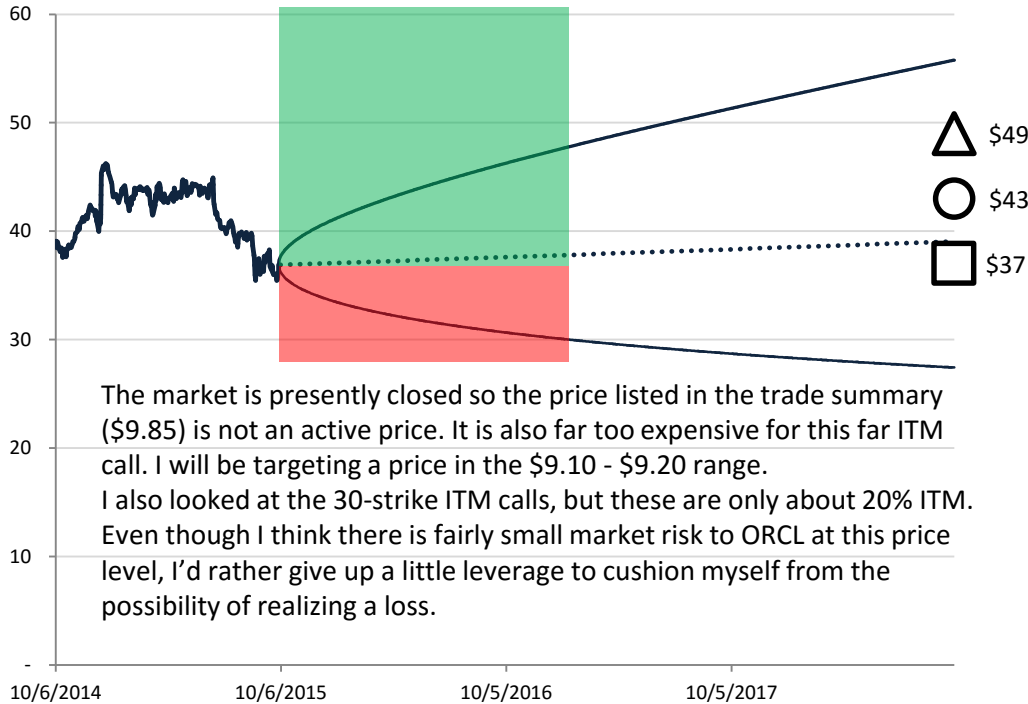


B / S	P / C / S	Strike	Exp.	Premium
Buy	Call	28	JAN '17	\$9.85

IOI Tear Sheet : Oracle (ORCL)

Long Call Investment (High Conviction)

Data as of 2 October 2015



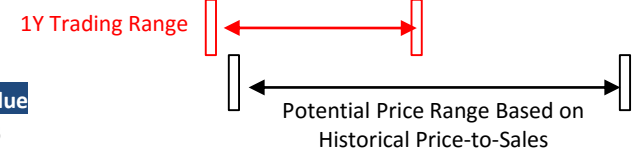
The market is presently closed so the price listed in the trade summary (\$9.85) is not an active price. It is also far too expensive for this far ITM call. I will be targeting a price in the \$9.10 - \$9.20 range. I also looked at the 30-strike ITM calls, but these are only about 20% ITM. Even though I think there is fairly small market risk to ORCL at this price level, I'd rather give up a little leverage to cushion myself from the possibility of realizing a loss.

IOI's Take

Oracle is a fantastic company with a strong competitive offering. The market is worried about its revenue growth, but the demand environment underlying revenues appears very strong. Recent revenue growth was held back 1) due to currency fluctuations and 2) because some portion of its Cloud sales must be deferred. Neither of these issues reflect a poor demand environment. Despite the currency headwinds, profitability remains extremely steady and extremely high. Please search the IOI site for more information about ORCL—we have published many articles about the firm.

Drivers

Revenues	Revenue growth suffering in part to “rateable” Cloud revenues, but sales from Cloud completely offsetting loss of On-premise software. Mr. Mkt is worried. Not me.
Profitability	Despite the very strong dollar and the tepid revenue growth, profitability is high. We are shifting our profit assumptions modestly higher in our present model.
Investment Level / Eff.	Investment level around 40% of profit due to executive comp. We wish they would ease off, but doubt they will.
Balance Sheet	No hidden issues found in our analysis.



Valuation & Return

IOI Conviction Rating: High

	Low	Likely	High
Stock Fair Value (\$)	37	43	49
Stock Return (%)	0	16	32
Option Period Return (%)	0	52	113
Option 3y Annual Return (%)	0	15	28

Historical Metrics

	Historical Median	
	5-year	10-year
Revenue Growth (%)	3	4
Profit Margin (%)	36	34
Med-term Growth	5%	12%

Market Risk

ORCL looks very cheap on a PS Ratio basis right now. \$35 is the 5th percentile of historical PSR times our worst-case revenue assumption.

Probability / Materiality

Case / Scenario	Value
2% 34% 5%	33
PSR Implied Low	35
252-day Low	35
2% 38% 5%	37
4% 34% 5%	37
2% 34% 10%	39
4% 38% 5%	41
2% 38% 10%	44
4% 34% 10%	44
252-day High	46
4% 38% 10%	49
PSR Implied High	59

