

Publication Date: 16 July 2003

ID Number: FT-20-5894

Oracle's Bid for PeopleSoft: Update 16 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 16 July 2003, the latest developments in Oracle's unsolicited bid to acquire PeopleSoft include:

- On 16 July 2003, PeopleSoft stated that J.D. Edwards stockholders will receive \$14.7384 in cash, stock, or a combination of cash and stock for each share of J.D. Edwards common stock tendered, based on the exchange offer that is set to expire at midnight Thursday, 17 July 2003.
- On 14 July 2003, the U.S. Department of Justice decided it will not issue a second request for information about PeopleSoft's bid to acquire J.D. Edwards. The Justice Department thus ends its investigation of the potential antitrust issues of this deal.
- On 14 July 2003, PeopleSoft and J.D. Edwards announced that they expect to close the deal on 17 July 2003.
- On 14 July 2003, Oracle extended the deadline for its bid to buy PeopleSoft from 18 July to 15 August 2003 and reiterated the offer price of \$19.50 per share.

Analysis

The Justice Department decision has enabled PeopleSoft to complete the tendering process to fully acquire J.D. Edwards, which PeopleSoft will try to close quickly. On Friday, 18 July 2003, PeopleSoft and J.D. Edwards customers will learn whether PeopleSoft will complete its current tender offer for J.D. Edwards. By midnight, Thursday, 17 July 2003, if J.D. Edwards stockholders:

- Tender less than 50.1 percent of stock to PeopleSoft, the PeopleSoft offer for J.D. Edwards would be extended to keep it in play.
- Tender a minimum of 50.1 percent of stock to PeopleSoft, the acquisition will occur within 20 business days.
- Tender 90 percent of stock to PeopleSoft, the acquisition could be completed immediately.

If the PeopleSoft purchase of J.D. Edwards is consummated, it does not mean the end of Oracle's bid for PeopleSoft. Oracle's extension of the deadline further illustrates that the uncertainty will continue. However, the acquisition of J.D. Edwards will give PeopleSoft a potentially higher long-term market valuation and make it a potentially more expensive acquisition target.

Clients should continue to watch for new developments, regularly re-evaluate their view of whether Oracle's bid will succeed and use Gartner's decision frameworks accordingly. The outcome of the Oracle bid for PeopleSoft has not yet been determined, so the future of J.D. Edwards products is not completely secure. 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"). 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"). 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.

PeopleSoft and J.D. Edwards customers must now consider their offerings in the context of the combined entity. PeopleSoft likely will organize J.D. Edwards as a line of business focused on the midmarket, with the existing PeopleSoft products focused on large enterprises. Though the merger is simple in concept, execution will entail abundant complexities. PeopleSoft will consolidate general and administrative expenses and will search for operational efficiency. It will seek consolidation targets among the merged entity's two sales forces, at least three product development teams (and technical foundations) and multiple support groups. Over time, a high and low product strategy may work, but product rationalization will likely cause some evolution and displacement of products, strategies, technology and people.

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:

- "EAS Market Share Scenarios Based on Acquisitions" — Should the Oracle bid for PeopleSoft or the PeopleSoft bid for J.D. Edwards go through, the list of the top four enterprise application software vendors would almost certainly change. **By Thomas Topolinsky and Chad Eschinger**
- "'White Knight' Candidates for PeopleSoft" — The position of other vendors in the infrastructure and application markets makes it unlikely that a company will emerge to offer a friendly takeover of PeopleSoft. **By Simon Hayward and others**
- "Business Applications and Infrastructure Entwined" — The "megavendors" are creating an entwined application and infrastructure stack; this trend makes it difficult to create a sustainable business in best-of-breed applications without control of the underlying software infrastructure. **By Simon Hayward and others**
- "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**

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