,387
Other current liabilities	11,447	8,629
Total Current Liabilities	41,764	32,643
Non-Current Liabilities:		
Notes payable and other borrowings, non-current	122,342	85,297
Income taxes payable	11,771	10,269
Operating lease liabilities	26,648	11,536
Other non-current liabilities	16,178	7,647
Total Non-Current Liabilities	176,939	114,749
Stockholders' Equity	43,056	20,969
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 261,759	\$ 168,361

Oracle Balance Sheet (Q4-26 Report)

However, given the scale of Oracle's projects and what is going on with the industry's supply chain, the probabilities of facing significant cost overruns are quite high. This means that I would not be surprised if ORCL's net debt gets closer to \$130 billion or more at the end of the next fiscal year. The higher the net debt goes, the higher the probability of a credit downgrade into junk territory. Such an event could trigger a feedback loop of selling and severely impact the ability of Oracle to raise affordable and abundant capital.



Oracle Abilene Data Center Project (Q4-26 Presentation)

Oracle's management often cites the company's \$638 billion in remaining performance obligations as backstopping the rapidly rising debt load. Although this is indeed the largest RPO number I have ever seen, approximately half of that could be attributed to computing deals with OpenAI, that is according to the rating agency [S&P](#). Signing a contract is one thing, but honoring it all the way to maturity is quite another, especially for a relatively young and still unprofitable startup like OpenAI. In fact, OpenAI is not expected to turn a profit [until at least 2030](#), meaning that it remains entirely dependent upon capital markets to meet its financial obligations. What is the point of having ~\$300 billion in RPO if the counterparty potentially cannot meet its financial obligations?

In my view, as long as the debt and equity markets remain wide open for anything closely or remotely associated with AI, OpenAI won't have too much trouble in honoring its financial obligations. However, if the liquidity spigot unexpectedly closes, the impact would rapidly be felt across the entire ecosystem. Oracle would obviously be in the eye of the storm due to its intimate relationship with OpenAI.



Oracle 5-Year Credit Default Swap (Bloomberg, @junkbondinvest)

On The Demand Side

On the supply side, we are talking about the largest infrastructure boom in human history. In today's environment, I think it has never been more important to monitor what is happening on the demand side. To size the real demand for generative and agentic AI, we have to turn our attention to the token consumption of large enterprises using artificial intelligence at scale.

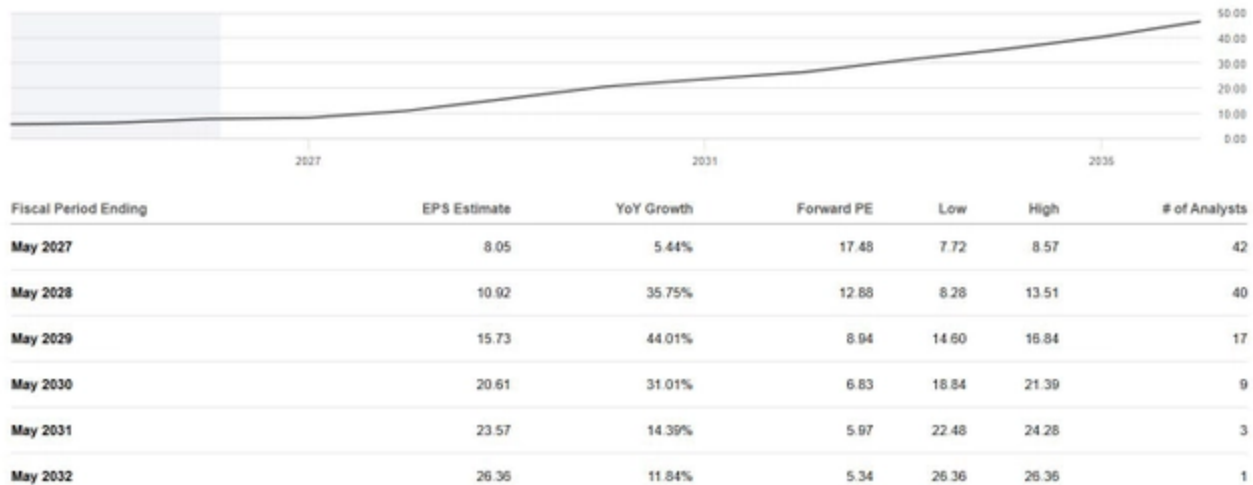
In the early days, AI was incorporated into pretty much everything, and token consumption was not really an issue. However, this is now changing, as illustrated by multiple companies imposing limits on token usage. For example, Accenture ([ACN](#)) recently asked its employees to [limit the use of AI](#) in basic tasks in an effort to control surging AI-related expenditures. Another high-profile example would be Tesla capping the AI budget of its engineers at [\\$200 per week](#), with anything above requiring approval. Pretty much the same happened at Uber ([UBER](#)), as the company imposed a limit of [\\$1,500 per month](#) per employee. This news came after the company consumed in just [four months](#) its entire AI budget for the year.

What I can see with those headlines is some form of limits on the demand side. This is at a time when supply is still in full-mode acceleration. What kind of returns on capital can be expected on those trillions chasing data center investments? Where will the customers come from if some of the largest companies on Earth are already starting to impose limits on their AI budgets?

Valuation

Based on a consensus of 42 analysts' estimates, Oracle is expected to generate earnings per share of \$8.05 in fiscal 2027. Using last Friday's closing price of \$140.64, this translates into a forward price-to-earnings ratio of ~17.5x. Looking at the EPS estimates of \$10.92 in fiscal 2028, the forward multiple drops to ~12.9x. In my view, this is not particularly cheap if we take into consideration the significant financing and business risks involved here. How will Oracle monetize the hundreds of billions it will have invested in its infrastructure base? How fast will the depreciation of those data centers be, considering the rapid increase in GPU performance? At the end of the day, this is a new business still in construction, so I think some caution is warranted here.

Consensus EPS Estimates



Oracle Consensus EPS Estimates (Seeking Alpha, David Desjardins)



Data by [YCharts](#)

Risk Factors

A key risk associated with my 'Strong Sell' rating relates to timing, as nobody knows how long the current AI construction boom can last. If capital markets remain wide open as they are today, this upcycle could last for much longer than what most people expect. However, as discussed in this article, I believe we are starting to see some limits, whether it is from Oracle's balance sheet or from AI budget restrictions within global enterprises.

Conclusion

Oracle is one of the most important players in the ongoing AI infrastructure buildout. The company deployed a massive \$55.7 billion on its construction projects in fiscal 2026, a number that is expected to surpass \$90 billion in fiscal 2027. Free cash flows are now deeply negative, the credit rating is now just above junk territory, and another \$40 billion will have to be raised through debt or equity in fiscal 2027.

While Oracle tries to reassure market participants with its \$638 billion remaining purchase obligations, approximately half of that can be attributed to OpenAI, a counterparty of debatable strength considering that it is not expected to turn a profit until at least 2030. Oracle's intimate relationship underpins a meaningful portion of its massive capital deployments. If the liquidity spigots unexpectedly close, OpenAI may have trouble meeting its financial obligations calculated in the hundreds of billions.

I will conclude this article by reiterating my 'Strong Sell' rating on Oracle. I believe the share price could ultimately dip below \$100 per share as worries about the balance sheet increase. With spiking DRAM, NAND and GPU prices, I would not be surprised if Oracle's capital expenditures go well beyond the high end of its guidance range of \$95 billion. A credit downgrade into junk territory could also trigger a feedback loop over adverse consequences, not only for Oracle but for the AI ecosystem as a whole. That would be equivalent to the debt market saying to one of the largest hyperscalers that enough is enough.

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This article was written by



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