



ANALYST SUMMIT 2008

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# Financial Update

**Mike Lehman**

CFO and EVP Corporate Resources



## Contents

- Financial Models  
FY08 and FY09
- MySQL Acquisition
- ERP Transformation

# P&L Forward Looking

## (Excluding Impact of MySQL Acquisition)

\$M	FY06	FY07	FY08 Scenarios <sup>1</sup>	
	Actuals	Actuals	3% Growth	4.5% Growth
Total Revenue	\$13,068	\$13,873	\$14,300	\$14,500
Total Gross Margin	\$5,629	\$6,265	\$6,440	\$6,820
% of Revenue	43.1%	45.2%	45.0%	47.0%
R&D/SG&A	\$6,085	\$5,859	\$5,700	\$5,900
IPRD/Impairment	\$130	\$0	\$0	\$0
Restructuring	\$284	\$97	\$175	\$175
Total Operating Expense	\$6,499	\$5,956	\$5,875	\$6,075
% of Revenue	49.7%	42.9%	41.1%	41.9%
Operating Income	(\$870)	\$309	\$565	\$745
% of Revenue	-6.7%	2.2%	4.0%	5.1%
Net Interest and Other Income <sup>2</sup>	\$195	\$274	\$210	\$210
Income Tax Provision	\$189	\$110	\$220	\$220
Net Income (GAAP)	(\$864)	\$473	\$555	\$735
EPS (Diluted) <sup>3</sup>	(\$1.01)	\$0.52	\$0.67	\$0.88

## FY08 Guidance

- YTY Low-to-mid single-digit Revenue growth
- At least 5% Revenue growth in 2HFY08
- Gross Margins: 45% – 47%
- R&D and SG&A Expense at current exchange rates: \$5.7B – \$5.9B
- Restructuring Costs of \$150 – \$200M
- Q408 GAAP Operating Income: At least 8%
- Amortization of Intangibles: \$250M – \$300M
- Stock Based Comp Expense: \$215M – \$240M
- Net Interest Income: \$150M – \$170M
- Full Year Tax Provision: \$200M – \$250M

<sup>1</sup>These hypothetical scenarios for FY08 are provided for information purposes only and do not represent Sun's expectations or guidance with respect to results for FY08

<sup>2</sup>Net Interest and Other Income includes the MSFT settlement payment and any gains or losses from equity investment sales

<sup>3</sup>Assumes an average of 833M shares to calculate EPS (Diluted) for FY08 scenarios

# P&L Forward Looking

## (Excluding Impact of MySQL Acquisition)

\$M	FY06	FY07	FY08 Scenarios <sup>1</sup>		FY08	FY09 Scenarios <sup>1</sup>		FY09
	Actuals	Actuals	3% Growth	4.5% Growth	Sell Side Avg <sup>2</sup>	3% Growth	6% Growth	Sell Side Avg <sup>2</sup>
<b>Total Revenue</b>	\$13,068	\$13,873	\$14,300	\$14,500	\$14,225	\$14,730	\$15,370	\$14,668
<b>Total Gross Margin</b>	\$5,629	\$6,265	\$6,440	\$6,820	\$6,810	\$6,800	\$7,400	\$6,973
% of Revenue	43.1%	45.2%	45.0%	47.0%	47.9%	46%	48%	47.5%
R&D/SG&A	\$6,085	\$5,859	\$5,700	\$5,900	\$5,775	\$5,900	\$5,800	\$5,640
IPRD/Impairment	\$130	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Restructuring	\$284	\$97	\$175	\$175	\$175	\$0	\$0	\$0
<b>Total Operating Expense</b>	\$6,499	\$5,956	\$5,875	\$6,075	\$5,950	\$5,900	\$5,800	\$5,640
% of Revenue	49.7%	42.9%	41.1%	41.9%	41.8%	40%	38%	38.5%
<b>Operating Income</b>	(\$870)	\$309	\$565	\$745	\$860	\$900	\$1,600	\$1,333
% of Revenue	-6.7%	2.2%	4%	5.1%	6.0%	6%	10%	9.1%

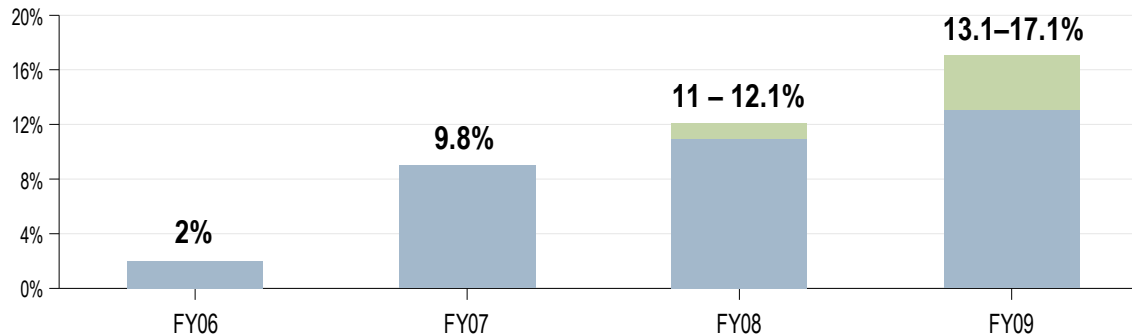
<sup>1</sup>These hypothetical scenarios for FY08 and FY09 are provided for information purposes only and do not represent Sun's expectations or guidance with respect to results for FY08 or FY09. The 3% and 6% FY09 growth scenarios are based off the 3% and 4.5% FY08 growth scenarios respectively

<sup>2</sup>Represents the average estimates of Sell Side analysts available as of January 26, 2008, including 12 analysts for the FY08 estimates and 11 analysts for the FY09 estimates. Analyst estimates have been modified to include the estimated \$175 million restructuring charge for FY08 for comparison purposes. Sun does not endorse or adopt these analyst estimates.

# Adjusted EBITDA (Excluding Impact of MySQL Acquisition)

\$M	FY06	FY07	FY08 Scenarios <sup>1</sup>		FY09 Scenarios <sup>1</sup>	
	Actuals	Actuals	3% Growth	4.5% Growth	3% Growth	6% Growth
<b>Total Revenue</b>	\$13,068	\$13,873	\$14,300	\$14,500	\$14,730	\$15,370
<b>Operating Income</b>	(\$870)	\$309	\$565	\$745	\$900	\$1,600
Amortization of Acq. Related Intangibles	\$330	\$313	\$290	\$290	\$245	\$245
Stock Based Compensation	\$225	\$214	\$225	\$225	\$230	\$230
Depreciation and Amortization	\$575	\$517	\$500	\$500	\$550	\$550
<b>Adjusted EBITDA (Non-GAAP)<sup>2</sup></b>	<b>\$260</b>	<b>\$1,353</b>	<b>\$1,580</b>	<b>\$1,760</b>	<b>\$1,925</b>	<b>\$2,625</b>
<b>% of Revenue</b>	<b>2.0%</b>	<b>9.8%</b>	<b>11.0%</b>	<b>12.1%</b>	<b>13.1%</b>	<b>17.1%</b>

EBITDA % of Revenue



<sup>1</sup>These hypothetical scenarios for FY08 and FY09 are provided for information purposes only and do not represent Sun's expectations or guidance with respect to results for FY08 or FY09. The 3% and 6% FY09 growth scenarios are based off the 3% and 4.5% FY08 growth scenarios respectively

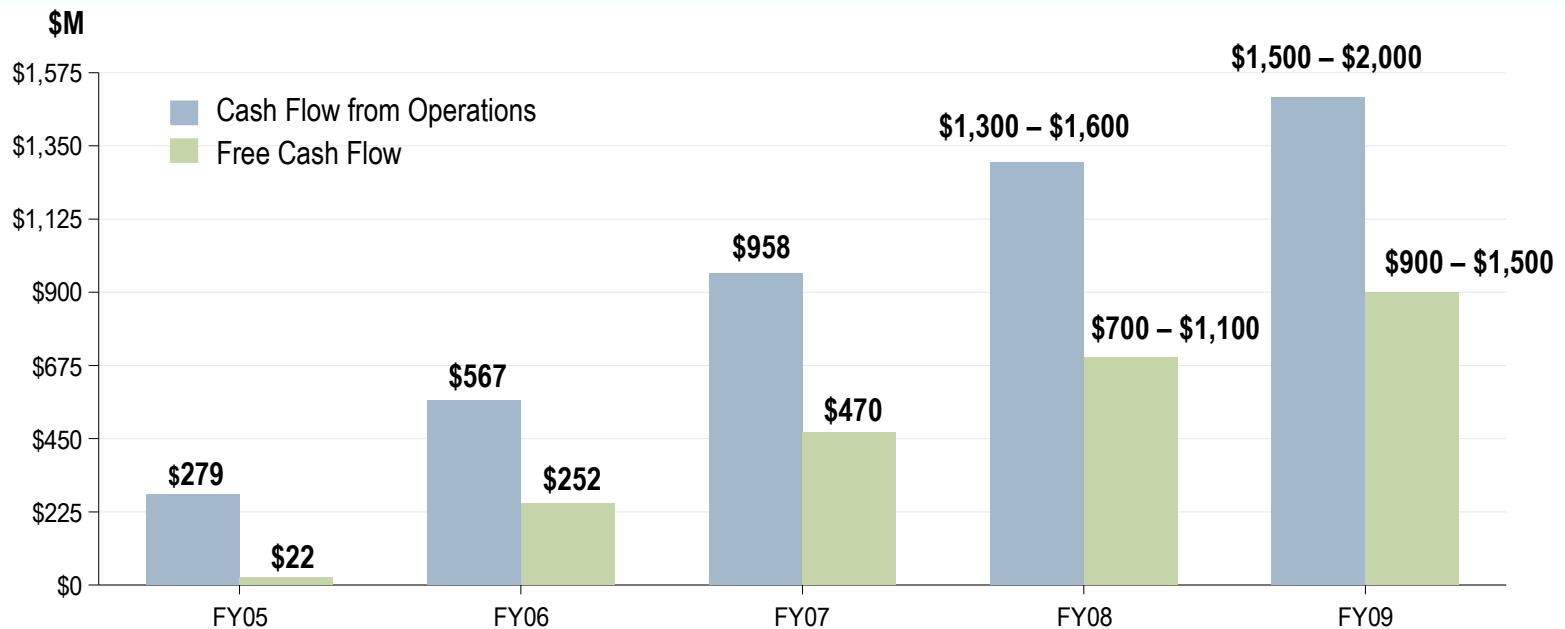
<sup>2</sup>Adjusted EBITDA (Non-GAAP) represents Operating Income excluding the following expenses: Amortization of Acquisition-Related Intangibles, Stock-Based Compensation, and Depreciation and Amortization. See Appendix for a bridge of Net Income to Adjusted EBITDA.

# FY08 and FY09 Cash Flow

- Complete \$800M approved stock buyback
- MySQL purchase: ~\$800M
- Cash Flow from Operations
  - > FY08 \$1.3 – \$1.6B
  - > FY09 \$1.5 – \$2.0B
- Capital Expenditures of \$500 – \$600M per year




# Cash Flows



\$M	FY05 Actuals	FY06 Actuals	FY07 Actuals	FY08 Range	FY09 Range
<b>Cash Flow from Operations (GAAP)</b>	\$279	\$567	\$958	\$1,300 – \$1,600	\$1,500 – \$2,000
Less: Purchases of Property Plant and Equipment, Net	\$257	\$315	\$488*	\$500 – \$600	\$500 – \$600
<b>Free Cash Flow (Non GAAP)</b>	\$22	\$252	\$470	\$700 – \$1,100	\$900 – \$1,500

\*Does not include \$451M proceeds from sale of certain assets.

# MySQL Acquisition FY08 Impact

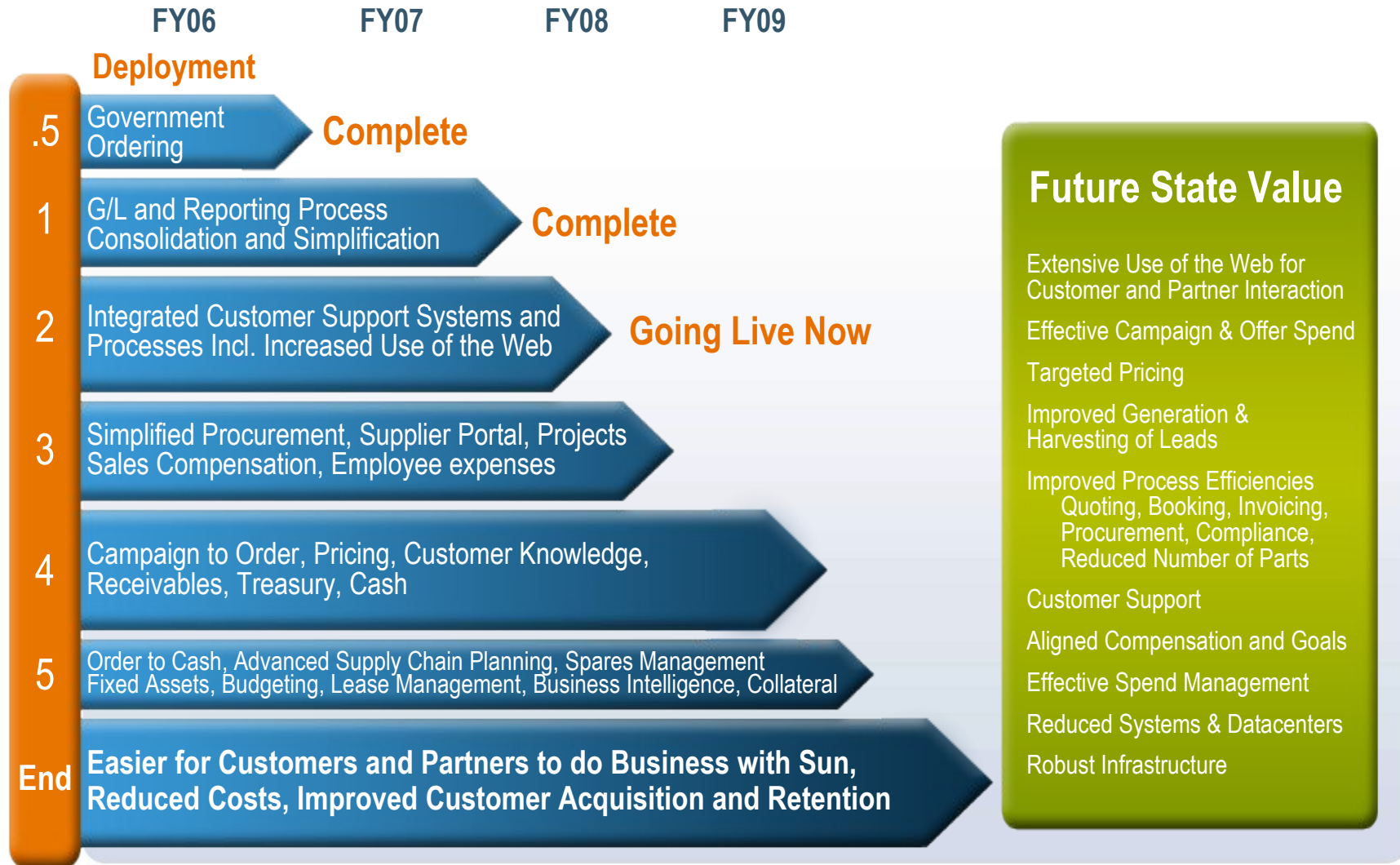
- 
- \$20 – \$50M charge for IPRD on closing, currently assuming Q308
  - Q408 P&L impact of \$30 – 50M from acquisition amortization and stock based compensation
  - Q408 8% Operating Income guidance excludes any MySQL impact

# MySQL Acquisition FY09 Impact

- Revenue Opportunity of ~1pt for FY09
  - > Incremental MySQL revenue
  - > Incremental Product and Services revenue
- GAAP Operating Income impact of ~(1)pt including MySQL acquisition accounting
- Positive GAAP Operating Income from MySQL acquisition in FY10



# ERP Transformation





## A Year in Review

- We made great progress
- Growth continues to be our # 1 priority
- We are on track to meet our FY09 commitments
- Opportunity is everywhere



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This presentation contains forward-looking statements regarding the future results and performance of Sun Microsystems, Inc., including statements regarding FY08 guidance, including expected revenue growth, gross margins, R&D and SG&A expenses, restructuring costs, Q408 operating income, amortization of intangibles, stock based compensation expense, net interest income and full year tax provision; potential FY08 and FY09 income statement and balance sheet scenarios; potential Adjusted EBITDA scenarios for FY08 and FY09; expected stock buy backs; expected use of cash in the MySQL acquisition; expected cash flow from operations in FY08 and FY09; expected capital expenditures in FY08 and FY09; expected purchases of property, plant & equipment, net, in FY08 and FY09; the expected effect of the MySQL acquisition on Sun's financial statements; and the expected time frame for implementing Sun's ERP system. These forward-looking statements involve risks and uncertainties and actual results could differ materially from those predicted in any such forward-looking statements. Factors that could cause Sun's actual results to differ materially from those contained in such forward-looking statements include: risks associated with developing, designing, manufacturing and distributing new products; lack of success in technological advancements; pricing pressures; lack of customer acceptance and implementation of new products and technologies; the possibility of errors or defects in new products; a material acquisition, restructuring or other event that results in significant charges; competition; adverse business conditions; failure to retain key employees; the cancellation or delay of projects; Sun's reliance on single-source suppliers; risks associated with Sun's ability to purchase a sufficient amount of components to meet demand; inventory risks; risks associated with Sun's international customers and operations; delays in product development; Sun's dependence on significant customers and specific industries; and Sun's dependence on channel partners. In addition, the completion of the acquisition of MySQL AB is subject to certain closing conditions and regulatory approvals. Please also refer to Sun's periodic reports that are filed from time to time with the Securities and Exchange Commission, including its Annual Report on Form 10-K for the fiscal year ended June 30, 2007 and its Quarterly Reports on Form 10-Q for the fiscal quarters ended September 30, 2007 and December 30, 2007. Sun assumes no obligation to, and does not currently intend to, update these forward-looking statements.



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# Appendix

# Net Income to EBITDA Bridge

## (Excluding Impact of MySQL Acquisition)

\$M	FY06	FY07	FY08 Scenarios <sup>1</sup>		FY09 Scenarios <sup>1</sup>	
	Actuals	Actuals	3% Growth	4.5% Growth	3% Growth	6% Growth
<b>Total Revenue</b>	<b>\$13,068</b>	<b>\$13,873</b>	<b>\$14,300</b>	<b>\$14,500</b>	<b>\$14,730</b>	<b>\$15,370</b>
<b>Operating Income</b>	<b>(\$870)</b>	<b>\$309</b>	<b>\$565</b>	<b>\$745</b>	<b>\$900</b>	<b>\$1,600</b>
Net Interest and Other Income	\$195	\$274	\$210	\$210	\$130	\$130
Income Tax Provision	\$189	\$110	\$220	\$220	\$250	\$300
<b>Net Income (GAAP)</b>	<b>(\$864)</b>	<b>\$473</b>	<b>\$555</b>	<b>\$735</b>	<b>\$780</b>	<b>\$1,430</b>
<b>Adjustments:</b>						
Net Interest and Other Income	\$195	\$274	\$210	\$210	\$130	\$130
Income Tax Provision	\$189	\$110	\$220	\$220	\$250	\$300
Amortization of Acq. Related Intangibles	\$330	\$313	\$290	\$290	\$245	\$245
Stock-Based Compensation	\$225	\$214	\$225	\$225	\$230	\$230
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