

Oracle's Bid for PeopleSoft: Update 2 July

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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 2 July 2003, the latest developments in Oracle's unsolicited bid to acquire PeopleSoft include:

- On 2 July 2003, PeopleSoft announced that it would likely beat its earnings estimates for 2Q03. For the quarter, PeopleSoft expects to record software license revenue of \$105 million to \$115 million, \$30 million to \$40 million above Wall Street estimates. PeopleSoft also expects earnings per share of \$0.13 to \$0.14, compared with previous estimates of \$0.11 to \$0.12. PeopleSoft will issue its official report later in July.
- On 30 June 2003, the U.S. Department of Justice issued a second request for information from Oracle and PeopleSoft. The two companies must provide more information, in greater detail, than they did for the first Justice Department request. Oracle wants the Justice Department to follow the same procedure for PeopleSoft's planned acquisition of J.D. Edwards.
- Gartner's recent research indicates that Oracle's bid has complicated PeopleSoft's ability to close deals with some customers in 2Q03.

Analysis

PeopleSoft hopes the favorable earnings will counter doubts about the company's long-term independence, raised by the Oracle bid. PeopleSoft's earnings pre-announcement indicates it will continue vigorously to resist the Oracle bid through all channels, including the board of directors, shareholders, customers, courts and Justice Department. Ultimately, the outcome of the two deals has less to do with customers' loyalty and what they want than with the financial and legal aspects of the deals. The Justice Department's processes and the various lawsuits in this case indicate that the outcome remains in question, and clients should not count on a quick resolution. Clients considering PeopleSoft and J.D. Edwards offerings should continue to use Gartner's decision frameworks to balance their view of whether the deals will be completed against their risk tolerance (see "Short-Term Advice for J.D. Edwards Customers, Prospects" and "Short-Term Advice for PeopleSoft Customers and Prospects"). Clients should also ensure that any deals they sign account for the possibility of acquisition (see "Contractual Protections for PeopleSoft Customers").

The request for more detailed information does not predispose the Justice Department's antitrust investigation to one outcome or the other. Conventional wisdom holds that the request aids PeopleSoft's attempt to thwart Oracle's takeover attempt. However, the request could also extend the final resolution of Oracle's bid and the uncertainty regarding PeopleSoft's future. Despite PeopleSoft's positive 2Q03 results, the longer Oracle's bid remains unresolved, the more we believe it will harm PeopleSoft's business. Ironically, enterprises that are interested in PeopleSoft products but that delay signing a deal or try to negotiate for extremely favorable terms contribute to a financially weaker PeopleSoft. These companies therefore may unintentionally aid Oracle's efforts to own PeopleSoft. Although consolidation is natural and generally healthy in a maturing market, it does not always benefit users ("Consolidation: A Reality That's Not Always Good for Users").

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 (United States +1 203 316

1266, Europe +44 1784 267770) or e-mail (bizapps@gartner.com, euro.inquiry@gartner.com). Gartner offers the following research:

- "Consolidation: A Reality That's Not Always Good for Users" — To be safest with a smaller independent vendor's products, build strategies based on how those products complement or compete with those vendors best positioned to survive consolidation. **By Betsy Burton and Jeff Comport**
- "Contractual Protections for PeopleSoft Customers" — PeopleSoft customers and prospects should *immediately* audit contracts and seek specialized legal advice to ensure they have sufficient protection if the company is acquired. **By Alexa Bona and Jane Disbrow**
- "What PeopleSoft Customers Can Expect if Oracle Succeeds"— We believe that during the first two years, Oracle would work very actively to satisfy and thus retain PeopleSoft customers. This focus would begin to wane in subsequent years. **By Simon Hayward, Betsy Burton, Lee Geishecker and Kristian Steenstrup**
- "Short-Term Advice for J.D. Edwards Customers, Prospects" — While uncertainty lingers, don't stop all J. D. Edwards deployments. Assess your risk tolerance and acceptance of the product "as is," coupled with your assessment of how J. D. Edwards will emerge from this event and how its condition will affect its product enhancement. **By Brian Zrimsek, Jeff Comport, Yvonne Genovese, Tony Humphries and Kristian Steenstrup**
- "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**
- "Frequently Asked Questions on the Oracle/PeopleSoft Deal" — We answer some of the most common questions our clients are asking about Oracle's unsolicited bid for PeopleSoft. **By Betsy Burton and others**
- "Oracle Could Change PeopleSoft BI and CPM Product Plans" — If the proposed acquisition of PeopleSoft by Oracle takes place, and if you use PeopleSoft business intelligence and corporate performance management products, you should formulate the terms under which the impact and cost of migration might be justified. **By Bill Hostmann, Brian Wood and Frank Buytendijk**
- "Short-Term Advice for PeopleSoft Customers and Prospects" — Gartner provides a framework to help clients make decisions. **By Brian Zrimsek 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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