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UConn SMF: 2013-2014
Prepared on: March 31, 2014

Company Snapshot

Key Financial Metrics*

Stock Price: $40.91
52-Week High: $41.43
52-Week Low: 29.86
Dividend Yield: 1.17%
Gross Margin: 81.09%
Profit Margin: 29.38%

Market Cap: $182,769M
P/E Ratio: 17.18
EPS: $2.38
FCF/Sh: $3.13
FCF Yield: 9.88%
Price to FCF: $13.09

Sector: Technology
Industry: Software
ROE: 24.74%
ROIC: 18.81%
ROA: 13.64%
Beta: 1.13

*See Appendix A for more information on current financial trends

Business Summary:

Oracle is an enterprise database company that focuses on software, hardware, middleware and other IT components. Oracle develops and owns software, databases, hardware, middleware, and applications, which are rented to customers. Many products are standardized meaning that Oracle can sell the same product to many different customers. However, for large customers, Oracle can fully customize a product to meet their customer's goals.

Acquisitions are a primary growth driver for Oracle. Since 2005, Oracle has acquired over 80 companies. Recent notable acquisitions are PeopleSoft, BEA systems, and Sun Microsystems. Acquiring Sun Microsystems gave them control over Java and a presents in the hardware industry.

Oracle has made large investments in the cloud computing market, which Oracle will continue to focus on as a growth opportunity. Oracle's goal is to integrate their existing products with the cloud to offer an even more integrated experience to customers.

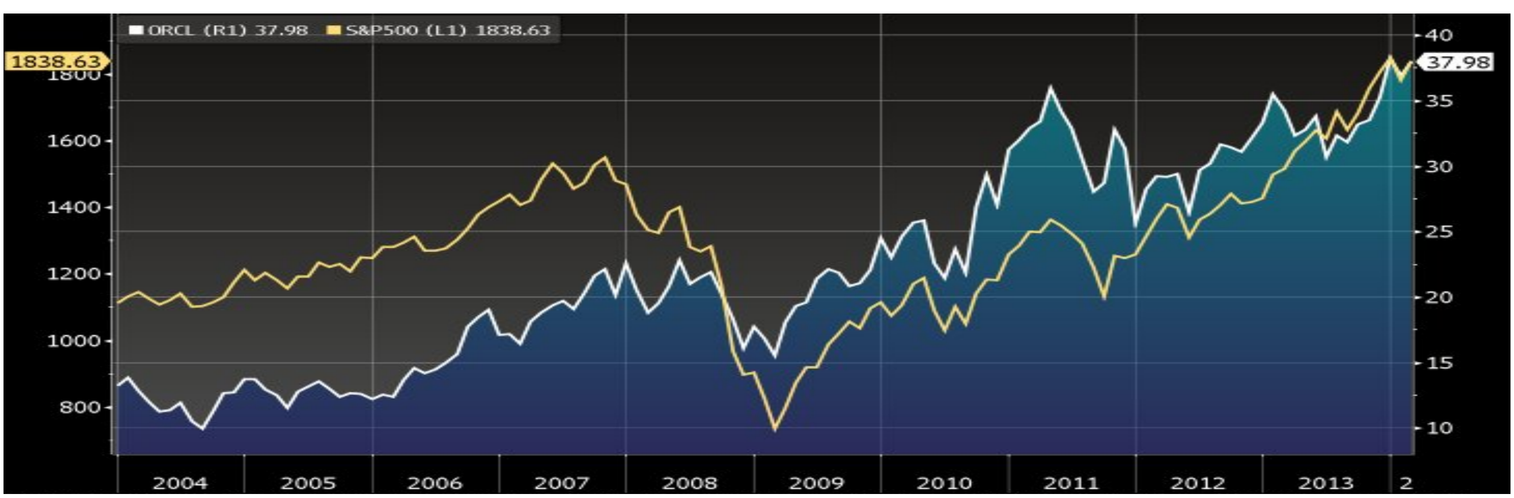
Positives:

- 48% market share in the database market
- Acquired 80 companies since 2005, which allowed Oracle to grow their product portfolio into other areas that compliment their database business
- Growth within their software business, which has a much higher margin than other business areas
- Well positioned to capitalize on the current shift toward the cloud
- Increased focused on returning earnings to shareholders through dividends and stock buybacks

Negatives:

- Year over year decrease in hardware sales
- Risk of an unsuccessful shift into the cloud computing area
- Risk that database market share may decline as a result of the competitive nature of the technology industry

ORCL vs. S&P 500 (10yr):



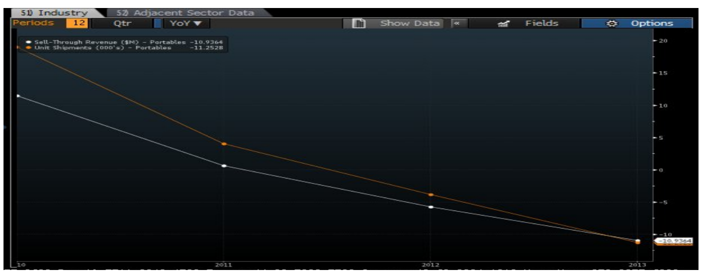
Sector Breakdown

Technology Overview:

The technology sector consists of 4,290 companies and has a 1-year return of 23.80%. The technology sector has a market cap of $6.04 trillion, where hardware is the largest industry with a market cap of $854 billion. The technology sector is broken down into four industries including; hardware, semiconductors, software, and technology services. The technology sector is an extremely competitive area where every company has to continue to innovate in order to stay relevant. Currently, the companies in this sector are holding lots of cash on their balance sheet and look relatively "cheap" compared with other sectors, based on free cash flow yield.

Hardware:

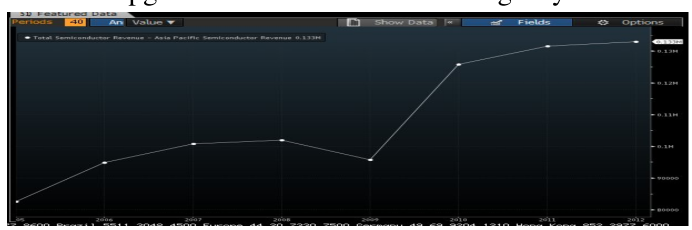
The hardware industry continues to struggle. PC sales are falling rapidly as customers shift to more mobile products. There has been a slowdown in innovation, which forces companies to compete on price. The low differentiation between hardware products has put pressure on pricing, which has affected growth. The bright spot in this industry is tablets. Tablet sales continue to increase each year since more customers prefer mobility.



The graph shows the YOY growth of the PC market.

Semiconductors:

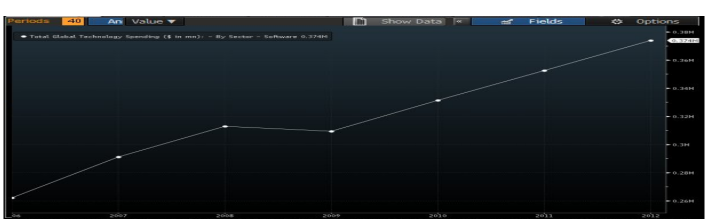
The largest trend in this industry right now is the demand for wearable technology chips. The wearable market is still in its infancy and its size remains unknown. There is also a demand for smaller chips as hardware manufactures are trying to downsize products to meet the demand for more portable products. Additional growth opportunities lay in China where 828 million subscribers have not upgraded to 3G and 4G technologies yet.



The graph shows the increase in semiconductor sale revenue from 2005-2012.

Software:

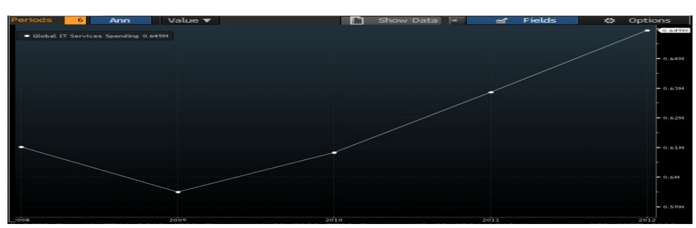
Data management and security software lead the way for growth within the software industry. In addition, there has been a spike in spending of 6.1% on software products. The major trend in this industry is the shift to the cloud. Corporations are going hardware-less by putting their data in the cloud. These corporations want their information to be secure, which is why security software is in demand. There has also been a lot of consolidation in this industry as large companies have been acquiring smaller ones. These acquisitions have helped large companies expand into the growing and niche areas of software.



The graph shows the dollar amount spent on software.

Technology Services:

As IT systems continue to get more complex, the demand for technology service rises. Salaries in this industry grew over 3% in 2013, which shows the increased demand for experienced IT professionals. In addition to increases in salaries, there is expected to be an increase in IT spending of 3.9% in 2014 as more companies look to upgrade their IT network. The proposed US immigration bill continues to be an uncertainty for offshore IT vendors. The bill will make it difficult for non-US companies to sponsor visas for their offshore employees and will cost them more money if they have to hire domestic employees.



The graph shows the dollar amount spent on IT services.

Business Model

Business Strategy:

Databases are one of Oracle's competitive advantages. Oracle controls 48% of the database market. They use their size in this market to push other products such as Software, Middleware, Hardware, and Applications. Their ability to leverage their database business is a huge advantage for them. It is a significant advantage because it allows them to generate more revenue with the same amount of customers when many of their competitors cannot.

Oracle primarily develops standardized products, which are the same for every customer. However, they always offer a customized solution for customers for additional fees. This allows customers to purchase the standardized product at affordable prices but also gives customers the opportunity to have a fully customized product.

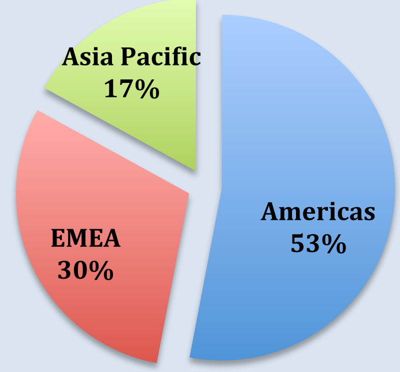
Oracle's business model is classified as "annuity-like". This classification is used by the SMF to describe companies that produce stable reoccurring revenues. Most of Oracle's revenues come from licensing fees charged to their customers for using Oracle's products. Multi-year contacts are signed by customers, which lock them into a certain amount of years depending on the contract. The contracts allow Oracle to assume that they will collect their fees from that customer. Even after a contact expires, it is still unlikely that customers will shift from Oracle products, given the complexity, high costs, and disruption of business in doing so. This "annuity-like" characteristic of Oracle is a strong feature because it makes it very difficult for Oracle to loss customers. This model has a high initial cost in regards to the development of the product, but once the product is developed, Oracle recovers more than their costs by licensing it to as many customers as possible. In addition, when a customer is already under contract, Oracle typically sells them more products to go along with their customer's existing products.

Another key aspect of their business model is growth through acquisitions. In order for Oracle to stay competitive in every single market from as big as HR talent recruiting to as small as border control, they acquire smaller companies that are experts in their industry. Since 2005, Oracle has acquired more than 80 companies. The most noticeable were PeopleSoft, BEA, and Sun Microsystems, which gave Oracle control over Java.

Walk Through of a Typical Sale:

Oracle researches and concludes that many companies have poor supply chain management. Knowing that there is a market for supply chain management software, Oracle invests in research and development in this market. Once they create the software that helps these companies manage their supply chain, their sales force pushes the software to existing and potential customers. Once a company is ready to purchase the software, the client enters a multiyear contract, locking that customer with Oracle for the specified amount of years. Once the licensing contract is signed, Oracle provides the company with access to the software in exchange for annual fees. Typically the company will also purchase a service package to go along with the software. This package gives the company automatic updates for the software, Oracle's assistance with new releases/patches, and access to Oracles' 24-7 customer service. This additional service plan is the largest component of Oracle's revenues. It accounts for 46% of their total revenues and has 88% profit margins. The most impressive part is that 98% of their customers, who purchase Oracle products, purchase the additional service plan.

Sales Mix by Geography

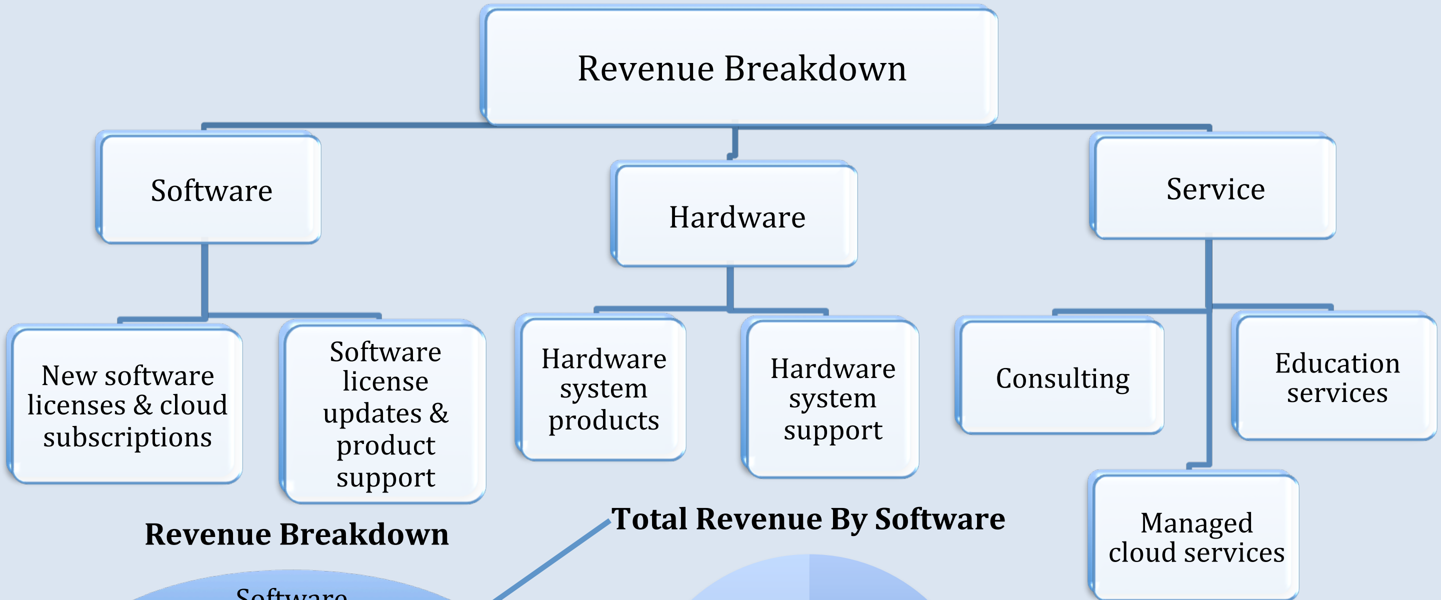


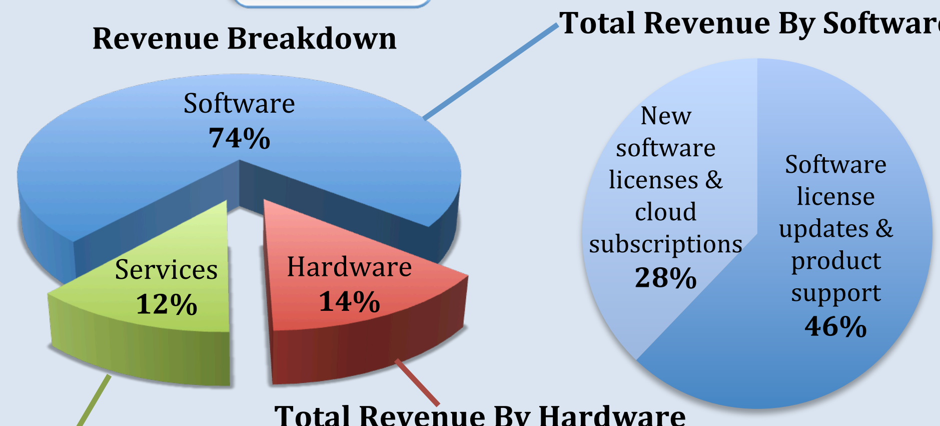
Future Plans:

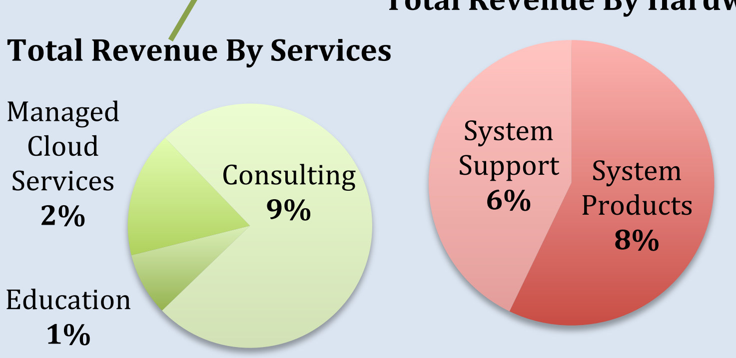
Going forward, Oracle plans to dominate the fairly new, and fast growing, $150 billion enterprise cloud-computing market. They have already made significant investments into the cloud and also started to integrate the cloud with existing products.

Oracle plans to bring its SaaS strategy to the cloud. SaaS stands for "Software as a Service". This is an area that Oracle has done really well in. The current trend is that companies are renting software instead of purchasing it. Oracle plans combine SaaS with the cloud to offer customers a complete centralized management and security system to house "big data" (See Appendix B).

Revenue Breakdown







Services:

The service area accounts for 12% of Oracles total revenue. **Consulting** in the largest area in services. Fees are earned when Oracle gives advice to customers who want a customized product.

Hardware:

The hardware area accounts for 14% of Oracle's total revenue. This area is broken down into **1) System Product** and **2) System Software**. Fees are earned from System Product when Oracle rents/sells hardware such as servers, storage, and network products. There are only 8% operating margins in this area as Oracle makes its money by attaching software to the hardware. System Support is the additional service plan that Oracle offers to customers during a hardware sale. This area accounts for 6% of Oracle's total revenue and has 52% operating margins.

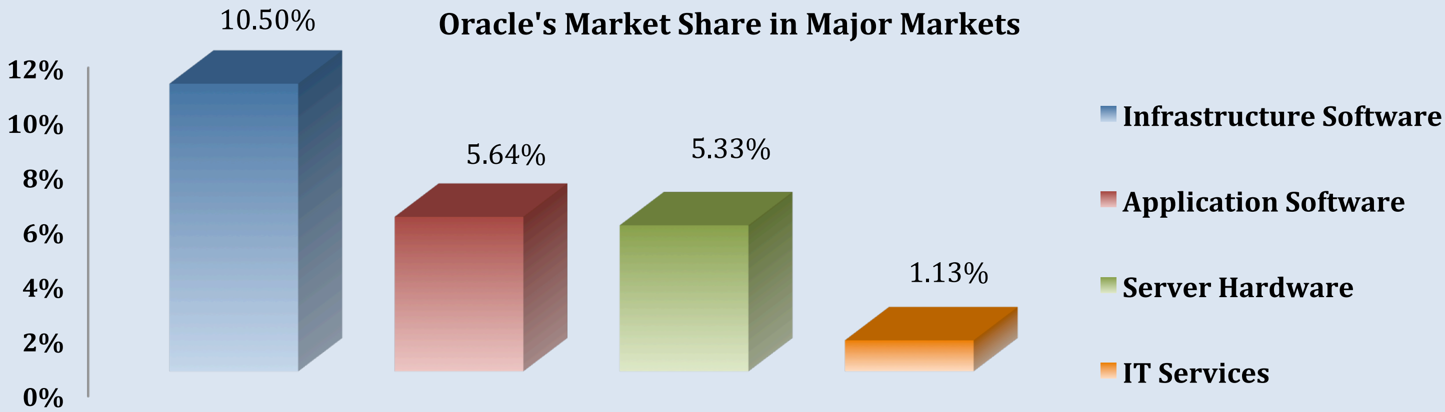
Software:

Software accounts for 74% of Oracles total revenue. Software is then broken down into two smaller areas:

1) New software licenses & cloud subscriptions accounts for 28% of Oracle's total revenues. These are fees earned from granting customers licenses to databases, middleware, software, and applications. Operating margins are 28% in this area.

2) Software license updates & product support accounts for 46% of Oracle's total revenue. These are fees earned when a customer purchases the extra service plan to go along with the underlying product. This service plans allows customers to upgrade to new software, receive assistance with new releases/patches, and contact Oracle for additional help. Operating margins are 88%, in this area. This is Oracles largest and most profitable area. 98% of customers who purchase Oracle software also purchase this service plan. In addition to their high attachment rate, this area continues to grow over 9% a year since 2010.

Market Environment



Infrastructure Software:

The infrastructure software market accounts for 50% of the $353 billion software industry. This $174 billion market is software that is designed to work with hardware products. This industry is expected to grow at 6.2% a year through 2017. This is Oracle's main concentration. They are constantly acquiring smaller software companies in order to be an even larger player in this high margin area. They currently own 10.50% of the total market share in this market. Appendix C shows that Oracle is the third largest company in this area behind Microsoft and IBM. In the last three years, Microsoft and IBM's market share has fallen while Oracle's market share has risen each year. This is a favorable pattern that is expected to continue.

Application Software:

The Application Software market accounts for the other 50% of the $353 billion software industry. Application software is used to automate different processes and is also used to integrate different functions. For example, it includes, enterprise resource planning, customer relationship management, supply chain management and more. This industry is expected to grow 5.9% through 2017 as the need for data management continues to be the hottest area in this industry. Oracle currently owns 5.46% of this market's market share. Appendix C shows that Oracle is the third larges t company in this market behind Microsoft and SAP AG. We expect that the shift into the cloud can increase Oracle's market share in this area.

Server Hardware:

The server hardware market is estimated to be $49 billion in size. This market has experienced slow growth, which is unlikely to end in 2014 and beyond. Oracle owns 5.33% of this market and as a result has experienced a slow down in their hardware sales as well as decrease in market share in 2013. Appendix C shows that Oracle is the fourth largest company in this area behind IBM, HP, and Dell. IBM's market share remains relatively stable, HP's market share continues to fall, and Dell's market share continues to rise. This market is not the main focus of Oracle right now, software is. Oracle was forced into this market when they acquired Sun Microsystems in order to take ownership of Java for their software.

IT Services:

The IT Service market is $857 billion in size. This industry has many different types of companies. There are companies that only offer services, like Accenture. There are also many companies like Oracle and IBM that offer services and products. Full service companies can assist when customers want to switch or integrate software between two different software companies. Product companies can offer services for their products only. Oracle is the 12th largest company in this area. Appendix C shows that IBM is the largest company followed by HP and Accenture. Oracle's market share has remained fairly constant at 1.13% for the last three years but we expect their market share to grow as they continue to acquire smaller service companies.

Risk Factors

Failure to Innovate:

Since the technology sector is high paced and constantly advancing, Oracle has to continue to innovate in order to stay competitive. As customers' needs become more complex, Oracle has to constantly develop new products to meet the changing demand of customers. Oracle has to continue to create differentiated products and services or else customers will not renew their licenses.

Although this is a risk, Oracle's track record proves that they are capable of constantly innovating. In some cases, Oracle is late at developing a product but when they release their version, it is much better than everything else on the market. This means that even in situations where Oracle fails to lead the market, they have proven that they can create better functioning products than their competitors.

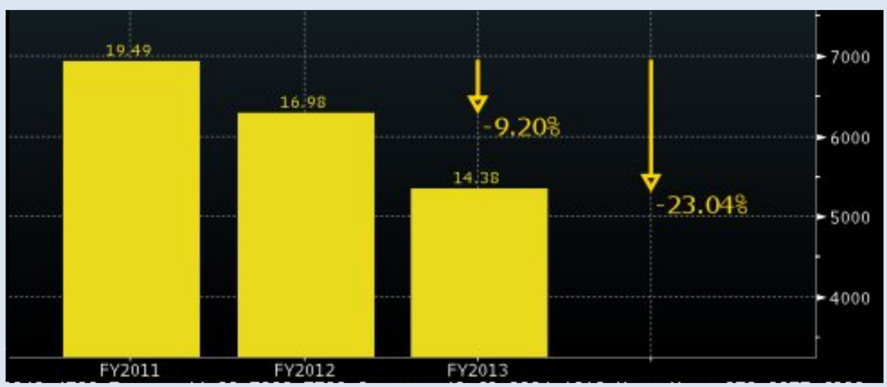
When Oracle released *Oracle Fusion* Applications, which is a package of more than 100 applications that can be used in the cloud, they were not the first company to create such software. Although they were not the first to the market, *Oracle Fusion* contained applications that were better than anything in the market at that time. Now, *Oracle Fusion* is one of Oracle's most popular products. This shows that even though constant innovation is a risk for Oracle, they have been able to overcome it.

Falling Hardware Sales:

Although hardware only accounts for 14% of Oracle's total revenue, it is still a risk. Customers are shifting away from purchasing large in-house databases, servers, and other hardware as a result of the new cloud technologies. When more data is being stored in the cloud, there is less demand for tangible storage products. As a result, hardware sales have fallen year over year. Most of Oracle's hardware was attained when Oracle acquired Sun Microsystems. Even though hardware sales from this acquisition don't seem to being paying off, the software part of the deal is. When Oracle acquired Sun Microsystems, they also took control of Java, which has been extremely successful for Oracle. The success of Java is a result of Oracle's ability to widen its customer base by being able to sell software to clients that use proprietary operating systems.

Even though stand-alone hardware sales have declined, Oracle teamed up with Intel to offer hardware and software packages. The package is called *Exadata* and *Exalytics*. Intel provides the chips and Oracle provides the software. *Exadata* and *Exalytics* have helped minimize the damage in Oracle's hardware area.

Declining hardware sales continue to be a risk for Oracle but they have been using their growth in software and in the cloud to make up for this decline.



Oracle's hardware revenues in dollars from 2011-2013

Unsuccessful Shift to the Cloud:

Since the cloud is relatively new, Oracle lacks the experience in the cloud and could come across challenges as it shifts its business in that direction. There is a possibility that Oracle's cloud will not integrate with other Oracle products the way that customers want. This can lead to customers leaving Oracle for a competitor. Another concern in the cloud is security. Many customers are hesitant to put all of their data in the cloud because of the fear that their data can get lost or hacked. In the event that Oracle's cloud gets hacked, they can loss their customers' trust, which will cause many customers to switch away from Oracle products.

Even though the cloud is associated with many risks, there are also significant growth opportunities. For example, while security is a major issue, Oracle is investing a lot of money to develop software that improves the security of the cloud.

Discounted Cash Flow Valuation

Free Cash Flow Calculation	
EBIT	$ 14,684,000,000
Taxes (Rate: 21.4%)	$ 3,142,376,000
Deferred Taxes in 2013	$ 523,000,000
NOPLAT	$ 12,064,624,000
Depreciation/Amortization	$ 2,931,000,000
Stock Option Expense	$ 755,000,000
Gross Cash Flow	$ 15,750,624,000
Change in Working Cap	$ (305,000,000)
Net PP&E	$ 32,000,000
Investments and other assets	$ 648,000,000
Stock Option Expense	$ 755,000,000
Gross Investment	$ 4,061,000,000
Net Free Cash Flow	$ 11,689,624,000

Free Cash Flow Growth		
Year	Net Free Cash Flow	PV Net Free Cash Flow
2013	$ 11,689,624,000	$ 11,689,624,000
2014	$ 12,391,479,299	$ 11,191,359,284
2015	$ 13,135,474,607	$ 10,714,332,867
2016	$ 13,924,140,047	$ 10,257,639,476
2017	$ 14,760,157,653	$ 9,820,412,426
2018	$ 15,646,370,491	$ 9,401,821,972
2019	$ 16,585,792,327	$ 9,001,073,740
2020	$ 17,581,617,876	$ 8,617,407,212
2021	$ 18,637,233,665	$ 8,250,094,289
2022	$ 19,756,229,555	$ 7,898,437,907
2023	$ 20,942,410,941	$ 7,561,770,712
2024	$ 22,199,811,700	$ 7,239,453,798
TV	$ 287,427,159,638	$ 93,731,229,371

Valuation Assumptions	
Discount Rate	10.72%
FCF Growth Rate	6.00%
Terminal Growth Rate	3.00%
Shares Outstanding	4,769,000,000

Weighted Average Cost of Capital Calculation	
Debt Weight	10.54%
Equity Weight	89.46%
YTM on Long-Term Debt	2.67%
Tax Rate	21.40%
ORCL Beta	1.13
Risk Free Rate	2.75%
Equity Risk Premium	8.15%
Cost of Equity	11.74%
Weighted Average Cost of Capital	10.72%

Growth Rate Calculation	
Increase in NPPE/Investments	$ 680,000,000
Depreciation/Amortization	$ 2,931,000,000
Increase in Goodwill	$ 2,224,000,000
Increase in Intangible Assets	$ (1,259,000,000)
Total	$ 4,576,000,000
Total w/o Depreciation	$ 1,645,000,000
NOPLAT	$ 12,064,624,000
Reinvestment Rate	13.63%
ROIC (w/o Goodwill)	44.03%
Growth Rate	6.00%

Valuation	
Net Present Value	$ 205,374,657,054
Debt	$ 18,494,000,000
Net Value	$ 186,880,657,054
Cash	$ 14,613,000,000
ORCL Value	**$ 201,493,657,054**
ORCL Value Per Share	**$ 42.25**

Sensitivity Analysis

Discount Rate	Long-Term Growth Rate: 1.00%	2.00%	3.00%	4.00%	5.00%
8.00%	$54.31	$59.06	$65.72	$75.70	$92.34
9.00%	$47.09	$50.31	$54.60	$60.62	$69.64
10.00%	$41.51	$43.77	$46.69	$50.57	$56.01
11.00%	$37.08	$38.72	$40.77	$43.41	$46.92
12.00%	$33.48	$34.70	$36.18	$38.04	$40.43
13.00%	$30.50	$31.42	$32.53	$33.87	$35.56

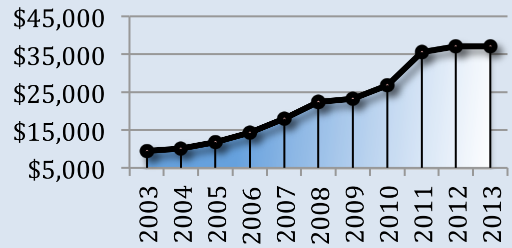
Valuation

Based on the data provided in Oracle's 2013 10k, we estimate that Oracle is currently worth $42.25 per share. Our 6% free cash flow growth rate was calculated by multiplying the reinvestment rate by the return on invested capital net goodwill. Our 6% growth rate is lower than Oracle's 5-year average free cash flow of 14% because we believe Oracle is transitioning from a high growth company to a more mature one. An example of this transition has been Oracles recent focus on returning earnings to shareholders through buyback programs and dividends. Over the last three years Oracle has repurchased 8% of its stock and doubled its dividend. We conservatively, estimate that Oracle will grow at the average inflation of 3% into perpetuity. The effects of a perpetuity growth rate different than 3% is demonstrated in the sensitivity analysis. We calculated Oracle's WACC based on an estimated market risk premium of 8.15% and demonstrated the effects that a different WACC would have on our valuation in the sensitivity analysis. All in all, the Student Managed Fund has taken a position in ORCL at $37 and believe that Oracle is currently trading at a 3.3% discount based on its current market price of $40.91.

Appendix A: Financial Trends

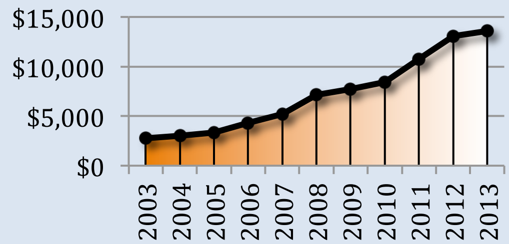
Revenue

The spike in revenues in 2010-2011 was a result of the acquisition of Sun Microsystems. Since then, the slow total revenue growth is a result of declining hardware sales that have offset the positive growth in software. Despite revenues only growing by an average 4.4% since the acquisition, Software revenues have grown 13.8%.



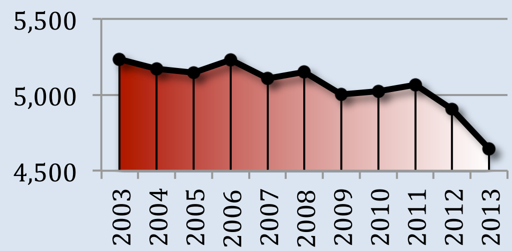
Free Cash Flow

Oracle has been able to grow its free cash flow each year as a result of their organic revenue growth and recent increase in margins. The consistent FCF growth demonstrates Oracle's ability to generate cash, even with year over year increases in capital expenditures. Free cash flow has grown at an average 17.6% a year, since acquiring Sun.



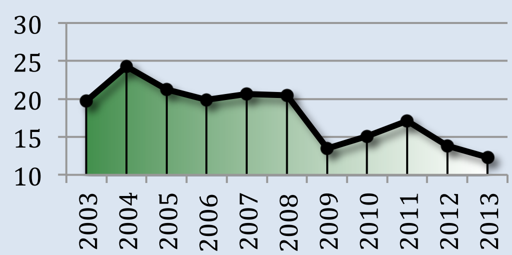
Shares Outstanding

Over the last two years, Oracle has focused on returning earnings to shareholders by repurchasing 8% of their stock. They were recently approved to buyback $12 billion at management's discretion, which equates to 7% of their total shares outstanding.



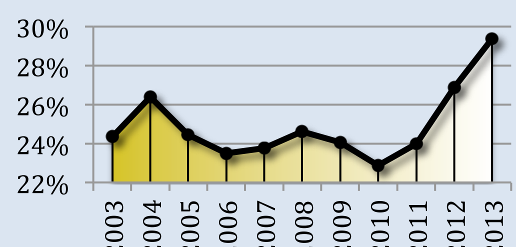
Average Price/FCF

Currently, Oracle's Price/FCF is 13.09, which is the lowest it has been in over 10 years. We believe Oracle's price is lagging its FCF because using an average 10-year Price/CF of 18 and 2013 FCF of $13.5 billion would lead to a stock price of $52.



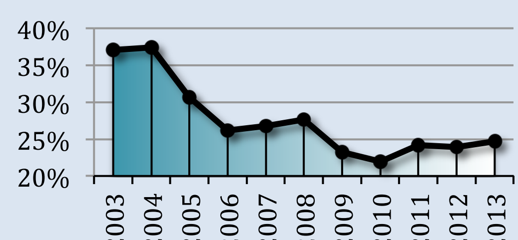
Profit Margins

Over the last three years, Oracle increased profit margins as a result of cost cuts and lower taxes. Despite increases in revenues, Oracle has been able to lower COGS by an average 8% per year for the last three years as a result of the Sun acquisition. In addition to lowering their COGS, their effective tax rate dropped from 25% to 21.4%.



Return on Equity

ROE is lower than what it was 10 years ago as a result of acquisitions. Since 2005 Oracle has made 80 acquisitions, which has put downward pressure on their ROE. Over the last three years ROE has slightly increased as a result of increasing profit margins.

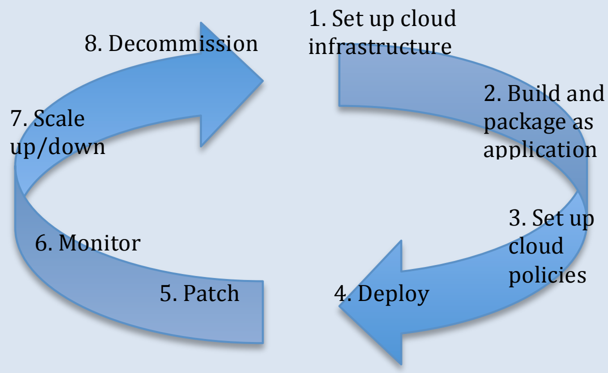


Appendix B: Oracle Cloud Computing Overview

Strategy in Market

Oracle entered this market with a goal of providing a highly diversified open and integrated set of products to build and support cloud computing. A primary focus for Oracle is to offer the *Oracle PaaS Platform*. The *Oracle PaaS Platform* is a diverse set of products that will provide developers and other customers the tools to develop public and private cloud applications. While Oracle is primarily targeting developers through the *PaaS Platform*, Oracle is also aiming to develop client base by targeting enterprises through various business standardized software cloud applications. Oracle is building its strength in the cloud market through acquisitions and partnerships with companies including Salesforce.com, Microsoft, and Netsuite.

Cloud Management Lifecycle

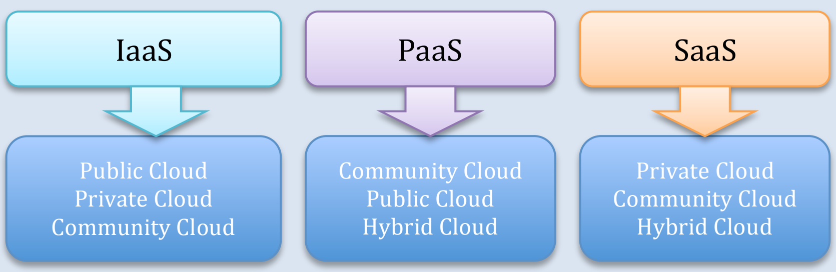


Source: Oracle Investor Relations

Oracle Cloud Services

Oracle Cloud SaaS: Offers enterprises several different applications to manage business. Products include: *Human Capital Management Cloud, Customer Experience Cloud, Enterprise Performance Management Cloud, Enterprise Resource Planning Cloud, Supply Chain Management Cloud*, and more**.**
Oracle Cloud PaaS: Offered to developers to build new applications through the cloud. Services include Java Cloud Service and Database Cloud Service.
Oracle Cloud IaaS: Offers servers, storage, operating systems, and management systems to support cloud applications. Products include *Oracle Enterprise Manager*.

Cloud Service & Deployment Models



Oracle's cloud computing services are delivered through four different deployment models:
1. Public Cloud: Cloud for general public use
2. Private Cloud: Cloud used for a single organization
3. Community Cloud: Cloud shared by several organizations
4. Hybrid Cloud: Composition of two (public and/or private) or more different clouds that are bound together for a single application

Advantages

Low Cost: Costs are reduced through customer-shared access and subscription based model that will increase efficiency ratio**.**
Elastic Scalability: Grid computing allows for the ability to add or remove computing capacity at low cost reducing risk for applications with unpredictable growth.
Fast Deployment: Majority of software and hardware components is reusable and shared for both public and private clouds making deployment efficient.

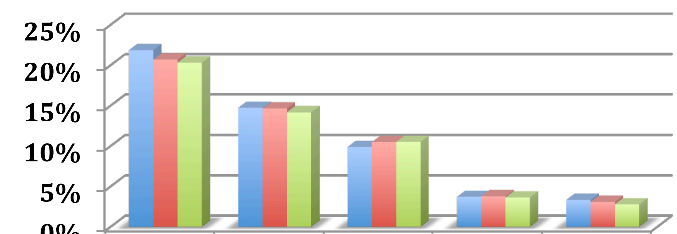
Disadvantages

Company Adoption: Many businesses have not integrated due to security and control concerns. This fear of adoption may have a material effect on market growth.
Product Fit: Standardized SaaS applications may fail due to difficulties with integrating into an organization's business processes.

Appendix C: Competitive Environment

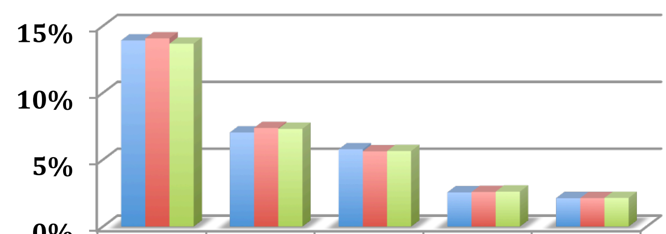
	Mkt Share	Industry Focus	P/E Ratio	FCF Yield	ROE	ROIC	Profit Margin	1yr EPS Growth	ESG Score	Price to CF
Average	$167bn	Tech	14.26	8.36%	35.22%	19.53%	19.69%	1.95%	44.79	11.46
ORCL	$170bn	Inf Soft	16.17	8.26%	25.40%	17.83%	29.38%	2.00%	26.03	11.65
MSFT	$312bn	Inf Soft	13.16	7.20%	22.02%	22.62%	28.08%	14.28%	35.95	11.07
IBM	$200bn	IT Serv	11.20	6.94%	79.15%	28.15%	16.52%	-5.48%	46.69	11.51
SAP	$71bn	App Soft	20.84	4.69%	22.02%	17.56%	19.81%	1.70%	60.33	18.14
HPQ	$57bn	Hardware	9.92	17.40%	20.87%	11.51%	4.55%	-2.76%	54.96	4.91

Infrastructure Software Market Share



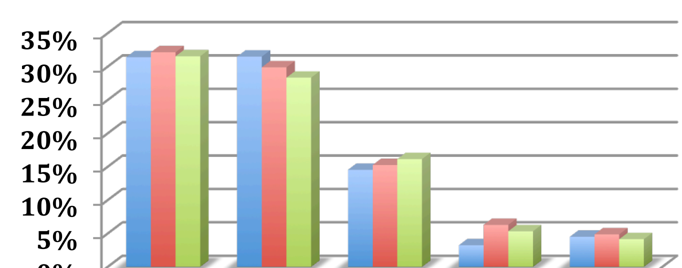
	Microsoft	IBM	Oracle	Symantec	HP
2010	21.85%	14.72%	9.87%	3.69%	3.32%
2011	20.68%	14.64%	10.48%	3.77%	3.07%
2012	20.30%	14.15%	10.50%	3.62%	2.77%

Application Software Market Share



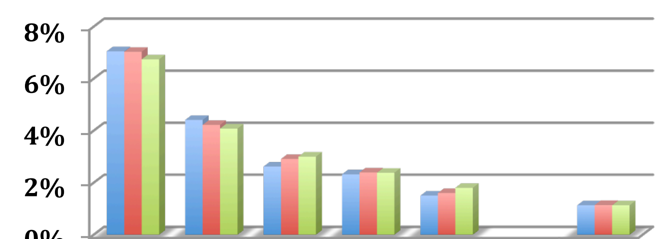
	Microsoft	SAP AG	Oracle	IBM	Adobe
2010	13.91%	7.03%	5.77%	2.55%	2.12%
2011	14.07%	7.37%	5.62%	2.58%	2.13%
2012	13.67%	7.30%	5.64%	2.61%	2.14%

Server Hardware Market Share



	IBM	HP	Dell	Oracle	Fujitsu
2010	31.40%	31.49%	14.54%	3.24%	4.50%
2011	32.14%	29.89%	15.26%	6.29%	4.87%
2012	31.54%	28.34%	16.14%	5.33%	4.14%

IT Services Market Share



	IBM	HP	Accenture	Fujitsu	Deloitte	6 others...	Oracle
2010	7.05%	4.41%	2.62%	2.32%	1.50%		1.13%
2011	7.03%	4.22%	2.91%	2.39%	1.60%		1.14%
2012	6.74%	4.08%	3.00%	2.38%	1.80%		1.13%

Appendix C: Competitive Environment

Free Cash Flow Calculation		
EBIT	$	26,764,000,000
Taxes (19%)	$	5,085,160,000
Deferred Taxes in 2013	$	(184,000,000)
NOPLAT	$	21,494,840,000
Depreciation/Amortization	$	3,755,000,000
Stock Option Expense	$	2,406,000,000
Gross Cash Flow	$	27,655,840,000
Change in Working Cap	$	(730,000,000)
Net PP&E	$	1,551,000,000
Investments and other assets	$	1,068,000,000
Stock Option Expense	$	2,406,000,000
Gross Investment	$	8,050,000,000
Free Cash Flow	$	19,605,840,000

Free Cash Flow Growth				
Year	Net Free Cash Flow		PV Net Free Cash Flow	
2013	$	19,605,840,000	$	19,605,840,000
2014	$	20,449,013,690	$	18,680,003,567
2015	$	21,328,449,121	$	17,797,887,429
2016	$	22,245,705,773	$	16,957,427,004
2017	$	23,202,410,195	$	16,156,655,207
2018	$	24,200,258,889	$	15,393,697,842
2019	$	25,241,021,315	$	14,666,769,218
2020	$	26,326,543,031	$	13,974,167,968
2021	$	27,458,748,968	$	13,314,273,068
2022	$	28,639,646,839	$	12,685,540,043
2023	$	29,871,330,700	$	12,086,497,353
2024	$	31,155,984,668	$	11,515,742,945
TV	$	481,539,865,504	$	177,984,723,257

Valuation Assumptions	
Discount Rate	9.47%
FCF Growth Rate	4.30%
Terminal Growth Rate	3.00%
Shares Outstanding	8,470,000,000

Weighted Average Cost of Capital Calculation	
Debt Weight	4.46%
Equity Weight	95.54%
YTM on Long-Term Debt	3.05%
Tax Rate	19.00%
MSFT Beta	0.90
Risk Free Rate	2.75%
Equity Risk Premium	7.83%
Cost of Equity	9.80%
Weighted Average Cost of Capital	9.47%

Growth Rate Calculation		
Increase in NPPE/Investments	$	2,619,000,000
Depreciation/Amortization	$	3,755,000,000
Increase in Goodwill	$	1,203,000,000
Increase in Intangible Assets	$	(87,000,000)
Total	$	7,490,000,000
Total w/o Depreciation	$	3,735,000,000
NOPLAT	$	21,494,840,000
Reinvestment Rate		17.38%
ROIC		24.75%
Growth Rate		4.30%

Valuation		
Net Present Value	$	360,819,224,901
Debt	$	12,601,000,000
Net Value	$	348,218,224,901
Cash	$	3,804,000,000
MSFT Value	$	352,022,224,901
MSFT Value Per Share	$	41.56

*1-Year stock performance **ORCL** (green) vs. **MSFT** (white)*

Microsoft

Microsoft is one of Oracle's largest competitors, especially in the software industry. Microsoft has the largest market share in the both the infrastructure software and application software industry. Over the last three years Microsoft's infrastructure software market share has fallen year over year. We believe this is a result of increased competition from companies such as Oracle and smaller software firms. The decline in market share for Microsoft and increase in market share for Oracle is one of the reasons why we took a position in Oracle instead of Microsoft. In our opinion, the direction of Oracle is clearer than the direction for Microsoft. We know that Oracle's next significant growth opportunity lies in cloud and we have witnessed Oracle make several acquisitions that strengthen its position in this market. Microsoft is also trying to gain market share in the cloud, but we believe Oracle is better positioned and more invested than Microsoft is in the cloud.

We believe that Microsoft is trading very closely to its intrinsic value based on an estimated FCF growth rate of 4.30% and a WACC of 9.47%. We believe that Microsoft is a good investment but currently favor Oracle instead given Oracle's higher growth rate, increasing market share, and position in the cloud.

Appendix C: Competitive Environment

Free Cash Flow Calculation		
EBIT	$	6,171,000,000
Taxes (24.4%)	$	1,505,724,000
Deferred Taxes in 2013	$	55,900,000
NOPLAT	$	4,721,176,000
Depreciation/Amortization	$	1,310,000,000
Stock Option Expense	$	-
Gross Cash Flow	$	6,031,176,000
Change in Working Cap	$	387,400,000
Net PP&E	$	145,600,000
Investments and other assets	$	50,700,000
Stock Option Expense	$	-
Gross Investment	$	1,893,700,000
Free Cash Flow	$	4,137,476,000

Free Cash Flow Growth				
Year	Net Free Cash Flow		PV Net Free Cash Flow	
2013	$	4,137,476,000	$	4,137,476,000
2014	$	4,793,120,511	$	4,268,905,175
2015	$	5,552,661,631	$	4,404,509,268
2016	$	6,432,563,320	$	4,544,420,900
2017	$	7,451,898,497	$	4,688,776,901
2018	$	8,632,762,470	$	4,837,718,448
2019	$	9,445,968,694	$	4,714,498,035
2020	$	10,335,778,945	$	4,594,416,141
2021	$	11,309,409,322	$	4,477,392,825
2022	$	12,374,755,680	$	4,363,350,184
2023	$	13,540,457,665	$	4,252,212,296
2024	$	14,815,968,777	$	4,143,905,175
TV	$	159,657,342,331	$	44,654,851,607

Valuation Assumptions	
Discount Rate	12.28%
FCF Growth Rate Year 1-5	15.85%
FCF Growth Rate Year 6-10	9.42%
Terminal Growth Rate	3.00%
Shares Outstanding	1,229,000,000

Weighted Average Cost of Capital Calculation	
Debt Weight	5.91%
Equity Weight	94.09%
YTM on Long-Term Debt	3.95%
Tax Rate	24.40%
SAP Beta	1.30
Risk Free Rate	2.75%
Equity Risk Premium	7.78%
Cost of Equity	12.86%
Weighted Average Cost of Capital	12.28%

Growth Rate Calculation		
Increase in NPPE/Investments	$	196,300,000
Depreciation/Amortization	$	1,310,000,000
Increase in Goodwill	$	1,711,000,000
Increase in Intangible Assets	$	(361,000,000)
Total	$	2,856,300,000
Total w/o Depreciation	$	1,546,300,000
NOPLAT	$	4,721,176,000
Reinvestment Rate		32.75%
ROIC		48.38%
Growth Rate		15.85%

Valuation		
Net Present Value	$	98,082,432,955
Debt	$	6,210,000,000
Net Value	$	91,872,432,955
Cash	$	3,572,000,000
SAP Value	**$**	**95,444,432,955**
SAP Value Per Share	**$**	**77.66**

*1-Year stock performance **ORCL** (green) vs. **SAP** (white)*

SAP

SAP primarily focuses on application software. We believe SAP is Oracle's largest competitor in application software because they are both competing to develop applications that increase the functionality of the cloud.

One advantage that Oracle has over SAP is through its PaaS strategy. Because Oracle has a larger presence in the infrastructure software industry, they can leverage their middleware to execute a PaaS strategy in addition to a SaaS strategy. Since SAP focuses more on application software, they do not have a large infrastructure software business, which causes them to rely on a SaaS strategy in the cloud.

Similar to Oracle, SAP grows through acquisitions. We believe that SAP is a faster growing company than Oracle and will experience an average FCF growth rate of 15.85%. We assumed that realistically SAP will not grow at 15.85% for the next ten years, so we conservatively set the growth rate to 9.42% for years six through ten. Despite a higher growth rate, we believe there are more risks associated with SAP than Oracle since SAP's business model is less diversified. As a result, we used a WACC of 12.28% to compensate investors for the additional risks and to account for variations in the FCF growth rate.

We believe that SAP is slightly overvalued since SAP trades at $81, which is above our intrinsic value estimate of $77.66.

Appendix C: Competitive Environment

Free Cash Flow Calculation		
EBIT	$	19,524,000,000
Taxes (11.2%)	$	2,186,688,000
Deferred Taxes in 2013	$	(315,000,000)
NOPLAT	$	17,022,312,000
Depreciation/Amortization	$	4,678,000,000
Stock Option Expense	$	614,000,000
Gross Cash Flow	$	22,314,312,000
Change in Working Cap	$	3,132,000,000
Net PP&E	$	(26,000,000)
Investments and other assets	$	(382,000,000)
Stock Option Expense	$	614,000,000
Gross Investment	$	8,016,000,000
Free Cash Flow	$	14,298,312,000

Free Cash Flow Growth				
Year		Net Free Cash Flow		PV Net Free Cash Flow
2013	$	14,298,312,000	$	14,298,312,000
2014	$	14,953,846,090	$	13,594,405,536
2015	$	15,639,434,423	$	12,925,152,416
2016	$	16,356,454,895	$	12,288,846,653
2017	$	17,106,348,573	$	11,683,866,248
2018	$	17,890,622,594	$	11,108,669,052
2019	$	18,710,853,192	$	10,561,788,836
2020	$	19,568,688,867	$	10,041,831,555
2021	$	20,465,853,697	$	9,547,471,792
2022	$	21,404,150,804	$	9,077,449,379
2023	$	22,385,465,978	$	8,630,566,188
2024	$	23,411,771,465	$	8,205,683,075
TV	$	334,453,878,076	$	117,224,043,924

Valuation Assumptions	
Discount Rate	10.00%
FCF Growth Rate	4.58%
Terminal Growth Rate	3.00%
Shares Outstanding	1,080,000,000

Weighted Average Cost of Capital Calculation	
Debt Weight	16.38%
Equity Weight	83.62%
YTM on Long-Term Debt	3.00%
Tax Rate	11.20%
IBM Beta	0.975
Risk Free Rate	2.75%
Equity Risk Premium	7.25%
Cost of Equity	9.82%
Weighted Average Cost of Capital	8.65%

Growth Rate Calculation		
Increase in NPPE/Investments	$	(408,000,000)
Depreciation/Amortization	$	4,678,000,000
Increase in Goodwill	$	1,937,000,000
Increase in Intangible Assets	$	84,000,000
Total	$	6,291,000,000
Total w/o Depreciation	$	2,964,000,000
NOPLAT	$	17,022,312,000
Reinvestment Rate		17.41%
ROIC		26.33%
Growth Rate		4.58%

Valuation		
Net Present Value	$	249,188,086,654
Debt	$	32,856,000,000
Net Value	$	216,332,086,654
Cash	$	10,716,000,000
IBM Value	**$**	**227,048,086,654**
IBM Value Per Share	**$**	**210.23**

*1-Year stock performance **ORCL** (green) vs. **IBM** (white)*

IBM

IBM is well positioned in the service hardware market, with over 30% of market share. IBM has many strong attributes as a business, including strong presence in IT services and service hardware, and strong returns to shareholders (through share buybacks). IBM has developed a very stable infrastructure through building out entire hardware and server systems for companies; however, growth in this area may be threatened due to movement to cloud computing. IBM is growing its presence in the cloud market and developing more modernized software in this area, though Oracle is also focusing in cloud area and plans to continue this growth. Though IBM will continue to adapt to the changing technological environment, Oracle's core business as a software company places them in a more competitive position. Additionally, Oracle's dominance in enterprise software delivers more positive margins than the server hardware business, as partially reflected in a comparison of the two companies' margins (IBM's 16.52% vs. Oracle's 29.38%). However, it should be noted that IBM also has a strong positioning in IT services (6.74% market share), which is also a high-margin area. In the next few years, it is projected that IBM will increase revenues, but at a slower rate as they invest in new software and technology. Based on a discounted cash flow analysis, IBM is currently trading at a discount ($210.23 vs. $196.64); however, the previously mentioned challenges for IBM due to changes in the technology market environment make Oracle a more attractive investment.

Appendix C: Competitive Environment

Free Cash Flow Calculation		
EBIT	$	7,131,000,000
Taxes (21.46%)	$	1,530,312,600
Deferred Taxes in 2013	$	1,346,000,000
NOPLAT	$	6,946,687,400
Depreciation/Amortization	$	4,611,000,000
Stock Option Expense	$	500,000,000
Gross Cash Flow	$	12,057,687,400
Change in Working Cap	$	872,000,000
Net PP&E	$	(491,000,000)
Investments and other assets	$	-
Stock Option Expense	$	500,000,000
Gross Investment	$	5,492,000,000
Free Cash Flow	$	6,565,687,400

Free Cash Flow Growth				
Year		Net Free Cash Flow		PV Net Free Cash Flow
2013	$	6,565,687,400	$	6,565,687,400
2014	$	6,692,488,879	$	5,971,941,550
2015	$	6,821,739,244	$	5,431,889,108
2016	$	6,953,485,789	$	4,940,674,492
2017	$	7,087,776,721	$	4,493,881,217
2018	$	7,224,661,181	$	4,087,492,188
2019	$	7,364,189,256	$	3,717,853,584
2020	$	7,506,412,002	$	3,381,642,004
2021	$	7,651,381,461	$	3,075,834,587
2022	$	7,799,150,678	$	2,797,681,834
2023	$	7,949,773,725	$	2,544,682,890
2024	$	8,103,305,718	$	2,314,563,054
TV	$	89,385,747,929	$	25,531,425,932

Valuation Assumptions	
Discount Rate	12.07%
FCF Growth Rate	1.93%
Terminal Growth Rate	3.00%
Shares Outstanding	1,908,777,048

Weighted Average Cost of Capital Calculation	
Debt Weight	30.87%
Equity Weight	69.13%
YTM on Long-Term Debt	4.75%
Tax Rate	21.46%
HPQ Beta	1.75
Risk Free Rate	2.75%
Equity Risk Premium	7.45%
Cost of Equity	15.79%
Weighted Average Cost of Capital	12.07%

Growth Rate Calculation		
Increase in NPPE/Investments	$	(491,000,000)
Depreciation/Amortization	$	4,611,000,000
Increase in Goodwill	$	55,000,000
Increase in Intangible Assets	$	(1,346,000,000)
Total	$	2,829,000,000
Total w/o Depreciation	$	(1,782,000,000)
NOPLAT	$	6,946,687,400
Reinvestment Rate		16.75%
ROIC		11.53%
Growth Rate		1.93%

Valuation		
Net Present Value	$	74,855,249,840
Debt	$	16,608,000,000
Net Value	$	58,247,249,840
Cash	$	12,163,000,000
HPQ Value	**$**	**70,410,249,840**
HPQ Value Per Share	**$**	**36.89**

*1-Year stock performance **ORCL** (green) vs. **HPQ** (white)*

Hewlett Packard

Hewlett-Packard (H-P) is one of Oracle's competitors that is altering its core business to adapt to the changing technology environment. While Hewlett-Packard has primarily been considered a hardware company, with approximately 50% of revenues being sourced from printing and personal systems sales, the company is looking to grow its positioning in enterprise services (currently 19% of revenues) and software (currently 4% of revenues). There are worries that the personal computer market is stabilizing and competition is increasing in other personal technology devices including tablets and mobile devices. Though H-P is looking to broaden its product offerings, cloud and enterprise services are not significantly related to H-P's core offerings (hardware) compared to Oracle's offerings (software). H-P will likely have a more difficult time adjusting to the evolving environment than Oracle. Based on a discounted cash flow analysis of H-P, the company is currently trading below intrinsic value ($32.72 vs. $36.89). Though the company is currently trading at a discount, there is significant risk that H-P will be unable to effectively compete in the cloud market and have to remain in the struggling hardware industry.

Appendix D: Financial Statements

ORACLE CORPORATION
CONSOLIDATED BALANCE SHEETS
As of May 31, 2013 and 2012

(in millions, except per share data)	May 31, 2013	May 31, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,613	$ 14,955
Marketable securities	17,603	15,721
Trade receivables, net of allowances for doubtful accounts of $296 and $323 as of May 31, 2013 and 2012, respectively	6,049	6,377
Inventories	240	158
Deferred tax assets	974	877
Prepaid expenses and other current assets	2,213	1,935
Total current assets	41,692	40,023
Non-current assets:		
Property, plant and equipment, net	3,053	3,021
Intangible assets, net	6,640	7,899
Goodwill	27,343	25,119
Deferred tax assets	766	595
Other assets	2,318	1,670
Total non-current assets	40,120	38,304
Total assets	$ 81,812	$ 78,327
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable, current and other current borrowings	$ —	$ 2,950
Accounts payable	419	438
Accrued compensation and related benefits	1,851	2,002
Income taxes payable	911	528
Deferred revenues	7,118	7,035
Other current liabilities	2,573	2,435
Total current liabilities	12,872	15,388
Non-current liabilities:		
Notes payable and other non-current borrowings	18,494	13,524
Income taxes payable	3,899	3,759
Other non-current liabilities	1,402	1,569
Total non-current liabilities	23,795	18,852
Commitments and contingencies		
Oracle Corporation stockholders' equity:		
Preferred stock, $0.01 par value—authorized: 1.0 shares; outstanding: none	—	—
Common stock, $0.01 par value and additional paid in capital—authorized: 11,000 shares; outstanding: 4,646 shares and 4,905 shares as of May 31, 2013 and 2012, respectively	18,893	17,489
Retained earnings	25,854	26,087
Accumulated other comprehensive (loss) income	(99)	112
Total Oracle Corporation stockholders' equity	44,648	43,688
Noncontrolling interests	497	399
Total equity	45,145	44,087
Total liabilities and equity	$ 81,812	$ 78,327

Appendix D: Financial Statements

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended May 31, 2013, 2012 and 2011

(in millions, except per share data)	Year Ended May 31, 2013	2012	2011
Revenues:			
New software licenses and cloud software subscriptions	$ 10,321	$ 9,906	$ 9,235
Software license updates and product support	17,142	16,210	14,796
Software revenues	27,463	26,116	24,031
Hardware systems products	3,033	3,827	4,382
Hardware systems support	2,313	2,475	2,562
Hardware systems revenues	5,346	6,302	6,944
Services revenues	4,371	4,703	4,647
Total revenues	37,180	37,121	35,622
Operating expenses:			
Sales and marketing[1]	7,328	7,127	6,579
Software license updates and product support[1]	1,175	1,226	1,264
Hardware systems products[1]	1,501	1,843	2,057
Hardware systems support[1]	890	1,046	1,259
Services[1]	3,547	3,743	3,818
Research and development	4,850	4,523	4,519
General and administrative	1,072	1,126	970
Amortization of intangible assets	2,385	2,430	2,428
Acquisition related and other	(604)	56	208
Restructuring	352	295	487
Total operating expenses	22,496	23,415	23,589
Operating income	14,684	13,706	12,033
Interest expense	(797)	(766)	(808)
Non-operating income, net	11	22	186
Income before provision for income taxes	13,898	12,962	11,411
Provision for income taxes	2,973	2,981	2,864
Net income	$ 10,925	$ 9,981	$ 8,547
Earnings per share:			
Basic	$ 2.29	$ 1.99	$ 1.69
Diluted	$ 2.26	$ 1.96	$ 1.67
Weighted average common shares outstanding:			
Basic	4,769	5,015	5,048
Diluted	4,844	5,095	5,128
Dividends declared per common share	$ 0.30	$ 0.24	$ 0.21

[1] Exclusive of amortization of intangible assets, which is shown separately.

Appendix D: Financial Statements

ORACLE CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended May 31, 2013, 2012 and 2011

(in millions)	Year Ended May 31, 2013	2012	2011
Cash Flows From Operating Activities:			
Net income	$ 10,925	$ 9,981	$ 8,547
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	546	486	368
Amortization of intangible assets	2,385	2,430	2,428
Allowances for doubtful accounts receivable	118	92	164
Deferred income taxes	(117)	9	(253)
Stock-based compensation	755	659	510
Tax benefits on the exercise of stock options and vesting of restricted stock-based awards	410	182	325
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	(241)	(97)	(215)
Other, net	155	84	68
Changes in operating assets and liabilities, net of effects from acquisitions:			
Decrease (increase) in trade receivables	267	(8)	(729)
(Increase) decrease in inventories	(66)	150	(28)
(Increase) decrease in prepaid expenses and other assets	(555)	(51)	14
Decrease in accounts payable and other liabilities	(541)	(720)	(120)
Increase (decrease) in income taxes payable	35	54	(96)
Increase in deferred revenues	148	492	231
Net cash provided by operating activities	14,224	13,743	11,214
Cash Flows From Investing Activities:			
Purchases of marketable securities and other investments	(32,160)	(38,625)	(31,009)
Proceeds from maturities and sales of marketable securities and other investments	30,159	35,594	27,120
Acquisitions, net of cash acquired	(3,305)	(4,702)	(1,847)
Capital expenditures	(650)	(648)	(450)
Proceeds from sale of property	—	—	105
Net cash used for investing activities	(5,956)	(8,381)	(6,081)
Cash Flows From Financing Activities:			
Payments for repurchases of common stock	(11,021)	(5,856)	(1,160)
Proceeds from issuances of common stock	1,527	733	1,376
Payments of dividends to stockholders	(1,433)	(1,205)	(1,061)
Proceeds from borrowings, net of issuance costs	4,974	1,700	4,354
Repayments of borrowings	(2,950)	(1,405)	(3,143)
Excess tax benefits on the exercise of stock options and vesting of restricted stock-based awards	241	97	215
Distributions to noncontrolling interests	(31)	(163)	(65)
Other, net	193	—	—
Net cash (used for) provided by financing activities	(8,500)	(6,099)	516
Effect of exchange rate changes on cash and cash equivalents	(110)	(471)	600
Net (decrease) increase in cash and cash equivalents	(342)	(1,208)	6,249
Cash and cash equivalents at beginning of period	14,955	16,163	9,914
Cash and cash equivalents at end of period	$ 14,613	$ 14,955	$ 16,163
Non-cash investing and financing transactions:			
Fair value of stock options and restricted stock-based awards assumed in connection with acquisitions	$ 15	$ 29	$ 17
Fair value of contingent consideration payable in connection with acquisition	$ —	$ 346	$ —
(Decrease) increase in unsettled repurchases of common stock	$ (27)	$ 112	$ 12
Supplemental schedule of cash flow data:			
Cash paid for income taxes	$ 2,644	$ 2,731	$ 2,931
Cash paid for interest	$ 781	$ 737	$ 770