

Oracle's Bid for PeopleSoft: Update 16 June

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With its tender offer for PeopleSoft, Oracle is attempting to gain more control over broader markets. Gartner advises how this offer could affect you.

NEWS ANALYSIS

Event

As of 16 June 2003, the latest developments in Oracle's unsolicited bid to acquire PeopleSoft for \$5.1 billion in cash include:

- On 12 June 2003, PeopleSoft CEO Craig Conway held an analyst conference to comment on the company's response to Oracle's offer.
- Two hours later, Oracle announced its results for fiscal fourth-quarter 2003 and fiscal 2003, ended 31 May 2003. Oracle reported a fiscal fourth-quarter net income of \$858.1 million, up 31 percent from \$655.9 million in fiscal 4Q02 (not including the 2002 equity-securities impairment charge of \$104 million).
- During the earnings announcement, Oracle Chairman Larry Ellison reaffirmed Oracle's intention to purchase PeopleSoft. Oracle filed pre-merger notification documentation with the U.S. Federal Trade Commission (FTC).
- On 12 June 2003, J.D. Edwards filed two lawsuits against Oracle and demanded \$1.7 billion in compensatory damages.
- On 13 June 2003, PeopleSoft filed a lawsuit to block Oracle's takeover bid and claimed that Oracle engaged in unfair trade practices.
- On 16 June 2003, PeopleSoft altered its offer to acquire J.D. Edwards from an all-stock offer to a combination of stock and cash.

Analysis

Oracle's offer for PeopleSoft has much greater impact than appears on the surface. Gartner believes the deal has already disrupted the businesses of PeopleSoft and J.D. Edwards. But the deal also touches many markets beyond business applications. This move could affect the businesses and strategies of major software vendors in addition to the three principals Oracle, PeopleSoft and J.D. Edwards (see "The Deeper Implication of Oracle's Bid for PeopleSoft").

Gartner advice: PeopleSoft and Oracle have moved aggressively to ensure that this situation turns out the way each wants. The strong positions taken by both sides indicate there's more to come. Assume that today's fluid situation will continue; remain close to unfolding events and Gartner's analysis.

PeopleSoft has rejected Oracle's \$16 per share bid and has stated that antitrust issues will kill an Oracle deal. PeopleSoft's change to its offer for J.D. Edwards aims to accelerate that transaction and to make PeopleSoft a more expensive acquisition target for Oracle. Oracle has stated that the bid remains in effect, regardless of PeopleSoft's change to its bid for J.D. Edwards. Oracle's accelerated announcement of its fiscal 4Q03 results and its filing of pre-merger notification documentation with the FTC suggest that Oracle will continue to pursue the acquisition process.

Oracle has stated that it needs to grow its installed base quickly if it is to compete with SAP and Microsoft for ownership of infrastructure and applications over the long term. Oracle noted SAP's consistent progress and Microsoft's rise in the applications market. Given that Oracle reported in its fiscal 4Q03 earnings announcement that its application business was flat year over year, acquiring PeopleSoft would provide Oracle with rapid growth. This is the market rationale why

Oracle would want to complete the PeopleSoft acquisition. Oracle's relatively positive overall fiscal 4Q03 results show it has the financial wherewithal to do so.

The J.D. Edwards and PeopleSoft lawsuits indicate concern on each vendor's part that Oracle's bid will disrupt their business and PeopleSoft's acquisition of J.D. Edwards. (Gartner has stated it thinks this acquisition has merit.) Even so, J.D. Edwards and PeopleSoft are beginning technical and product planning. Should the Oracle bid not succeed, PeopleSoft and J.D. Edwards customers should seek to understand the emerging road map for the integrated product lines as soon as possible.

Gartner recognizes that many clients are under pressure to execute planning and deployment schedules. We are therefore delivering research that provides advice for a range of client situations based on where they are in the application life cycle, their risk tolerance and their own assessment of the likelihood that Oracle will complete the acquisition of PeopleSoft (see "Short-Term Advice for PeopleSoft Customers and Prospects").

Gartner continues to work on research related to the individual markets affected and the impact on customers of other vendors. We encourage clients to review our current research, and if you have specific questions, talk with your Gartner analyst — by phone (U.S. +1 203 316 1266, Europe +44 1784 267770) or e-mail (bizapps@gartner.com, euro.inquiry@gartner.com). Gartner offers the following research:

- "Short-Term Advice for PeopleSoft Customers and Prospects" — Gartner provides a framework to help clients make decisions. **By Brian Zrimsek and Jeff Comport**
- "The Deeper Implication of Oracle's Bid for PeopleSoft" — The battle for market control rewards vendors that own both applications and infrastructure but can limit customer application choices. **By Simon Hayward, Betsy Burton and Jeff Comport**
- "Oracle/PeopleSoft Deal Would Greatly Affect ERP Market" — If Oracle's bid succeeds, PeopleSoft customers would have to undertake a disruptive migration at some point, and J.D. Edwards' customers may not see any major new functions. **By Karen Peterson, Yvonne Genovese, Lee Geishecker and Betsy Burton**
- "Oracle's Bid for PeopleSoft Won't Alter Its CRM Position" — Even if Oracle accomplished a seamless acquisition, the deal would not allow Oracle to overtake Siebel Systems or SAP in the CRM market. **By Robert DeSisto and Michael Maoz**
- "PeopleSoft and J.D. Edwards Fit, but Merger Will Be Complex" — Customers will likely not feel an impact from this acquisition until at least mid-2004. **By Lee Geishecker and Jeff Comport**

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