

Oracle Announces Acquisition of Sun Microsystems

Software Leader Moves in Two Different Directions with One Transformational Deal

Oracle Corp. (NasdaqGS: ORCL) has announced a definitive agreement to acquire Sun Microsystems Inc. (NasdaqGS: JAVA) for \$7.1 billion, or roughly \$9.50 per share. This is one of the most noteworthy and interesting transactions to take place in the technology sector over the last several quarters. On one hand, the deal can be viewed as a defensive play for Oracle, enabling the company to protect the software IP underlying many of its key products. On the other hand, the transaction can be viewed as a bold and transformational step away from the company's traditional focus on enterprise software towards a new strategy, reshaping Oracle as a full-service provider of complete IT systems on par with IBM. Beyond the implications for Oracle itself, this transaction represents one of the first multi-billion dollar deal to be completed in the technology sector since the economic slowdown began to suppress M&A activity in late 2008. This deal demonstrates how savvy buyers can utilize the current M&A market to capitalize on depressed valuations and acquire key strategic assets.

Transaction Highlights

- On April 20, 2009, Oracle signed a definitive agreement to acquire Sun Microsystems for \$7.1 billion in cash (\$5.6 billion net of cash and debt).
- The offer price of \$9.50 per share represents a 42% premium over the prior day's closing price and a 91% premium over the closing price on March 17th (the day before the IBM deal rumor was released).
- Based on our estimates, Oracle paid approximately 0.4x LTM revenue and 6.8x LTM EBITDA on a Total Enterprise Value (TEV) basis.
- The deal is estimated to add \$0.15 in incremental

earnings per share and \$1.5 billion in operating income (on a non-GAAP basis) in its first year after closing— more initial incremental profits than were expected from the BEA, PeopleSoft and Siebel acquisitions combined.

- Sun's Board of Directors has unanimously agreed to the deal, which is expected to be completed this summer after approval from shareholders and government regulators.

TM Capital Commentary

Oracle Protects Its Software Portfolio with a Defensive Play - Oracle is the lone software vendor for which the acquisition of Sun could truly make sense. The two companies have been strong strategic partners for several years. All of Oracle's middleware, including that of the acquired BEA Systems, is dependent upon Java software. For emphasis, CEO Larry Ellison described Java as "the most important software Oracle has ever acquired." The company also has more databases running on Sun's Solaris operating system than on any other platform, including Linux. With this acquisition, Oracle ensures that these key technologies will not fall into the hands of a competitor or another party with divergent business interests.

New Strategy Pits Oracle Against IBM for Enterprise IT Market Share - In addition to Sun's respected but under-commercialized software, Oracle is also acquiring an \$8 billion hardware business. Sun's server and storage products would account for over 25% of the combined company's business mix on a pro forma basis in FY08. This is a significant change of focus for Oracle, which has its roots in the database market but has focused its growth in recent years on enterprise application and infrastructure software.

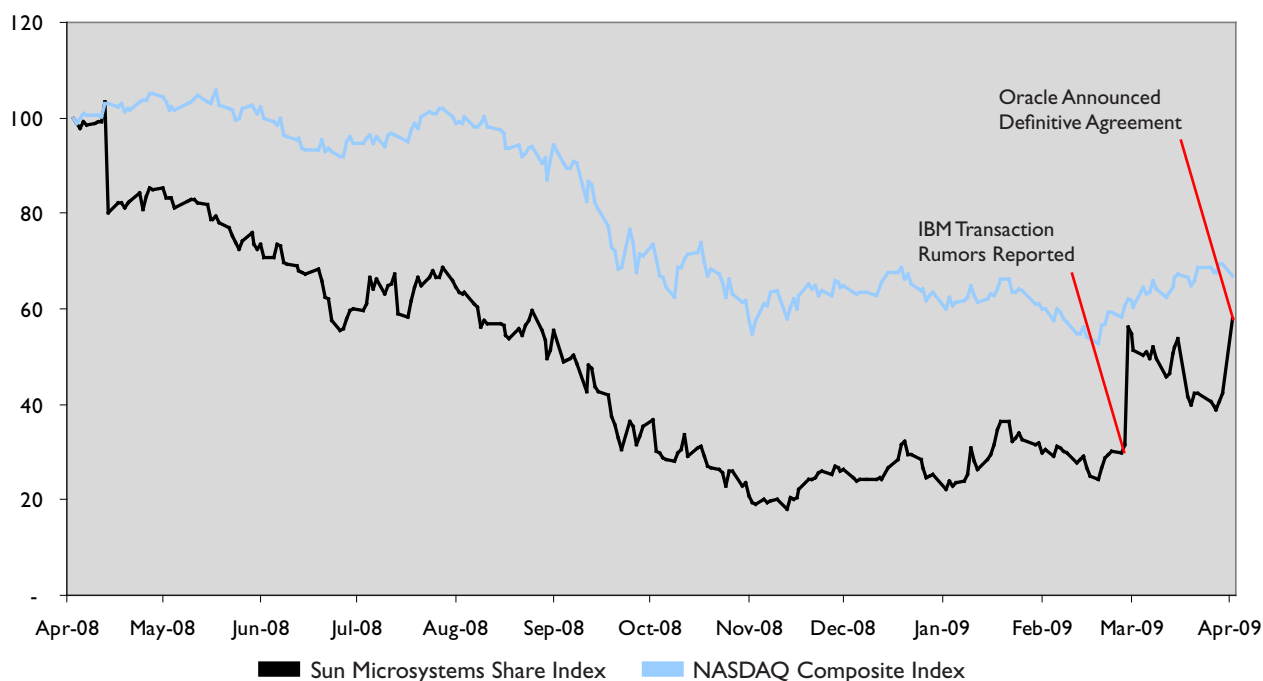
Larry Ellison claims that Oracle's new combination of application software and its supporting computing systems will allow the company to "engineer an integrated system – applications to disk – where all the pieces fit and work together so customers do not have to do it themselves." Together, Oracle and Sun will be able to supply customers with the software, operating systems, middleware, databases, storage and servers necessary to roll out new system deployments. Furthermore, by centralizing the development of Oracle's software with Sun's Java, Solaris and other products, the combined company should be able to produce cohesive systems with superior performance and lower service costs for customers.

This transaction positions Oracle against IBM and HP as a world-class provider of enterprise IT. Oracle should be able to offer a wide variety of proprietary products, creating significant switching costs for customers that become established within the Oracle ecosystem. Whether or not Oracle can successfully execute this shift in business models remains to be seen, but the company has developed a strong track record over the last few years of successfully integrating its acquisitions and retaining customers.

Negative Implications for Microsoft - Microsoft, which has been slow to gain traction with large customers, may have been elbowed out of the enterprise market by this move. IBM and Oracle are now both seemingly capable of offering "end-to-end" IT systems for enterprise clients. Given this new level of competition, Microsoft may find it challenging to climb the ladder from its traditional SMB focus to larger enterprise sales. Furthermore, Java serves as the main competition for Microsoft's .NET platform. Under the Oracle umbrella, Java represents a more significant and sustainable threat.

Accretion / Dilution Analysis Justifies Valuation - As mentioned in the Transaction Highlights, this deal is estimated to add \$0.15 in incremental earnings per share and \$1.5 billion in operating income in its first year after closing (on a non-GAAP basis). The implied EBITDA multiple of 6.8x does not seem particularly onerous for a company with the respected intellectual property of Sun Microsystems. Despite the premium paid over Sun's trading price, this transaction seems financially viable for Oracle, which should help the company sell its new strategic direction to shareholders.

Sun Microsystems Equity Market Performance Last Twelve Months



Source: Capital IQ and TM Capital Corp.

Representative of a Broader Opportunity in the M&A Market - The \$9.50 per share offer represents a 42% premium over the prior day's closing price, as well as a 91% premium over the company's share value before the IBM rumors began to circulate. From a seller's perspective, this deal demonstrates that companies with strategic value and credible business prospects can bridge the valuation gap that is being created in the equity markets by today's uncertain economic climate. Also, despite the size of the premium paid, this deal is expected to be highly accretive to Oracle. The fact that Oracle paid a sizeable premium but can also project significant earnings accretion shows that there are real bargains out there for buyers who want to dedicate capital and resources to the pursuit of select acquisition opportunities.

We believe that Oracle's willingness to allocate a significant amount of capital to this transaction signals that the M&A market may be starting to recover from a low point in deal activity observed in late 2008 and early 2009. For many large technology companies (and companies in other sectors, as well), the crisis in the financial markets and the overall economic slowdown made it seem as though the "the sky was falling." The underlying assumptions that vendors and customers used in their business decisions were being reevaluated and rewritten. While the short-term economic future remains uncertain, the initial shock has passed. Significant transactions such as this lead us to believe that more market participants will be willing to resume the evaluation and pursuit of M&A opportunities. With active players such as Oracle leading the way, additional M&A activity can be expected in the coming months.

Acquisitions Announced and/or Completed by Oracle Corp. Since January 1, 2008

Date Announced	Target	Target Category	Target HQ	Purchase Price
04/20/09	Sun Microsystems	Infrastructure software and hardware	US	\$7,074.7
03/23/09	Relsys International	Risk management software for health sciences	US	-
02/04/09	mValent	Application configuration management software	US	-
11/03/08	Tacit Software	Expertise automation systems	US	-
10/29/08	RuleBurst Holdings	Policy modeling and automation software	Australia	150.0
10/08/08	Primavera Systems	Project portfolio management software	US	-
10/01/08	Advanced Visual Technology	3D visual macro space planning software	UK	-
09/02/08	ClearApp	Application management software	Canada	-
07/31/08	Global Knowledge Software	Self-service training automation software	US	-
06/23/08	Skywire Software	Insurance and document management software	US	-
05/13/08	AdminServer	Insurance policy administration software	US	-
03/31/08	Flexcel International	Application service provider	India	-
01/16/08	BEA Systems Inc.	Enterprise application infrastructure software	US	8,352.3

USD in Millions

Source: Capital IQ and TM Capital Corp.

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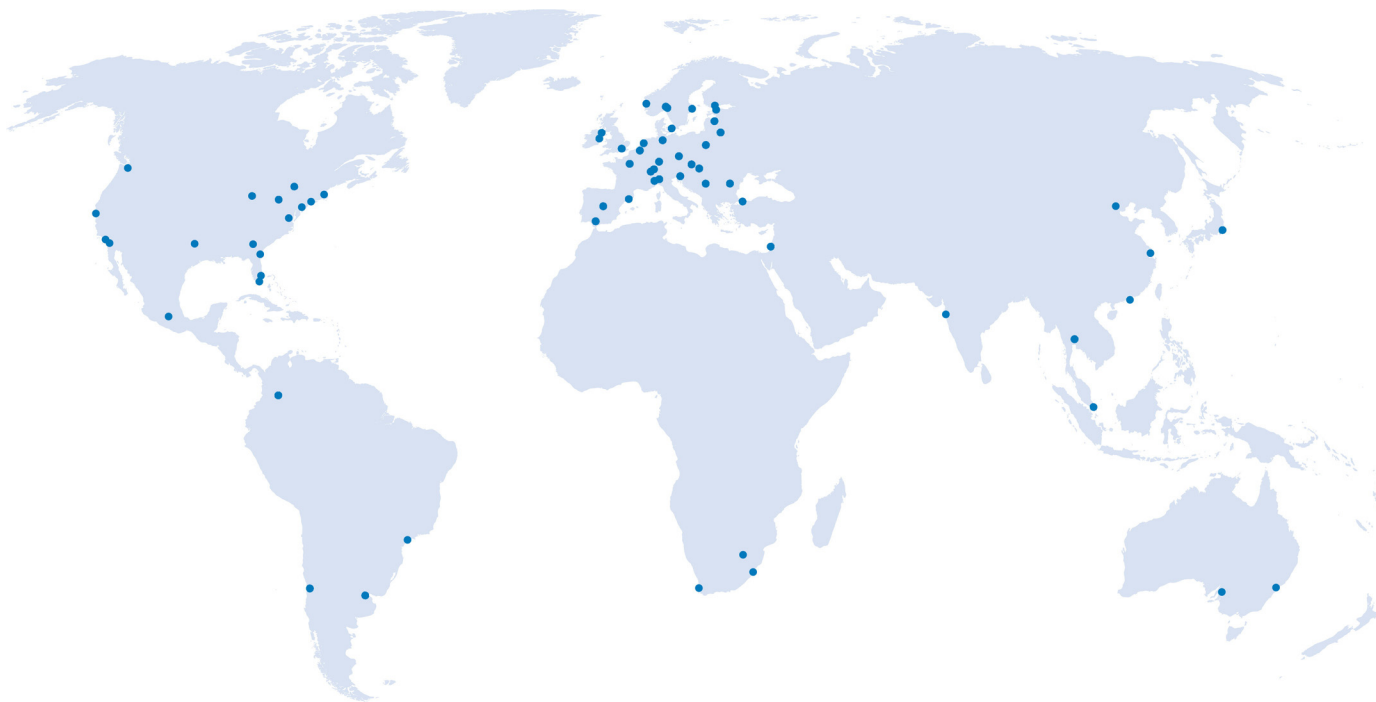


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