

Publication Date: 9 July 2003

ID Number: FT-20-5337

Oracle's Bid for PeopleSoft: Update 9 July

Betsy Burton, Bruce A. Bond, Jeff Comport, Robert P. Desisto, Lee Geishecker, Simon Hayward, Karen Peterson

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

- On 3 July 2003, Oracle extended the deadline for PeopleSoft stockholders to tender their shares from 7 July to 18 July 2003. Oracle said that almost 35 million PeopleSoft shares had been tendered, a little more than 10 percent of PeopleSoft's more than 315 million outstanding shares.
- On 3 July 2003, PeopleSoft reported to the U.S. Securities and Exchange Commission that its Customer Protection Program could add up to \$354 million to the cost of an Oracle takeover. Under the program, customers signing new PeopleSoft contracts would be paid two to five times the cost of the software licenses if Oracle acquires PeopleSoft.
- 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.

Analysis

Clients aiming to sign purchasing contracts in the short term with PeopleSoft should not make the decision based exclusively on negotiated reimbursement guarantees such as those of the Customer Protection Program. Rather, make sure any contracts are thorough, particularly in areas such as support, upgrades, migration and service (see "Contractual Protections for PeopleSoft Customers").

We have received press calls that indicate a misperception in the market about Gartner's advice to clients. We reiterate our position: Clients should not oversimplify their decisions by simply not buying products from PeopleSoft or J.D. Edwards until the deal is settled. Gartner continues to advise clients considering PeopleSoft and J.D. Edwards offerings to use Gartner's decision frameworks to determine their strategy. The frameworks yield different advice depending on each client's view of whether the deals will be completed balanced with its risk tolerance (see "Short-Term Advice for J.D. Edwards Customers, Prospects" and "Short-Term Advice for PeopleSoft Customers and Prospects").

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 U.S. Department of Justice, which is investigating the antitrust issues. 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.

To further advise clients on how to move forward with their business and product strategies (depending on deal outcomes), we provide a functional comparison of Oracle and PeopleSoft in the customer relationship management (CRM) market. Oracle and PeopleSoft CRM applications have few glaring differences. If Oracle's bid for PeopleSoft succeeds, enterprises will most likely

face product overlap and migration challenges (see "Comparing Oracle and PeopleSoft CRM Functionality").

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:

- "Comparing Oracle and PeopleSoft CRM Functionality" — If Oracle does acquire PeopleSoft, PeopleSoft CRM customer should not migrate to Oracle CRM with any expectation of recouping the migration costs within 24 months. **By Robert DeSisto and Michael Maoz**
- "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**

REGIONAL HEADQUARTERS

Corporate Headquarters
56 Top Gallant Road
Stamford, CT 06902-7700
U.S.A.
+1 203 964 0096

European Headquarters
Tamesis
The Glanty
Egham
Surrey, TW20 9AW
UNITED KINGDOM
+44 1784 431611

Asia/Pacific Headquarters
Level 7, 40 Miller Street
North Sydney
New South Wales 2060
AUSTRALIA
+61 2 9459 4600

Latin America Headquarters
Av. das Nações Unidas 12.551
9 andar—WTC
04578-903 São Paulo SP
BRAZIL
+55 11 3443 1509