

## Oracle's Bid for PeopleSoft: Update 29 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

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### Event

As of 29 July 2003, the latest developments in Oracle's unsolicited bid to acquire PeopleSoft include:

- On 28 July 2003, Oracle said it would delay its legal attack on PeopleSoft's "poison pill" provisions, pending an outcome from the ongoing Department of Justice inquiry. No new trial date has been set, but it will likely start in September 2003.
- On 24 July 2003, Oracle reiterated its bid to buy PeopleSoft for \$19.50 per share. Oracle submitted documentation to securities regulators stating that the value of the transaction would be an estimated \$7.25 billion (approximately \$1 billion more than 14 July estimates) because PeopleSoft is issuing new shares to acquire J.D. Edwards.
- On 18 July 2003, PeopleSoft announced that 88 percent of J.D. Edwards stock has been tendered to PeopleSoft. PeopleSoft now controls a majority stake in J.D. Edwards, and the acquisition will close by 15 August 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

Two recent developments further indicate that Oracle plans to pursue the deal aggressively: Oracle's reiterating its tender offer for PeopleSoft and the deferral into September of Oracle's legal challenge to the poison pill provisions in PeopleSoft's shareholders' agreement, which prevent an Oracle takeover. Uncertainty will continue well into September 2003, and this cloud may hurt PeopleSoft's third-quarter financial performance. Oracle will likely synchronize its legal and financial tactics and further extend its tender offer through September 2003. Meanwhile, PeopleSoft will continue business as usual, with joint PeopleSoft and J.D. Edwards teams working diligently on product road maps, which Gartner anticipates will emerge in early September, thus making it more difficult for Oracle to execute its bid.

PeopleSoft has not experienced significant disruption to its business or customer loyalty that could contribute to dissatisfaction among shareholders and make them more receptive to Oracle's offer (see "Survey: Impact on Spending of Oracle's Bid for PeopleSoft"). In the short term, PeopleSoft's issuance of new shares to acquire J.D. Edwards makes that company more expensive to acquire. In addition, the acquisition of J.D. Edwards gives PeopleSoft a potentially higher long-term market valuation, thereby making PeopleSoft a potentially more expensive acquisition target. In addition to obtaining approval from the Justice Department and overcoming PeopleSoft's poison pill, Oracle must offer a price that PeopleSoft's board will accept.

PeopleSoft faces the opportunities and challenges of integrating the two companies and delivering on their product road maps (see "PeopleSoft and J.D. Edwards Fit, but Merger Will Be Complex"). PeopleSoft and J.D. Edwards complement each other in industry sectors, product functions and geographic presence. If the combined company remains independent, it will be a strong competitor in the applications space.

### Gartner's Standard Advice to PeopleSoft and J.D. Edwards Customers

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 PeopleSoft or J.D. Edwards products until Oracle's bid for PeopleSoft 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 Oracle deal will be completed and whether product delivery will be disrupted, balanced with the client's risk tolerance (see "Short-Term Advice for PeopleSoft Customers and Prospects").

Based on the impending completion of PeopleSoft's acquisition of J.D. Edwards, we have updated our advice for J.D. Edwards customers (see "Short-Term Advice for J.D. Edwards Clients: Update 18 July"). 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.

#### **For Further Information and Research**

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:

- "Survey: Impact on Spending of Oracle's Bid for PeopleSoft" — Gartner's IT Watch survey of IT buyers shows that overall software demand and vendor preference have not been significantly affected by Oracle's tender offer for PeopleSoft. **By Betsy Burton, Thomas Hoover, Martin Reynolds and Scott Evans**
- "Short-Term Advice for J.D. Edwards Clients: Update 18 July" — While waiting for PeopleSoft-J.D. Edwards product road maps to emerge, those seeking advice on how to proceed can use our decision-making framework. **By Brian Zrimsek, Jeff Comport, Kristian Steenstrup, Yvonne Genovese, Tony Humphries and Lee Geishecker**
- "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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