

Oracle (ORCL)

Expectations Look Reasonable; Reiterating NEUTRAL and Raising PT to \$40 from \$38

- **ORCL will announce 3Q/Feb. results after the market close on Tuesday, March 18th, followed by a conference call at 5:00 pm ET.** Our 3Q estimates are slightly above consensus: our estimates of \$9,385M/\$0.71 compare to consensus of \$9,359M/\$0.70 and guidance of \$9,150M - \$9,510M / \$0.68 - \$0.72. We expect ORCL will grow revenue by 5% Y/Y, representing 4% constant-currency, organic growth.
- **Although ORCL faces secular challenges, particularly in applications and hardware, expectations for FY14 and FY15 look fairly reasonable.** Consensus expectations allow for continued deceleration in new license revenue, from 9% (constant-currency) two years ago (FY12) to 6% this year and 5% next year, by our calculation. Moreover, despite server market headwinds due to rapidly declining price/ performance, ORCL's hardware product revenue may be turning the corner to Y/Y growth, as ORCL's Exa revenue growth mitigates the headwinds in the high-end server market.
- **On the negative side, ORCL's cloud revenue appears to be growing only minimally on an organic basis, despite acquisitions of growers such as Taleo, RightNow, and Eloqua.** As ORCL subsumes acquired companies under the Oracle Cloud brand – along with its own formerly-titled “Fusion” applications – and rationalizes overlapping products (such as Taleo's performance management product), we believe the acquisitions have lost some momentum, despite being sold by a larger sales force. Also negative for ORCL, our checks suggest FY13 bonuses were trimmed or eliminated for many employees across the company, which augurs wells for cost control, but not so much for ORCL's ability to attract and retain talent.
- **We are reiterating our NEUTRAL rating and raising our 12-month target price from \$38 to \$40 on rolling forward our P/E and EV/FCF approaches to use our CY15 estimates and on higher peer multiples.** We have increased our revenue estimates by \$172M over the next four quarters on the addition of Responsys (net of write-downs), which closed on February 6th. Although we continue to think ORCL faces secular challenges in applications and hardware, ORCL shares look reasonably priced (11x EV/FCF on CY14), given our outlook for EPS and cash flow growth near the 10% level, driven by modest operating leverage and share buybacks.

March 11, 2014

Price
\$38.90

Rating
NEUTRAL

12-Month Price Target
\$40 (from \$38)

Steve Koenig
(415) 274-6801
steve.koenig@wedbush.com

Kevin Ikeda
(213) 688-4423
kevin.ikeda@wedbush.com

Company Information

Shares Outst (M)	4,600
Market Cap (B)	\$178.9
52-Wk Range	\$29.86 - \$39.85
Book Value/sh	\$9.58
Cash/sh	\$2.78
Enterprise Value (B)	\$166,132.0
LT Debt/Cap	33%

Company Description

Oracle is a leading global provider of enterprise software, computer hardware products, and related services. It is organized into three businesses: software, hardware systems, and services.

FYE May	2013A	2014E			2015E		
REV (M)	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Aug	\$8,209A	\$8,381A		--	\$8,727E	\$8,695E	8,798E
Q2 Nov	9,113A	\$9,283A		--	\$9,661E	\$9,612E	\$9,712E
Q3 Feb	8,970A	\$9,385E		\$9,359E	\$9,759E	\$9,707E	\$9,816E
Q4 May	10,961A	\$11,560E	\$11,521E	\$11,500E	\$12,058E	\$12,011E	\$12,052E
Year*	\$37,253A	\$38,609E	\$38,570E	\$38,489E	\$40,205E	\$40,026E	\$40,328E
Change	0.1%	3.6%			4.1%		
EPS	2013A	2014E			2015E		
	ACTUAL	CURR.	PREV.	CONS.	CURR.	PREV.	CONS.
Q1 Aug	\$0.53A	\$0.59A		--	\$0.64E		0.64E
Q2 Nov	0.64A	\$0.69A		--	\$0.75E		0.75E
Q3 Feb	0.65A	\$0.71E		0.70E	\$0.78E		0.78E
Q4 May	0.87A	\$0.97E		0.95E	\$1.06E		1.05E
Year*	\$2.68A	\$2.95E		\$2.92E	\$3.22E		\$3.19E
P/E	14.5x	13.2x			12.1x		
Change	9.2%	10.3%			9.2%		

Consensus estimates are from Thomson First Call.

* Numbers may not add up due to rounding.



Source: Thomson Reuters

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Investment Thesis

We believe ORCL is a large, liquid, and relatively defensive software investment. ORCL derives about 50% of revenue from recurring software and hardware maintenance, and a big part of ORCL's value proposition revolves around the cost benefits from standardizing on a single IT stack; we think this value proposition becomes even more important in a difficult economic climate. Also helpful is ORCL's broad product portfolio and diverse customer base, which helps to insulate ORCL from category or industry-specific risk during a challenging economic period, unlike vendors focused on a single vertical such as manufacturing or financial services.

We see a risk that a difficult IT buying climate could continue to negatively impact results. Enterprise buyers have been exercising caution in the face of global macroeconomic uncertainties. Also, we see some secular challenges, including increasing SaaS competition in applications, a more general shift to time-based and usage-based software purchasing models, and incremental database market fragmentation from special-purpose data management technologies such as NoSQL, columnar databases, data warehouse appliances, and Hadoop. (We view the latter challenge as a longer-term risk).

Going forward, we think ORCL will use cost control and operating leverage – particularly on the G&A, R&D, and hardware support margin lines, offset by sales hiring—to achieve modest improvements in operating margin (under 100 bps yearly). On the revenue line, we are cautious about ORCL's applications outlook, and still somewhat guarded about hardware: applications growth will likely be flattish organically in the medium-term as legacy PeopleSoft and Siebel customers consider their SaaS alternatives, while Fusion applications ramp gradually; and the high-end server hardware market appears to remain pressured by rapid reductions in price/performance.

We view ORCL as a reasonably defensive holding, with upside and downside risks fairly balanced. ORCL shares are trading at a 13x P/E and 11x EV/FCF on our CY14 estimates, which we view as appropriate given our outlook for about 9-10% long-term EPS CAGR. (We think ORCL can continue to achieve this level of growth, but primarily through the use of its balance sheet for accretive acquisitions and stock repurchases). ORCL's trading multiples are below the company's average 33% discount to the median forward P/E for our broad software index. ORCL's results have been fairly lackluster since 2H13, causing its shares to lag the market and leading to an unusually large discount to the median forward software P/E (13x for ORCL vs. 21x for software). Our 12-month target price of \$40 is about 4% above the current share price level; this target price is based on averaging our P/E, EV/FCF, and DCF approaches.

Guidance and Our Outlook

On its 2Q14 earnings conference call on December 18, 2013, management provided the following guidance for 3Q14. ORCL expects total revenue to grow 2% to 6% in reported dollars (midpoint of \$9,329M) and 3% to 7% in constant currency. New software license and cloud subscription revenue is expected to grow 1% to 11% in reported dollars (midpoint of \$2,478M) and 2% to 12% in constant currency. Hardware product revenue is expected to grow -2% to 8% in reported dollars (midpoint \$691M) and -1% to 9% in constant currency. Management expects non-GAAP EPS to be \$0.68 - \$0.72 in reported dollars and in constant currency.

For 3Q14, we estimate total revenue of \$9,385M and for FY14, we estimate total revenue of \$38,609M. In organic, constant-currency terms, we expect total revenue growth to accelerate to 3% in FY14. For FY15, we estimate total revenue of \$40,205M.

For 3Q14, we estimate adj. EPS of \$0.71, and for FY14, we estimate adj. EPS of \$2.95. For FY15, we estimate adj. EPS of \$3.22.

Valuation

ORCL shares are currently trading at 13x our CY14 estimate of \$3.08. Shares are trading at a PEG ratio of 1.4 based on our outlook for long-term EPS growth of 10%. ORCL's P/E is slightly below the peer group (15x) and below the software industry (21x). Relative to the software industry, shares are trading at a 38% discount to the median industry P/E on a forward 12-month basis (13x vs. 21x). On an enterprise value/FCF basis, shares are trading below peers (11x vs. 14x) and below the industry median (22x) based on our CY14 estimates. ORCL's multiples look appropriate, given our outlook for EPS growth of about 10% in FY14 and FY15.

Our 12-month target price of \$40 is an average of our P/E, enterprise value/FCF and DCF approaches: we apply a 12x P/E multiple on our CY14 EPS of \$3.34 to arrive at a \$40 valuation; we apply a 10x EV/FCF multiple to our CY14 FCF of \$3.63 and add back \$3.79 in net cash 12 months from now to arrive at a \$40 valuation; and our long-term discounted cash flow valuation of \$41 is based on a WACC of 8.8%, beta of 1.0 and terminal value EV/FCF multiple of 8x in CY24E. Our target P/E and EV/FCF multiples are in line with current multiples and below the software industry median multiples; we believe they are appropriate given ORCL's relative maturity.

Figure 1: ORCL Forward P/E vs. Software Median

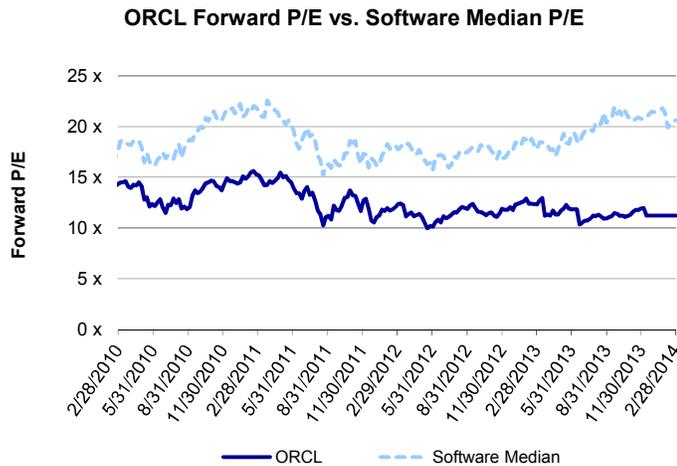
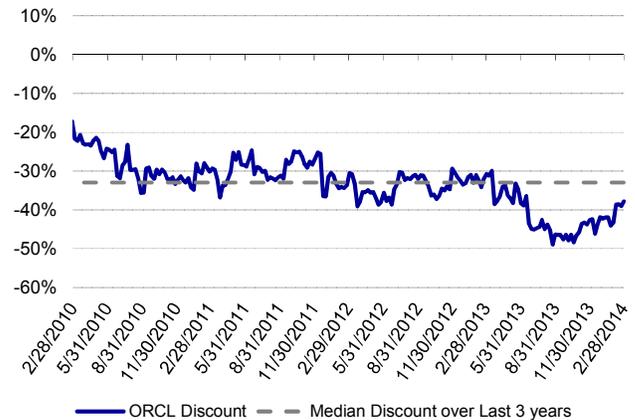


Figure 2: ORCL Forward P/E Discount to Software Median



Source: Thomson Reuters, Wedbush Securities, Inc.

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Risks

Risks to the attainment of our price target include:

Downside risks:

- **ORCL’s competitive position in the enterprise applications market could weaken.** ORCL holds a number-two position in the enterprise applications market, but could lose share to SAP and other SaaS based competitors if Fusion adoption is weaker than expected or if its acquisitions fail to meet expectations.
- **Faster-than-expected declines in hardware revenue.** Initial sales of ORCL’s engineered systems look promising, but the overall hardware market offers flat to negative growth and lower margins than ORCL’s software business. Also, engineered system sales may not offset declines in ORCL’s commodity hardware business as fast as expected.
- **A difficult macroeconomic climate could impact near-term results.** Software vendors generally saw license deceleration in 2H12, as enterprise buyers exercised caution in the face of U.S. fiscal uncertainty and longer-running factors such as the European sovereign debt crisis. We see a risk that these pressures could continue to cause ORCL to underperform revenue expectations in the near term.

Upside risks:

- **Larger-than-expected database share gains.** ORCL has a secure and lucrative competitive position in the database software market. It looks to us that ORCL is on the front end of a promising database product cycle with 12c, which could lead to database share gains greater than 50 bps annually.
- **Margin upside.** Hardware margins lowered ORCL’s overall operating margins after the Sun acquisition. ORCL could control costs aggressively, particularly on the sales & marketing and G&A lines. Also, robust growth in sales of ORCL’s engineered systems could improve hardware margins.

Figure 3: ORCL Peer Comparisons

Name	Ticker	Rating	Market Capitalization				Earnings						Revenues				Free Cash Flow				FCF Yield	Short int. % Shares Short	
			Price Target	Price	Net Cash per sh.	Market Cap (\$ MM)	Shares Out. (MM)	LT EPS growth (%)	EPS CY 14E	EPS CY 15E	PE CY 14E	PE CY 15E	PE/G	Rev. CY14E (\$mm)	Rev. CY15E (\$mm)	EV/rev CY14E	EV/rev CY15E	FCF CY14E /sh.	FCF CY15E /sh.	EV/FCF CY14E			EV/FCF CY15E
Wedbush Research Estimates																							
Oracle Corporation	ORCL	NEUTRAL	\$40	\$38.90	\$2.78	178,940	4,600	10%	\$3.08	\$3.34	12.6 x	11.6 x	1.4	39,333	40,998	4.2 x	4.1 x	\$3.21	\$3.63	11.3 x	9.9 x	8%	1%
Peer Group Estimates																							
Microsoft Corp	MSFT	NC		\$38.02	\$7.32	314,570	8,300	7%	\$2.80	\$3.04	13.6 x	12.5 x	1.9	87,081	92,366	2.9 x	2.7 x	\$3.02	\$3.22	10.1 x	9.5 x	5%	1%
Sap Ag	SAP-XE	NC		\$77.50	(\$1.69)	95,995	1,229	10%	\$4.78	\$5.28	16.2 x	14.7 x	1.7	24,450	25,878	4.0 x	3.8 x	\$3.76	N/A	21.2 x	N/A	3%	NA
Salesforce.Com Inc	CRM	NEUTRAL	\$63	\$61.02	(\$0.40)	36,892	607	33%	\$0.46	\$0.58	132.6 x	105.0 x	5.3	5,338	6,498	7.0 x	5.7 x	\$0.78	\$1.11	78.0 x	55.3 x	2%	7%
Progress Software Corp	PRGS	NC		\$22.51	\$4.87	1,185	53	10%	\$1.36	\$1.37	16.5 x	16.5 x	1.6	323	327	2.9 x	2.8 x	\$1.22	\$1.38	14.5 x	12.8 x	2%	3%
Hewlett-Packard Co	HPQ	NC		\$29.91	(\$4.43)	56,902	1,902	4%	\$3.58	\$3.58	8.4 x	8.4 x	2.0	111,145	111,145	0.6 x	0.6 x	\$3.91	\$3.91	8.8 x	8.8 x	13%	2%
International Business Machines	IBM	NC		\$186.76	(\$27.51)	194,481	1,041	9%	\$16.88	\$16.88	11.1 x	11.1 x	1.4	100,391	100,391	2.2 x	2.2 x	\$16.86	\$16.86	12.7 x	12.7 x	5%	3%
Peer Group Median Values								9%			14.9 x	13.6 x	1.8			2.9 x	2.8 x			13.6 x	12.7 x	4%	3%
Industry Median Values								14%					1.6			4.1 x	4.0 x			21.9 x	19.5 x	4%	3%

Source: Thomson Reuters, Wedbush Securities, Inc.

Figure 4: ORCL Wedbush Model, Guidance, and Consensus Estimates

(\$ millions, except per share amounts)	FY13				FY14E				FY15E				FY11	FY12	FY13	FY14E	FY15E	FY16E
	8/12	11/12	2/13	5/13	8/13	11/13	2/14E	5/14E	8/14E	11/14E	2/15E	5/15E						
Wedbush Revenue	8,209	9,113	8,970	10,961	8,381	9,283	9,385	11,560	8,727	9,661	9,759	12,058	35,850	37,221	37,253	38,609	40,205	41,898
Guidance 9/16/09																		
Guidance 12/17/09																		
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Guidance 9/20/11																		
Guidance 12/20/11																		
Guidance 3/20/12																		
Guidance 6/18/12	8.2-8.5																	
Guidance 9/20/12		8.8-9.2																
Guidance 12/18/12			9.15-9.52															
Guidance 3-20-13				10.84-11.39														
Guidance 6-20-13					8.37-8.62													
Guidance 9-18-13						9.02-9.30												
Guidance 12-18-13							9.15-9.51											
Consensus Revenue	8,422	9,018	9,382	11,124	8,479	9,195	9,359	11,500	8,798	9,712	9,816	12,052	35,740	37,221	37,454	38,489	40,328	42,071
Wedbush EPS	\$0.53	\$0.64	\$0.65	\$0.87	\$0.59	\$0.69	\$0.71	\$0.97	\$0.64	\$0.75	\$0.78	\$1.06	\$2.22	\$2.45	\$2.68	\$2.95	\$3.22	\$3.48
Guidance 9/16/09																		
Guidance 12/17/09																		
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Guidance 3/20/12																		
Guidance 6/18/12	.51-.55																	
Guidance 9/20/12		.59-.63																
Guidance 12/18/12			64-.68															
Guidance 3-20-13				85-.91														
Guidance 6-20-13					54-.57													
Guidance 9-18-13						.64-.69												
Guidance 12-18-13							.68-.72											
Consensus EPS	\$0.53	\$0.61	\$0.66	\$0.87	\$0.56	\$0.67	\$0.70	\$0.95	\$0.64	\$0.75	\$0.78	\$1.05	\$2.18	\$2.46	\$2.67	\$2.92	\$3.19	\$3.44

Wedbush Estimates versus Consensus

Wedbush: Software Revenue	5,738	6,665	6,682	8,438	6,088	6,900	7,070	8,975	6,383	7,223	7,389	9,417	24,111	26,186	27,523	29,033	30,413	31,823
Wedbush: Hardware Revenue	1,357	1,324	1,243	1,435	1,266	1,327	1,291	1,497	1,307	1,360	1,325	1,542	7,092	6,332	5,359	5,381	5,535	5,732
Wedbush: Service Revenue	1,114	1,124	1,045	1,088	1,027	1,056	1,024	1,088	1,037	1,077	1,045	1,099	4,647	4,703	4,371	4,195	4,258	4,343

Y/Y Revenue Growth

Model:																		
Wedbush: Software Revenue	4%	10%	4%	3%	6%	4%	6%	6%	5%	5%	5%	5%	16.4%	8.6%	5.1%	5.5%	4.8%	4.6%
Wedbush: Hardware Revenue	-19%	-17%	-16%	-9%	-7%	0%	4%	4%	3%	3%	3%	3%	NM	-10.7%	-15.4%	0.4%	2.9%	3.6%
Wedbush: Service Revenue	-6%	-5%	-8%	-9%	-8%	-6%	-2%	0%	1%	2%	2%	1%	19.0%	1.2%	-7.1%	-4.0%	1.5%	2.0%
Wedbush: Total Revenues	-2%	3%	-1%	0%	2%	2%	5%	5%	4%	4%	4%	4%	32.6%	3.8%	0.1%	3.6%	4.1%	4.2%
Consensus Revenues	0%	2%	4%	2%	3%	1%	4%	5%	5%	5%	5%	5%	32.2%	3.8%	0.6%	2.8%	4.8%	4.3%

Operating Margin

Model operating margin	44%	47%	47%	51%	45%	46%	47%	51%	45%	47%	48%	51%	44.3%	46.2%	47.3%	47.6%	48.0%	48.2%
Consensus operating margin	44%	45%	48%	51%	42%	45%	47%	50%	45%	47%	48%	51%	43.6%	46.1%	46.9%	47.3%	47.4%	47.4%

Source: Thomson Reuters, Company data, Wedbush Securities, Inc.

Figure 5: ORCL Income Statement

(\$ millions, unless specified)	FY13				FY14E				FY15E				FY11	FY12	FY13	FY14E	FY15E	FY16E
	8/12	11/12	2/13	5/13	8/13	11/13	2/14E	5/14E	8/14E	11/14E	2/15E	5/15E						
Software revenues	5,738	6,665	6,682	8,438	6,088	6,900	7,070	8,975	6,383	7,223	7,389	9,417	24,111	26,186	27,523	29,033	30,413	31,823
Hardware systems products	779	734	671	849	669	714	684	866	702	750	719	909	4,383	3,828	3,033	2,933	3,080	3,265
Hardware systems support	578	590	572	586	597	613	607	631	605	611	607	633	2,709	2,504	2,326	2,448	2,455	2,467
Services	1,114	1,124	1,045	1,088	1,027	1,056	1,024	1,088	1,037	1,077	1,045	1,099	4,647	4,703	4,371	4,195	4,258	4,343
Total revenues	8,209	9,113	8,970	10,961	8,381	9,283	9,385	11,560	8,727	9,661	9,759	12,058	35,850	37,221	37,253	38,609	40,205	41,898
Deferred Revenue Write-Down	(28)	(19)	(12)	(14)	(9)	(8)	(6)	(3)	-	-	-	-	(227)	(100)	(73)	(26)	-	-
GAAP Revenue	8,181	9,094	8,958	10,947	8,372	9,275	9,379	11,557	8,727	9,661	9,759	12,058	35,623	37,121	37,180	38,583	40,205	41,898
Cost of Software license updates and prod	278	265	301	311	282	280	283	359	319	325	333	414	1,249	1,208	1,155	1,204	1,391	1,471
Cost of Hardware systems products	364	366	336	412	328	368	341	424	350	373	358	446	2,055	1,842	1,498	1,461	1,527	1,618
Cost of Hardware systems support	223	226	218	219	206	213	231	240	236	232	231	240	1,256	1,041	886	889	939	943
Cost of Services	875	922	847	871	799	844	819	860	834	866	836	868	3,803	3,719	3,515	3,322	3,404	3,472
Total cost of Revenue	1,760	1,779	1,702	1,813	1,615	1,705	1,673	1,883	1,739	1,796	1,757	1,968	8,363	7,810	7,054	6,876	7,250	7,504
Gross profit	6,449	7,334	7,268	9,148	6,766	7,578	7,712	9,677	6,988	7,864	8,002	10,090	27,487	29,411	30,199	31,733	32,945	34,393
Sales and Marketing	1,508	1,730	1,770	2,173	1,667	1,926	1,924	2,335	1,728	1,961	2,001	2,496	6,492	7,007	7,181	7,852	8,186	8,530
Research and Development	1,118	1,110	1,100	1,171	1,140	1,186	1,136	1,202	1,082	1,140	1,152	1,230	4,287	4,228	4,499	4,664	4,604	4,798
General and Administrative	234	222	220	231	218	220	206	208	209	213	215	217	825	964	907	853	854	890
Total operating expenses	2,860	3,062	3,090	3,575	3,025	3,332	3,266	3,745	3,020	3,314	3,367	3,943	11,604	12,199	12,587	13,368	13,643	14,218
Operating Income	3,589.0	4,272.0	4,178.0	5,573.0	3,741.0	4,246.0	4,445.6	5,931.8	3,968.8	4,550.7	4,635.5	6,146.8	15,883	17,212	17,612	18,364	19,302	20,176
EBITDA	3,716.0	4,406.0	4,317.0	5,719.0	3,891.0	4,398.0	4,552.0	6,041.5	4,081.6	4,666.6	4,754.3	6,268.4	16,251	16,888	18,158	18,882	19,771	20,689
Interest Expense	(188)	(195)	(205)	(210)	(217)	(230)	(242)	(242)	(242)	(242)	(242)	(242)	(809)	(809)	(798)	(930)	(967)	(1,264)
Non-operating income (expense), net	11	4	(39)	35	7	23	-	-	-	-	-	-	186	186	11	30	-	-
Net Other Income (Expenses)	(177)	(191)	(244)	(175)	(210)	(207)	(242)	(242)	(242)	(242)	(242)	(242)	(623)	(623)	(787)	(900)	(967)	(1,264)
Pre-tax income	3,412	4,081	3,934	5,398	3,531	4,039	4,204	5,690	3,727	4,309	4,394	5,905	15,260	16,466	16,825	17,464	18,335	18,912
Provision for income tax	798	959	826	1,284	770	984	988	1,337	876	1,013	1,033	1,388	3,864	3,980	3,867	3,979	4,309	4,435
tax rate	23%	23%	21%	24%	22%	22%	24%	24%	24%	24%	24%	24%	25%	24%	23%	23%	24%	24%
Net income (Loss)	2,614	3,122	3,108	4,114	2,761	3,155	3,216	4,353	2,851	3,296	3,361	4,517	11,396	12,486	12,958	13,485	14,026	14,477
Diluted EPS	\$0.53	\$0.64	\$0.65	\$0.87	\$0.59	\$0.69	\$0.71	\$0.97	\$0.64	\$0.75	\$0.78	\$1.06	\$2.22	\$2.45	\$2.68	\$2.95	\$3.22	\$3.48
Amortization of intangible assets	619	584	586	596	595	577	550	550	550	550	550	550	2,427	2,430	2,385	2,272	2,200	2,200
Acquisition related and other	(258)	(121)	32	(257)	10	17	17	17	17	17	17	17	208	55	(604)	61	68	68
Restructuring	145	131	42	34	56	52	52	52	52	52	52	52	487	294	352	212	208	208
Deferred revenue write-down	28	19	12	14	9	8	6	3	-	-	-	-	-	-	-	-	-	-
Stock based compensation	176	188	172	186	198	182	182	182	182	182	182	182	501	626	722	744	728	728
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
GAAP pre-tax income	2,702	3,280	3,090	4,825	2,663	3,203	3,403	4,889	2,926	3,508	3,593	5,104	11,410	12,961	13,897	14,158	15,131	15,708
GAAP provision for income tax	668	699	586	1,018	472	650	783	1,125	673	807	826	1,174	2,863	2,980	2,971	3,029	3,480	3,691
GAAP Tax rate	25%	21%	19%	21%	16%	20%	23%	23%	23%	23%	23%	23%	25%	23%	21%	21%	24%	24%
GAAP net income	2,034	2,581	2,504	3,807	2,191	2,553	2,620	3,765	2,253	2,701	2,767	3,930	8,547	9,981	10,926	11,129	11,651	12,016
GAAP diluted EPS	\$0.41	\$0.53	\$0.52	\$0.80	\$0.47	\$0.56	\$0.58	\$0.84	\$0.51	\$0.62	\$0.64	\$0.92	\$1.67	\$1.96	\$2.26	\$2.43	\$2.68	\$2.89
GAAP fully diluted shares	4,939	4,868	4,812	4,756	4,674	4,600	4,530	4,480	4,430	4,380	4,330	4,280	5,128	5,095	4,844	4,571	4,355	4,155
Non-GAAP fully diluted shares	4,939	4,868	4,812	4,756	4,674	4,600	4,530	4,480	4,430	4,380	4,330	4,280	5,128	5,095	4,844	4,571	4,355	4,155
Margin Analysis																		
Software Margin	95.2%	96.0%	95.5%	96.3%	95.4%	95.9%	96.0%	96.0%	95.0%	95.5%	95.5%	95.6%	94.8%	95.4%	95.8%	95.9%	95.4%	95.4%
Hardware Systems Products Margin	50.7%	50.1%	49.9%	51.5%	51.0%	48.5%	50.2%	51.0%	50.2%	50.2%	50.2%	51.0%	53.1%	51.9%	50.6%	50.2%	50.4%	50.4%
Hardware Systems Support Margin	61.4%	61.7%	61.9%	62.6%	65.5%	65.3%	62.0%	62.0%	61.0%	62.0%	62.0%	62.0%	53.6%	58.4%	61.9%	63.7%	61.8%	61.8%
Services Margin	21.5%	18.0%	18.9%	19.9%	22.2%	20.1%	20.0%	21.0%	19.6%	19.6%	20.0%	21.0%	18.2%	20.9%	19.6%	20.8%	20.1%	20.1%
Gross margin	78.6%	80.5%	81.0%	83.5%	80.7%	81.6%	82.2%	83.7%	80.1%	81.4%	82.0%	83.7%	76.7%	79.0%	81.1%	82.2%	81.9%	82.1%
Operating margin	43.7%	46.9%	46.6%	50.8%	44.6%	45.7%	47.4%	51.3%	45.5%	47.1%	47.5%	51.0%	44.3%	46.2%	47.3%	47.6%	48.0%	48.2%
EBITDA margin	45.3%	48.3%	48.1%	52.2%	46.4%	47.4%	48.5%	52.3%	46.8%	48.3%	48.7%	52.0%	45.3%	45.4%	48.7%	48.9%	49.2%	49.4%
Net margin	31.8%	34.3%	34.6%	37.5%	32.9%	34.0%	34.3%	37.7%	32.7%	34.1%	34.4%	37.5%	31.8%	33.5%	34.8%	34.9%	34.9%	34.6%
Expense ratios (% of revenue)																		
Sales and Marketing	18.4%	19.0%	19.7%	19.8%	19.9%	20.7%	20.5%	20.2%	19.8%	20.3%	20.5%	20.7%	18.1%	18.8%	19.3%	20.3%	20.4%	20.4%
Research and Development	13.6%	12.2%	12.3%	10.7%	13.6%	12.8%	12.1%	10.4%	12.4%	11.8%	11.8%	10.2%	12.0%	11.4%	12.1%	12.1%	11.5%	11.5%
General and Administrative	2.9%	2.4%	2.5%	2.1%	2.6%	2.4%	2.2%	1.8%	2.4%	2.2%	2.2%	1.8%	2.3%	2.6%	2.4%	2.2%	2.1%	2.1%
Total operating expenses	34.8%	33.6%	34.4%	32.6%	36.1%	35.9%	34.8%	32.4%	34.6%	34.3%	34.5%	32.7%	32.4%	32.8%	33.8%	34.6%	33.9%	33.9%
Y/Y Growth																		
Software revenues	3.7%	10.3%	3.7%	3.3%	6.1%	3.5%	5.8%	6.4%	4.8%	4.7%	4.5%	4.9%	16.4%	8.6%	5.1%	5.5%	4.8%	4.6%
Hardware systems products	-24.3%	-23.0%	-22.8%	-13.1%	-14.1%	-2.7%	2.0%	2.0%	5.0%	5.0%	5.0%	5.0%	NM	-12.7%	-20.8%	-3.3%	5.0%	6.0%
Hardware systems support	-11.9%	-6.9%	-6.2%	-3.0%	3.3%	3.9%	6.0%	7.7%	1.3%	-0.4%	0.0%	0.2%	NM	-7.6%	-7.1%	5.2%	0.3%	0.5%
Services	-5.6%	-4.7%	-8.4%	-9.5%	-7.8%	-6.0%	-2.0%	0.0%	1.0%	2.0%	2.0%	1.0%	19.0%	1.2%	-7.1%	-4.0%	1.5%	2.0%
Total revenues	-2.3%	3.4%	-1.0%	0.1%	2.1%	1.9%	4.6%	5.5%	4.1%	4.1%	4.0%	4.3%	32.6%	3.8%	0.1%	3.6%	4.1%	4.2%
Total cost of revenue	-11.0%	-8.4%	-10.2%	-9.0%	-8.2%	-4.2%												

Figure 6: ORCL Revenue Model

(\$ millions, unless specified)	FY13				FY14E				FY15E				FY11	FY12	FY13	FY14E	FY15E	FY16E	
	8/12	11/12	2/13	5/13	8/13	11/13	2/14E	5/14E	8/14E	11/14E	2/15E	5/15E							
New software licenses	1,593	2,401	2,338	4,034	1,656	2,383	2,478	4,304	1,709	2,514	2,565	4,476	9,235	9,927	10,366	10,822	11,265	11,602	
Software license updates and product support	4,145	4,264	4,344	4,404	4,432	4,517	4,592	4,671	4,674	4,709	4,824	4,941	14,876	16,259	17,157	18,211	19,148	20,221	
Software revenues	5,738	6,665	6,682	8,438	6,088	6,900	7,070	8,975	6,383	7,223	7,389	9,417	24,111	26,186	27,523	29,033	30,413	31,823	
Hardware systems products	779	734	671	849	669	714	684	866	702	750	719	909	4,383	3,828	3,033	2,933	3,080	3,265	
Hardware systems support	578	590	572	586	597	613	607	631	605	611	607	633	2,709	2,504	2,326	2,448	2,455	2,467	
Hardware systems revenues	1,357	1,324	1,243	1,435	1,266	1,327	1,291	1,497	1,307	1,360	1,325	1,542	7,092	6,332	5,359	5,381	5,535	5,732	
Services	1,114	1,124	1,045	1,088	1,027	1,056	1,024	1,088	1,037	1,077	1,045	1,099	4,647	4,703	4,371	4,195	4,258	4,343	
Total Revenue	8,209	9,113	8,970	10,961	8,381	9,283	9,385	11,560	8,727	9,661	9,759	12,058	35,850	37,221	37,253	38,609	40,205	41,898	
YoY Growth																			
New software licenses	6.3%	17.2%	-1.5%	0.7%	4.0%	-0.7%	6.0%	6.7%	3.2%	5.5%	3.5%	4.0%	22.6%	7.5%	4.4%	4.4%	4.1%	3.0%	
Software license updates and product support	2.7%	6.7%	6.8%	5.9%	6.9%	5.9%	5.7%	6.1%	5.5%	4.3%	5.1%	5.8%	12.9%	9.3%	5.5%	6.1%	5.1%	5.6%	
Software revenues	3.7%	10.3%	3.7%	3.3%	6.1%	3.5%	5.8%	6.4%	4.8%	4.7%	4.5%	4.9%	16.4%	8.6%	5.1%	5.5%	4.8%	4.6%	
Hardware systems products	-24.3%	-23.0%	-22.8%	-13.1%	-14.1%	-2.7%	2.0%	2.0%	5.0%	5.0%	5.0%	5.0%	NM	-12.7%	-20.8%	-3.3%	5.0%	6.0%	
Hardware systems support	-11.9%	-8.9%	-8.2%	-3.0%	3.3%	3.9%	6.0%	7.7%	1.3%	-0.4%	0.0%	0.2%	NM	-7.6%	-7.1%	5.2%	0.3%	0.5%	
Hardware systems revenues	-19.5%	-16.6%	-16.0%	-9.2%	-6.7%	0.2%	3.9%	4.3%	3.3%	2.5%	2.7%	3.0%	NM	-10.7%	-15.4%	0.4%	2.9%	3.6%	
Services	-5.6%	-4.7%	-8.4%	-9.5%	-7.8%	-6.0%	-2.0%	0.0%	1.0%	2.0%	2.0%	1.0%	19.0%	1.2%	-7.1%	-4.0%	1.5%	2.0%	
Total	-2.3%	3.4%	-1.0%	0.1%	2.1%	1.9%	4.6%	5.5%	4.1%	4.1%	4.0%	4.3%	32.6%	3.8%	0.1%	3.6%	4.1%	4.2%	
YoY growth, constant currency																			
New software licenses	10%	18%	0%	2%	6%	1%	7%	7%	2%	5%	4%	4%	19%	9%	6%	5%	4%	3%	
Software license updates and product support	8%	8%	8%	8%	8%	7%	7%	6%	4%	4%	5%	6%	12%	9%	8%	7%	5%	6%	
Software revenues	9%	11%	5%	5%	8%	5%	7%	6%	4%	4%	5%	5%	15%	9%	7%	6%	4%	5%	
Hardware systems products	-21%	-23%	-22%	-12%	-13%	-2%	3%	2%	4%	5%	5%	5%	NM	-13%	-19%	-3%	5%	6%	
Hardware systems support	-6%	-6%	-6%	-1%	6%	6%	7%	8%	0%	-1%	0%	0%	NM	-1%	-4%	6%	0%	0%	
Hardware systems revenues	-15%	-16%	-15%	8%	-5%	2%	5%	4%	2%	2%	3%	3%	NM	-10%	-14%	2%	3%	4%	
Services	0%	-3%	-7%	8%	6%	-2%	1%	0%	0%	2%	2%	1%	17%	1%	-4%	3%	1%	1%	
Total	3%	5%	0%	2%	4%	3%	6%	5%	3%	4%	4%	4%	30%	4%	2%	5%	4%	4%	
QoQ growth																			
New software licenses	-60%	51%	-3%	73%	-59%	44%	4%	74%	-60%	47%	2%	75%							
Software license updates and product support	0%	3%	2%	1%	1%	2%	2%	2%	0%	1%	2%	2%							
Software revenues	-30%	16%	0%	26%	-28%	13%	2%	27%	-29%	13%	2%	27%							
Hardware systems products	-20%	-6%	-9%	27%	-21%	7%	-4%	27%	-19%	7%	-4%	27%							
Hardware systems support	-4%	2%	-3%	2%	2%	3%	-1%	4%	-4%	1%	-1%	4%							
Hardware systems revenues	-14%	-2%	-6%	15%	-12%	5%	-3%	16%	-13%	4%	-3%	16%							
Services	-7%	1%	-7%	4%	-6%	3%	-3%	6%	-5%	4%	-3%	5%							
Total	-25%	11%	-2%	22%	-4%	11%	1%	23%	-25%	11%	1%	24%							
Foreign exchange & acquisitions impact																			
\$/Euro, average over period	1.25	1.29	1.33	1.30	1.32	1.35	1.36	1.36	1.36	1.36	1.36	1.36							
FX impact on total revenue, YoY growth, est.	-5%	-2%	-1%	-2%	-2%	-1%	-1%	0%	1%	0%	0%	0%	3%	0%	-2%	-1%	0%	0%	
Acquisitions impact on total revenue, YoY growth, est.	2%	2%	1%	1%	2%	2%	2%	2%	1%	1%	1%	0%	24%	1%	2%	2%	1%	0%	
Total revenue growth, organic constant currency	1%	3%	-1%	1%	2%	1%	4%	4%	2%	3%	3%	4%	6%	3%	1%	3%	3%	4%	
Sun Microsystems													6,267	0	0	0	0	0	
Art Technology Group Inc													117	0	0	0	0	0	
Phase Forward Inc													260	50	0	0	0	0	
Endeca		44	40										0	100	84	0	0	0	
Right Now		69	73	25									0	107	166	0	0	0	
Taleo		95	100	102	48								0	45	345	0	0	0	
Eloqua				26	28	30	32						0						
Active Packet & Tekelec				50	133	120	120	100						50	473	0	0	0	
Big Machines						7	24	27	31	17					58	48	0	0	
Responsys							43	48	48	55	63				43	166	0	0	
Total revenue (estimated), acquisitions in prior 12 months	208	213	127	124	161	157	176	170	79	72	63	-	6,593	302	671	664	214	0	
Cloud revenue	222	230	238	264	258	262									1,474				
Revenue mix																			
New software licenses	19.4%	26.3%	26.1%	36.8%	19.8%	25.7%			25.8%	26.7%	27.8%	28.0%	25.8%	26.7%	27.8%	28.0%	28.0%	27.7%	
Software license updates and product support	50.5%	46.8%	48.4%	40.2%	52.9%	48.7%			41.5%	43.7%	46.1%	47.2%	41.5%	43.7%	46.1%	47.2%	47.6%	48.3%	
Software revenues	69.9%	73.1%	74.5%	77.0%	72.6%	74.3%			67.3%	70.4%	73.9%	75.2%	67.3%	70.4%	73.9%	75.2%	75.6%	76.0%	
Hardware systems products	9.5%	8.1%	7.5%	7.7%	8.0%	7.7%			12.2%	10.3%	8.1%	7.6%	12.2%	10.3%	8.1%	7.6%	7.7%	7.8%	
Hardware systems support	7.0%	6.5%	6.4%	5.3%	7.1%	6.6%			7.6%	6.7%	6.2%	6.3%	7.6%	6.7%	6.2%	6.3%	6.1%	5.9%	
Hardware systems revenues	16.5%	14.5%	13.9%	13.1%	15.1%	14.3%			19.8%	17.0%	14.4%	13.9%	19.8%	17.0%	14.4%	13.9%	13.8%	13.7%	
Consulting									8.1%	0.0%	0.0%	0.0%	8.1%	0.0%	0.0%	0.0%	0.0%	0.0%	
On Demand									3.8%	0.0%	0.0%	0.0%	3.8%	0.0%	0.0%	0.0%	0.0%	0.0%	
Education									1.0%	0.0%	0.0%	0.0%	1.0%	0.0%	0.0%	0.0%	0.0%	0.0%	
Services	13.6%	12.3%	11.6%	9.9%	12.3%	11.4%			13.0%	12.6%	11.7%	10.9%	13.0%	12.6%	11.7%	10.9%	10.6%	10.4%	
Bookings Analysis																			
Revenue Recognized	8,209	9,113	8,970	10,961	8,381	9,283			35,850	37,221	37,253		35,850	37,221	37,253				
Deferred Revenue	8,316	6,504	6,278	7,118	8,524	6,667			25,296	27,336	28,216		25,296	27,336	28,216				
YoY Growth, Deferred Revenue	5%	7%	0%	1%	3%	3%			21%	8%	3%		21%	8%	3%				
Change in Deferred Revenue (Q/Q)	1,281	(1,812)	(226)	840	1,406	(1,857)			902	233	83		902	233	83				
Total Software Billings	9,490	7,301	8,744	11,801	9,787	7,426			36,752	37,454	37,336		36,752	37,454	37,336				

Figure 7: ORCL Revenue Model (continued)

(\$ millions, unless specified)	FY13				FY14E				FY15E			FY11	FY12	FY13	FY14E	FY15E	FY16E	
	8/12	11/12	2/13	5/13	8/13	11/13	2/14E	5/14E	8/14E	11/14E	2/15E	5/15E						
Headcount																		
Americas	49,145	49,584	50,402	51,519	53,465	53,073							45,887	48,901	51,519			
Europe, Middle East, Africa	22,584	22,594	22,592	22,860	23,349	23,178							22,394	22,957	22,860			
Asia Pacific	44,170	45,051	45,663	45,855	45,513	45,617							40,148	43,308	45,855			
Total Headcount	115,899	117,229	118,657	120,234	122,327	121,868							108,429	115,166	120,234			
Geographic																		
Americas	4,324	4,787	4,698	5,911	4,517	4,995							18,362	19,236	19,720			
Europe, Middle East, Africa	2,383	2,701	2,745	3,328	2,439	2,817							11,498	11,561	11,157			
Asia Pacific	1,474	1,606	1,515	1,708	1,416	1,463							5,773	6,324	6,303			
Mix																		
Americas	52.7%	52.5%	52.4%	53.9%	53.9%	53.8%							51.2%	51.7%	52.9%			
Europe, Middle East, Africa	29.0%	29.6%	30.6%	30.4%	29.1%	30.3%							32.1%	31.1%	29.9%			
Asia Pacific	18.0%	17.6%	16.9%	15.6%	16.9%	15.8%							16.1%	17.0%	16.9%			
Growth Rate																		
Americas	-2.3%	5.6%	-0.2%	2.4%	4.5%	4.3%							32.8%	4.8%	2.5%			
Europe, Middle East, Africa	-11.9%	-2.0%	-1.5%	0.4%	2.3%	4.3%							28.6%	0.5%	-3.5%			
Asia Pacific	2.1%	6.8%	-1.9%	-6.7%	-3.9%	-8.9%							42.1%	9.5%	-0.3%			
Americas																		
New Software licenses and cloud software subscriptions	814	1,253	1,205	2,194	926	1,295							4,662	5,107	5,466			
Hardware Systems Products Revenue	380	370	307	439	335	381							2,248	1,880	1,496			
Europe/Middle East/ Africa																		
New Software licenses and cloud software subscriptions	403	641	690	1,224	388	675							2,861	2,884	2,958			
Hardware Systems Products Revenue	214	198	201	228	177	184							1,337	1,140	841			
Asia Pacific																		
New Software licenses and cloud software subscriptions	357	495	437	608	339	410							1,712	1,915	1,897			
Hardware Systems Products Revenue	185	166	163	182	157	149							797	807	696			
As Reported Growth																		
Americas																		
New Software licenses and cloud software subscriptions	12.0%	22.0%	-1.9%	3.2%	13.8%	3.4%							25.9%	9.5%	7.0%			
Hardware Systems Products Revenue	-20.0%	-25.4%	-25.1%	-11.8%	-11.8%	3.0%							200.5%	-16.4%	-20.4%			
Europe/Middle East/ Africa																		
New Software licenses and cloud software subscriptions	-8.4%	9.8%	-0.4%	5.0%	-3.7%	5.3%							16.1%	0.8%	2.6%			
Hardware Systems Products Revenue	-37.8%	-27.2%	-24.2%	-12.3%	-17.3%	-7.1%							175.7%	-14.7%	-26.2%			
Asia Pacific																		
New Software licenses and cloud software subscriptions	7.9%	13.3%	-3.5%	-12.3%	-5.0%	-17.2%							25.3%	11.9%	-0.9%			
Hardware Systems Products Revenue	-11.9%	-10.3%	-16.0%	-16.9%	-15.1%	-10.2%							191.9%	1.3%	-13.8%			
Constant Currency Growth																		
Americas																		
New Software licenses and cloud software subscriptions	14%	22%	-1%	4%	15%	5%								11.0%	8.0%			
Hardware Systems Products Revenue	-19%	-25%	-25%	-12%	-11%	4%							199.0%	-16.0%	-20.0%			
Europe/Middle East/ Africa																		
New Software licenses and cloud software subscriptions	1%	12%	1%	5%	-5%	3%							13%	4%	5.0%			
Hardware Systems Products Revenue	-30%	-25%	-24%	-11%	-20%	-8%							165%	-16%	-23.0%			
Asia Pacific																		
New Software licenses and cloud software subscriptions	12%	13%	1%	-7%	5%	-10%							16%	11%	3.0%			
Hardware Systems Products Revenue	-10%	-12%	-14%	-14%	-10%	-6%							173%	-3%	-12.0%			

Source: Company data, Wedbush Securities, Inc.

Figure 8: ORCL Balance Sheet

(\$ millions, unless specified)

	FY10 5/10	FY11 5/11	FY12 5/12	8/12	FY13 11/12	2/13	5/13	8/13	FY14E 11/13	2/14E	5/14E	8/14E	FY15E 11/14E	2/15E	5/15E	FY16E 5/16E
Current Assets																
Cash and cash equivalents	9,914	16,163	14,955	15,667	15,912	16,101	14,613	19,664	14,894	15,022	16,331	19,178	17,483	18,508	20,074	23,993
Marketable securities	8,555	12,685	15,721	15,940	17,783	17,306	17,603	19,440	22,080	22,080	22,080	22,080	22,080	22,080	22,080	22,080
Accounts receivable, net	5,585	6,628	6,377	3,775	4,401	4,169	6,049	3,450	4,192	4,114	5,701	3,634	4,235	4,064	5,550	5,774
Inventories	259	303	158	148	164	211	240	243	234	340	340	340	340	340	340	340
Deferred tax assets	1,159	1,189	877	913	893	829	974	937	963	963	963	963	963	963	963	963
Prepaid and other current assets	1,532	2,206	1,935	1,729	1,976	2,070	2,213	1,723	1,889	1,971	2,081	1,833	2,029	2,049	2,170	2,258
Total Current Assets	27,004	39,174	40,023	38,172	41,129	40,686	41,692	45,457	44,252	44,490	47,495	48,028	47,130	48,004	51,177	55,408
Property, Plant and equipment	2,763	2,857	3,021	3,037	3,093	3,034	3,053	3,052	3,039	3,133	3,223	3,310	3,394	3,476	3,554	3,841
Intangible assets, net	9,321	7,860	7,899	7,376	6,873	6,662	6,640	6,914	6,521	5,971	5,421	4,871	4,321	3,771	3,221	1,021
Goodwill	20,425	21,553	25,119	25,288	25,458	26,102	27,343	27,965	28,269	28,269	28,269	28,269	28,269	28,269	28,269	28,269
Deferred tax liabilities	1,267	1,015	595	547	782	651	766	722	760	707	651	593	532	467	399	93
Other assets	798	1,076	1,670	2,138	2,322	2,315	2,318	2,296	2,397	2,397	2,397	2,397	2,397	2,397	2,397	2,397
Total Assets	61,578	73,535	78,327	76,558	79,657	79,450	81,812	86,406	85,238	84,967	87,457	87,468	86,042	86,384	89,018	91,029
Current Liabilities																
Notes payable, current and other current borrowings	3,145	1,150	2,950	1,250	1,250	1,250	-	1,533	1,525	1,525	1,525	1,525	1,525	1,525	1,525	1,525
Accounts payable	775	701	438	388	372	361	419	367	408	375	462	436	386	390	482	502
Accrued compensation and related benefits	1,895	2,320	2,002	1,472	1,546	1,557	1,851	1,425	1,566	1,595	2,081	1,571	1,642	1,659	2,170	2,258
Deferred revenue	5,900	6,802	7,035	8,316	6,504	6,278	7,118	8,524	6,667	6,349	7,072	7,935	6,355	6,476	7,143	7,286
Other current liabilities	2,976	3,219	2,963	2,529	2,675	2,470	3,484	2,677	2,944	2,944	2,944	2,944	2,944	2,944	2,944	2,944
Total Current Liabilities	14,691	14,192	15,388	13,955	12,347	11,916	12,872	14,526	13,110	12,789	14,084	14,411	12,853	12,995	14,265	14,514
Noncurrent Liabilities																
Notes payable and other non-current borrowings	11,510	14,772	13,524	13,521	18,507	18,502	18,494	22,575	22,641	22,641	22,641	22,641	22,641	22,641	22,641	22,641
Income taxes payable	2,695	3,169	3,759	3,732	3,906	3,775	3,899	3,860	3,950	4,009	4,069	4,130	4,192	4,255	4,319	4,584
Deferred tax liabilities	424	59	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Other non-current liabilities	1,059	1,098	1,569	1,614	1,487	1,467	1,402	1,459	1,471	1,471	1,471	1,471	1,471	1,471	1,471	1,471
Total Non Current Liabilities	15,688	19,098	18,852	18,867	23,900	23,744	23,795	27,894	28,062	28,121	28,181	28,242	28,304	28,367	28,431	28,696
Total Shareholders Equity	31,199	40,245	44,087	43,736	43,410	43,790	45,145	43,986	44,066	44,056	45,191	44,814	44,885	45,022	46,322	47,818
Total Liabilities & Shareholders Equity	61,578	73,535	78,327	76,558	79,657	79,450	81,812	86,406	85,238	84,967	87,457	87,468	86,042	86,384	89,018	91,029
LIQUIDITY & LEVERAGE																
Current Ratio	1.8	2.8	2.6	2.7	3.3	3.4	3.2	3.1	3.4	3.5	3.4	3.3	3.7	3.7	3.6	3.8
Long Term Debt/Equity	0.37	0.37	0.31	0.31	0.43	0.42	0.41	0.51	0.51	0.51	0.50	0.51	0.50	0.50	0.49	0.47
Long Term Debt/Capitalization	0.25	0.26	0.22	0.23	0.29	0.29	0.29	0.33	0.33	0.33	0.33	0.33	0.33	0.33	0.32	0.31
MANAGEMENT & PROFITABILITY																
Sales/Capital	30.9%	26.9%	24.8%	18.8%	21.0%	20.5%	24.3%	19.1%	21.1%	21.3%	25.6%	19.5%	21.5%	21.7%	26.0%	26.2%
DSO	53	56	53	42	44	42	50	38	41	40	45	38	40	38	42	42
Return on Assets	4.9%	5.3%	5.2%	3.4%	3.9%	3.9%	5.0%	3.2%	3.7%	3.8%	5.0%	3.3%	3.8%	3.9%	5.1%	5.1%
Return on Capital	6.5%	6.5%	6.5%	4.2%	4.6%	4.6%	6.0%	3.8%	4.4%	4.5%	5.9%	3.9%	4.5%	4.6%	6.0%	6.1%
Return on Equity	9.8%	9.6%	9.3%	6.0%	7.2%	7.1%	9.1%	6.3%	7.2%	7.3%	9.6%	6.4%	7.3%	7.5%	9.8%	9.8%
PER SHARE DATA																
Book Value	\$6.13	\$7.79	\$8.77	\$8.86	\$8.92	\$9.10	\$9.49	\$9.41	\$9.58	\$9.73	\$10.09	\$10.12	\$10.25	\$10.40	\$10.82	\$11.72
Free Cash Flow	\$0.51	\$0.75	\$0.79	\$1.15	\$0.15	\$0.67	\$0.95	\$1.35	\$0.26	\$0.67	\$0.95	\$1.30	\$0.28	\$0.91	\$1.05	\$1.15
Net Cash	\$0.75	\$2.50	\$2.83	\$3.41	\$2.86	\$2.84	\$2.89	\$3.21	\$2.78	\$2.86	\$3.18	\$3.86	\$3.52	\$3.79	\$4.20	\$5.37
Earnings	\$0.60	\$0.75	\$0.82	\$0.53	\$0.64	\$0.65	\$0.87	\$0.59	\$0.69	\$0.71	\$0.97	\$0.64	\$0.75	\$0.78	\$1.06	\$1.14

Source: Company data, Wedbush Securities, Inc.

Figure 9: ORCL Statement of Cash Flows

(\$ millions, unless specified)	FY13				FY14E				FY15E				FY10	FY11	FY12	FY13	FY14E	FY15E	FY16E
	8/12	11/12	2/13	5/13	8/13	11/13	2/14E	5/14E	8/14E	11/14E	2/15E	5/15E							
Operating Activities																			
Net Income	2,034	2,581	2,504	3,806	2,191	2,553	2,620	3,765	2,253	2,701	2,767	3,930	6,135	8,547	9,981	10,925	11,129	11,651	12,016
Depreciation	127	134	139	146	150	152	106	110	113	116	119	122	298	368	486	546	518	469	513
Amortization of intangible assets	619	584	586	596	595	577	550	550	550	550	550	550	1,973	2,428	2,430	2,385	2,272	2,200	2,200
Deferred income taxes	64	(104)	148	(225)	(101)	(106)	(38)	(35)	(33)	(30)	(27)	(23)	(511)	(253)	9	(117)	(280)	(112)	(58)
Stock-based compensation	193	193	180	189	200	182	182	182	182	182	182	182	436	510	659	755	746	728	728
Tax benefits on the exercise of stock options and vesting of	120	59	193	38	67	62	91	91	91	91	91	91	203	325	182	410	311	364	364
Excess tax benefits on the exercise of stock options and vesting	(62)	(33)	(125)	(21)	(40)	(31)	(68)	(68)	(68)	(68)	(68)	(68)	(110)	(215)	(97)	(241)	(208)	(273)	(273)
Other, net	37	43	40	35	17	34	-	-	-	-	-	-	156	68	84	155	51	-	-
Change in operating assets and liabilities	2,539	(2,662)	(471)	-	3,213	(2,277)	(371)	(342)	2,703	(2,293)	355	(274)	101	(564)	9	(594)	223	491	203
Cash Flow from Operating Activities	5,671	795	3,194	4,564	6,292	1,146	3,072	4,252	5,791	1,249	3,969	4,510	8,681	11,214	13,743	14,224	14,762	15,518	15,694
Investing Activities																			
Purchases of marketable securities and other investments	(6,804)	(10,510)	(6,713)	(8,133)	(8,549)	(10,009)	-	-	-	-	-	-	(15,703)	(31,009)	(38,625)	(32,160)	(18,558)	-	-
Proceeds from maturities of marketable securities	6,794	8,469	7,096	7,800	6,515	7,440	-	-	-	-	-	-	11,220	27,120	35,594	30,159	13,955	-	-
Acquisitions, net of cash acquired	(361)	(299)	(932)	(1,713)	(1,314)	(434)	-	-	-	-	-	-	(5,606)	(1,847)	(4,702)	(3,305)	(1,748)	-	-
Capital Expenditures	(139)	(212)	(116)	(183)	(153)	(126)	(200)	(200)	(200)	(200)	(200)	(200)	(230)	(450)	(648)	(650)	(679)	(800)	(800)
Proceeds from sale of property	-	-	-	-	-	-	-	-	-	-	-	-	-	105	-	-	-	-	-
Cash Flow from Investing Activities	(510)	(2,552)	(665)	(2,229)	(3,501)	(3,129)	(200)	(200)	(200)	(200)	(200)	(200)	(10,319)	(6,081)	(8,381)	(5,956)	(7,030)	(800)	(800)
Financing Activities																			
Payments for repurchases of common stock	(3,076)	(2,996)	(2,132)	(2,817)	(2,968)	(2,833)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(3,000)	(992)	(1,160)	(5,856)	(11,021)	(11,801)	(12,000)	(12,000)
Proceeds from issuances of common stock	517	235	548	227	285	480	480	480	480	480	480	480	874	1,376	733	1,527	1,725	1,920	1,920
Payments of dividends to stockholders	(292)	(291)	(850)	-	(554)	(545)	(292)	(292)	(292)	(292)	(292)	(292)	(1,004)	(1,061)	(1,205)	(1,433)	(1,683)	(1,168)	(1,168)
Proceeds from borrowings, net of issuance costs	(1,700)	6,674	-	-	5,566	-	-	-	-	-	-	-	7,220	4,354	1,700	4,974	5,566	-	-
Repayments of borrowings	62	(1,762)	-	(1,250)	-	-	-	-	-	-	-	-	(3,582)	(3,143)	(1,405)	(2,950)	-	-	-
Excess tax benefits on the exercise of stock options and vesting	(31)	125	125	21	40	31	68	68	68	68	68	68	110	215	97	241	208	273	273
Distribution to noncontrolling interests	-	(31)	-	-	(28)	-	-	-	-	-	-	-	(59)	(65)	(163)	(31)	(28)	-	-
Other, net	-	-	-	193	-	-	(2,744)	(2,744)	(2,744)	(2,744)	(2,744)	(2,744)	-	-	-	-	-	-	-
Cash Flow from Financing Activities	(4,520)	1,955	(2,309)	(3,626)	2,341	(2,867)	(2,744)	(2,744)	(2,744)	(2,744)	(2,744)	(2,744)	2,664	516	(6,099)	(8,500)	(6,014)	(10,975)	(10,975)
Foreign Exchange Rate Effect on Cash and Cash Equivalent	71	47	(31)	(197)	(81)	80	-	-	-	-	-	-	(107)	600	(471)	(110)	(1)	-	-
Net increase (decrease) in cash and equivalents	712	245	189	(1,488)	5,051	(4,770)	128	1,308	2,847	(1,695)	1,025	1,566	919	6,249	(1,208)	(342)	1,718	3,743	3,919
Cash and Equivalents, beginning of period	14,955	15,667	15,912	16,101	14,613	19,664	14,894	15,022	16,331	19,178	17,483	18,508	8,995	9,914	16,163	14,955	14,613	16,331	20,074
Cash and Equivalents, end of period	15,667	15,912	16,101	14,613	19,664	14,894	15,022	16,331	19,178	17,483	18,508	20,074	9,914	16,163	14,955	14,613	16,331	20,074	23,993
Free Cash Flow	5,676	732	3,240	4,541	6,309	1,200	3,057	4,237	5,776	1,234	3,954	4,494	9,000	11,366	13,675	14,189	14,802	15,458	15,862
per share	\$1.15	\$0.15	\$0.67	\$0.95	\$1.35	\$0.26	\$0.67	\$0.95	\$1.30	\$0.28	\$0.91	\$1.05	\$1.77	\$2.22	\$2.68	\$2.93	\$3.24	\$3.55	\$3.82
Net cash and investments, end of period	16,836	13,938	13,655	13,722	14,996	12,808	12,936	14,245	17,092	15,397	16,422	17,988	3,814	12,926	14,202	13,722	14,245	17,988	21,907
per share	\$3.41	\$2.86	\$2.84	\$2.89	\$3.21	\$2.78	\$2.86	\$3.18	\$3.86	\$3.52	\$3.79	\$4.20	\$0.75	\$2.50	\$2.83	\$2.89	\$3.18	\$3.86	\$5.37

Source: Company data, Wedbush Securities, Inc.

Figure 10: ORCL Valuation

(\$ millions, unless specified)

Valuation Summary

12-month target price (average of P/E, EV/FCF, DCF)	\$40
Current share price	\$38.90
Upside (downside) %	4%

P/E Method

Forward P/E	12.0
CY15 EPS	\$3.34
12-month target price	\$40

EV/FCF Method

Forward EV/FCF	10.0
CY15 FCF per share	\$3.63
CY14 EV per share	\$36.32
Cash less net debt, per share, twelve months forward	\$3.79
12-month target price	\$40

DCF

Beta	1.0
Risk Free Rate (10-Yr T Bond)	2.80%
Risk Premium	6.00%
WACC (assumes no LTD)	8.8%
NPV of FCF	\$22.99
EV/FCF - terminal value multiple	8
Terminal value	\$31.83
NPV of terminal value	\$14.29
Cash less net debt, per share, twelve months forward	\$3.79
12-month target price	\$41

DCF Assumptions

	CY10	CY11	CY12	CY13E	CY14E	CY15E	CY16E	CY17E	CY18E	CY19E	CY20E	CY21E	CY22E	CY23E	CY24E
Revenue	32,337	36,822	37,334	37,595	39,333	40,998	42,228	43,495	44,800	46,144	47,067	48,008	48,968	49,948	50,947
Operating income	14,030	16,625	17,578	17,738	18,897	19,696	20,270	20,878	21,504	22,149	22,592	23,044	23,505	23,975	24,454
EBITDA	14,399	17,025	18,099	18,325	19,342	20,188	20,692	21,313	21,952	22,611	23,063	23,524	23,994	24,474	24,964
Net income	9,730	11,884	12,973	13,138	13,717	14,219	14,780	15,223	15,680	16,150	16,473	16,803	17,139	17,482	17,831
FCF	9,268	13,213	13,414	15,289	14,303	15,489	16,047	16,528	17,024	17,535	17,885	18,243	18,608	18,980	19,360
FCF/Share	\$1.82	\$2.57	\$2.69	\$3.25	\$3.21	\$3.64	\$3.72	\$3.77	\$3.83	\$3.88	\$3.90	\$3.92	\$3.94	\$3.96	\$3.98
EPS	\$1.91	\$2.31	\$2.61	\$2.79	\$3.08	\$3.34	\$3.42	\$3.47	\$3.52	\$3.58	\$3.59	\$3.61	\$3.63	\$3.65	\$3.67
Margins (%)															
Operating margin	43%	45%	47%	47%	48%	48%	48%	48%	48%	48%	48%	48%	48%	48%	48%
EBITDA margin	45%	46%	48%	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%	49%
Net margin	30%	32%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%	35%
FCF margin	29%	36%	36%	41%	36%	38%	38%	38%	38%	38%	38%	38%	38%	38%	38%
Y/Y Growth (%)															
Revenue		14%	1%	1%	5%	4%	3%	3%	3%	3%	2%	2%	2%	2%	2%
Operating income		18%	6%	1%	7%	4%	3%	3%	3%	3%	2%	2%	2%	2%	2%
EBITDA		18%	6%	1%	6%	4%	2%	3%	3%	3%	2%	2%	2%	2%	2%
Net income		22%	9%	1%	4%	4%	4%	3%	3%	3%	2%	2%	2%	2%	2%
FCF		43%	2%	14%	-6%	8%	4%	3%	3%	3%	2%	2%	2%	2%	2%
Net Cash and investments	7,810	16,234	13,938	12,808	15,397	19,058	35,104	51,633	68,656	86,191	104,077	122,320	140,928	159,908	179,268
Fully diluted shares	5,092	5,147	4,979	4,711	4,455	4,255	4,319	4,384	4,449	4,516	4,584	4,653	4,722	4,793	4,865
Y/Y growth (%), diluted shares	0.7%	1.1%	-3.3%	-5.4%	-5.4%	-4.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%	1.5%

Source: Thomson Reuters, Company data, Wedbush Securities, Inc.

Analyst Biography

Steve joined Wedbush in May 2012 to cover enterprise software. Previously, he led the software coverage at Longbow Research and KeyBanc Capital Markets, as well as working on the Jefferies software team. Steve has worked in sell-side research since 2004, following ten years in the software and internet sectors and seven years in strategy consulting. Previously, he has worked at Oracle, Viant, Strategic Decisions Group, and IBM. Steve holds a B.S. with distinction in mathematical sciences and a M.S. in engineering-economic systems from Stanford University, and a MBA from the Harvard Business School.

Analyst Certification

I, Steve Koenig, Kevin Ikeda, certify that the views expressed in this report accurately reflect my personal opinion and that I have not and will not, directly or indirectly, receive compensation or other payments in connection with my specific recommendations or views contained in this report.

Disclosure information regarding historical ratings and price targets is available at <http://www.wedbush.com/ResearchDisclosure/DisclosureQ413.pdf>

Investment Rating System:

Outperform: Expect the total return of the stock to outperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Neutral: Expect the total return of the stock to perform in-line with the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

Underperform: Expect the total return of the stock to underperform relative to the median total return of the analyst's (or the analyst's team) coverage universe over the next 6-12 months.

The Investment Ratings are based on the expected performance of a stock (based on anticipated total return to price target) relative to the other stocks in the analyst's coverage universe (or the analyst's team coverage).*

Rating Distribution (as of December 31, 2013)	Investment Banking Relationships (as of December 31, 2013)
Outperform: 54%	Outperform: 18%
Neutral: 43%	Neutral: 2%
Underperform: 3%	Underperform: 0%

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Wedbush Equity Research Disclosures as of March 11, 2014

Company	Disclosure
Oracle	1

Research Disclosure Legend

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1) 12/06/12	2) 12/19/12	3) 03/21/13	4) 06/21/13	5) 09/18/13	6) 12/18/13
NEUTRAL \$36	NEUTRAL \$37	NEUTRAL \$38	NEUTRAL \$34	NEUTRAL \$36	NEUTRAL \$38



* WS changed its rating system from (Strong Buy/Buy/Hold/Sell) to (Outperform/ Neutral/Underperform) on July 14, 2009. Please access the attached hyperlink for WS' Coverage Universe: <http://www.wedbush.com/services/cmgequities-division/research/equity-research> Applicable disclosure information is also available upon request by contacting Ellen Kang in the Research Department at (213) 688-4529, by email to ellen.kang@wedbush.com, or the Business Conduct Department at (213) 688-8090. You may also submit a written request to the following: Business Conduct Department, 1000 Wilshire Blvd., Los Angeles, CA 90017.

OTHER DISCLOSURES

RESEARCH DEPT. * (213) 688-4505 * www.wedbush.com
 EQUITY TRADING Los Angeles (213) 688-4470 / (800) 421-0178 * EQUITY SALES Los Angeles (800) 444-8076
 CORPORATE HEADQUARTERS (213) 688-8000

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WEDBUSH

EQUITY RESEARCH DEPARTMENT

(213) 688-4529

DIRECTOR OF RESEARCH

Mark D. Benson (213) 688-4435

MANAGER, RESEARCH OPERATIONS

Ellen Kang (213) 688-4529

RETAIL AND CONSUMER

Consumer Products

Rommel T. Dionisio (212) 938-9934
Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Footwear, Apparel and Accessories

Corinna Freedman (212) 668-9876

Healthy Lifestyles

Kurt M. Frederick, CFA CPA (415) 274-6822
Alicia Reese (212) 938-9927

Restaurants

Nick Setyan (213) 688-4519
Colin Radke (213) 688-6624

Specialty Retail: Hardlines

Joan L. Storms, CFA (213) 688-4537
John Garrett, CFA (213) 688-4523

Seth Basham, CFA (212) 938-9954

Specialty Retail: Softlines

Morry Brown (213) 688-4311

RETAIL/CONSUMER MARKET RESEARCH

Gabriella Santaniello (213) 688-4557

INDUSTRIAL GROWTH TECHNOLOGY

Clean Technology

Craig Irwin (212) 938-9926
Min Xu (212) 938-9925

Environmental Services / Building Products

Al Kaschalk (213) 688-4539
Taryn Kuida (213) 688-4505

Water and Renewable Energy Solutions

David Rose, CFA (213) 688-4319
James Kim (213) 688-4380

TECHNOLOGY, INTERNET, MEDIA & SOCIAL MEDIA

Communications and Application Software

Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Enterprise Security

Sanjit Singh (212) 938-9922
Ryan Flanagan (212) 938-9942

Computer Services: Financial Technology

Gil B. Luria (213) 688-4501
Aaron Turner (213) 688-4429

Enterprise Software

Steve Koenig (415) 274-6801
Kevin Ikeda (213) 688-4423

Entertainment: Retail

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Entertainment: Software

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Internet: Media and Gaming

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Internet: Social Media, Advertising & Technology

Shyam Patil, CFA (213) 688-8062
Andy Cheng (213) 688-4548

Media

James Dix, CFA (213) 688-4315

Movies and Entertainment

Michael Pachter (213) 688-4474
Nick McKay (213) 688-4343
Nick Citrin (213) 688-4495

Semiconductors

Betsy Van Hees (415) 274-6869
Ryan Jue, CFA (415) 263-6669

LIFE SCIENCES AND HEALTH CARE

Biotechnology/Biopharmaceuticals/BioDefense

Gregory R. Wade, Ph.D. (415) 274-6863
David M. Nierengarten, Ph.D. (415) 274-6862
Christopher N. Marai, Ph.D. (415) 274-6861
Dilip Joseph (415) 273-7308

Emerging Pharmaceuticals

Liana Moussatos, Ph.D. (415) 263-6626

Healthcare Services - Managed Care

Sarah James (213) 688-4503

Medical Devices

Tao Levy (212) 938-9948

Medical Diagnostics and Life Sciences Tools

Zarak Khurshid (415) 274-6823

EQUITY SALES

Los Angeles (213) 688-4470 / (800) 444-8076
San Francisco (415) 274-6800
New York (212) 938-9931
Boston (617) 832-3700

EQUITY TRADING

Los Angeles (213) 688-4470 / (800) 421-0178
San Francisco (415) 274-6811
New York (212) 344-2382
Boston (617) 832-3700

CORPORATE HEADQUARTERS

1000 Wilshire Blvd., Los Angeles, CA 90017-2465

Tel: (213) 688-8000 www.wedbush.com