



ORCL: Back to the Basics: Database Growth with Linux/RAC — Initiating with a BUY

Clark Chang (415) 248-2541

cchang@fulcrumgp.com

Oracle Corp.# (ORCL, \$10.11, NASDAQ, BUY)

August 31, 2004

Company description: Oracle is the second-largest software company in the world. Oracle primarily develops database management systems and integrated business applications. Founded in 1977 by current CEO Larry Ellison, Oracle employs over forty thousand full-time employees and produces \$10B in annual revenues.

#Fulcrum Global Partners LLC makes a market in this security.

Decision Points:

- **We are initiating coverage of Oracle with a BUY and \$13 price target.** Oracle is the second-largest software company in the world, serving more than 230K customers. The company is widely known for its robust Relational Database Management System (~80% license revenue), and has the largest market share (~40%). Although the enterprise database market is well penetrated, the company's new innovations in clustering technology and Linux platform are driving growth for the company. To stimulate growth, Oracle is on a hunt to acquire a sizeable company, and we believe Oracle will do so within the next 12 months, whether it is PeopleSoft# (PSFT, \$17.19, NASDAQ, NEUTRAL) or another company. With ~\$8.5B (~\$1.60/sh) in cash and ~\$3B in annual cash flow, Oracle is financially healthy and is well-positioned to strategically expand its business in the next few years. **#Fulcrum Global Partners LLC makes a market in this security.**
- **We are cautious about Oracle's FQ1 (results expected in mid-September) due to general weakness in the software space. However, we believe that lowered expectations for FQ1 are already built into the stock and the current discounted share price presents a buying opportunity.** The shares are currently trading at forward P/E of 17.4x, a steep discount from its historical three-year average forward P/E of 26.5x. Trough forward P/E during the last three years was 17.2x and during the last 10 years was 16.0x. ORCL's current forward P/E is near these extreme trough points, indicating potential value. Oracle shares are trading at 16x our calendar '05 earnings estimate of \$0.62, which is a discount to its estimated peer group average of 22x (see Exhibit 1 on page 16). Our price target of \$13 represents 21x our C'05 earnings estimate and is consistent with our DCF analysis (see Exhibit 2 on page 17).

Important disclosures and analyst's certification in Appendix A.

Rating:	BUY	FY: May	2003	2004	2005 E	2006 E
Price:	\$10.11	Aug	\$0.07 A	\$0.08 A	\$0.09 E	E
52-Week Range:	\$9.78 - \$15.51	Nov	\$0.10 A	\$0.12 A	\$0.14 E	E
Market Cap. (\$B):	\$52.3	Feb	\$0.11 A	\$0.12 A	\$0.14 E	E
Avg. Daily Volume:	45M	May	\$0.16 A	\$0.19 A	\$0.21 E	E
3-Yr. Est. EPS						
Growth Rate:	13%	FY	\$0.43 A	\$0.50 A	\$0.58 E	\$0.66 E
Investment theme:	Growth	Previous				
		Consensus			\$0.57 E	\$0.65 E
Target price	\$13	P/E		20.2x	17.4x	15.3x
Risk level	Medium	Revenue (mm)	\$9476	\$10155	\$10933 E	\$11896 E

NMF – Not meaningful.

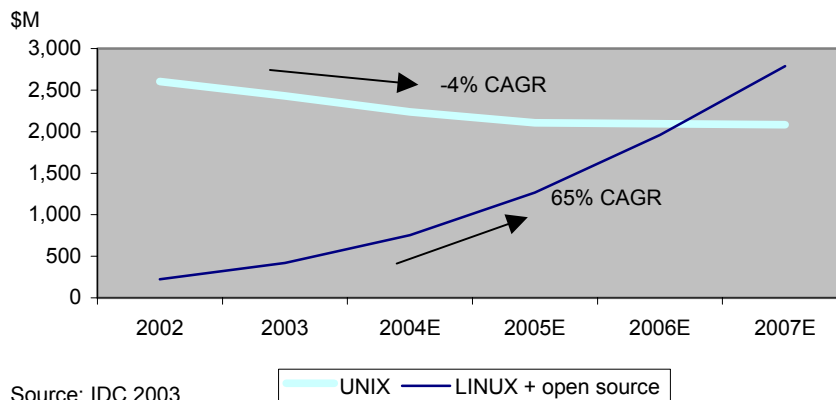
Decision Points (continued):

- Our BUY recommendation is based on the expectation that Oracle is poised for software license revenue acceleration toward double-digit growth (constant currency) in the next 6-18 months based on:
 1. **Revenue growth from database options sales driven by Real Application Cluster technology (RAC) adoption.** RAC options grew 60% in FY04 and made up the majority of total database options revenue, which is ~15% of total database revenue. We believe RAC is a desirable technology that will differentiate Oracle from DB2 and SQL servers, and serve as a catalyst for revenue growth.
 2. **SMB market penetration with 10g.** With the 10g database, Oracle has made installation and maintenance as easy as the Microsoft# (MSFT, \$27.30, NASDAQ, BUY) SQL database. Usability and maintenance have been key issues used against the Oracle database in the past, which 10g resolves. SE-1 (Standard Edition One) is a database designed specifically for the SMB market and is priced at \$5K/CPU, matching Microsoft's SQL Standard version. Within the last two quarters, SE-1 has already reached 15% of Standard Edition sales. We expect 10g/SE-1 will continue to gain traction in the SMB space. **#Fulcrum Global Partners LLC makes a market in this security.**
 3. **Rapidly growing database license revenue on Linux platform.** Oracle grew its Linux platform database license sales to \$207M in 2003 from \$45M in 2002 (~360% growth), according to Gartner. We estimate that the Linux platform will exceed 10% of total database license revenues in 2004 (from 7.7% in 2003), which has become large enough to make a difference in the overall growth rate. Oracle is dominating the database market on the Linux platform with nearly 70% of the market share. Although Oracle is losing some business on the Unix platform as customers migrate to Linux, we believe Oracle's dominance in the Linux platform as well as its significant presence in Unix and Windows platforms will result in net growth.
 4. **Upcoming Oracle 11.5.10 release could fuel applications business growth.** Oracle is planning to release a new version of its application suite (enterprise edition) in the next few months. The new release will be more industry-focused, with many new modules to up-sell. Oracle will also re-launch CRM with the new version, which has been rewritten by a "superstar" team led by John Wookey, who was responsible for implementing the popular Oracle financials. The CRM application will have major functional and user interface upgrades. We believe Oracle will benefit from the new release in coming quarters.
 5. **Improved relationships with partners over the last year should bear fruit in coming quarters.** Oracle traditionally struggled to retain good relationships with its partners, in part due to the conflict with its own consulting arm. However, in the past year or so, Oracle has

made a dramatic turnaround in relationships with System Integrators and VARs. As an example, Accenture (ACN, \$25.75, NYSE, BUY) grew its Oracle practice revenue 33% annually for the last two years. Accenture increased its Oracle staff to 2800 from 1600 in two years, resulting in 75% growth. We believe Oracle has changed its business model to leverage its partners to grow more efficiently.

- A sizeable acquisition is likely to be made within the next 12 months, which could further stimulate Oracle's already turning-around business.** According to Oracle/PeopleSoft anti-trust court documents, Oracle appears to have been considering acquisitions in a variety of companies in the areas of applications, application infrastructure, and business intelligence. In our view, Oracle is looking to expand its customer base, vertically integrate its software stack, and diversify its offerings. The bid for PeopleSoft was an example of Oracle's willingness to sacrifice a substantial amount of resources to its acquisition strategy. Oracle has \$8.4B in net cash (\$1.60/sh) and has secured an additional \$1.5B credit line to make a sizable acquisition. If Oracle fails to acquire PeopleSoft, Oracle is likely to quickly refocus acquisition efforts on another target. The acquisition would likely be an accretive all-cash or near-all-cash deal, which we feel would make the valuation of Oracle even more attractive.
- We believe Oracle is well positioned to participate in the rapidly growing Linux database server market.** According to IDC, database servers on the Linux platform (including other open source platforms) are growing ~65% annually. Oracle captured nearly 70% of the database market on the Linux platform in 2003, according to Gartner. Although hesitancy toward running one of the most central components of IT—the database—on Linux or any other open source platforms still persists, IT infrastructure leaders IBM (IBM, \$84.40, NYSE, NEUTRAL) and Oracle have embraced and evangelized the use of the Linux platform, which is helping to fuel the general acceptance of the Linux platform. Likewise, server hardware vendors such as DELL# (DELL, \$35.12, NASDAQ, BUY), IBM and Hewlett-Packard (HPQ, \$17.92, NYSE, BUY) are supporting and benefiting from Linux server sales. Oracle currently has an extensive partnership with Red Hat# (RHAT, \$12.79, NASDAQ, NR) and other Linux vendors such as Suse Linux, Asianux, and United Linux. To that extent, we believe the momentum for Linux is likely to continue and general adoption for Linux servers including database servers will take place over time. Linux has enabled Oracle to enter the SMB database market, a stronghold of the Microsoft SQL Server installed base. Priced to compete head-to-head with the Microsoft SQL Server, SE One (Oracle's low-end database offering) on Linux gives customers an alternative to the Microsoft platform. In our view, Oracle has done an outstanding job positioning itself as the leader in the Linux database market, and the company is likely to enjoy the growth in the Linux platform for many years to come. **#Fulcrum Global Partners LLC makes a market in this security.**

Database Software License Revenue Forecast between UNIX and LINUX



- **Database options are driving higher growth in the midst of a slower core database business.** We believe Enterprise Options have been and will continue to serve as one of the significant growth engines for the database business. We believe Oracle's core database sales are currently growing at approximately mid-single-digits and we do not anticipate a significant improvement in the near-term. We attribute the slow growth in core database sales to a well-penetrated database market, slowly recovering IT spending environment, and rapidly growing Linux business, offset by a declining Unix platform business. However, we think that Enterprise Options can grow ~35%, providing almost half of total growth. We have modeled overall database business to grow ~11% in the next 6-18 months.

FY05 Database License Revenue Growth and Contribution Estimates

	% of lic rev	growth	contribution to total rev growth
Enterprise Edition	60%	5%	3.0%
Std Edition + SE-1	10%	10%	1.0%
App Svr	10%	15%	1.5%
Enterprise Options	15%	35%	5.3%
Other	5%	7%	0.4%
total	100%	11.1%	11.1%

Source: FGP estimates

- **Our BUY thesis depends on the following assumptions:**
 - Oracle makes a sound acquisition – Oracle's future could significantly depend on the anticipated large acquisition, which we expect within the next year or so. Oracle shares will likely react proportionally to the quality of the acquisition.
 - Continued rapid growth in Enterprise Options – In our model, we are significantly depending on the ongoing rapid growth of Enterprise Options to fuel growth for the overall database business. We assume Enterprise Options will grow 30%-40% in FY05. If Enterprise Options were to slow down unexpectedly, our estimates could become too optimistic.
 - Oracle maintains its competitiveness in the applications business – Oracle's applications business has performed relatively well in the last year. However, we believe the enterprise applications industry remains very competitive and challenging. We assume Oracle is likely to remain competitive and steadily improve its applications business over time, regardless of whether the company is successful in acquiring PeopleSoft.
 - Steadily improving IT spending environment – We believe we are in the economic recovery stage following the recent recession. The IT spending environment is likely to gradually improve with the overall economic recovery. However, if the economy were to stall or decline, it would negatively impact Oracle's business.
- **Penetrating the SMB database market with SE-1 (Standard Edition One, also abbreviated as SE One).** SE-1 has already shown some signs of success in the early stage of its lifecycle. Management recently made a comment that SE-1 already is contributing 15% of total Standard Edition sales and has 3000 customers. Late last year, Oracle introduced its latest database offering, the 10g, with the SE-1 version that is designed to appeal to the SMB market. Earlier this year, only a few months after its initial release, SE-1's price was reduced strategically to \$4995 per processor (or \$149 per user), matching the pricing for Microsoft's SQL Server 2000. The 10g SE One offering can be run on servers with single or dual processors. The Oracle database is generally known for its high performance and scalability, but in the past it has been accused of being too complex to use and difficult to maintain. To address these issues with the 10g, Oracle has improved manageability and usability of the database systems, which are important attributes in the SMB environment.

Oracle is aggressively competing for database market share on both Windows and Linux platforms. Competition is fierce with Oracle, Microsoft and IBM all actively fighting for market share in both the SMB and large enterprise markets. Oracle's SMB plan consists of lowering the price-point to compete head-to-head with Microsoft, and making database manageability and usability simpler to appeal to broader end-markets. The other ammo for Oracle's SMB strategy is its support for the Linux platform. Although the database market on the Linux platform was only ~13% of that of the Windows platform in 2003, it is growing at ten-fold the rate at which the database market is growing on the Windows platform, according to IDC. Furthermore, Oracle has included a RAC (Real-time Application Cluster) option at no charge to its Standard Edition (SE) with a 4 CPU configuration. RAC allows a single instance of database to exist in multiple servers, allowing database scalability to be as easy as plugging-in additional hardware capacity. Clustering multiple servers with RAC also inherently enables a fail-over feature, so that if a server fails, the database continues to work with the remaining server(s). The strategy behind the SE + RAC offering is to introduce mid-sized company users to RAC technology in hopes that these customers would want to upgrade to the Enterprise Edition in the future.

Furthermore, earlier this year, Oracle and Dell extended their partnership, which will allow Dell to preinstall an Oracle SE-1 database onto Dell's sub-\$10K servers then sell them to the SMB market. According to Dell, the sub-\$10K database server market is now a \$500M market projected to grow rapidly to a \$1B market in a couple of years. Dell has shipped 30,000 servers with an Oracle database, up 100% y/y.

- **Oracle applications sales have been modestly recovering and remain competitive with its peers.** Oracle applications sales have been on a modest recovery over the last several quarters, although the company's results in the May quarter dipped back into negative growth (Oracle's quarterly results are very volatile, and it is difficult to make any trend with single-quarter data). In calendar 2003, the growth rates for Oracle and SAP were barely in positive territory compared to PeopleSoft, which we believe was in deep negative territory (Note that Oracle and PeopleSoft results would be worse if the currency benefit were stripped-out). In the last couple of quarters, SAP accelerated its growth to double-digits in constant currency while Oracle and PeopleSoft struggled to grow. Although SAP clearly had the best performance in recent quarters, we believe Oracle remains competitive and is outperforming PeopleSoft.

SAP, PSFT & ORCL y/y License Revenue Growth for Calendar Year 2003

	2002	2003	y/y growth
SAP(EUR)	2,291	2,147	1%*
PSFT(\$M)	757	629	-17%
ORCL(\$M)	613	630	3%

Source: Company Reports, FGP estimates.

Note: SAP y/y growth is estimated using constant currency

Note: PSFT historical license revenues were derived by combining JDEC's license revenue with PSFT's.

SAP, PSFT & ORCL y/y License Revenue Growth

	Jun '03	Sep '03	Dec '03	Mar '04	Jun '04
SAP	-5%	7%	3%	11%	17%
PSFT	-17%	-9%	-15%	3%	-16%
ORCL	0%	-4%	27%	0%	-6%

Source: Company Reports, FGP estimates.

Note: SAP y/y growth figures are using constant currency while others are using reported license revenue.

Note: PSFT historical license revenues were derived by combining JDEC's license revenue with PSFT's.

- **Oracle is a financial powerhouse generating \$3B in annual cash flow from operations and running a very profitable business at ~40% operating margin.** The company holds \$8.4B in net cash, which it intends to use for strategic acquisitions and share buybacks. Oracle has steadily decreased its diluted share count by 3% annually through aggressive stock repurchase programs in the last four years. The recent deceleration in share repurchase is due to conservation of cash in anticipation of a large acquisition. We believe size does matter in the software business. Brand awareness, vendor viability, financial stability, and reputation are some of the important factors that customers consider in their product/service purchases, which tends to give large companies an advantage over smaller ones. Moreover, generating \$3B a year from operations gives Oracle substantial financial flexibility to invest in its future growth.
- **Operating margin expansion through a shift in business mix: we are modeling mid-teens earnings growth for the next couple of years.** Oracle's operating margin has been steadily increasing on a year-over-year comparison during FY04. The company posted a record 38.1% operating margin for FY04 and indicated that it could exceed 40% in FY05. We think that operating margin expansion, close to 40%, in FY05 is a likely event. We believe the primary reason for the margin expansion has been caused by the decline in Oracle's service business led by shrinking consulting business. In other words, a higher mix of high-margin revenues (i.e., license revenue, maintenance revenue) together with a lower mix of low-margin businesses (i.e., consulting, education) is causing the gross margin to improve.

We created four scenarios to examine the dynamics of margin expansion: Case 1: no growth in license revenue and consulting revenue (assume maintenance fees for all cases are 18% of license revenue); Case 2: no growth in license revenue, 10% y/y growth in consulting revenue; Case 3: 10% y/y growth in license revenue, no growth in consulting revenue; and Case 4: 10% growth for both license and consulting revenues (see below figures). Please note that t0 to t3 (four time periods) are annual progression estimates. Cases 2 and 4, which are cases with the consulting business growing, are the worst for margin expansion due to the growth of low-margin businesses. Case 1 (zero license and zero consulting growth) actually expands the margin at a faster rate than case 4, which grows the total revenue the fastest (10% y/y license growth and 10% y/y consulting growth). Case 3, which grows license revenue at 10% and zero growth for consulting, results in the highest margin expansion scenario. We believe case 3 could have the closest resemblance to Oracle's business dynamics in the next 6-18 months, which potentially could produce ~1.5% improvement in gross margin. **In sum, we believe margin expansion will continue to occur primarily due to Oracle's emphasis on partnership expansion at the cost of the company's consulting practice. The margin expansion would allow faster growth in earnings than revenue growth. We are currently modeling 13% growth for earnings and 8-9% growth for total revenue in FY05 and FY06.**

Margin expansion: 4 scenarios based on license and consulting growth rates

Case 1: maintenance +18%, license 0%, consulting grows 0%				
	t0	t1	t2	t3
License	3540	3540	3541	3542
License upd + support (Maintenance)	4529	5166	5804	6441
consulting & other svc	2086	2086	2087	2088
total rev	10155	10792	11432	12071
Maintenance as % of total rev	45%	48%	51%	53%
High margin business as % total rev	79%	81%	82%	83%
Maintenance growth rate		14%	12%	11%
Maint growth contribution to total growth		7%	6%	6%
total revenue growth		6%	6%	6%
gross margin	77.0%	77.9%	78.8%	79.5%

Case 2: maintenance +18%, license 0%, consulting 10%				
	t0	t1	t2	t3
License	3540	3540	3540	3540
License upd + support (Maintenance)	4529	5166	5803	6441
consulting & other svc	2086	2295	2524	2776
total rev	10155	11001	11867	12757
Maintenance as % of total rev	45%	47%	49%	50%
High margin business as % total rev	79%	79%	79%	78%
Maintenance growth rate		14%	12%	11%
Maint growth contribution to total growth		7%	6%	6%
total revenue growth		8%	8%	7%
gross margin	77.0%	76.7%	76.4%	76.0%

Case 3: maintenance +18%, license 10%, consulting 0%				
	t0	t1	t2	t3
License	3540	3894	4283	4712
License upd + support (Maintenance)	4529	5230	6001	6849
consulting & other svc	2086	2086	2086	2086
total rev	10155	11210	12370	13647
Maintenance as % of total rev	45%	47%	49%	50%
High margin business as % total rev	79%	81%	83%	85%
Maintenance growth rate		15%	15%	14%
Maint growth contribution to total growth		7%	7%	7%
total revenue growth		10%	10%	10%
gross margin	77.0%	78.5%	79.8%	81.1%

Case 4: maintenance +18%, license 10%, consulting 10%				
	t0	t1	t2	t3
License	3540	3894	4283	4712
License upd + support (Maintenance)	4529	5230	6001	6849
consulting & other svc	2086	2295	2524	2776
total rev	10155	11419	12808	14337
Maintenance as % of total rev	45%	46%	47%	48%
High margin business as % total rev	79%	80%	80%	81%
Maintenance growth rate		15%	15%	14%
Maint growth contribution to total growth		0%	7%	7%
total revenue growth		12%	12%	12%
gross margin	77.0%	77.3%	77.6%	77.9%

Source: FGP research.

Assumptions:

> Maintenance fee is assumed at 18% of license fee

> 92% gross margin is assumed for License and License Update/Support revenue

> 18% gross margin is assumed for consulting and other services revenue

Investment Risks:

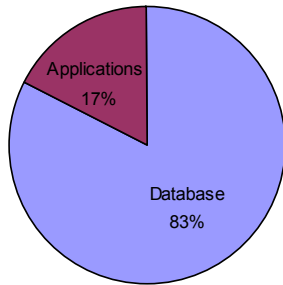
- **Oracle's slower-growing core database business could place a significant obstacle on the company's ability to grow its overall revenue.** We estimate close to 60% of Oracle's license revenue is derived from core database sales. Since we believe the core database market is growing at a mid-single-digit, Oracle's overall revenue growth beyond single-digit growth will likely be challenging.
- **MySQL database could potentially compete more effectively against Oracle's database and take market share away in the future.** A small Swedish company called MySQL AB has a low-end database product called a MySQL database that has become popular within the SMB market in recent years. MySQL AB offers a dual-licensing program of which one is a free open-source licensing (General Public License) and the other is a corporate licensing (\$495/server). To date, we do not believe MySQL has materially affected Oracle's business. Our checks indicate Oracle is a powerful database system with extensive features compared to the MySQL database with limited features. Oracle generally serves the high-end market and MySQL generally serves the low-end market; therefore, they have been largely serving different markets. However, Oracle and MySQL AB may compete with each other more frequently in the future as MySQL AB attempts to expand its reach toward the high-end database market, and Oracle expands toward low-end database market.
- **A series of negative pre-announcements followed by poor earnings in Q2 by software vendors could signal an ongoing softer IT spending environment.** Due to a significant number of software companies that fell short of expectations in Q2, we are concerned that this could mean a softer IT spending environment ahead. A softer spending environment will negatively affect Oracle, along with rest of the industry.
- **Migration trends from Unix to the Intel processor-based servers is a double-edge sword.** Oracle database products run on various platforms including Unix, Windows, and Linux. Therefore, although Oracle benefits on the Windows and Linux platforms from the migration trend, the same trend negatively affects the company on the Unix platform. We estimate Oracle database license revenue from the Unix platform to be over 55% of total database license revenue, and license revenue from the Linux platform to be ~7%. The disproportionately large license revenue from the Unix platform creates a drag on the company's database license revenue growth, especially in the near-term, while the Linux platform license revenue remains relatively small compared to Unix.
- **Large acquisition risk.** Although Oracle faces an uphill battle to acquire PeopleSoft, we believe Oracle is likely to make a sizeable acquisition, either PeopleSoft or another company, within the next 12-month timeframe. Oracle's management has been vocal about its intent to make acquisitions. Although the right acquisition can infuse optimism for investors, the wrong acquisition can do exactly the opposite. Since the acquisition is likely to be a high-profile one, Oracle shares would probably react significantly to the acquisition news. Furthermore, a large merger tends to introduce substantial risk of business disruption caused by product and organization integration issues.
- **Penetrating the SMB market could be challenging with Microsoft presence.** One of Oracle's key initiatives is penetrating the SMB database market with the SE-ONE/Linux system. Although we believe this is a compelling alternative to Microsoft's offering, Microsoft has a significant presence in the SMB market. Microsoft's SQL database offering has strengthened over the years and is the leading database in the Windows environment. Furthermore, Microsoft is focusing intensely in the SMB market and could prove to be a significant obstacle for Oracle's efforts in it.
- **Our BUY recommendation is not a call on FQ1.** In fact, we are expecting unimpressive results as reflected by our lower than consensus revenue estimate for FQ1. However, we think that shares are already discounted at current levels.

Overview of Oracle's Business:

- **Database Business.** Oracle is a leading database vendor with the number one market share position (~40%) in Relational DataBase Management System (RDBMS) according to IDC. Oracle's database business still accounts for the overwhelming majority of its license revenue at ~80%, and

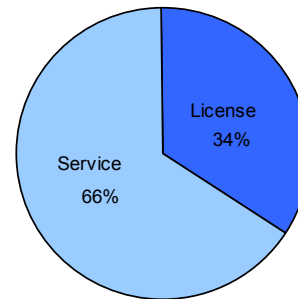
applications business accounts for the remaining ~20%. Oracle's database management system has been known for its robustness in enterprise setting, and certainly has charged premium pricing for it over the years. We believe the company's majority of installed bases for database management system lies in large organizations that demand performance, high availability, and scalability. Oracle's database is available on all major distributed platforms (Unix, Windows, Linux) and primarily competes with Microsoft on the Windows platform, and IBM on both the Unix and Linux platforms. The company has over 230K database customers of which over 50% are on Oracle 9i. Oracle also offers a variety of other components of infrastructure software stack in the area of application server, portal, development tool, and collaboration software. Although Oracle's core business is database, the company offers an extensive set of infrastructure software for enterprise software deployment.

FY04 Apps vs. Database License Revenue



FY04 License Revenue = \$3.3B

FY04 New License vs Service Revenues

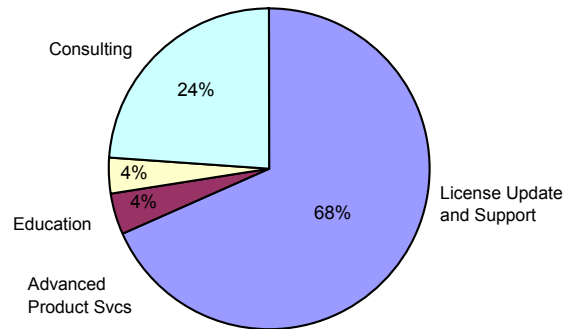


FY04 Total Revenue = \$10.2B

Source: Company Reports

- Applications Business.** Oracle is one of the three major enterprise application vendors in the marketplace (SAP and PSFT being the other two). The E-Business Suite encompasses a full range of applications including financials, supply chain, manufacturing, human resources, marketing, sales, order management, procurement, projects, and service. These applications can be purchased as a suite or on a component basis. Although Oracle applications are sold to a wide range of customers, Oracle's sweet-spot is the high-end mid-market customers. Oracle has 13,000 customers worldwide.
- Services.** In terms of services (66% of total revenue), License Updates and Support makes up 68% of total services revenue (or 42% of total revenue), Consulting contributes 24%, Advanced Product Services contributes 4%, and Education contributes 4%. License Updates and Support gives customers right to upgrade to new software versions and enable them to receive access to technical support. Consulting services revenue is generated by in-house consultants who help customers implement and deploy Oracle database technology and applications software. Advanced Product Services include remote database administration, performance monitoring/tuning, on-site technical support, and outsourcing services. Education services are offered through Oracle University, which provides training to customers and partners.

FY04 Oracle Service Business Breakdown (\$6.6B)



Source: Company Reports

- **Oracle has a worldwide presence and does business with more than 87 countries, and its products are available in 30 languages.** Oracle targets sales in three broad market segments: enterprise business, general business, and government. Enterprise business market segment consists of companies with annual revenues over \$1B. We believe a majority of Oracle database customers are in the enterprise business segment while application customers are concentrated between the low-end of the enterprise business and the high-end of general business markets. Direct sales force accounts for approximately half of the company's revenue, and the other half is derived from the Oracle Partner Program (system integrators/consultants, education providers, internet service providers, resellers, and ISVs).

Market Sizing:

- **Database Market.** In this modern era, in which many everyday transactions are automated and done through computer systems, a database holds vital information required by most day-to-day transactions. Bank account systems, airline reservation systems, inventory management systems, DMV information systems all transact using data stored in databases. One can even argue that the database is one of the most central and critical components within the IT infrastructure. Due to its importance, the database market matured rather quickly. Virtually any enterprise computing system nowadays is likely to be running with a database of some sort. There are different types of databases such as the Object Database and Hierarchical Database, but the Relational Database is by far the most widely used. We think the need for the database will persist so long as there are computer systems and the number of them will steadily increase as IT infrastructure expands throughout the world. In addition, we believe the number of databases will increase as the number of application deployments increase due to organizations' need for further automation and efficiency improvement.

In our view the database market bottomed in 2002 and has begun its turnaround to a modest growth pattern. The database market is dominated by three vendors which have over 80% of the market share, led by Oracle. According to IDC, Oracle had almost 40% of the market share, followed by IBM with 31% and Microsoft with 12% in 2003. Although the database market contracted 2% in 2002, it bounced back with solid growth of 7.6% in 2003. Oracle underperformed the market in 2002, but it outperformed the market in 2003. IBM grew above the overall market in 2002, but slipped behind it in 2003. Microsoft outperformed the market consistently by a significant margin. We believe Microsoft's robust growth was, in part, due to the company's focus in the SMB market and to the improvements made to the SQL Server. Although IBM lagged behind the overall database market growth in 2003, it managed to grow steadily for both years, 2002 and 2003. We believe IBM is somewhat insulated from the rest of the market due to its significant exposure to the mainframe platform. Oracle has shown signs of a turnaround in the database business in 2003, after performing the worst out of the

three primary vendors in 2002. We believe the turnaround for Oracle is a function of its robust Linux platform sales and RAC (real application cluster) sales.

Database Market Share

(\$ millions)	<u>2001</u>	<u>2002</u>	<u>2003</u>
ORCL	5,386	4,973	5,403
IBM	3,971	4,032	4,253
MSFT	1,251	1,438	1,650
others	2,276	2,186	2,279
total market	12,883	12,629	13,585
mkt share	<u>2001</u>	<u>2002</u>	<u>2003</u>
ORCL	42%	39%	40%
IBM	31%	32%	31%
MSFT	10%	11%	12%
others	18%	17%	17%
total market	100%	100%	100%
growth		<u>2002</u>	<u>2003</u>
ORCL		-7.7%	8.6%
IBM		1.5%	5.5%
MSFT		15.0%	14.7%
others		-4.0%	4.3%
total market		-2.0%	7.6%

Source: IDC

According to IDC, the Relational and Object-Relational market was close to \$14B (license + maintenance) in 2003, and is projected to increase to nearly \$20B by 2008, growing 7.5% CAGR during this period. The eye-catching dynamics of the market appears to be the rapid growth of the Linux (and other open source) platform, expected to grow from \$0.7B in 2003 to \$5.9B in 2008 (52% CAGR). The Windows platform is expected to grow above 5% annually during the same period while the Unix and Mainframe platform annual revenue should contract modestly during the period. The IDC numbers are consistent with the ongoing trend of migration from UNIX systems to more cost-effective Intel processor-based servers running on Linux or Windows. **We feel that Oracle is and will continue to benefit from Linux server growth; however, the benefit may be offset in part due to a decline in growth in the Unix platform where Oracle is the market share leader.**

Relational and Object-relational Database Management Systems Market Forecast

	2003	2004	2005	2006	2007	2008	2003 Share (%)	2003– 2008 CAGR (%)	2008 Share (%)
Geographic region									
North America	6,035	6,535	6,867	7,734	8,630	9,493	43.5	9.5	47.7
Western Europe	4,227	4,353	4,571	4,800	4,992	5,191	30.5	4.2	26.1
Asia/Pacific	2,392	2,508	2,671	2,857	3,057	3,284	17.3	6.5	16.5
ROW	1,211	1,342	1,489	1,648	1,787	1,936	8.7	9.8	9.7
Total	13,865	14,738	15,597	17,038	18,466	19,905	100.0	7.5	100.0
Operating environment									
Mainframe	1,541	1,550	1,559	1,545	1,523	1,492	11.1	-0.6	7.5
OS/400	213	178	151	134	129	100	1.5	-14.1	0.5
Unix	5,529	5,363	4,900	4,837	4,723	4,777	39.9	-2.9	24.0
Linux/other open source	715	1,287	2,154	3,336	4,746	5,872	5.2	52.4	29.5
Other host/server	160	142	136	128	111	100	1.2	-9.1	0.5
Windows 32 and 64	5,677	6,180	6,626	6,932	7,089	7,365	40.9	5.3	37.0
Embedded	8	16	39	83	96	119	0.1	70.6	0.6
Other single user	10	5	3	2	1	–	0.1	NA	–
Platform independent	10	18	29	41	47	80	0.1	50.1	0.4
Total	13,865	14,738	15,597	17,038	18,466	19,905	100.0	7.5	100.0

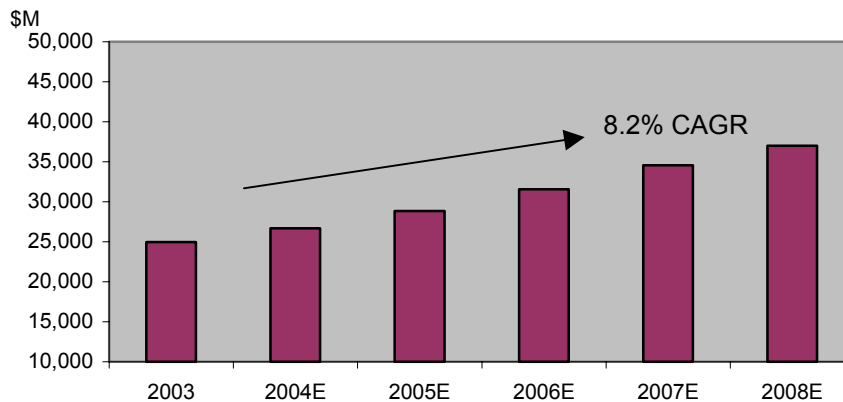
Source: IDC, 2004.

- Enterprise Applications Market.** Enterprise applications are used to translate business processes into automation, thus increasing productivity and efficiency. Packaged applications in recent years have become increasingly popular as costs associated with maintaining home-grown software has become prohibitive due to the complexities and changes in technology. Although costly, packaged applications allow organizations to focus on their core businesses and to push-out the burden of keeping up with changes in technology and dealing with the complexities of software vendors. However, purchasing packaged applications is ultimately not sufficient – packaged applications are built generically to appeal to a wide range of customers, thus, they often need drastic customization to work properly for the buyer’s organization. One shoe isn’t going to fit all, so comes the problem of tremendous costs associated with customization work, benefiting the multi-billion dollar industry in system integration/consulting led by IBM Global Service, Accenture (ACN, \$25.75, NYSE, BUY), and many others. Most packaged applications vendors have their own professional services arm that helps with customization and integration work. In general, customization and integration could be as much as 5 to 10 times the cost of the packaged application license fee. Nevertheless, buying software through packaged application vendors and dealing with costly customization and integration could still be the most effective way to deploy applications rather than to build it on one’s own system.

One thing is clear: once successfully implemented, enterprise applications are a valuable resource for organizations, and help companies to be more efficient and competitive.

ERP (enterprise resource planning) applications can be loosely defined to include enterprise applications such as CRM and Supply Chain Management. Many ERP vendors nowadays offer integrated front-office and back-office applications as a competitive advantage due to costs associated with an integration effort. We believe Oracle's applications are best classified as ERP applications. **According to IDC, the ERP applications market was \$24.9B in 2003 and is expected to reach \$37.0B by 2008, growing 8.2% annually.** In terms of the OS platform, ERP applications running on Unix and Windows had approximately even market share at ~35% each in 2003, but the Windows platform is expected to outpace the Unix platform going forward as the Unix system migration to the Intel-based system continues. Although ERP applications running on the Linux platform was less than 2% of the market in 2003, we expect this platform to grow the fastest among all platforms for the foreseeable future.

Worldwide ERP Applications License & Maintenance Revenue



Source: IDC, 2004

The ERP applications market is a fragmented market with over 100 players, but the top three vendors make up a third of the market, and the top 10 vendors make up little less than 50% of the market. SAP is a distant leader in the enterprise applications market with 20% market share followed by PSFT with 7% and Oracle with 5.5%. Although top ERP vendors service multiple industries, many ERP vendors concentrate on a particular industry.

Competitive Landscape:

- **Database.** Oracle's primary competitors in the database management systems are IBM and Microsoft. The three companies dominate the database market with 83% combined market share. Oracle led the database market with 40% market share, followed by IBM with 31% and Microsoft with 12% in 2003, according to IDC. IBM is the market share leader in the mainframe database market, but has made considerable progress in the distributed market in recent years. Although IBM and Oracle database products have been considered the most scalable and robust enterprise-grade databases in the past, Microsoft has been steadily improving its SQL database. The Windows platform had 41% market share, followed by the Unix platform with 40% and mainframe with 11% in 2003, according to IDC. In the Unix platform, Oracle led market share with 48% while IBM had 32%. In the Windows platform, Microsoft led market share with 43%, followed by Oracle with 24% and IBM with 21%. According to IDC, Oracle and IBM dominated the Linux platform with virtually even market share in 2002, but a recent study by Gartner indicates Oracle led the Linux platform with 70% market share.

Database Market Share by Platform (2002)

	UNIX	Windows	Linux	Mainframe
ORCL	48%	24%	49%	0%
IBM	32%	21%	48%	77%
MSFT	0%	43%	0%	0%
others	20%	12%	3%	23%
total	100%	100%	100%	100%

Source: IDC

- **Applications.** Oracle's closest competitors in the ERP applications are SAP and PeopleSoft. ERP applications, often called back-office applications, are designed to automate the enterprise operations by integrating processes in various departments. There are over a hundred companies that fit this description, and the classification of these companies has been the centerpoint of a recent debate between Oracle and the Department of Justice. We believe most ERP vendors concentrate on niche markets or a single vertical, and are not as visible as the "big 3" (SAP, PeopleSoft, and Oracle) that do business with many industry verticals. We believe the enterprise applications business in general has improved in the last year, but the software industry slowdown during the recent June quarter concerns us. We also observed that tough competition and pricing pressure continues to persist in the enterprise applications market.
- **Competitors by Product Categories**

Product	Top Competitors
Database	IBM, Microsoft, Sybase
Applications	SAP, PeopleSoft
Application Server	IBM, Microsoft, BEA Systems
Data Warehouse/BI tools	Cognos, Hyperion Solutions, Business Objects
Development Tools	IBM, Microsoft, Borland Software
Consulting/Outsourcing	Accenture, IBM, EDS

Source: FGP Research

Products and Services:

- **Database** – Oracle's relational database management system (RDBMS) is a leading database system used worldwide. The latest version (10g) is designed for grid computing, which allows many database servers to be clustered together for higher performance and availability. Five editions are available – 1) Enterprise Edition: a full-featured version for enterprise deployment, 2) Standard Edition: a Limited version for up to 4 processors, 3) Standard Edition One: a Limited version for entry-level, up to 2 processors, 4) Personal Edition: a full-featured version for individuals, and 5) Lite Edition: a platform for deploying mobile database applications.
- **Application Server** – Oracle's Application Server is a software platform that includes tools and an app server for developing and deploying Web services, Web applications, and portals. Oracle's Application Server platform includes tools for the business intelligence query, reporting, and analysis.
- **Collaboration Suite** – Organization productivity-enhancing integrated suite of tools including Web conferencing, content management, email, voicemail, and calendar applications.
- **Developer Suite** – Integrated suite of application development tools, designed to work with open standards such as Java, J2EE, XML, and HTML. The suite includes Jdeveloper (Java integrated development environment), Designer (automatically generates database application code based on business process model), Forms Developer (development tool for Forms applications), Warehouse Builder (for building data warehouse from disparate applications), and business intelligent tools.
- **Enterprise Manager** – A tool for managing and monitoring components on the grid, Web applications, hosts, and networks.

- **E-Business Suite/Applications** – Integrated suite of packaged enterprise applications, consisting of software in the area of financials, projects, marketing, sales, order management, procurement, supply chain, manufacturing, service and human resources.
- **Consulting Services** – Consulting for design, implementation, deployment, upgrade/migration services in both database and applications business.
- **Advanced Product Services** – Outsourced solutions for remote database management and hosted E-Business Suite applications.
- **Education Services** – Product training is offered to customers and partners through Oracle University.

Key Management Profiles. Oracle is headed by a visionary leader, Larry Ellison, who co-founded the company in 1977. Although charismatic and vocal, Ellison has been in the past criticized by the analyst community for holding too much power and control over the company. The criticism intensified after departure of well-respected executive, Ray Lane, in 2000. Ellison has been forming his new lieutenants from Wall Street. Safra Catz, who joined Oracle in 1999, and Charles Phillips, who joined in 2003, both from Wall Street, have been recently promoted to President reporting directly to Ellison. In recent months, Jeff Henley, a long time CFO at Oracle has been promoted to Chairman of the Board, and passed the CFO title to Harry You, who recently joined Oracle from Accenture where he was the CFO.

- **Lawrence J. Ellison, Chief Executive Officer and Director**– Mr. Ellison, 59, founded Oracle in 1977 and has been the Chief Executive Officer and a Director since. Mr. Ellison has also served as Chairman of the Board and President.
- **Jeffrey O. Henley, Chairman of the Board of Directors, Executive Vice President, Chief Financial Officer**– Since March 1991 until January 2004, Mr. Henley, 59, served as the Executive Vice President and Chief Financial Officer. Since January, he has been serving as the Chairman of the Board of Directors, and as a Director since June 1995. Previously, from August 1986 to February 1991, Mr. Henley was the Executive Vice President and Chief Financial Officer of Pacific Holding Company.
- **Safra A. Catz, President and Director**– Ms. Catz, 42, has served as a President since January 2004 and as a Director since 2001. Ms. Catz previously worked for global investment bank, Donaldson, Lufkin & Jenrette, where she was Managing Director for two years.
- **Charles E. Phillips, Jr., President and Director**– Mr. Phillips, 45, has served as President and as a Director since January 2004. Mr. Phillips had previously worked for Morgan Stanley & Co. as the Managing Director. Mr. Phillips also worked at various other investment banking firms on Wall Street, and was an information technology officer as a Captain with the U.S. Marine Corps.
- **Harry You, CFO**– Mr. You just joined Oracle in July from Accenture, where he served as CFO since 2001. Prior to Accenture, he held corporate finance positions at Morgan Stanley and Lehman Brothers.

Valuation:

- **Our price target of \$13 is based on 21x our estimated calendar 2005 earnings per share of \$0.62, a modest discount to estimated peer group average of 22x (see Exhibit 1 on page 16).** Oracle shares are currently trading at 16.3x our calendar 2005 earnings estimate. We believe Oracle shares deserve a P/E multiple that is at least on a par with its peer group as Oracle is a profitable, stable, and viable company with strong cash flows (~\$3B/yr from operations) and a strong net cash position (\$8.4B). **The shares are currently trading at a steep discount from its historical 3-year average forward P/E of 26.5x.** Trough forward P/E during the last 3 years was 17.2x and during the last 10 years was 16.0x. Current estimated forward P/E of 17.4x is near these trough points, indicating potential value. Our DCF analysis is in line with our price target. We used a WACC of 11.4% and a long-term growth rate of 5%, yielding a terminal multiple of 16x (see Exhibit 2 on page 17).

Financials:

- **FQ4 Results.** Oracle posted EPS a penny better than Street expectations, otherwise it was largely an in-line quarter with \$3.08B in revenue and \$0.19 in EPS. The company's database business resulted in 15% y/y growth (11% y/y growth using local currency), showing some strength, a trend that started several quarters ago. The company reported strong database options revenue, which has been growing over 50% y/y for the past 2 quarters, fueled by RAC (Real Application Cluster) sales. The applications business posted disappointing numbers resulting in negative 6% growth y/y (-9% y/y in local currency). The applications business did fairly well in the Americas region (6% y/y growth), but posted poor results in the EMEA and Asia Pacific regions. The company achieved a record operating margin of 46% for the quarter primarily due to seasonal acceleration in revenue and continued a shift in mix toward high margin businesses (license and maintenance revenue). We note that Oracle's results can significantly vary quarter to quarter, and that forming trends based on one quarter-period could lead to misleading conclusions.
- **Our FQ1 Expectations.** Besides being Oracle's seasonally weakest quarter, FQ1 (ending August) follows a software sales slowdown in the June quarter. Therefore, we have somewhat low expectations for FQ1, reflected by our lower than consensus revenue estimate. Our estimates for FQ1 are \$552M in license revenue (vs. \$578M which is the midpoint of management's guidance range of 5%-15% y/y growth), \$2.226B in total revenue (vs. \$2.233B consensus and \$2.227B which is the midpoint of management's guidance range of 6%-9% y/y growth), and \$0.09 in EPS (on a par with consensus and management's guidance).
- **Our FY05 and FY06 Expectations.** For FY05 (ending in May 2005), management did not give any specifics other than 10%-20% operating income growth and 40%+ operating margin. We are modeling \$3.846B in license revenue (9% y/y growth), \$10.946B in total revenue (8% y/y growth), \$0.58 in EPS (13% y/y growth), 14% in operating income growth, and 40.1% operating margin. For FY06 (ending in May 2006), we are modeling \$4.263B in license revenue (11% y/y growth), \$11.928B in total revenue (9% y/y growth), \$0.67 in EPS (13% y/y growth), 13% in operating income growth, and 41.6% operating margin.
- **Balance Sheet and Cash Flow.** Oracle enjoys a strong balance sheet with \$8.4B (~\$1.60/sh) in net cash. Deferred revenue has been increasing steadily over the years signaling a strong renewal rate. Cash flow from operations in FY04 was \$3.2B, growing 5% y/y. Repurchasing of shares decreased to \$1.5B in FY04 from ~\$2.7B in the last couple of years due to accumulation of cash for the anticipated acquisition(s).

Exhibit 1: Valuation – P/E and P/S for ORCL and Comps

Ticker	Rating	Price 8/30/2004	Shares Outstanding	Market Cap 8/30/2004	Calendar EPS		Cal PE		Calendar Revenue		Price/Sales		EV	EV/ 05E Sales	
					2004E	2005E	2004E	2005E	2004E	2005E	2004E	2005E			
Comparable Companies															
Microsoft	MSFT	Buy	27.30	10,795	294,695	1.25	1.31	21.8	20.9	37,864	40,441	7.8	7.3	237,679	5.9
Sybase	SY	NR	13.21	95	1,255	0.86	1.02	15.3	13.0	773	808	1.6	1.6	935	1.2
Veritas	VRTS	Buy	17.41	433	7,536	0.89	1.01	19.6	17.2	1,996	2,184	3.8	3.5	5,881	2.7
Computer Asso.	CA	NR	24.41	585	14,288	0.71	0.92	34.3	26.4	3,429	3,788	4.2	3.8	14,476	3.8
SAP	SAP	Buy	36.9	1,262	46,555	1.33	1.51	27.8	24.4	9,290	10,110	5.0	4.6	43,031	4.3
PeopleSoft	PSFT	Neutral	17.19	367	6,307	0.66	0.79	26.2	21.8	2,681	2,881	2.4	2.2	4,829	1.7
Siebel	SEBL	Buy	7.60	505	3,842	0.19	0.26	40.1	29.5	1,282	1,362	3.0	2.8	1,914	1.4
AVG								26.4	21.9			4.0	3.7		3.0
Oracle	ORCL	Buy	10.11	5,171	52,277	0.54	0.62	18.7	16.3	10,592	11,411	4.9	4.6	44,795	3.9

SOURCE: FACTSET and FGP Estimates

Exhibit 2: Discounted Cash Flow Valuation

(\$ in millions)	F2005E	F2006E	F2007E	F2008E	F2009E	F2010E	F2011E	F2012E	F2013E	F2014E	
Revenue	10946	11928	13240	14696	16166	17621	19030	20553	21991	23091	
Growth	8%	9%	11%	11%	10%	9%	8%	8%	7%	5.0%	
EBIT	4391	4960	5627	6319	6951	7577	8183	8838	9456	9929	
Margin	40.1%	41.6%	42.5%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	43.0%	
(1-t)	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	68.0%	
After Tax Profit	2,986	3,373	3,826	4,297	4,727	5,152	5,564	6,010	6,430	6,752	
+ Depr and Amort	230	230	230	230	230	230	230	230	230	230	
- Cap Ex	244	266	295	328	360	393	424	458	490	515	
Free Cash Flow	2972	3337	3761	4199	4596	4989	5370	5781	6170	6467	
Discount Rate (WACC)	11.39%	11.39%	11.39%	11.39%	11.39%	11.39%	11.39%	11.39%	11.39%	11.39%	
Discount Factor	0.90	0.81	0.72	0.65	0.58	0.52	0.47	0.42	0.38	0.34	
Year	1	2	3	4	5	6	7	8	9	10	
PV Of Future Free Cash Flows	2668	2689	2722	2728	2681	2613	2524	2440	2338	2200	
BASE CASE											
Terminal Year Multiple	16 X										
Terminal Year Value										34,448	
PV of FCF										23,402	
PV of FCF + Terminal Year Value										57,850	
Net cash										8,424	
Total Value										66,274	
										Shares	5,280
Terminal Year Multiple = 1/(WACC-LTG)											
Discount Rate Derived From CAPM:										Target	\$13
Risk free-rate	4.3%										
Risk Premium	4.7%										
Beta	1.54										
Cost of equity	11.5%										
Equity As % Of Capitalization	98%										
Cost of debt	6.0%										
After tax cost of debt	4.1%										
Debt As % of Capitalizaion	2.0%										
WACC	11.39%										
Assumed LT Growth Rate Base	5.0%										
Source: Fulcrum Global Partners LLC											

Exhibit 3: Oracle Income Statement

Oracle Corporation Income Statement
(Fiscal Year Ends May 31)
(\$ in millions)



Clark Chang 415-248-2541 cchang@fulcrumgp.com

	2004				2005E				2006E				Fiscal Years			
	Aug	Nov	Feb	May	Aug-E	Nov-E	Feb-E	May-E	Aug-E	Nov-E	Feb-E	May-E	2003	2004	2005-E	2006-E
Total License	525	855	847	1,313	568	913	925	1,444	627	1,010	1,022	1,590	3,270	3,540	3,849	4,249
Lic Upd & Sprt	1,034	1,114	1,176	1,205	1,163	1,259	1,329	1,338	1,291	1,397	1,475	1,471	3,929	4,529	5,088	5,634
Services	513	529	486	558	495	499	457	546	491	497	462	563	2,277	2,086	1,996	2,013
Total Revenue	2,072	2,498	2,509	3,076	2,226	2,670	2,711	3,327	2,409	2,904	2,959	3,624	9,476	10,155	10,933	11,896
Cost of Lic upd & sprt	121	143	143	140	135	159	160	156	150	176	177	171	473	547	609	674
Lic upd/prd sprt margin	92.2%	92.7%	92.9%	94.4%	92.2%	92.7%	92.9%	94.4%	92.2%	92.7%	92.9%	94.4%	93.4%	93.2%	93.2%	93.2%
Cost of Services	442	455	439	434	423	424	398	431	418	420	397	439	1,869	1,770	1,676	1,673
Services margin	13.8%	14.0%	9.7%	22.2%	14.5%	15.0%	13.0%	21.0%	15.0%	15.5%	14.0%	22.0%	17.9%	15.1%	16.1%	16.9%
Cost of Lic upd + Services	563	598	582	574	558	582	558	587	567	595	575	610	2,342	2,317	2,285	2,347
Gross margin	72.8%	76.1%	76.8%	81.3%	74.9%	78.2%	79.4%	82.4%	76.5%	79.5%	80.6%	83.2%	75.3%	77.2%	79.1%	80.3%
S&M	464	525	527	620	510	561	567	665	542	610	613	718	2,072	2,136	2,302	2,482
R&D	298	323	328	328	332	342	347	349	352	378	385	384	1,180	1,277	1,370	1,498
G&A	131	137	145	148	140	145	154	155	149	154	163	163	441	561	594	629
Total Operating Costs	1,456	1,583	1,582	1,670	1,539	1,630	1,625	1,757	1,610	1,736	1,735	1,875	6,035	6,291	6,551	6,956
Operating Income	616	915	927	1,406	686	1,040	1,086	1,570	799	1,167	1,224	1,749	3,441	3,864	4,382	4,940
Operating Margin	29.7%	36.6%	36.9%	45.7%	30.8%	39.0%	40.0%	47.2%	33.2%	40.2%	41.4%	48.3%	36.3%	38.1%	40.1%	41.5%
Investment Gains(Losses)	36	-4	-2	-1									(111)	29		
Interest & Other	12	5	22	13	20	20	20	20	20	20	20	20	96	52	80	80
Pretax Income	664	916	947	1,419	706	1,060	1,106	1,590	819	1,187	1,244	1,769	3,426	3,945	4,462	5,020
Pretax Margin	32.0%	36.7%	37.7%	46.1%	31.7%	39.7%	40.8%	47.8%	34.0%	40.9%	42.0%	48.8%	36.2%	38.8%	40.8%	42.2%
Income Taxes	224	299	312	429	226	339	354	509	262	380	398	566	1,118	1,264	1,428	1,606
Tax Rate	33.7%	32.6%	32.9%	30.2%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.0%	32.6%	32.0%	32.0%	32.0%
Net Income	440	617	635	990	480	721	752	1,081	557	807	846	1,203	2,308	2,681	3,034	3,413
Net Margin	21.2%	24.7%	25.3%	32.2%	21.6%	27.0%	27.7%	32.5%	23.1%	27.8%	28.6%	33.2%	24.4%	26.4%	27.8%	28.7%
EPS	\$0.08	\$0.12	\$0.12	\$0.19	\$0.09	\$0.14	\$0.14	\$0.21	\$0.11	\$0.16	\$0.16	\$0.23	\$0.43	\$0.50	\$0.58	\$0.66
Diluted Shares	5,347	5,337	5,337	5,283	5,260	5,240	5,220	5,200	5,180	5,160	5,140	5,120	5,419	5,326	5,230	5,150
% of Revenue																
Total License	25.3%	34.2%	34.5%	42.7%	25.5%	34.2%	34.5%	43.4%	26.0%	34.8%	34.5%	43.9%	34.5%	34.9%	35.2%	35.7%
Lic Upd & Sprt	49.9%	44.6%	46.9%	39.2%	52.2%	47.1%	49.0%	40.2%	53.6%	48.1%	49.8%	40.6%	41.5%	44.6%	46.5%	47.4%
Services	24.8%	21.2%	19.4%	18.1%	22.2%	18.7%	16.9%	16.4%	24.0%	25.2%	25.5%	25.1%	24.0%	20.5%	18.3%	16.9%
Lic Upd + Services	74.7%	65.8%	66.2%	57.3%	74.5%	65.8%	65.9%	56.6%	74.0%	65.2%	65.5%	56.1%	65.5%	65.1%	64.8%	64.3%
Cost of Lic upd & sprt	5.8%	5.7%	5.7%	4.6%	6.1%	5.9%	5.9%	4.7%	6.0%	5.7%	5.7%	4.5%	5.0%	5.4%	5.6%	5.7%
Cost of Services	21.3%	18.2%	17.5%	14.1%	19.0%	15.9%	14.7%	13.0%	18.0%	16.0%	15.0%	12.2%	19.7%	17.4%	15.3%	14.1%
Cost of Lic upd + Services	27.2%	23.9%	23.2%	18.7%	25.1%	21.8%	20.6%	17.5%	23.5%	20.5%	19.4%	16.8%	24.7%	22.8%	20.9%	19.7%
S&M	22.4%	21.0%	21.0%	20.2%	22.9%	21.0%	20.9%	20.0%	22.5%	21.0%	20.7%	19.8%	21.9%	21.0%	21.1%	20.9%
R&D	14.4%	12.9%	12.0%	10.7%	14.9%	12.8%	12.8%	10.5%	14.6%	13.0%	13.0%	10.6%	12.5%	12.6%	12.5%	12.6%
G&A	6.3%	5.5%	5.8%	4.8%	6.6%	5.9%	6.1%	5.0%	6.6%	5.9%	6.1%	5.0%	4.7%	5.5%	5.4%	5.3%
Total Operating Costs	70.3%	63.4%	63.1%	54.3%	69.2%	61.0%	60.0%	52.8%	66.8%	59.8%	58.6%	51.7%	63.7%	61.9%	59.9%	58.5%
Net income	21.2%	24.7%	25.3%	32.2%	21.6%	27.0%	27.7%	32.5%	23.1%	27.8%	28.6%	33.2%	24.4%	26.4%	27.8%	28.7%
% Change Y/Y																
Total License	-7%	12%	12%	11%	8%	7%	9%	10%	10%	11%	11%	10%	-7%	8%	9%	10%
Lic Upd & Sprt	14%	17%	17%	13%	12%	13%	13%	11%	11%	11%	11%	10%	11%	15%	12%	11%
Services	-8%	-10%	-11%	-4%	-4%	-6%	-6%	-2%	-1%	0%	1%	3%	-13%	-8%	-4%	1%
Lic Upd + Services	6%	6%	7%	7%	7%	7%	7%	7%	7%	8%	8%	8%	1%	7%	7%	8%
Total Revenue	2%	8%	9%	9%	7%	7%	8%	8%	8%	9%	9%	9%	-2%	7%	8%	9%
Cost of Lic upd & sprt	3%	22%	19%	18%	12%	11%	12%	11%	11%	11%	11%	10%	2%	16%	11%	11%
Cost of Services	-6%	-6%	-3%	-6%	-4%	-7%	-9%	-1%	-1%	-1%	0%	2%	-4%	-5%	-5%	0%
Cost of Lic upd + Services	-6%	-6%	-3%	-6%	-4%	-7%	-9%	-1%	-1%	-1%	0%	2%	-3%	-1%	-1%	3%
S&M	-2%	2%	1%	9%	10%	7%	8%	7%	6%	9%	8%	8%	-6%	3%	8%	8%
R&D	4%	9%	9%	10%	11%	6%	6%	6%	6%	10%	11%	10%	10%	8%	7%	9%
G&A	29%	26%	26%	28%	7%	6%	6%	5%	7%	6%	6%	5%	7%	27%	6%	6%
Operating Income	6%	15%	16%	11%	11%	14%	17%	12%	16%	12%	13%	11%	-4%	12%	13%	13%
Net Income	28%	15%	11%	15%	9%	17%	18%	9%	16%	12%	13%	11%	4%	16%	13%	12%
EPS	32%	17%	12%	17%	11%	19%	21%	11%	18%	14%	14%	13%	9%	18%	15%	14%
Diluted Shares	-3%	-2%	-1%	-1%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-2%	-5%	-2%	-2%	-2%

Source: Company reports and FGP estimates

Exhibit 4: Oracle Balance Sheet

Oracle Corporation Balance Sheet

(Fiscal Year Ends May 31)
(\$ in millions)



Clark Chang 415-248-2541 cchang@fulcrumgp.com

	F2004				F2005E				F2006E			
	Aug	Nov	Feb	May	Aug-E	Nov-E	Feb-E	May-E	Aug-E	Nov-E	Feb-E	May-E
Assets												
Cash and Equivalents	7,404	8,074	8,018	8,587	9,203	9,345	9,938	10,805	11,466	11,520	11,905	12,783
Trade receivables, Net	1,346	1,547	1,545	2,012	1,533	1,642	1,642	2,189	1,670	1,789	1,789	2,386
Other	663	686	671	737	730	730	730	730	730	730	730	730
Total Current Assets	9,413	10,307	10,234	11,336	11,466	11,717	12,309	13,724	13,866	14,039	14,424	15,899
Long-Term Cash	283	---	---	---	---	---	---	---	---	---	---	---
PP&E	1,081	1,073	1,080	1,068	1,078	1,088	1,098	1,108	1,128	1,148	1,168	1,188
Capitalized Software Dev.	---	---	---	---	---	---	---	---	---	---	---	---
Other Assets	438	397	401	457	457	457	457	457	457	457	457	457
Total Assets	11,215	11,777	11,715	12,861	13,000	13,262	13,864	15,289	15,451	15,644	16,049	17,544
Liabilities												
Notes Payable & Cur. Maturity	152	152	---	9	---	---	---	10	---	---	---	163
Accounts payable	225	212	188	191	241	230	219	219	241	230	219	219
Income taxes payable	986	958	715	950	950	950	950	950	950	950	950	950
Deferred revenue	1,603	1,349	1,355	1,497	1,751	1,423	1,423	1,642	1,751	1,423	1,423	1,642
Other liabilities	1,220	1,327	1,482	1,625	1,423	1,423	1,423	1,642	1,423	1,423	1,423	1,642
Total Current Liabilities	4,186	3,998	3,740	4,272	4,365	4,026	4,015	4,462	4,365	4,026	4,015	4,616
Long-term debt	168	169	170	163	163	163	163	163	163	163	163	-
Other LT Liabilities	209	260	248	274	248	248	248	248	248	248	248	248
Deferred Income Taxes	150	151	151	157	157	157	157	157	157	157	157	157
Stockholders' Equity	6,502	5,280	7,406	7,995	8,635	9,236	9,849	10,827	11,086	11,618	12,034	12,928
Retained Earnings and other comp income	---	1,919	---	---	---	---	---	---	---	---	---	---
Total Liabilities & SE	11,215	11,777	11,715	12,861	13,000	13,262	13,864	15,289	15,451	15,644	16,049	17,544

Source: Company reports and FGP estimates

Exhibit 5: Oracle Cash Flow Statement

Oracle Corporation Cash Flow Statement

(Fiscal Year Ends May 31)
(\$ in millions)



Clark Chang 415-248-2541 cchang@fulcrumgp.com

	F2005E					F2006E					FY06E	
	FY04	Aug-E	Nov-E	Feb-E	May-E	FY05E	Aug-E	Nov-E	Feb-E	May-E		
Cash Flow from Operating Activities												
Net Income	2,681	480	719	755	1086	3,040	557	805	849	1216	3,427	
Adj to Reconcile Net Inc to Cash Provided/(Used) in Op Actvts												
Depreciation and Amortization	198	40	40	40	40	160	30	30	30	30	120	
Amortization of Intangible	36	7	7	7	7	28	7	7	7	7	28	
Provision for Doubtful Accounts	173				197	197					215	215
Net Inv Losses/(Gains) Related to Equity Securities	(29)	0	0	0	0	-	0	0	0	0	0	-
Deferred Income Taxes	58	0	0	0	0	-	0	0	0	0	0	-
Changes in Assets and Liabilities												
(Incr)/Decr in Trade Receivables	(245)	479	(109)	0	(547)	(177)	519	(119)	0	(596)	(196)	
Incr in L/T Prepaid Income Taxes												
(Incr)/Decr in Prepaid Exp. And Other Current Assets	(17)	0	0	0	0	-	0	0	0	0	0	-
Incr/(Decr) in Accounts Payable & Accrued Comp	25	(259)	94	131	146	112	(152)	(11)	(11)	219	45	
Incr/(Decr) in Income Taxes Payable	200	0	0	0	0	-	0	0	0	0	0	-
Incr/(Decr) in Accr Compensation and Related Benefits												
Incr/(Decr) in Customer Adv + Unearned Rev/Def Rev	83	254	(328)	0	219	145	109	(328)	0	219	-	
Incr/(Decr) in Value Added Tax and Sales Tax Payable												
Incr/(Decr) in Other Accrued Liabilities												
Incr/(Decr) in Deferred Income Taxes												
Incr in deferred revenues												
Incr/(Decr) in Other L/T Liabilities	14	(26)	0	0	0	(26)	0	0	0	0	0	-
Net Cash Provided/(Used) in Operating Activities	3,177	976	422	933	1147	3,478	1071	384	875	1309	3,638	
Cash Flow from Investing Activities												
Purchase of Cash Investments	(10,310)											
Proceeds from Maturities of Cash Investments	8,009											
Capital Expenditures	(189)	(50)	(50)	(50)	(50)	(200)	(50)	(50)	(50)	(50)	(200)	
Capitalization of Computer Software Development Costs												
Proceeds from Sales of Marketable Securities												
(Increase)/Decrease in Intangible and Other Assets	(71)											
Net Cash (Used in) Provided by Investing Activities	(2,561)	(50)	(50)	(50)	(50)	(200)	(50)	(50)	(50)	(50)	(200)	
Cash Flow from Financing Activities												
Payment of Capital Leases												
Payments for Repurchase of Common Stock	(1,499)	(350)	(350)	(350)	(350)	(1,400)	(400)	(400)	(500)	(500)	(1,800)	
Proceeds from Issuance of Common Stock	354	40	120	60	120	340	40	120	60	120	340	
Settlement of Forward Contract												
Proceeds from Subsidiary Offering												
Proceeds Under Notes Payable and L/T Debt, Net	(144)					-					-	
Net Cash Provided/(Used) in Financing Activities	(1,289)	(310)	(230)	(290)	(230)	(1,060)	(360)	(280)	(440)	(380)	(1,460)	
Effect of Fx Rate Changes on Cash and Cash Equiv	74											
Net Increase (Decrease) in Cash & Equivalents	(599)	616	142	593	867	2,218	661	54	385	879	1,978	
Cash and Cash Equivalents, BOP	4,737	4,138	4,754	4,896	5,489	4,138	6,356	7,017	7,071	7,456	6,356	
Cash and Cash Equivalents, EOP	4,138	4,754	4,896	5,489	6,356	6,356	7,017	7,071	7,456	8,334	8,334	

Source: Company reports and FGP estimates

Appendix A

IMPORTANT DISCLOSURES AND ANALYSTS' CERTIFICATIONS

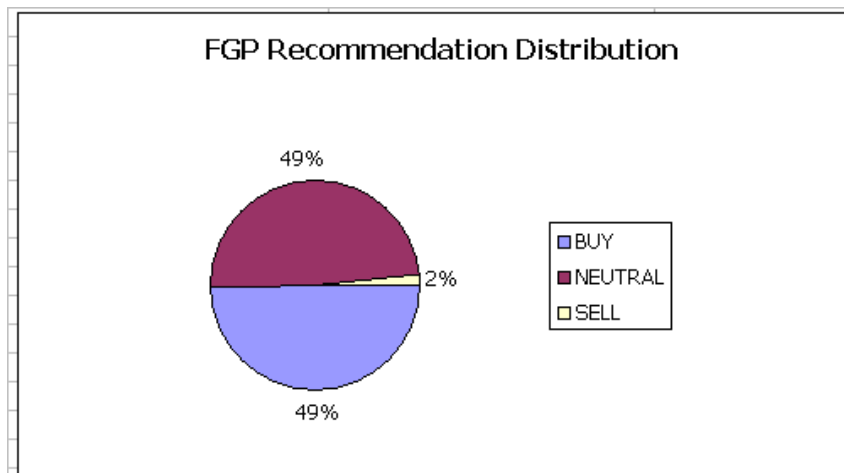
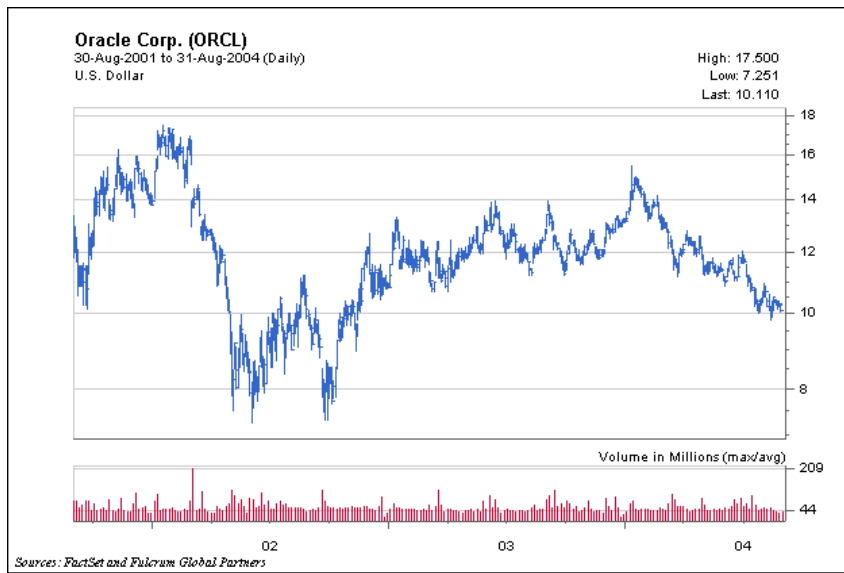
Fulcrum Global Partners LLC ratings are defined as follows:

BUY – A stock that is expected at initiation to produce a positive return of 15% or greater over the 12 months following the initial recommendation. The BUY rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

SELL – A stock that is expected at initiation to produce a negative return of 15% or greater over the 12 months following the initial recommendation. The SELL rating may be maintained following initiation as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

NEUTRAL – A stock that is not expected to appreciate or depreciate meaningfully over the next 12 months.

ORCL Price Chart (Fulcrum Ratings and Price Targets Designated)



Source: FactSet and Fulcrum Global Partners

Note: The percentage of subject companies in each rating category for which FGP has provided investment banking services within the last 12 months is 0%.

All required disclosures, including price charts, designating ratings and price targets on all Fulcrum Global Partners LLC-rated stocks are available upon request by contacting rmenasian@fulcrumgp.com.

MENTIONED COMPANIES

IBM (IBM, \$84.40, NYSE, NEUTRAL)
Hewlett-Packard (HP, \$25.23, NYSE, BUY)
Dell# (DELL, \$35.12, NASDAQ, BUY)
Microsoft# (MSFT, \$27.30, NASDAQ, BUY)
PeopleSoft# (PSFT, \$17.19, NASDAQ, NEUTRAL)
Red Hat# (RHAT, \$12.79, NASDAQ, NR)
Novell# (NOVL, \$5.91, NASDAQ, NR)
SAP (SAP, \$36.90, NYSE, BUY)
Accenture (ACN, \$25.75, NYSE, BUY)
Veritas (VRTS, \$17.41, NASDAQ, BUY)
Siebel (SEBL, \$7.60, NASDAQ, BUY)

#Fulcrum Global Partners LLC makes a market in this security.

VALUATION, PRICE TARGET METHODOLOGY, RISKS TO ACHIEVING PRICE TARGET

Oracle Corp.# (ORCL, \$10.11, NASDAQ, BUY)

Valuation:

Our price target of \$13 is based on 21x our estimated calendar 2005 earnings per share of \$0.62, a modest discount to the estimated peer group average of 22x (see Exhibit 1 on page 16). Our DCF analysis is in line with our price target. We used a WACC of 11.4% and a long-term growth rate of 5%, yielding a terminal multiple of 16x (see Exhibit 2 on page 17).

Risks:

- Our BUY recommendation is not a call on FQ1. In fact, we are expecting unimpressive results as reflected by our lower than consensus revenue estimate for FQ1. However, we think that shares are already discounted at current levels.
- Oracle's slower growing core database business could place a significant obstacle on the company's ability to grow its overall revenue.
- MySQL database could potentially compete more effectively against Oracle's database and take market share away in the future.
- A series of negative pre-announcements followed by poor earnings in Q2 by software vendors could signal an ongoing softer IT spending environment.
- Migration trends from Unix to the Intel processor-based servers negatively affect Oracle's revenue from Unix platform. Oracle database products run on various platforms including Unix, Windows, and Linux. Therefore, although Oracle benefits on the Windows and Linux platforms from the migration trend, the same trend negatively affects the company on the Unix platform.
- Large acquisition risk – although Oracle faces an uphill battle to acquire PeopleSoft, we believe Oracle is likely to make a sizeable acquisition, either PeopleSoft or another company, within the next 12-month timeframe. Although the right acquisition can infuse optimism for investors, the wrong acquisition can do exactly the opposite. Since the acquisition is likely to be a high profile one, Oracle shares would probably react significantly to the acquisition news. Furthermore, a large merger tends to introduce substantial risk of business disruption caused by product and organization integration issues.

- Penetrating the SMB market could be challenging with Microsoft presence.
-

ANALYST CERTIFICATION

I, Clark Chang, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Unless otherwise noted, all prices are as of the close, August 30, 2004.

For additional information, please contact your Fulcrum sales representative at (212) 803-9000.

Copyright 2004 Fulcrum Global Partners LLC. All rights reserved. Any unauthorized use or disclosure prohibited.

For private circulation only. This report is a publication of Fulcrum Global Partners LLC and is for informational purposes only and is not intended to be, nor should it be construed to be, an advertisement or an offer or a solicitation of an offer to buy or sell any securities. The information herein, or upon which opinions have been based, has been obtained from sources believed to be reliable, but no representations, express or implied, or guarantees, can be made as to their accuracy, timeliness or completeness. The information and opinions in this report are current as of the date of the report. We do not endeavor to update any changes to the information and opinions in this report. Unless otherwise stated, all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice.

This report does not take into account the specific investment objectives, financial situation and the particular needs of any specific person who may receive it. Before acting on any advice or recommendation in this report, clients should consider whether it is suitable for their own particular circumstances. The value of securities mentioned in this report and income from them may go up or down, and investors may realize losses on any investments. Past performance is not a guide to future performance. Future terms are not guaranteed, and a loss of original capital may occur.

Fulcrum Global Partners LLC does not have investment banking relationships with the firm(s) whose security is mentioned in this report. Neither the analysts responsible for this report nor any related household members are officers, directors, or advisory board members of any covered company. No one at a covered company is on the Board of Directors of Fulcrum Global Partners LLC Research. Neither Fulcrum Global Partners LLC nor any of its owners, officers or employees own shares equal to one percent or more of the company in this report.