

Oracle's Bid for PeopleSoft: Update 25 November

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

- On 17 November 2003, the European Commission announced it would make a detailed investigation of Oracle's bid for PeopleSoft. The Commission must issue its final decision by March 2004.
- On 10 November 2003, Oracle asked the Delaware Court of Chancery to expedite its request for an injunction against PeopleSoft's customer assurance program, stating that the "poison pill" provision could force it to withdraw its offer.
- On 6 November 2003, PeopleSoft shareholders filed a motion in the Delaware Court of Chancery, challenging PeopleSoft's customer assurance program.
- On 23 October 2003, PeopleSoft announced its 3Q03 financial results. Excluding the impact of purchase accounting from the company's acquisition of J.D. Edwards, PeopleSoft posted a profit of \$0.17 per share, 6 cents above analyst expectations. With costs of the J.D. Edwards acquisition included, PeopleSoft posted a net loss of 2 cents per share.
- On 14 October 2003, IT industry media reported that Oracle extended the deadline for its bid to buy PeopleSoft for \$19.50 per share from 17 October 2003 to 31 December 2003.

Analysis

Oracle has reiterated its intention to pursue its bid for PeopleSoft as recently as 24 November 2003. However, the bid is in limbo until the U.S. Department of Justice rules on its antitrust inquiry into the deal. The European Commission can't block the acquisition completely, but can determine how the parties will have to operate in Europe. Gartner anticipates no developments that will substantially alter the situation before this ruling. When the Justice Department will conclude its inquiry is unknown, but it could possibly stretch for months beyond December 2003. Meanwhile, we expect PeopleSoft and Oracle will continue with legal, marketing and financial moves to advance their respective positions. Oracle will likely reiterate that it is pursuing the bid and that success is just a matter of time; PeopleSoft will likely insist that Oracle's bid has failed and that PeopleSoft has moved on. PeopleSoft's 3Q03 financial performance shows that the company has been able to focus on business as usual, but at this time the 3Q03 numbers will not directly affect Oracle's bid.

PeopleSoft will continue business as usual, with joint PeopleSoft and J.D. Edwards teams working on product road maps (see "PeopleSoft's New Strategy Depends on Cross-Selling, Service Goals"). As it pushes out its latest release of its E-Business Suite, Oracle will continue to make moves on legal and financial fronts to remove the significant hurdles it faces in completing the deal. We see nothing on the immediate horizon to indicate a lessening of these hurdles. To fully develop an opinion on the potential effects of Oracle's bid, you should consider all the elements that could affect the outcome of this action. Specific elements at play include:

Factors Working in PeopleSoft's Favor

- The impact of PeopleSoft's customer assurance program. This recently revised program promises to pay between two and five times a customer's software license fees if PeopleSoft is acquired within two years and if the buyer reduces product support within four years. For Oracle, this ongoing program represents nearly \$800 million in potential liability and has led the company to ask the Delaware Court to speed its ruling on an injunction against the customer assurance program. If the program continues, Oracle has stated that it may be forced to abandon its takeover effort.
- PeopleSoft's poison pill provision. As part of PeopleSoft's stock plan, if a hostile buyer (such as Oracle) acquires 20 percent of the common shares, the so-called poison pill will be triggered. This trigger provides all PeopleSoft shareholders, excluding Oracle, with approximately 21 shares for each PeopleSoft share they own, thereby diluting the shares tendered to Oracle.
- The deal price. Oracle's current offer is \$19.50 per PeopleSoft share. PeopleSoft shares hit a high of \$22.69 on 7 November 2003.
- The expanded and staggered terms of the PeopleSoft's board of directors. Replacing a majority of the board would take at least two years.

Factors Working in Oracle's Favor

- A shareholder lawsuit challenging the customer assurance program. This program is targeted to meet PeopleSoft customers' best interests. However, a group of shareholders feels that its terms are "disproportionate and unreasonable," citing that the plan could not be reversed by PeopleSoft's board, even if the company's shareholders accepted a takeover offer.

Factors That Could Work in Favor of Either Vendor

- The United States Department of Justice ruling. The Antitrust Division of the U.S. Department of Justice is expected to rule on its inquiry by mid-December 2003 at the earliest. This saga may extend into February 2004.
- The European Commission ruling. The European Commission, the European Union's enforcement body, announced it would make a detailed investigation of Oracle's bid for PeopleSoft. The Commission must issue its final decision by March 2004.
- PeopleSoft's financial results. Continued positive financial results work in favor of PeopleSoft; negative results will work in favor of Oracle.
- The willingness of PeopleSoft's board to accept Oracle's bid. The pivotal question is, what price will change the minds of the board?

Until the Justice Department rules on this case, Gartner continues to advise clients considering PeopleSoft and J.D. Edwards offerings to use Gartner's decision frameworks to determine their strategy. We have updated these frameworks to reflect recent developments. 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" and "Short-Term Advice for J.D. Edwards Customers, Prospects"). Clients aiming to sign strategic software agreements with these vendors (and in general) should include best-in-class terms, conditions and policies that protect their software investments, particularly in areas such as support, upgrades, migration and service (see "Contractual Protections for PeopleSoft Customers").

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:

- "PeopleSoft Meets Financial Targets, but Key Challenges Await" — Two hurdles remain to achieving PeopleSoft's incremental revenue goals: making the current high-level product road map a reality and creating a sales organization that can sell the right products to the right customers. **By Lee Geishecker, Esteban Kolsky and Yvonne Genovese**
- "PeopleSoft's New Strategy Depends on Cross-Selling, Service Goals" — As with any product-centric vendor, achieving its revenue goal for services depends on achieving its targets for growth in license sales as well as newly identified cross-selling opportunities. **By Lee Geishecker, Frances Karamouzis, Jeff Comport, Joel Wecksell and Chad Eschinger**
- "Eight Best-in-Class Services Contract Terms and Conditions" — Write all service agreements to account for the possibility that the service provider may be acquired or affected by an acquisition. **By Brian Zrimsek, Jane B. Disbrow and Beth Eisenfeld**
- "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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