SCHOOL OF BUSINESS INVESTMENT PROGRAM

Oracle
ORCL
October 26th, 2017

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Investment Thesis
1) Growth in Cloud SaaS and IaaS/PaaS business
   - Revenue growth of 61% and 59% respectively YoY
   - Pivoted away from hardware business in 2014

2) Inorganic growth and product development funded by $66B in cash

3) Continue to develop innovative software and cloud products

4) Best value when compared to competitors in the space
   - Gross, Operating, Net Margins
   - High liquidity
   - Stable-growth stock that is undervalued
• Global provider of enterprise cloud computing

• Oracle’s platforms and infrastructures leverage both existing technologies and developing ones, including AI, machine learning, and blockchain in ways that create business differentiation and benefits to customers.

• Oracle supports customers through the entire digital process, with consulting, financing, support, and training services.

• Oracle’s enterprise applications support all types of applications, enabling customers to connect to other cloud services and integrate existing systems.
Company Overview by the Numbers

● Scale
  ○ 430,000 customers in 175 countries, including 100 of the Fortune 100
  ○ $60B invested in 100+ acquisitions
  ○ More than 17,000 patents worldwide

● Innovation
  ○ #1 in 50 product/industry categories
  ○ #2 software company in the world
  ○ Regularly introducing new cloud products
1977: three engineers in Silicon Valley began a company called Software Development Laboratories
1979: the relational database Oracle is released for the first time
1982: SDL becomes Oracle and the company continues to improve its database software
1986: IPO
2007: Oracle undergoes several acquisitions including BEA systems and Captivations
2009: Oracle offers the world’s #1 middleware products
2010: Oracle becomes the only vendor to offer a complete technology stack in which every layer is integrated to work as a single system
2014: Larry Ellison steps down as product offering is becoming obsolete
2016: Oracle underwent several acquisitions, each showing a shift towards cloud based computing
Key Executives
Governance

Safra Catz
CEO
Total Compensation: $40.9M
Equity Compensation: $39.9M
Joined Oracle in 1999

Mark Hurd
CEO
Total Compensation: $41.1M
Equity Compensation: $39.9M
Joined Oracle in 2010

Thomas Kurian
President, Product Development
Total Compensation: $35.7M
Equity Compensation: $34.9M
Joined Oracle in 1996
Transitioning to a more favorable compensation structure for shareholders

<table>
<thead>
<tr>
<th>Program</th>
<th>Fiscal 2017 Equity Program</th>
<th>Fiscal 2018 Equity Program</th>
</tr>
</thead>
<tbody>
<tr>
<td>Form of Equity</td>
<td>50% Time-Based Stock Options 50% Performance-Based Stock Units</td>
<td>100% Performance-Based Stock Options</td>
</tr>
<tr>
<td>Performance Periods</td>
<td>PSUs have variable performance periods of 1, 2 and 3 years</td>
<td>5-year performance period</td>
</tr>
<tr>
<td>Metrics</td>
<td>PSUs vest based on Oracle’s revenue growth and cash flow growth compared to the PSU Comparator Companies</td>
<td>Oracle’s attainment of stock price, market capitalization and operational performance goals focused on cloud growth</td>
</tr>
<tr>
<td><strong>Best Practices We Employ</strong></td>
<td><strong>Practices We Avoid</strong></td>
<td></td>
</tr>
<tr>
<td>-----------------------------</td>
<td>-----------------------</td>
<td></td>
</tr>
<tr>
<td>✓ Low dilution rates from equity awards</td>
<td>✕ No severance benefit plans or agreements except as provided under our equity incentive plan to employees generally</td>
<td></td>
</tr>
<tr>
<td>✓ Compensation recovery (clawback) policy for cash bonuses in the event of a restatement</td>
<td>✓ No single-trigger change in control vesting of equity awards</td>
<td></td>
</tr>
<tr>
<td>✓ Robust stock ownership guidelines</td>
<td>✓ No minimum guaranteed vesting for performance equity</td>
<td></td>
</tr>
<tr>
<td>✓ Caps on maximum payout of bonus and PSU awards</td>
<td>✓ No discretionary cash bonuses for NEOs</td>
<td></td>
</tr>
<tr>
<td>✓ Annual risk assessment of compensation programs</td>
<td>✓ No tax gross-ups for NEOs</td>
<td></td>
</tr>
<tr>
<td>✓ Independent compensation consultant and independent compensation committee</td>
<td>✓ No payout or settlement of dividends and dividend equivalents on unvested equity awards</td>
<td></td>
</tr>
<tr>
<td>✓ High proportion of NEO compensation is at-risk and performance-based</td>
<td>✓ No supplemental executive retirement plans, pensions or excessive retirement benefits</td>
<td></td>
</tr>
<tr>
<td></td>
<td>✓ No repricing, cash-out or exchange of “underwater” stock options without stockholder approval</td>
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</table>
Recent News
Apr. 26th → Oracle launches a set of marketing and customer service app powered by the latest AI advancements

Aug. 2nd → Oracle made biannual updates to Oracle cloud applications suite. The update brings a more streamlined designed, better responsiveness, improved workflows, and other software enhancements

Oct. 2nd → Oracle extends the breadth and depth of the ERP cloud systems and announces major updates to Oracle mobile cloud, infusing their cloud applications with AI

Oct. 3rd → Oracle announces the industry’s first cloud native intelligent security and management suite, using machine learning to improve IT security management

Oct. 20th → Oracle makes updates to BlockChain
Company Strategy
Cloud Growth Strategy

- Constantly improving and expanding their cloud system, and integrating their existing systems with the cloud
- Developing new applications to expand on the power of their cloud systems
- Shift from a reliance on hardware to more focus on cloud based technology
- Part of Oracle’s cloud strategy is to make it easier and less costly to run existing Oracle Services on the Oracle cloud

ERP Growth Strategy

- Integrates ERP applications to cloud technology
- Cloud based technology may help Oracle replace SAP as the #1 ERP software provider
Oracle Cloud Compared to Competition

<table>
<thead>
<tr>
<th>Capability</th>
<th>Oracle ERP Cloud</th>
<th>Workday</th>
<th>SAP S/4HANA Public Cloud</th>
</tr>
</thead>
<tbody>
<tr>
<td>Complete cross-enterprise cloud (ERP, EPM, HR, MFG, SCM, CRM)</td>
<td>✅</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Single data model</td>
<td>✅</td>
<td>✗</td>
<td>✗</td>
</tr>
<tr>
<td>Extensibility and app development</td>
<td>✅</td>
<td>✗</td>
<td>✅</td>
</tr>
</tbody>
</table>
Inorganic Growth Strategy

- **Oracle is always actively seeking acquisitions of complementary companies, products, services and technologies**
  - NetSuite in fiscal 2017
    - Very first cloud company
    - Complimentary cloud applications and gained market share
    - Plan to invest heavily in both products in engineering and distribution
  - MICROS in fiscal 2015
    - Cloud technology for hospitality and retail industry

- **Oracle plans to fund future acquisitions with internally available cash**
  - $66B in Cash & Short Term Investments
Markets
Global Market Presence

- Oracle has 430,000 customers in 175 countries
- Revenue by region
  - Americas 57%
  - EMEA 27%
  - Asia Pacific 16%
- In the latest quarterly report, 564 new customers worldwide selected Oracle’s cloud based Enterprise Relations Planning (ERP) software
  - Over 50% of these are first time customers
● The U.S ERP Market
   ○ The Big 3
     ■ Oracle is #2 for ERP
     ■ Together hold 50% of the ERP market share
     ■ Oracle holds 15% of total market share

● Cloud Market Share
   ○ Oracle’s Cloud based systems are relatively new, but steadily growing
   ○ There is plenty of room to grow, even in the face of competition from AWS
   ○ Oracle’s previous earnings release reported slower growth than expected, but this means opportunity
Competitors
## Comps Analysis

### Trailing 12 Month Data

<table>
<thead>
<tr>
<th>Company</th>
<th>Trailing PE</th>
<th>Forward PE</th>
<th>Gross Margin %</th>
<th>Operating Margin %</th>
<th>Net Margin %</th>
<th>Revenue Growth YoY %</th>
<th>Current Ratio</th>
<th>Quick Ratio</th>
<th>D/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>ORCL</td>
<td>22.49</td>
<td>15.63</td>
<td>80.1</td>
<td>33.6</td>
<td>25.35</td>
<td>6.89</td>
<td>3.63</td>
<td>3.48</td>
<td>0.86</td>
</tr>
<tr>
<td>IBM</td>
<td>12.74</td>
<td>11.04</td>
<td>46.5</td>
<td>15.9</td>
<td>14.58</td>
<td>-4.69</td>
<td>1.25</td>
<td>1.09</td>
<td>2.04</td>
</tr>
<tr>
<td>MSFT</td>
<td>29.01</td>
<td>21.78</td>
<td>61.9</td>
<td>24.8</td>
<td>23.57</td>
<td>13.11</td>
<td>2.48</td>
<td>2.37</td>
<td>1.05</td>
</tr>
<tr>
<td>SAP SE</td>
<td>33.54</td>
<td>21.28</td>
<td>69.9</td>
<td>20.8</td>
<td>15.83</td>
<td>4</td>
<td>1.18</td>
<td>1.1</td>
<td>n/a</td>
</tr>
<tr>
<td>CRM</td>
<td>-873.6</td>
<td>58.58</td>
<td>73</td>
<td>0.2</td>
<td>-0.85</td>
<td>25.78</td>
<td>0.77</td>
<td>0.68</td>
<td>0.1</td>
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<tr>
<td>AMZN</td>
<td>247.43</td>
<td>127.18</td>
<td>36</td>
<td>2.3</td>
<td>1.28</td>
<td>24.84</td>
<td>1.01</td>
<td>0.72</td>
<td>0.33</td>
</tr>
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</table>
Fundamental Analysis
# Stock Ownership

<table>
<thead>
<tr>
<th></th>
<th>ORCL</th>
<th>MSFT</th>
<th>IBM</th>
<th>CRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap (Mil USD)</td>
<td>208,591</td>
<td>608,439</td>
<td>144,345</td>
<td>71575</td>
</tr>
<tr>
<td># of Institution Owners</td>
<td>2,298</td>
<td>3,507</td>
<td>2,374</td>
<td>1254</td>
</tr>
<tr>
<td># of Fund Owners</td>
<td>3,304</td>
<td>5,453</td>
<td>2,562</td>
<td>2001</td>
</tr>
<tr>
<td>% Owned by Institutions</td>
<td>59.43</td>
<td>74.45</td>
<td>59.88</td>
<td>88.92</td>
</tr>
<tr>
<td>% Owned by Funds</td>
<td>30.33</td>
<td>43.15</td>
<td>25.65</td>
<td>49.42</td>
</tr>
<tr>
<td>% Owned by Insiders</td>
<td>26.61</td>
<td>1.39</td>
<td>0.03</td>
<td>4.74</td>
</tr>
</tbody>
</table>
Competitor Valuation Highlights

- Overview of Peer Valuation

1. Microsoft is good, but raised PO can’t be justified quite yet
2. Amazon (Consumer Discretionary) highly overvalued
3. IBM, SAP trading at or above current price targets
4. CRM - not even a consideration

➔ All valuations will be on drive (excluding CRM)
➔ Analyst estimates and reports used for assumptions
SWOT Analysis
SWOT Analysis

Strengths:
- Revenue growth in cloud SaaS, PaaS and IaaS
  - 12% of revenue in 2017 compared to 6% in 2015
- #2 in ERP in US and #2 software company in the world
- 17,000 patents
- Global reach and diverse customer base

Opportunities:
- Well positioned for cloud revolution
- Continue to grow cloud business while decreasing hardware business
  - Cloud business has better margins and better outlook

Weaknesses:
- Overall revenue has remained stagnant
- Revenue volatility in the near term due to revenue recognition and growth of cloud space

Threats:
- Developing new products that fit client's needs
- Rapidly changing industry
- Cyber attack on their products and services
Summary
1) Strong revenue growth in SaaS, PaaS and IaaS  
   - New management made this shift after taking over in 2014 and has grown it steadily since

2) Inorganic growth funded by cash as well as organic growth in cloud space

3) Constant Innovation

4) Best value when compared to competitors in the space
Recommendation
Purchase 200 shares of Oracle at $49.80 for a total of $9,960
Thank you. Thoughts or questions?
The following directors are required to hold a minimum number of shares within 5 years of becoming a senior officer:

<table>
<thead>
<tr>
<th>Title</th>
<th>Minimum Number of Shares</th>
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<tbody>
<tr>
<td>Chairman and Chief Technology Officer</td>
<td>250,000</td>
</tr>
<tr>
<td>Chief Executive Officers</td>
<td>250,000</td>
</tr>
<tr>
<td>Presidents</td>
<td>100,000</td>
</tr>
<tr>
<td>Executive Vice Presidents who are Section 16 Officers</td>
<td>50,000</td>
</tr>
<tr>
<td>All other Executive Vice Presidents</td>
<td>25,000</td>
</tr>
<tr>
<td>All other Section 16 Officers</td>
<td>10,000</td>
</tr>
<tr>
<td>Non-employee directors</td>
<td>10,000</td>
</tr>
</tbody>
</table>