

Oracle Corp. (ORCL)

Sounds like we should forget about move to subscription accounting.

The Goldman Sachs Group, Inc.

March 9, 2006

In-Line/Attractive

United States

Technology

Software

Stock data

Price \$12.86

52-week range \$14.05 - 11.52

Dividend yield --

Capitalization

Market cap \$66,252 mn

Enterprise value \$64,567 mn

Net debt/equity NM

Shares outstanding 5,152 mn

Price performance (%)

1M 3M 12M

Absolute 2.3 3.4 (5.6)

Rel to S&P 500 1.3 1.6 (10.4)

Oracle management has responded to investor concerns that it may change to subscription accounting and away from licensing, indicating today that this is not likely. Given the difficult transition for other companies that have made the switch, we view this with some relief for Oracle stock, even though this has not likely been much of a drag yet on sentiment or the stock. We expect Oracle to continue to drive investor focus on the recurring revenue stream and try to deemphasize the volatile quarter-to-quarter swings in license revenues, but a change in the business model to subscription accounting appears to be too extreme, and we are told is not something management is likely to do. Our rating remains IL/A.

Forecasts and valuation

Fiscal year ended	EPS \$	P/E X	Revenue \$ mn	EBITDA \$ mn	EV/EBITDA X
05/04A	0.47	27.6	10,155	3,799	17.0
05/05A	0.62	20.7	12,120	5,143	12.6
05/06E	0.68	18.9	14,469	6,470	10.0
05/07E	0.75	17.1	16,202	7,413	8.7

EPS	Fiscal year ended 05/05A	Fiscal year ended 05/06E		Fiscal year ended 05/07E	
		New	Old	New	Old
1Q	\$0.10	\$0.12A	unch	\$0.12	unch
2Q	\$0.15	\$0.16A	unch	\$0.18	unch
3Q	\$0.14	\$0.16	unch	\$0.18	unch
4Q	\$0.23	\$0.24	unch	\$0.28	unch
Full year	\$0.62	\$0.68	unch	\$0.75	unch

Source: Company data, Goldman Sachs Research estimates

- Oracle reports third (February) fiscal quarter results on Monday, March 20th. Management has already indicated (on its February 9th conference call to review the impact of the Siebel acquisition) that business was doing better for the third (Feb) quarter, after disappointing results in the prior two quarters. It is widely expected that results should be in line to maybe a bit stronger than expected for the quarter. Specifically, we continue to look for database technology (includes middleware and database options) growth of 10%, followed by 12% in the May quarter. The May quarter will be a more difficult comparison, but with business having been sluggish in the first half (August and November quarters) we suspect there should be an opportunity to make up for this at year-end for Oracle's highly motivated sales force. We have modeled 12% database license growth for May, followed by relatively easy compares in August and November. The difficult May comparison has caused management to offer a wide range of growth guidance and is also likely driven by

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uncertainties on the Siebel application closure rates for the quarter. For applications license revenues, we look for February quarter organic growth of about 32% given an easy year-ago comparison and total applications license growth of 74% with the benefit of acquisitions. The August quarter should also be an easy comparison for the applications business.

- We include amortization expense in the P&L while Street numbers exclude amortization of acquired intangibles, and we also include ESO expenses even though these are not required to be reflected until the August quarter. Our February quarter EPS estimate of \$0.16 vs \$0.14 last year reconciles to \$0.19 vs \$0.16 last year excluding amortization and ESO costs to be consistent with the Street.
- The stock is trading at 18.4X our calendar 2006 EPS estimate of \$0.70 (including ESO and amortization expenses), or an 11% premium to the market. If we exclude amortization and ESO expenses to be consistent with the Street, this implies a P/E of 15.4X using calendar 2006 EPS of about \$0.84. More important than P/E, we show a DCF value of about \$16, implying about 25% upside as the company demonstrates better and more consistent growth and investors become more confident of the company's ability to manage its acquisitions and product integration.

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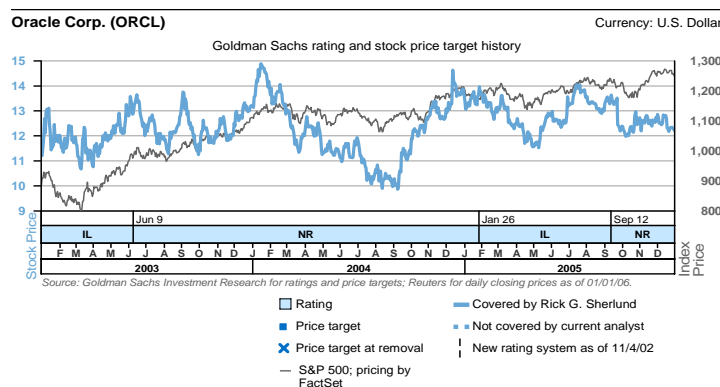
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