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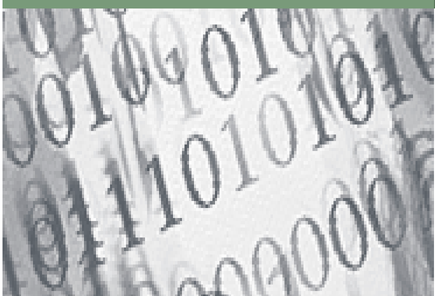
COMPANY REPORT - NOVEMBER 21, 2000

Oracle Corporation

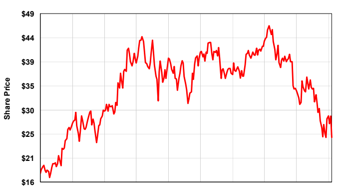
Pocket Aces



(NASDAQ: ORCL)

Facts (as of 11/20/00)

Closing Price:	$24.75
52 Week Range:	$16 – 46
Market Cap.:	$143.4B



Fundamentals

Shares Out.:	5,597.4M
Avg. Daily Trading Vol.:	31.3M
Dividend Yield:	NM

Multiple Analysis:

	FY 2000A	FY 2001E	FY 2002E
Mrk Cap/Rev	14.2x	11.8x	9.8x
Price/EPS	72.6x	48.0x	40.3x

Revenue Estimates:

Revenue ($MM)	FY2000A	FY2001E	FY2002E
Q1	1,984.3	2,261.9	2,684.0
Q2	2,322.2	2,673.4	3,192.9
Q3	2,449.4	2,950.4	3,535.7
Q4	3,374.3	4,220.0	5,165.0
Total	10,130.2	12,105.6	14,577.5

EPS Estimates:

EPS	FY2000A	FY2001E	FY2002E
Q1	$0.04	$0.08	$0.09
Q2	$0.06	$0.10	$0.12
Q3	$0.08	$0.12	$0.15
Q4	$0.15	$0.21	$0.26
Total	$0.34	$0.52	$0.61

Investment Thesis

We think Oracle is one of the best buy-and-hold business software investments on the market. While various technologies may come and go, the database is here to stay and Oracle dominates this market. On top of that, we believe that Oracle's application business is poised to gain market share because of the continual functionality improvements in the product, a superior architecture and a strong value proposition. Looking to the business side of the equation, Oracle's continued efficiency improvements are driving bottom line profit increases that significantly exceed top line growth, making the company an increasingly valuable investment.

Company Description

Oracle is the foremost vendor of database management software worldwide and is a leading provider of enterprise software applications enabling companies to manage internal processes, interact with customers and conduct electronic commerce.

Key Investment Points

- **Industry Leader.** Oracle owns approximately 40% of the relational database market and is widely regarded as the worldwide leading platform. Oracle is the second largest independent software company with more than $10 billion in trailing revenues and 41,000 employees doing business in 145 countries.

- **High-Growth E-Business Applications Strategy.** Oracle is leveraging its dominance of the database market to aggressively sell its newly released 11i e-business suite, which we believe will experience strong adoption rates. Fast-growing applications areas such as CRM and B2B provide attractive incremental growth opportunities.

- **Fulfilling the Software Miracle.** By consolidating duplicate resources and employing its own e-business suite, Oracle has substantially improved its operating margins to 30% from 21% a year ago. This has added, in our opinion, tremendous shareholder value to the company -- as much as $75 billion at current trading multiples.

- **Time to Buy.** Our work supports a long-term investment in Oracle stock. We view recent declines as an opportunity for investors to add a core software holding to their portfolios at a reasonable valuation.

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Investment Points

Investment Positives:

- **Database Leader.** Oracle commands approximately 40% of the world's relational database market and offers what is widely regarded as the leading platform. Its database business grows approximately 18% - 20% per year and accounts for more than 70% of Oracle's license revenue. IDC projects a modest CAGR of 18% for this market, reaching $25.7 billion in 2004. Oracle's pervasive market presence creates ownership efficiencies (such as a plethora of knowledgeable administrators and third party tools) that encourage organizations to standardize on its solutions.

- **High-Growth E-Business Applications Strategy.** Oracle's new e-business suite, 11i, affords the company incremental opportunity to expand its massive business. While applications only account for approximately 20% of license revenue, they are on a considerably steeper growth trajectory than the database business. Moreover, Oracle's vast resources and dominant database platform give the company a leg-up in competing with applications vendors. Further, as price-sensitive customers begin to purchase enterprise applications, we believe the company's synergistic suite will be more highly valued and will gain market share. Oracle's applications keep getting better, and we believe its most recent suite will experience strong adoption rates in coming quarters.

- **Winner Take All.** By building synergistic products with convenient out-of-the-box integration, Oracle is targeting both the data management and applications markets. As the database market leader, Oracle has a unique (and exclusive for the foreseeable future) opportunity to take advantage of these complementary businesses.

- **The Software Miracle on an E-Business Diet.** Oracle is fulfilling the promise of all great software companies -- strong growth with marginal costs approaching zero. Further, by implementing its solutions across procurement, sales and human resources, Oracle estimates annual savings of at least $1 billion with the possibility of achieving $2 billion in total savings over the next year. Oracle has improved its margins by more than 10% in the last three quarters. In our opinion, this adds considerable shareholder value -- as much as $75 billion at current trading multiples.

- **Time to Buy.** Our work supports a long-term investment in Oracle stock. We view recent declines as an opportunity for investors to add a core software holding to their portfolios at a reasonable valuation. Recently, Oracle's stock has been under pressure because of concerns surrounding its ability to execute on its applications business. We believe these concerns are overdone and that the resulting declines in price offer investors an attractive entry point into the stock.

Investment Risks:

- **What Does Oracle Do Without Larry?** Concerns over Oracle's ability to continue on its growth path without Ellison at the helm have been heightened by recent management departures. On June 30, president and COO Ray Lane, who alongside Ellison guided Oracle through the most phenomenal period of stock price appreciation in company history, left to join venture capital firm Kleiner Perkins Caufield & Byers. Most recently, on November 17, EVP Gary Bloom announced his departure to become CEO of software firm Veritas, a close partner of Oracle. A key challenge for the company will be to lay the groundwork for the eventual departure of Ellison. Without a clear heir-apparent, Oracle is imperiled by a single point of failure at the very top.

- **Strained Relations?** Oracle's database servers underpin many installations of best-of-breed e-business applications, from Siebel to SAP. But by selling its own applications, Oracle creates tension with independent vendors that help persuade customers to buy its database product. In addition, Oracle's large services business competes with systems integrators that also recommend the company's solutions. While systems integrators and applications vendors bristle at these issues, we have seen little adverse consequence to revenues or relationships.

- **Applications Business.** While we believe Oracle's applications product suite is strong, widespread market acceptance for many applications is unproven. In pursuing this strategy, Oracle faces several risks including: the overall health of the ERP market, competition from more established applications vendors, and lack of progress in its newer applications categories.

Company Description

Oracle Corporation was founded in 1977 by current Chairman and CEO Larry Ellison at a time when relational database technologies -- Oracle's primary product -- were first appearing on corporate radar screens. Oracle went public in 1986 with just over $50 million in revenue. Today, it is the world's second-largest independent software company with more than $10 billion in revenues and 41,000 employees doing business in 145 countries. International customers account for more than 50% of the company's revenue. Oracle ranks #195 on Fortune's list of the 500 largest corporations. The company is headquartered in Redwood Shores, California, in the Silicon Valley.

Overview

Oracle's business has three primary components: database management systems, business applications software and services to support its products.

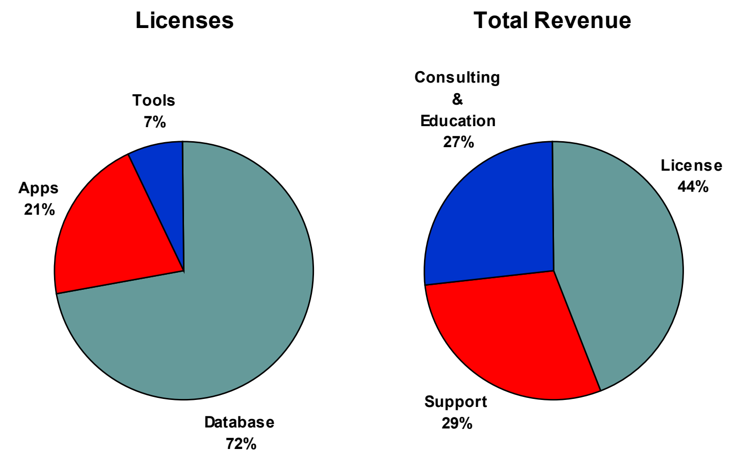
Oracle built its business by licensing relational database management systems, which are especially well suited for the sophisticated storage and rapid retrieval of corporate data concerning customers, inventory, finances and transactions. Oracle's most recent release of its industry-leading database platform, 8i (9i, announced in early October will be available in the first half of 2001), offers enhanced functionality tailored for customer-facing databases delivered over the Internet. This platform supports data used by both packaged and customer applications. Oracle, with 40% market share, leads its direct competitors including IBM (DB2), Microsoft (SQL Server), Informix (Dynamic Server.2000) and Sybase (Adaptive Server). In a complement to its database server, Oracle offers its Internet Application Server (iAS), a product that enables the efficient delivery of Web-based applications. In fiscal 2000, these products accounted for 72% of licenses.

Oracle's 11i e-business software suite applies business logic to databases, automating such processes as payroll, human resources, financials, manufacturing, sales, and B2B e-commerce. Competitors for this market include Ariba, Commerce One, i2, PeopleSoft and SAP. In fiscal 2000, applications accounted for 21% of Oracle's licenses.

Oracle also offers tools to assist database administrators in optimizing performance and minimizing system maintenance and tools to help develop applications tuned for its databases. The Oracle Technology Network (OTN) now provides many tools for customers at no cost. In fiscal 2000, tools accounted for 7% of licenses.

Finally, Oracle provides support, consulting and education services for its products. Support and consulting services mirror those of other enterprise software vendors. The company's education services include classes and seminars for IT managers working with Oracle products. Revenues in fiscal 2000 break down as follows: support 29%, consulting and education 27%, licenses 44%.

ORACLE FY00 LICENSE AND TOTAL REVENUE BREAKDOWN (FIGURE 1)



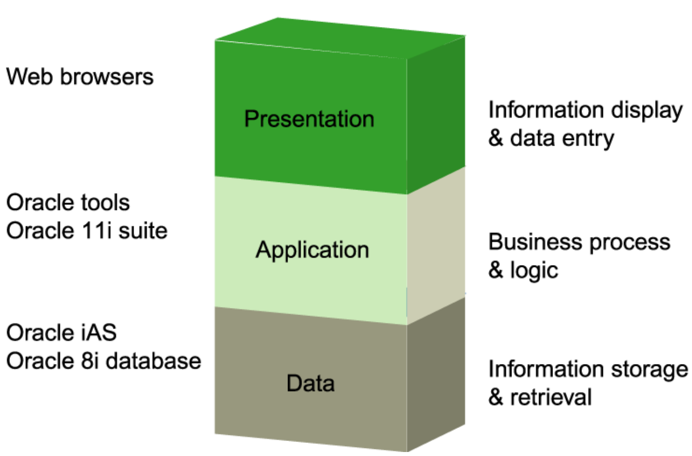
SOURCE: EPOCH PARTNERS

Oracle's Strategy: Winner Take All

In the poker game of Texas Hold'em, the best starting hand is two aces, or "pocket aces." Players build five-card hands with shared community cards, raising the stakes with each new draw from the deck. In the applications game, Oracle has these two "pocket" aces: its market-leading database platform and its development muscle of some 6,700 programmers. But others at the table are the software industry's most experienced apps players and most of the cards in this game have yet to be dealt. If its ambitious strategy is successful, Oracle will add this jackpot to the substantial pile of chips is has amassed winning the database game.

By dominating both applications and data management, Oracle will have captured substantially all of the value in the enterprise software stack. The presentation layer in today's enterprise applications is handled by free Web browsers like Microsoft's Internet Explorer and Netscape's Navigator.

THREE LAYERS OF ENTERPRISE SOFTWARE (FIGURE 2)



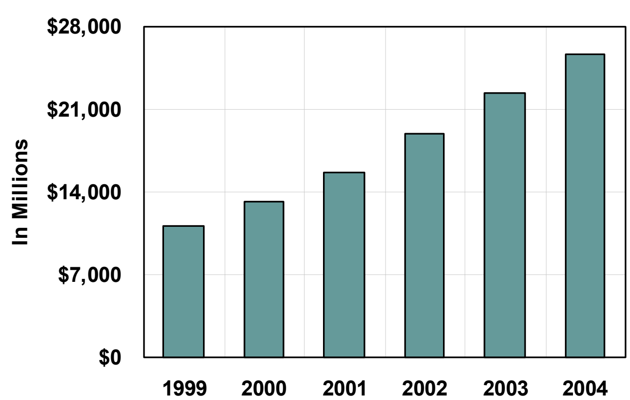
SOURCE: EPOCH PARTNERS

We think it is clear that Oracle has won the database wars. As evidence, IDC estimates that in 1999 Oracle claimed 42% of the relational and object-relational database market. In many vertical markets, Oracle's penetration approaches 70%. IDC forecasts that the relational database market will post a modest 18% CAGR, becoming a $25.7 billion market in 2004. The industry is benefiting from a number of catalysts including:

- An explosion in corporate data
- Increasing transactional and data-storage demands created by the Internet
- Cheap disk storage
- Increased packaged software solutions (versus internally coded software) in areas such as ERP, CRM and B2B
- Analytic applications that distill business intelligence from corporate data

We think Oracle is well positioned to extend its share of the relational database market in the coming years. Oracle's momentum is fueled by its strong market acceptance, a formidable force of existing database administrators and a large installed base. Because of the company's sheer size, IT managers can more easily justify an Oracle purchase than one from a less recognized or vertical-focused vendor. Oracle's winning strategy in the database business is two-fold: identify high-growth areas and aggressively meet demands early -- as it did with e-commerce by optimizing its databases to accommodate Internet-based computing.

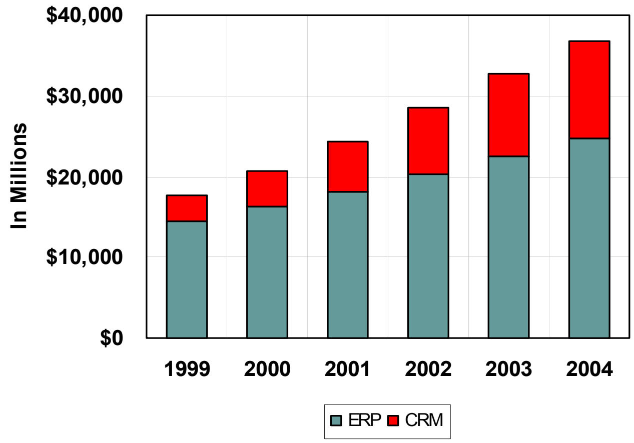
ESTIMATED WORLDWIDE RELATIONAL & OBJECT-RELATIONAL DATABASE MARKET (FIG 3)



SOURCE: IDC

An increasingly important area for the company's growth is enterprise software applications. Oracle has taken advantage of its position in the database market to step into the applications arena, a move culminating with 11i, the company's e-business suite designed for the Internet. When Oracle perceived the opportunities availed by the Internet, it re-architected its applications for Internet delivery. When Oracle saw the pains of integrating best-of-breed offerings from competitors, it made sure its applications were available as an integrated e-business suite. 11i represents Oracle's most comprehensive applications offering ever. It has modules (over 50 for ERP and 35 for CRM) that address everything from accounting and billing to the sales and e-commerce needs of corporations in a suite that offers plug-and-play integration of the components. Historically, Oracle has exhibited strength in its financial applications, and more recently has shown the same force in its ERP manufacturing suite. We believe over time Oracle will gain more traction in its newer applications despite the head start competitors such as Siebel and Ariba enjoy with their CRM and B2B products.

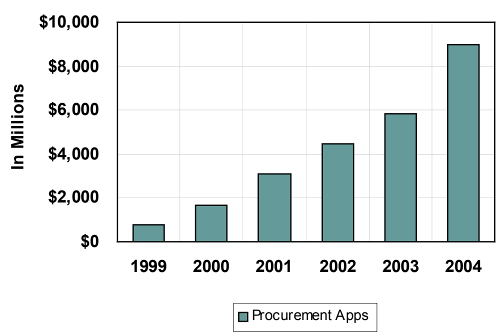
ESTIMATED WORLDWIDE CRM AND ERP MARKET (FIGURE 4)

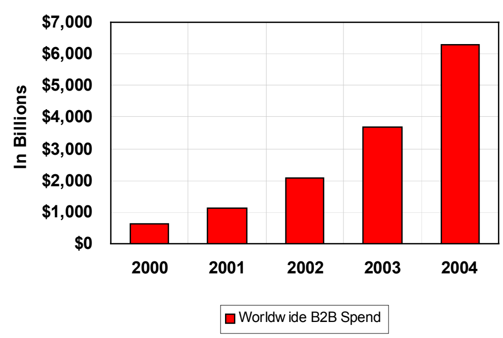


SOURCE: IDC

Perhaps the most opportune subset of Oracle's application strategy is its B2B initiative. To be effective, business-to-business procurement must integrate successfully with many enterprise applications, including financials, manufacturing and supply chain. Ariba and Commerce One both signed well-publicized partnerships to address this need -- Ariba with IBM and i2, and Commerce One with ERP powerhouse SAP. Oracle's stand-alone solution is the most complete and in concept avoids many of the integration headaches Ariba and Commerce One are experiencing.

ESTIMATED B2B PROCUREMENT APPLICATIONS REVENUE AND TOTAL SPENDING (FIG 5)





SOURCE: IDC AND FORRESTER RESEARCH

The strength of Oracle's suite of products can be carried over to its marketing efforts as demonstrated by the August announcement that OracleSalesOnline, a Web-based sales force automation offering, would be provided for free to anyone. While this gives Oracle a marketing presence, we do not believe this move on its own will provide a significant entrée into the enterprise version or additional modules of the e-business suite.

Finally, Oracle continues to streamline its business using its own enterprise software and efficiency mantra. Indeed, the company has demonstrated impressive operating margin improvement over the past nine quarters. Oracle claimed it has already saved approximately $1 billion on an annual basis and its margins bear this out -- the company has experienced double-digit percentage improvement over the last three quarters. Further, Oracle figures it can save another $1 billion -- mostly in sales productivity -- during the next year.

Oracle's Products: Spanning Data and Apps

Oracle's primary product is a relational database management system (RDBMS). Oracle also sells tools to support these systems and to facilitate the development of applications for these systems. In addition, Oracle offers an e-business suite with modules for enterprise resource management, customer relationship management, data mining and analytics, and business-to-business e-commerce. The applications portion of Oracle's business presents the most potential for growth.

Oracle 8i

8i is the current release of Oracle's industry-leading relational and object-relational database management system. The "i" was added to Oracle's naming convention to reflect functionality that optimizes the database for Internet-based requests outside the corporate firewall. Oracle was the first vendor to move away from client/server architecture in favor of Internet architecture. The 8i product is stratified into several editions to accommodate different use scenarios:

- **Enterprise Edition** offers the most robust functionality for high-volume transactional data stores and query-intensive data warehouse environments. 8i now includes native support for direct HTTP calls from the database.

- **Standard Edition** has slightly less functionality with a price-to-performance advantage for smaller data stores. Like the enterprise edition, standard includes interMedia, which allows storage of non-text data (multimedia, documents, etc.).

- **Personal Edition** is designed for research and consulting with desktop computers. It retains most of Oracle's higher-end DBMS functionality.

- **Lite** is a small-footprint DBMS for mobile platforms that is compatible with full-scale versions of 8i.

Oracle 8i can be easily scaled and is capable of managing large volumes of requests and data. From high-end data warehouses to telecommunications transactional databases, Oracle leads the market. Increasingly, reliability and scalability drive corporate purchasing decisions. Oracle's visibility in the market, its tenure and impressive Fortune 500 penetration cannot be discounted. Oracle estimates that 93% of all public Internet-based businesses run its database.

Oracle 8i is similar in many respects to offerings from IBM, Sybase and Informix. But one difference that may give 8i an edge is its industry leading work with parallel server architecture that allows for parallel handling of requests across multiple nodes. Coupled with caching technology that reduces inter-instance contention for the same data, Oracle has built in several features that enable performance advantages. One of the most notable drawbacks of 8i is the increased need for a database administrator to provide upkeep for the DBMS. Other DBMS, for example Microsoft SQL Server, are less complex and require fewer corporate resources. Clearly, there is a trade-off between database complexity and total cost of ownership.

Oracle 9i

Oracle announced 9i, the newest major release of its database, on October 3. The commercial release is due in the first half of 2001. With Oracle 9i, the database server portion will be sold with the application server pre-bundled. In addition, all of the tools (some 75 discrete products) will accompany the product. Oracle plans to offer the 9i appliance, a pre-certified and pre-tested configuration of its product, as a turnkey solution.

As announced, Oracle 9i provides support for database caching in its application server component. Database caching is unique in that it can store dynamic, query-generated information. Conversely, Web caching stores only static data, not dynamic data. By caching database requests at the application server tier, two benefits result. First, common dynamic requests are served more quickly because of caching. Second, since fewer requests are passed on to the database server, the database can achieve higher levels of gross transaction capacity.

Oracle also announced improvement upon its Oracle Parallel Server (OPS). Under 9i, database administrators can add parallel database servers dynamically and achieve supposed near-linear performance increases without disrupting the application configuration.

Oracle 11i

11i is Oracle's most recent (summer 2000) release of its e-business suite. It includes pre-integrated modules covering ERP (including supply chain management), CRM, and B2B. All told, Oracle offers more than 50 ERP applications and 35 CRM applications in addition to its Oracle Exchange platform and Internet Application Server (iAS). With 11i, Oracle offers a complete, integrated suite of products designed specifically for the Internet.

ORACLE E-BUSINESS SUITE (TABLE 1)

ERP	CRM
Financials	Service
Human Resources	Marketing
Supply Chain Management	E-commerce
Projects	Sales
Manufacturing	Industry-specific (vertical)
	Call Center
B2B	
Oracle Exchange	
Procurement	

SOURCE: ORACLE

Oracle's 11i suite competes across the board with best-of-breed vendors in almost every broad category of e-business applications: Ariba, BEA, Commerce One, i2, and Siebel. Oracle's advantage is its pre-wired integration. We believe widespread adoption of 11i suffers from the perception that its functionality is weaker and less robust than the competition. Two things may happen to change this. First, market perception of Oracle's technology may improve (and Oracle certainly has the resources to make this happen). Alternatively -- or in tandem -- companies may increasingly realize that integration and a single point of accountability for a total solution are more valuable than incrementally superior functionality and technology at the margin. We have reviewed Oracle's applications and believe they have an extremely competitive product in ERP and CRM.

We believe that if other subsets of 11i are successful, Oracle's Exchange and procurement B2B products will reap the benefits. The company recently publicized that, to date, it has won contracts for 52 exchanges, including eight consortium exchanges (industry leaders banding together in a central procurement marketplace). This compares to Ariba and Commerce One with 150 and 72 marketplaces, respectively. Both Commerce One and Ariba outpace Oracle in the B2B exchange business. Oracle has not released revenue numbers for its B2B applications, so estimates are unreliable. It is clear, however, that Oracle must close the gap in this area.

Services

Oracle offers consulting, educational services and support for its products. Oracle's consulting operation is vast -- as one would expect. The company has more than 15,000 consultants in 90 countries with more than 5,000 implementations under its belt. In addition, Oracle has partnered with the biggest names in the consulting business to provide additional implementation firepower.

Educational services consist primarily of training classes to certify independent professionals on Oracle products as well as seminars for continuing education and improvement. Oracle offers traditional call-center and other customer support functions, which are built into a customer's maintenance contract. Oracle's database products are complex and training database administrators and other IT professionals is a sizeable business for the company, accounting for 27% of total revenues in the most recent quarter.

Oracle's consulting business has declined -- 7% in a comparison of trailing 12-month periods -- due to several factors. First, the company has publicly intimated its desire to allow independent consulting firms to have a larger share of Oracle's economy. This is not altruism but a quid pro quo to ensure independent consulting firms are incented to recommend the company's solutions over competing applications and database products. Second, Oracle claims consulting revenues are shrinking, in part because of shorter installation cycles that are in turn due to a more manageable product. While we believe this may not be entirely the case, Oracle's strategy, evidenced by comments made during the release of 9i, centers on creating a turnkey solution. Finally, we believe that educational services are cannibalized somewhat by the Oracle Technology Network (OTN). OTN provides free Web-based, self-service for IT professionals looking to further their knowledge on Oracle or to resolve discrete issues. Headcount in services has experienced declining growth over the last two years, culminating with modest real shrinkages in the headcount on a year-to-year basis. Oracle believes headcount will grow once again, driven by increasing sales of 11i (released this summer). We believe this growth will be hampered as Oracle funnels additional implementation revenues to large systems integrators. We estimate support headcount will increase slightly driven by professional services additions with an offset from efficacies in the customer self-service area.

Services are not our favorite part of a software company's top line. As such, we are comfortable with a modest decline in services over time. A lower services component will mean a higher overall margin for Oracle. In addition, lower services revenues dovetail nicely with Oracle's overall themes of pre-integrated solutions that actually require less manpower to implement. That said, we wonder if Oracle is talking out of both sides of its mouth with respect to its consulting strategy. Out of one side, the company states it expects the business to grow. Out of the other, it cites reasons why it should slowly decline. We will be watching for directional evidence in future quarters.

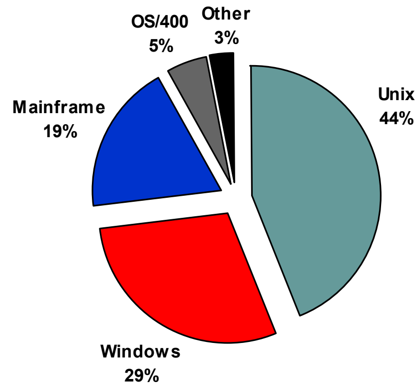
Tools

Oracle sells -- and gives away -- tools for database administrators and developers. The Oracle Technology Network makes certain tool sets available to members for download. The portion of revenues derived from Oracle's tools has declined steadily, a trend we expect to continue due mostly to Oracle's bundling strategy and to the company's willingness to give away tools through OTN. The aim of this strategy is to foster developer use and support of Oracle products, which already have a high degree of mindshare. In addition, Oracle is working to stimulate the development of applications optimized for the company's databases. Its Internet Developer Suite (iDS) offers a wide array of development tools for database-centric Internet applications.

Competition

On the database side, Oracle competes successfully with IBM (DB2), Microsoft (SQL Server), Informix (Dynamic Server.2000) and Sybase (Adaptive Server). Oracle has a strong presence as the data platform of choice for Internet-based applications. The company's broad success has contained many of its pure-play competitors like Sybase and Informix to vertical markets. Broader and stronger competition comes from IBM and Microsoft, companies that have compelling propositions based on their other platform products. From a platform perspective, Unix is still the dominant operating system for database management systems. Microsoft SQL Server is exclusive to its own operating system and DB2 penetration outside of IBM platforms is slight, despite its ability to run on a wide array of operating systems. Oracle runs on a wide array of platforms including Microsoft NT.

1999 WORLDWIDE DATABASE MANAGEMENT REVENUE BY PLATFORM (FIGURE 6)



SOURCE: IDC

Oracle faces abundant competition from best-of-breed applications vendors that specialize and from suite vendors that offer broad, integrated solutions. The company's allure is powerful, however: it offers one-stop shopping for e-business corporations across applications and servers. And it has two strategic advantages -- its speed to market and the simple integration of its products. Then again, competitors PeopleSoft and SAP also offer suite solutions with varying degrees of end-to-end functionality. To face off with them and top-of-the-line vendors such as Ariba, Commerce One, i2 and Siebel, Oracle will need to demonstrate that its software is superior or at least can hold its own. We have seen demonstrations of Oracle's applications and believe they can compete. Against the suite vendors, Oracle's key challenge is sales execution.

COMPETITIVE OVERVIEW (TABLE 2)

Product Area	Competition	Comments
ERP	SAP	Healthy manufacturing competitor, but falling behind with client server architecture and ABAP/4 development environment
	PeopleSoft	Strong architecture and HR presence, but not as competitive in certain manufacturing segments
	JD Edwards	Mid-market leader, but no significant penetration into high-end customer base
Other Applications	Ariba, i2, Commerce One, Manugistics, Siebel	In most cases, vendors of point solutions offer better functionality, but require significant integration work to achieve optimal functionality
Database management	Informix and Sybase	Leading database contenders in the mid-1990s, but have fallen behind
	Microsoft	While well regarded for departmental and mid-market solutions, continues to refine enterprise database as scalability concerns remain
	IBM	Database of choice for organizations standardizing on IBM architecture, however less competitive outside of this base

SOURCE: EPOCH PARTNERS

Current market perception favors best-of-breed applications such as Siebel's for customer relationship management, i2's for supply chain management, and Ariba for procurement applications. Oracle's mission will be to overcome these perceptions and to win customers. Right now we do not think Oracle's B2B offering is competitive outside of its installed base. Also, it is difficult to compare traction based on financial metrics since procurement is generally sold as a bundled application. We question the accuracy of some estimates of Oracle's share of the B2B applications market because the company has considerable flexibility in apportioning revenues based on the contract value of the entire purchase. As such, ready comparisons to Commerce One and Ariba are difficult. Competitive wins are a reasonably reliable indicator, however, and we have not yet seen compelling evidence that Oracle is consistently edging out Ariba and Commerce One. Oracle often does not make it to the final round of the selection process against these vendors for marketplace applications.

Strategic Partners

Several companies are closely aligned with Oracle. Of particular note is Sun Microsystems. Its Solaris operating system has been a perennial platform on which many Oracle database management systems have been built. Further, Veritas Software's file and volume management solutions are commonly used to optimize file systems in which database files reside. In May, Oracle announced a strategic alliance to jointly test and ensure proper integration of alliance products -- Solaris operating system, Oracle database, and Veritas file and volume management system. Dubbed the "VOS" initiative, the trio also created a center for problem resolution for the bundled solution and are also working to create a unified consulting services program.

Oracle maintains broad partnerships with many leading software and hardware platform vendors. We note that Oracle's market presence is so strong that it has co-opted even its database rivals (specifically, Microsoft and IBM) into partnerships on the hardware, OS and services side.

SELECTED ORACLE PLATFORM PARTNERS (TABLE 3)

Bull	Hitachi	Novell
Compaq	Hewlett-Packard	Microsoft (NT)
Data General	IBM	SCO
Dell	Intel	SGI
EMC	NCR	Sun
Fujitsu	NEC	Unisys

SOURCE: ORACLE

Customers

Oracle's databases are popular worldwide. Moreover, Oracle's database penetration is significant in almost every industry vertical imaginable. Certain competitors do enjoy legacy footholds in specific industries -- Sybase in financial services, for example. Oracle, however, has become the dominant database powering the wave of e-business initiatives that have risen since the 1990s. This is due in part to Oracle's early technological embrace of Internet architecture for its databases and in part to missteps by competitors. Despite the maturity of the database business, we think Oracle still has room to expand. As content multiplies and e-business becomes the standard sales channel, database sales will continue to grow at more than five times the GDP of the U.S. economy, or roughly 18% per annum according to IDC. Oracle can improve upon this by increasing its penetration in vertical markets. This is something the company has both the resources and the mindshare to do. We think the expected release of 9i in the first half of 2001 will reinforce the company's dominant position among IT professionals engaged in e-business.

Oracle's 11i e-business suite is a new release -- just this summer -- and we believe it will begin to see market share improvement over the next two quarters that will be highlighted in the May 2001 quarter due to the convergence of Oracle's year end and the opening of corporate purse strings for enterprise applications in early 2001. Thus far, Oracle has announced 27 11i installations on its reference list and estimates it will attain 50 by the end of this quarter. Most of these customers are small and medium-sized enterprises. Oracle's most high-profile client is Agilent Technologies where Oracle 11i will replace Agilent's SAP installation (most likely a legacy system inherited from Hewlett-Packard). Oracle's ability to build large, credible customer references with 11i will be an important determinant in achieving product traction.

We believe Oracle's procurement and exchange agreements will be viewed with special scrutiny as it competes against Ariba and Commerce One. Although we have heard conflicting numbers, our understanding is that Oracle currently powers 52 exchanges. Unlike its competitors, Oracle has not individually announced its exchange deals, partly because the applications are still such a small component of overall revenues. We believe many of these exchanges are second and third tier players. The clear exception and Oracle's most visible B2B customer acquisition is Covisint, the industry consortium that includes DaimlerChrysler, Ford, General Motors, Nissan and Renault (although Covisint has not yet announced the apportionment of technology between Oracle and Commerce One and we believe that Oracle will have little application functionality inside the marketplace). On the procurement side, Oracle claims more than 400 customers. It is unclear, however, how many of them are using the iProcure application or what revenues come from this product since our understanding is that it is allocated from a larger suite of products.

Management

Larry Ellison founded Oracle Corporation in 1977 and has played an active role in the progress of the firm since then. In the last few years, Ellison's influence has intensified as the company shifted its focus from client/server to Internet technologies. With the sudden departure of Ray Lane, the company's president and COO (often described as the keel to Ellison's sail), on June 30, Ellison assumed even more operating responsibility. Moreover, the November 17 departure of EVP Gary Bloom emphasizes Ellison's bias not to foster a second-in-command. Bloom's responsibilities will be farmed out to five other senior executives at the company.

Oracle's internal politics are well documented both in the press and anecdotally. From the Microsoft corporate espionage debacle to disputes over luxury yachts, Oracle and Ellison's antics tend to capture the limelight. Distractions aside, the key concern about company management is that Ellison has no clear heir. Oracle's products are designed to be fault-tolerant and redundant, but top management isn't. Right now, we believe only Ellison can run Oracle and successfully promulgate vision.

That said, we also believe the company's management has strong, but distributed, execution expertise. CFO Jeffrey Henley is well respected by the investment community and displays impressive credibility. Rumors have swirled recently concerning Henley's retirement plans. We believe that he will remain with the company for the next few years as Oracle completes its product and e-business transition. We believe the rest of Oracle's management team is largely deferential to Ellison's strategic outlook. A key challenge for Oracle will be to retain key management given Ellison's active involvement in the day-to-day operations of the company, and to develop a succession plan for management of the company upon his eventual departure.

Industry Description

Oracle's software competes in several arenas within the industry. We believe investors benefit from a brief overview of each relevant space: relational database management, e-business applications and business-to-business e-commerce infrastructure.

Relational Database Management

Relational database management systems overcome and improve upon many of the shortcomings of early electronic data storage. The simplest and most limited form of electronic data storage is in a flat file format. Flat files store data serially in an electronic file. For example, an Excel spreadsheet containing 50 email contacts is an example of a flat file database. To find a record, an application or user must search through the entire file. The limitations of this data structure are obvious -- queries are slow, data is not inherently interrelated, and data integrity is easily lost if multiple users update the same file simultaneously.

A more sophisticated option, hierarchical databases, links records in much the same way an organizational chart does. Each record has exactly one defined parent. Nesting data in hierarchies provides an organizational context by which information could more easily be classified, stored and discovered. Hierarchical databases are rigid, however, and are not necessarily effective in modeling real-world, flexible data structures.

Modern business relational database technology was developed and introduced by E.F. Codd at IBM in 1970. Relational databases proved particularly useful for business data management since they allow for flexible retrieval of data based on an infinite combination of relationships to other data. This model utilizes relational algebraic functions to manipulate data that is stored in different tables, which are essentially a collection of records sorted by unique fields. Codd's model posited eight operators that enable data to be discovered by union, intersection, difference, product, restriction, project, joining and division. To communicate with relational databases, IBM developed structured query language, or SQL, in the 1970s. SQL is now a common standard by which database requests are made.

Databases are the information foundation for software applications. As such, they are critical to enterprises both because they house valuable corporate data and because they facilitate the quick retrieval and storage of this information. Database management systems offer several general advantages over other storage options. Data are protected by security features that specify read and write privileges all the way down to the individual record level. In addition, data integrity is preserved since no two users can modify data at precisely the same time, which creates multi-user read consistency. Data are also kept independent of applications, which facilitates use by multiple applications and multiple users. Finally, since much of the value in corporate data lies in its interrelations with other data and not the content of the data itself. Most modern DBMS preserve this and allow for these linkages to be analyzed.

Commercial relational database technologies emerged in the late 1970s and gained widespread traction among Fortune 500 corporations and institutions in the mid 1980s. The first production relational databases lived on mainframes. Information was centralized within the corporation and was accessed by dumb terminals. In the late 1980s, architectural preferences shifted to a distributed client/server environment. This allowed many smaller databases to be networked together, accessed by "fat," or processor- and memory-intensive, desktop clients. In the 1990s database servers proliferated, creating many instances of disparate data within large multinational corporations. With the advent of the Internet, an opportunity arose to consolidate data within large corporations to a central database accessed by "thin," or browser-based clients. Several factors make this an attractive option, including:

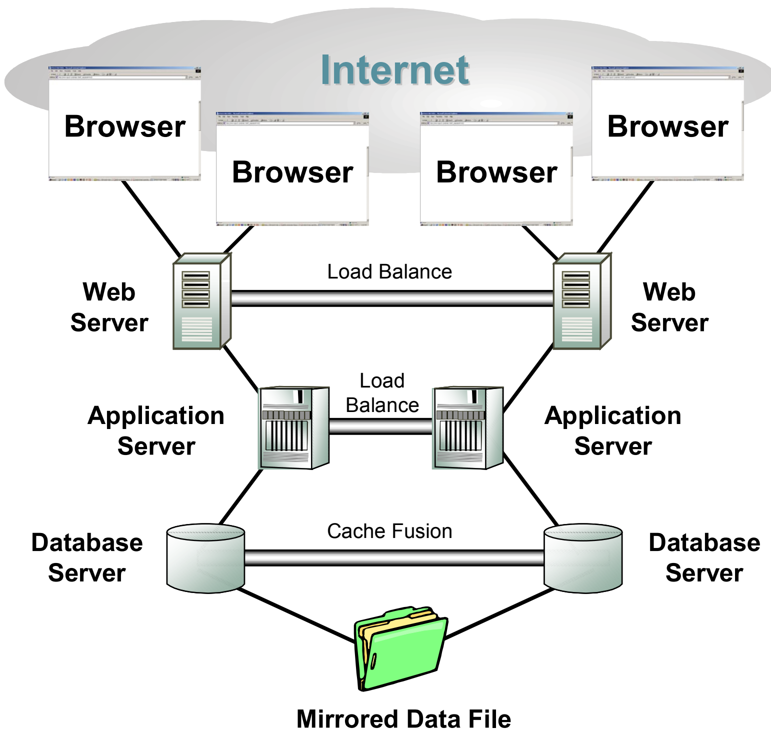
- Increased feasibility of Internet architecture. The availability of cheap, high-speed bandwidth and powerful commodity application servers make a centralized solution cost effective.

- Consolidated view of corporate data that adds value. The drive to implement ERP and CRM solutions that enable the rigorous understanding and analysis of customers, partners and suppliers is best facilitated by a singular instance, or view, of all corporate data.

- Multiple points of easy access. Centralized databases are easily accessed via multiple presentation layers including HTML, Java thin-client, and traditional client applications.

To accomplish scalability, application servers can be run in parallel in front of database servers that may also run in parallel against a single data file. Oracle Parallel Server is an example of load-balanced, fault-tolerant (i.e., "redundant" in case of hardware or software failure) or parallel architecture. Incidentally, Oracle, in a widely publicized move, is consolidating corporate information into a single database.

HIGH LEVEL ARCHITECTURAL OVERVIEW (FIGURE 7)



SOURCE: EPOCH PARTNERS

In this high-level Internet-architected structure, database requests are made by balanced application servers that handle traffic from Web servers. These requests, in turn, are made against a master data file handled by multiple databases that cache frequent requests in order to speed the query process. The net result of this architecture is fault tolerance, increased speed, increased load capacity, and the data integrity of a single data file across an enterprise.

E-Business Applications

Companies use business software applications to manage everyday operations. Some are focused internally -- on payroll and accounting, for example; others are focused externally -- providing customer relationship management (CRM) or e-commerce solutions, as examples. Although these applications are common, regular exposure to them is limited to IT professionals or to the various clerks and knowledge workers that might use them to perform their jobs. Companies generally make software buying decisions by comparing the costs of purchase, implementation, and ongoing operation to the amount of revenue or savings the software may generate. These applications may drive revenues by increasing competitiveness, improving customer satisfaction and retention or improving product quality and margins. They can also cut overhead by eliminating manual tasks or creating other efficiencies.

The business applications market is driven by tangible, macroeconomic demand factors facing organizations such as a tight labor pool, global competition and lack of pricing power. The scarcity and high cost of labor fuels the need to automate certain processes. Globalization forces companies to streamline operations to ensure competitive positioning. Finally, in competitive industries that lack pricing power, one of the few ways to boost profits is cost reduction via the implementation of technology solutions.

A tremendous market exists for these solutions. In 1999, worldwide corporate information technology spending reached $837 billion, according to International Data Corporation, of which more than $150 billion consisted of software sales. Garnering only a small piece of this market is a tremendous opportunity for a technology company.

The emergence of electronic business processes, or e-business, multiplies the importance of the above factors. The availability of cheap, high-bandwidth and Internet-enabled networks is spawning new business paradigms and the need for e-business applications. The new business paradigm encourages organizations to become more virtual by focusing on core competencies and outsourcing secondary operations. Win-win partnerships are replacing the us-versus-them mentality. E-Business companies need software that increases their efficiency yet doesn't diminish responsiveness.

Many e-business applications suffered from abhorrent spending patterns triggered by fears of Y2K-related systems failures. Many companies rushed to install ERP and other applications well ahead of the turn of the year. As Y2K came closer, prudence demanded that many IT departments lock down their systems in preparation for possible glitches and system errors. With Y2K out of the way, we believe corporate IT spending is focused on high return-on-investment applications such as B2B and CRM, leaving ERP still struggling.

Competitors in the e-business applications arena can be grouped into suite solution vendors and best-of-breed vendors. Suite solution vendors offer many e-business applications together in a unified suite, while best-of-breed vendors are more focused on a particular genre. Competitors that offer a broad array of applications include: Oracle, PeopleSoft and SAP. Competitors offering point solutions include: Ariba, Commerce One, i2 and Siebel. These vendors compete with each other in various sales situations.

Business-to-Business E-Commerce Infrastructure

Forrester Research predicts B2B e-commerce will grow to $6.3 trillion worldwide by 2004. The systems infrastructure necessary to support this market growth is not in place. Solutions are needed to enable the construction of Internet marketplaces, to integrate suppliers, and to connect the procurement processes for all types of goods and services to suppliers or marketplaces. This market for Internet commerce procurement applications is expected to reach $9 billion in 2004, up from $770 million in 1999, according to IDC.

The fuel for this industry is not the dot-coms, but rather old-economy giants searching to improve themselves in a dot-com world. Real companies are addressing real business issues. The foundation applications for B2B e-commerce are the procurement solution and a solution for connecting suppliers, whether individually or through an aggregation site. Procurement solutions answer several business problems including:

- Slow, manual procurement processes

- Off-contract, or rogue, purchasing
- Lack of supplier accountability

Current purchasing processes cost between $70 and $150 per purchase. Companies have demonstrated that procurement solutions can bring this cost down to $10.

To be effective, procurement solutions must connect to suppliers. This has inextricably linked procurement solution vendors to the supplier side of the electronic commerce equation, whether through XML standards, EDI, proprietary solutions or integration applications.

Procurement Solution Providers

Companies providing procurement solutions include pure-plays Ariba, Commerce One, Purchase Pro, and Clarus as well as Oracle. Ariba's historic strength in back-end integration and procurement solutions will continue to win significant market share. We believe that Ariba's history in the business is particularly helpful in winning the largest accounts because its solution is the most developed and capable of handling complex business requirements. With the exception of the important CoNext consortium, which came with the Tradex acquisition, Ariba has been trailing Commerce One in the marketplace portion of the space. Ariba's desire to remain neutral may mean slower going initially, but we believe that there is still a large opportunity available. While the leaders in the space focus on the next big deal, we believe other have an opportunity to capture a share of the small/mid market but that this market share will not be significant in the near term.

ERP Companies Lacking Procurement Partnerships

Oracle is the only significant ERP player left in this category. Most ERP companies have struck up relationships with procurement companies to deliver their procurement solutions. ERP companies have a natural advantage because they can offer robust integration to related processes such as accounting and bill payment. For competitive and practical reasons, ERP vendors will be generally restricted to customers of their back office solutions.

Additional competition comes from the traditional ERP vendors extending their products into the procurement market. PeopleSoft released a new procurement module with PeopleSoft 8. SAP has partnered with Commerce One. Also companies such as Clarus, Procurenet, Intelysis and Concur offer Web-based procurement applications for indirect goods.

Vertical Marketplaces

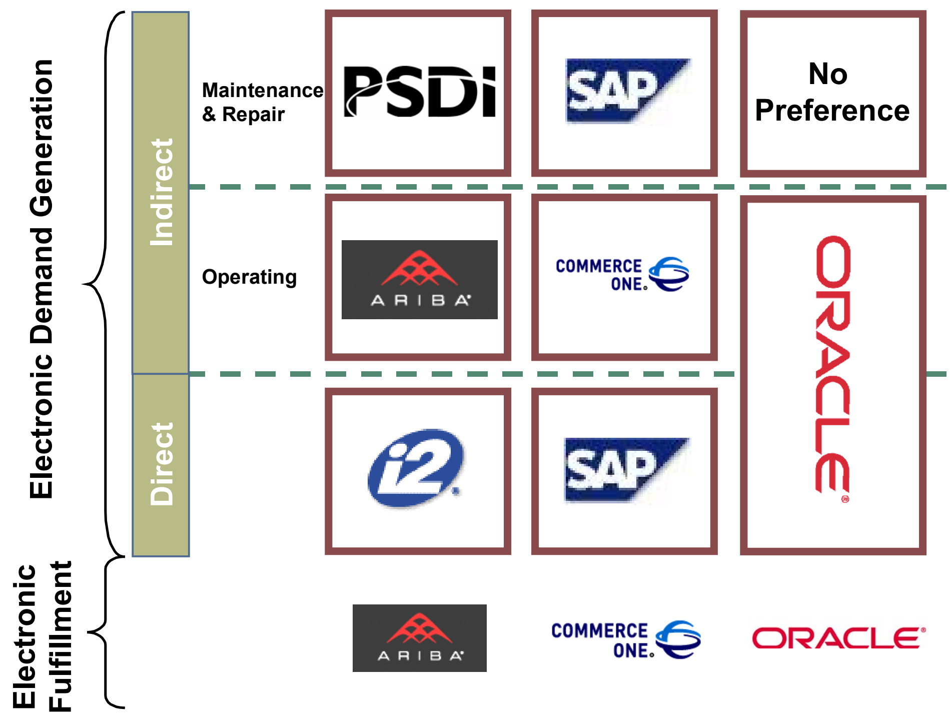
Vertical marketplaces include VerticalNet, Ventro, and SciQuest. A vertical market company potentially does a better job of addressing its industry's needs but we believe a solution that addresses all spending is more likely to take hold within the organization. Recent market woes afflicting these companies are indicative of their dismal potential.

Mark Verbeck
Timothy Madda
www.epoch.com

In the world of B2B e-commerce infrastructure, we believe there are three camps worthy of note. To offer an end-to-end B2B solution, Ariba and Commerce One formed partnerships with leading players to drive demand generation for direct materials as well as maintenance and repair items. Ariba partnered with i2 for direct materials and with PSDI for maintenance and repair. Commerce One partnered with SAP for both direct materials and maintenance and repair demand generation. Oracle's solution, because of its e-business applications, spans end-to-end with the exception of maintenance and repair. Our understanding is that Oracle has thus far made no specific partnerships for maintenance and repair demand generation. As a side note, BroadVision recently announced a B2B initiative; however, we believe that only results from future quarters will help us understand its level of acceptance in the market.

Ariba and Commerce One's core focus is indirect operating goods, or office equipment. Since enterprise asset maintenance and supply chain management software generate demand for direct B2B transactions, these solutions serve as a natural complement to indirect procurement, which is initiated not by software but usually by a person.

THREE B2B CAMPS (FIGURE 8)



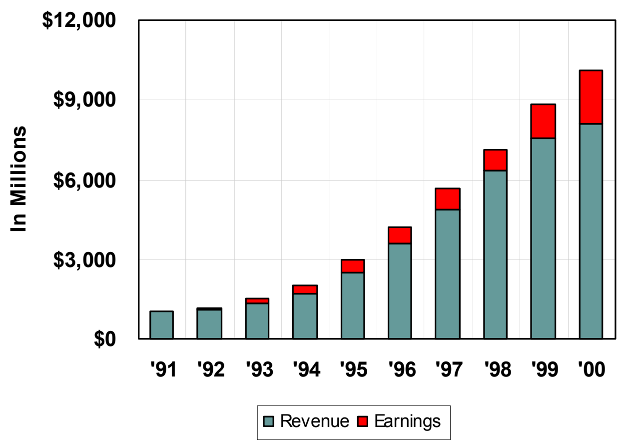
SOURCE: EPOCH PARTNERS

Financials Discussion

Financial Background

Oracle has grown to a $10.4 billon database vendor at a CAGR of approximately 30% over the last 10 fiscal years. Oracle has maintained a steady 50/50 mix of license and services revenue over the years, which, as the company matured, has tipped more toward services revenue (56% of FY00 total).

ORACLE 10-YEAR REVENUE AND EARNINGS GROWTH (FIGURE 9)

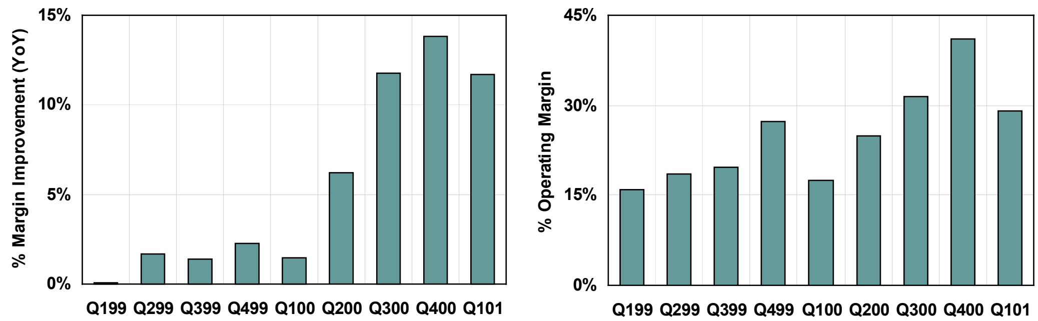


SOURCE: ORACLE

The big story surrounding Oracle's financial progress has been its continuous year-by-year operating margin improvement. Over the last nine quarters, Oracle has improved its margins, most recently with the rollout of its own e-business suite. In the last three quarters, Oracle has achieved double-digit margin improvements on a comparable period basis. Purely on an economic basis, this margin improvement has made Oracle a more valuable company. We believe the operating margin improvement will top out at 15% to 17% above fiscal 1999 margins, with the possibility of Oracle achieving 40% margins by fiscal 2002. We estimate that Oracle's present and future savings, all else being equal, have contributed in excess of $75 billion in shareholder value at present earnings multiples.

Oracle is fulfilling the true promise of all great software companies -- operating expense leverage and high margins. One concern we have is whether Oracle will cut too much in its quest to drive margins to 40%. While there hasn't been any evidence of this to date, an absence of critical infrastructure in sales and support could affect growth and erode customer satisfaction.

ORACLE Y/Y OPERATING MARGIN AND MARGIN IMPROVEMENT (FIGURE 10)



SOURCE: ORACLE AND EPOCH PARTNERS

Oracle has successfully reduced costs by consolidating IT, automating sales force activities, streamlining procurement and allowing increased employee self-service. As a large organization, many internal resources were dedicated to supporting other internal resources. Oracle eliminated a significant portion of this overhead both in HR and IT using its own applications. In this sense, Oracle is its own best reference for its applications business.

Oracle recently standardized its pricing structure as part of a larger sales force reorganization. Pricing is now available on both a per-seat basis and on a processor-power basis, subject to certain minimums. Licenses may be purchased for perpetual use or for use of specified time periods (typically two- and four-year contracts). Standardized pricing and self-service sales are available directly from Oracle's Website. The company's sales force is compensated for online purchases alleviating internal channel conflict. In addition, Internet sales eliminate VAR channels since products are offered directly to everyone at standard prices. The company also restructured its sales operation so that salespeople now represent multiple products to a single account instead of a single product to multiple accounts. Oracle offers variable volume discounts.

ORACLE'S PUBLISHED DISCOUNT SCHEDULE (TABLE 4)

Size of Purchase	% Discount
$0 - $5,000	0%
$5,001 - $10,000	5%
$10,001 - $25,000	10%
$25,001 - $50,000	15%
$50,001 - $100,000	20%
$100,001 - $250,000	25%
$250,001 - $1,000,000	30%
Over $1,000,000	Privately negotiated

SOURCE: ORACLE

Financial Projections

In evaluating Oracle's future growth, it is important to note that Oracle's Internet-architecture will prevail over the long term. A case in point is the PeopleSoft and SAP scenario. While PeopleSoft has reengineered its architecture around an Internet platform, SAP has clung to its client/server model. We believe this has been a big factor in PeopleSoft's recent exceptional performance. Broadly, we think applications companies must embrace the Internet, and Oracle was an early pioneer there.

Oracle's future financial results will be closely scrutinized to determine the success of its applications business. In the most recent quarter, FYQ1, applications licenses grew 42% on a comparable period basis. We have modeled a conservative 50% comparable growth rate for applications in the current quarter, and believe that upside to this number is possible. For fiscal 2001, we believe that Oracle can potentially post 75% - 100% growth in applications (we have conservatively modeled 60% growth for the fiscal year). Upside to street expectations on applications will validate Oracle's strategy in future quarters and may serve as a stock catalyst depending on valuation levels.

We believe Oracle's database business will remain strong throughout the remainder of fiscal 2001. We have modeled growth for the year at approximately 23% (this represents a slight premium to our outlook for the database server market in general). Oracle's management attributes the strong 32% database growth in this most recent quarter to rollover from FY2000 year-end sales that were pushed into Q1. For this reason Q1's database growth likely will not be indicative of the full year.

Oracle's tools business will continue to decline as a revenue center for the company as tools are increasingly made available for free through OTN. Oracle is making this move for two reasons: first, in addition to assisting database administration, Oracle intends to catalyze development of applications optimized for its databases with its development tools. Second, Oracle's tools offer an easy interface making the company's product more competitive with Microsoft SQL Server, which is traditionally seen as easy to work with. While this has competitive implications, neither of these two strategies have clear positive revenue impact, in our opinion.

As we have indicated, Oracle's B2B procurement and exchange applications revenue will continue to be difficult to track. In the near term, large competitive exchange and customer wins will be the best litmus to monitor the company's financial performance in this space. Our financial projections do not include significant sales in this area.

Oracle's Milestones

We believe the appropriate milestones to focus on for the coming fiscal year are:

- Continued growth and market leadership in the database business
- Steadily increasing year-over-year operating margin improvement
- Market acceptance of Oracle 11i value proposition with resulting revenue growth in excess of 50% and 75% in Q2 and FY01, respectively.

We are not concerned with the growth in any one application of Oracle's suite, despite the widespread attention devoted to CRM and B2B marketplace apps. Strong growth in other areas of 11i will, over time, bring these components along.

Valuation

It is difficult to value market leaders based on comparable analyses because one cannot ascertain the appropriate premium a company deserves relative to its peers. In addition, comparisons to leaders in other areas are not necessarily meaningful. Thus, comparable analyses, be they discounted P/E or forward revenue multiple analyses, often lack an appreciation for market sentiment surrounding market leaders.

That said, we looked at Oracle on a comparable basis with its peers to form a context for Oracle's valuation. Defining peers is the hard part of this analysis since Oracle offers many things to many companies. Moreover, Oracle's database servers have captured such a commanding share of the market that comparison with database pure-plays, Sybase and Informix, is not necessarily meaningful. Another strong contender for databases, IBM, is far too diversified among software, hardware and consulting to compare on a multiples basis. Microsoft is comparable to Oracle given that the two both have commanding shares of diverse segments of the software market. In a direct comparison, Oracle trades more or less in-line with Microsoft. We think that Oracle is viewed best in light of the various areas in which it operates, especially those outside its bread-and butter-database business (see our attached comparable analysis):

- **ERP Group:** We believe ERP players offer the best comparable for Oracle's applications opportunity. Oracle trades in line with other ERP players on a multiple of forward earnings and, because of its superior margins, trades at a premium on a multiple of forward revenues. With comparable companies growing at rates similar to Oracle, we see comparable valuation support here, especially given these companies lack the stability of Oracle's database opportunity.

The following three groups represent component opportunities for Oracle's business:

- **CRM Group:** While Oracle trades above the basket on a multiple of revenue, industry leader Siebel is more richly valued given its higher growth trajectory. Many aspects of CRM are newer and higher-growth, and we believe the market does not hold this group of companies to the same valuation standards as it does Oracle.

- **B2B Group:** Ariba makes Oracle look downright cheap. Overall the space is growing at a torrid pace not matched by Oracle's overall business. To live up to the multiple, Oracle needs to demonstrate better execution.

- **Application Server Group:** App servers are an integrated portion of Oracle's offering. The group supports Oracle's valuation, but it is not a major revenue center for the company and as such is less relevant than other groups.

We think that to compare Oracle based on differing multiples for each segment of revenue would neglect essential synergies the businesses draw from one another (for instance the application server and the database server). We believe fundamental comparable valuation support is drawn from the forward earnings multiples of the ERP group, coupled with valuation upside presented by other group leaders.

Since Oracle is a fairly diversified software company, we also employed a discounted cash flow analysis to examine its long-term prospects. We believe this is a useful theoretical determinant of corporate value, however, it clearly does not capture near-term value shifts in the stock. To forecast Oracle's free cash flows, we simplified our model to avoid unnecessary complexity. We assumed the company would grow at roughly 20% per annum over the next five years trending to 12% - 14% growth long term for purposes of our valuation. We further assumed an operating margin starting at 37% in 2001, increasing 100 basis points each calendar year, capping at 40% in perpetuity. We modeled a tax rate of 35.5% (Oracle's current steady-state rate) and assumed depreciation and amortization of $300 million per year. We excluded any modifications for capital expenditures.

In selecting a cost of capital, we assumed a risk-free rate equivalent to the 30-year Treasury of 5.8% (to simplify, we ignored reinvestment risk). We further employed an equity market risk premium of 6% and used 1.55 for our beta. These assumptions yielded a capital cost of roughly 15% (we ignored the cost of Oracle's $300 million in debt, deeming it insignificant compared to the company's $200 billion market value). For modeling purposes, we believe Oracle's database and applications businesses will be able to achieve a 10% - 15% CAGR over the extended long term. Our terminal cash flow is derived from our projected 2006 after-tax cash flow (20% revenue CAGR from our projected 2001 numbers with a 40% operating margin).

ORACLE DISCOUNTED CASH FLOW VALUATION (MKT CAP IN $B) (FIGURE 11)

	ORCL Value ($B) @ Perpetual Growth Rate of					
2006 After Tax Cash Flow ($MM)	**12.5%**	**12.7%**	**12.9%**	**13.1%**	**13.3%**	**13.5%**
$7,500	152.6	163.7	176.8	192.6	211.8	235.8
$7,750	157.2	168.6	182.2	198.4	218.3	243.1
$8,000	161.7	173.6	187.6	204.3	224.8	250.5
$8,250	166.3	178.5	192.9	210.2	231.4	257.8
$8,500	170.8	183.4	198.3	216.1	237.9	265.1
Implied Terminal Multiple @ 15.1% WACC	**38x**	**42x**	**45x**	**50x**	**56x**	**63x**

SOURCE: EPOCH PARTNERS

Discounting the terminal value of Oracle's cash flows, we found support for Oracle's current market valuation with 12.5% to 13.5% perpetual growth (the business software market is currently growing around 15%), or approximately 40x - 60x after-tax terminal cash flows. Clearly, it is illogical to presume Oracle can grow faster than the U.S. economy in perpetuity, however, the first 30 years of growth account for the vast majority of corporate value in our model. To be sure, we checked Oracle's revenues as a percentage of assumed GDP in 2030 and believe growth at our assumed rates through that period are reasonable. Coupled with favorable comparable trading analyses, we believe this DCF supports a long-term investment in Oracle stock and that further trading dips, in light of recent declines, should be viewed opportunistically.

Recommendation

Oracle is fulfilling the miracle of software companies, delivering a large percentage of its revenues to the bottom line, which makes it an increasingly valuable investment. The company is leaner and meaner than ever and has a unique opportunity to accelerate the growth of its massive business by aggressively acquiring market share in new, high-growth areas of the software world. We like Oracle's strategy and believe investors will do well to add the company to their portfolios.

Mark Verbeck
Timothy Madda
www.epoch.com

Company Model

Oracle Corporation (ORCL) Income Statement ($ in millions, except per share data)

Fiscal Year Ending May 31	**1999A**	**Aug-99A**	**Nov-99A**	**Feb-00A**	**May-00A**	**2000A**	**Aug-00A**	**Nov-00E**	**Feb-01E**	**May-01E**	**2001E**	**2002E**
Licenses	3,688.3	631.9	902.9	1,071.4	1,840.6	4,446.9	807.2	1,109.0	1,345.0	2,408.1	5,669.3	7,173.2
% of Revenue	*41.8%*	*31.8%*	*38.9%*	*43.7%*	*54.5%*	*43.9%*	*35.7%*	*41.5%*	*45.6%*	*57.1%*	*46.8%*	*49.2%*
Services	5,138.9	1,352.3	1,419.3	1,378.0	1,533.7	5,683.3	1,454.6	1,564.4	1,605.4	1,811.9	6,436.3	7,404.3
% of Revenue	*58.2%*	*68.2%*	*61.1%*	*56.3%*	*45.5%*	*56.1%*	*64.3%*	*58.5%*	*54.4%*	*42.9%*	*53.2%*	*50.8%*
Total Revenue	**8,827.2**	**1,984.3**	**2,322.2**	**2,449.4**	**3,374.3**	**10,130.2**	**2,261.9**	**2,673.4**	**2,950.4**	**4,220.0**	**12,105.6**	**14,577.5**
Sales and Marketing	2,622.3	538.4	631.4	594.7	852.2	2,616.7	573.0	662.0	671.0	984.0	2,890.0	3,550.0
Cost of Services	3,063.9	756.8	753.2	707.3	725.5	2,942.7	673.9	751.0	762.0	904.0	3,090.9	3,648.0
Research and Development	841.8	235.9	248.2	255.6	270.2	1,009.9	251.0	297.8	305.4	321.6	1,175.8	1,399.2
General and Administrative	426.2	107.5	113.1	122.2	137.9	480.7	106.0	124.1	134.7	153.2	517.9	570.4
Total Operating Expense	**6,954.1**	**1,638.7**	**1,745.8**	**1,679.7**	**1,985.8**	**7,050.0**	**1,603.8**	**1,834.9**	**1,873.0**	**2,362.8**	**7,674.6**	**9,167.5**
Operating Income	1,873.1	345.6	576.4	769.7	1,388.5	3,080.2	658.0	838.5	1,077.4	1,857.2	4,431.1	5,410.0
% of Revenue	*21.2%*	*17.4%*	*24.8%*	*31.4%*	*41.1%*	*30.4%*	*29.1%*	*31.4%*	*36.5%*	*44.0%*	*36.6%*	*37.1%*
Other Income (Expense)	109.0	18.3	15.5	7.8	48.4	89.9	118.2	80.0	80.0	80.0	358.2	340.0
Pre-tax Income	1,982.2	364.0	591.8	777.5	1,436.9	3,170.2	776.2	918.5	1,157.4	1,937.2	4,789.3	5,750.0
% of Revenue	*22.5%*	*18.3%*	*25.5%*	*31.7%*	*42.6%*	*31.3%*	*34.3%*	*34.4%*	*39.2%*	*45.9%*	*39.6%*	*39.4%*
Taxes	692.3	127.5	207.0	279.9	511.0	1,125.4	275.6	326.1	410.9	687.7	1,700.2	2,041.3
Tax Rate	*34.9%*	*35.0%*	*35.0%*	*36.0%*	*35.6%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*	*35.5%*
Net Income	**1,289.9**	**236.5**	**384.8**	**497.6**	**925.9**	**2,044.8**	**500.7**	**592.4**	**746.5**	**1,249.5**	**3,089.1**	**3,708.8**
% of Revenue	*14.6%*	*11.9%*	*16.6%*	*20.3%*	*27.4%*	*20.2%*	*22.1%*	*22.2%*	*25.3%*	*29.6%*	*25.5%*	*25.4%*
Reported EPS ($)	$0.22	$0.04	$0.06	$0.08	$0.15	$0.34	$0.08	$0.10	$0.12	$0.21	$0.52	$0.61
Shares Outstanding (MM)	5,936.9	5,964.8	6,012.6	5,996.4	6,009.6	5,995.8	5,932.9	6,000.0	6,010.0	6,020.0	5,990.7	6,045.0

Sequential Growth - QoQ												
Licenses	NA	*(58.2%)*	*42.9%*	*18.7%*	*71.8%*	NA	*(56.1%)*	*37.4%*	*21.3%*	*79.0%*	NA	NA
Services	NA	*(5.5%)*	*4.9%*	*(2.9%)*	*11.3%*	NA	*(5.2%)*	*7.5%*	*2.6%*	*12.9%*	NA	NA
Total Revenue	NA	*(32.6%)*	*17.0%*	*5.5%*	*37.8%*	NA	*(33.0%)*	*18.2%*	*10.4%*	*43.0%*	NA	NA
Total Operating Expense	NA	*(23.3%)*	*6.5%*	*(3.8%)*	*18.2%*	NA	*(19.2%)*	*14.4%*	*2.1%*	*26.1%*	NA	NA
Operating Income	NA	*(57.1%)*	*66.8%*	*33.5%*	*80.4%*	NA	*(52.6%)*	*27.4%*	*28.5%*	*72.4%*	NA	NA
Net Income	NA	*(55.2%)*	*62.7%*	*29.3%*	*86.1%*	NA	*(45.9%)*	*18.3%*	*26.0%*	*67.4%*	NA	NA
Comparable Period - Year/Year												
Licenses	NA	*8.5%*	*17.7%*	*29.7%*	*21.7%*	*20.6%*	*27.7%*	*22.8%*	*25.5%*	*30.8%*	*27.5%*	*26.5%*
Services	NA	*15.9%*	*10.1%*	*10.0%*	*7.2%*	*10.6%*	*7.6%*	*10.2%*	*16.5%*	*18.1%*	*13.2%*	*15.0%*
Total Revenue	NA	*13.4%*	*13.0%*	*17.8%*	*14.6%*	*14.8%*	*14.0%*	*15.1%*	*20.5%*	*25.1%*	*19.5%*	*20.4%*
Total Operating Expense	NA	*11.4%*	*4.3%*	*0.4%*	*(7.1%)*	*1.4%*	*(2.1%)*	*5.1%*	*11.5%*	*19.0%*	*8.9%*	*19.5%*
Operating Income	NA	*24.3%*	*50.9%*	*89.3%*	*72.2%*	*64.4%*	*90.4%*	*45.5%*	*40.0%*	*33.8%*	*43.9%*	*22.1%*
Net Income	NA	*21.2%*	*40.4%*	*69.7%*	*75.6%*	*58.5%*	*111.7%*	*54.0%*	*50.0%*	*34.9%*	*51.1%*	*20.1%*

Source: Epoch Partners estimates as of 11/8/00. Pro forma 2:1 split effective 10/13/00.

Mark Verbeck
Timothy Madda
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Comparable Analysis

Company	Price Per Share (11/20/00)	As a percent of 52 Week High	As a percent of 52 Week Low	Enterprise Value [1] (millions)	Enterprise Value / CY00E Rev. [2]	Enterprise Value / CY01E Rev. [2]	P/E CY01E [2]	YoY Revenue Growth CY00E	YoY Revenue Growth CY01E
Traditional ERP									
Great Plains Software Inc	$48.00	57%	300%	$937	3.6x	2.6x	38.3x	60%	39%
JD Edwards & Co.	27.63	57%	270%	3,230	3.2x	2.7x	nm	6%	18%
Peoplesoft Inc	38.81	78%	323%	11,693	6.9x	5.5x	67.8x	19%	25%
SAP AG	39.19	46%	120%	49,376	8.8x	6.6x	53.0x	6%	33%
	AVERAGE:	**59%**	**253%**		**5.6x**	**4.3x**	**53.0x**	**23%**	**29%**
B2B									
Ariba Inc	$67.38	37%	154%	$18,611	45.0x	21.3x	282.7x	568%	111%
Commerce One Inc	40.25	24%	139%	8,234	21.4x	10.2x	nm	1046%	111%
I2 Technologies Inc	114.25	51%	282%	26,384	24.0x	15.9x	171.2x	92%	51%
Purchasepro.com	15.00	17%	163%	931	15.5x	5.1x	41.4x	896%	203%
	AVERAGE:	**32%**	**184%**		**26.5x**	**13.1x**	**106.3x**	**650%**	**119%**
e-CRM									
Broadvision Inc	$31.50	34%	179%	$9,221	22.4x	14.7x	123.5x	257%	52%
E.Piphany Inc	46.56	21%	162%	2,934	23.4x	10.7x	nm	554%	119%
Kana Communications	17.19	10%	127%	1,602	12.6x	7.3x	nm	805%	72%
Selectica Inc	24.88	16%	104%	807	14.7x	6.4x	nm	433%	130%
Siebel Systems Inc	86.50	72%	264%	50,006	29.1x	20.0x	130.9x	115%	45%
	AVERAGE:	**31%**	**167%**		**20.4x**	**11.8x**	**127.2x**	**433%**	**84%**
Application Server									
Art Technology Group Inc	$40.88	32%	143%	$2,908	20.0x	10.2x	82.9x	353%	97%
Bea Systems Inc	61.25	68%	313%	26,886	35.6x	24.5x	165.3x	63%	45%
	AVERAGE:	**50%**	**228%**		**27.8x**	**17.3x**	**124.1x**	**208%**	**71%**
Multi-line Software									
Oracle Corp	$24.75	53%	147%	$143,379	13.1x	11.1x	47.4x	24%	18%
Microsoft Corp	67.19	56%	139%	355,152	14.7x	12.3x	33.7x	10%	20%
	AVERAGE:	**55%**	**143%**		**13.9x**	**11.7x**	**40.5x**	**17%**	**19%**

(1) Enterprise Value = Equity Value + Debt - Cash.
(2) Estimates from IBES, First Call, or consensus Wall Street Research.

NOTE(S):

1) EPOCH SECURITIES, INC. MAINTAINS A MARKET IN THE SHARES OF THE COMPANY.
2) EPOCH SECURITIES, INC. AND/OR ITS OFFICERS OWN OPTIONS, RIGHTS OR WARRANTS TO PURCHASE SHARES OF THE COMPANY.
3) EPOCH SECURITIES, INC. HAS BEEN AN UNDERWRITING MANAGER OR CO-MANAGER OF THE COMPANY IN THE LAST THREE YEARS.
4) AMERITRADE, A MINORITY SHAREHOLDER OF EPOCH PARTNERS, HAS BEEN AN UNDERWRITING MANAGER OR CO-MANAGER OF THE COMPANY IN THE LAST THREE YEARS.