

Oracle/Sun Deal Will Change Competitive Landscape in IT

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Acquiring Sun Microsystems will propel Oracle into the IT hardware market and enable it to exploit the Java and Solaris software brands. But Oracle will also have to work at ensuring its open-source solutions remain viable.

Event

On 20 April 2009, Sun Microsystems and Oracle announced that they have entered into an agreement under which Oracle will acquire Sun in a deal valued at approximately \$7.4 billion, or \$9.50 per share. Oracle says the transaction will likely close by 3Q09, subject to shareholder and regulatory approval.

Analysis

After discussions between IBM and Sun Microsystems broke down, Oracle signed an agreement to acquire Sun for approximately \$7.4 billion (or approximately \$5.6 billion after accounting for debt and cash) — a relatively low multiple for an IT company with a trailing revenue stream of \$13.4 billion. If completed, the Oracle/Sun deal will mark the first time a leading software company has ever bought a leading hardware company, and will bring about a major change in IT market alignment by giving Oracle the opportunity to become a powerhouse vendor in both software and hardware, potentially rivaling IBM and HP. Oracle will take the opportunity to use the two companies' product sets to build "open and integrated systems," which will range from business applications to middleware, database management systems (DBMSs), operating systems (OSs), servers and storage platforms. While this vision is appealing, it also presents significant technology and business challenges, including whether customers desire to source from a single vendor.

This deal occurs at a critical time, just as concerns have arisen regarding Sun's long-term viability and Sun customers have come under pressure to migrate from Sun servers and hardware. With Oracle, Sun customers will have more options available in multiple technology areas:

- **OSs:** The combination of Oracle and Sun will renew interest among developers in Solaris as an alternative OS on commodity servers, through which Oracle can promote Solaris or Linux as equally viable choices and with more credibility in Linux and Solaris than Sun had alone. Oracle also gains instant Unix credibility as an alternative to IBM and HP.
- **DBMSs:** Oracle will likely not abandon MySQL support, which it has maintained while supporting other open-source projects (such as Berkeley DB and InnoDB). Gartner expects Oracle will continue to support MySQL as a separate product. Oracle now has additional hardware incentive to drive Oracle Real Application Clusters (RAC) DBMSs and applications on Sun x86 rack and blade solutions, and to minimize the influence of HP and IBM.
- **Middleware:** Sun's middleware products overlap with many of the components of Oracle's Fusion Middleware. The acquisition will not significantly impact Oracle's middleware stack; Oracle will most likely only integrate minor pieces of the Sun middleware products into Oracle Fusion Middleware, though it will continue to support customers for the sake of the associated maintenance revenue.
- **Servers:** Oracle will likely support the Sun installed base, as Solaris and SPARC combined give Oracle a very large footprint for additional software opportunities. Much of the installed base consists of older SPARC, which can be renewed through new Sun platforms and help dissuade customers from moving to HP or IBM. Oracle will also have additional hardware incentive to drive Oracle RAC DBMSs and applications on Sun x86 rack and blade servers. Gartner expects Oracle to emphasize some strategic parts of

Sun's road map and de-emphasize others: The x86 and T will have more value in Oracle's hardware cost optimization strategy; the M and large SPARC servers are costly power consumers, and Gartner believes Oracle may eventually slow or end their development.

- **Storage:** Sun's OpenStorage systems could strategically lead Oracle to develop appliance solutions to optimize cost and performance on file- and database-related applications. By this strategy, Sun would serve as a low-cost provider for entry to midrange disk storage. While this business is small today, we believe that by 2013, it could potentially overtake Sun's traditional disk storage business.
- **Java:** By acquiring Sun, Oracle also would broaden its customer base by entering the market for Java software embedded into consumer devices such as PDAs, mobile phones and other gadgets — a market in which Oracle has minimal track record and presence. Gartner also expects Oracle to monetize Java more aggressively.

RECOMMENDATIONS

Sun customers and prospective customers:

- If you are planning a long-term migration away from Sun hardware, delay taking action until Oracle lays out its hardware road map.
- Protect your hardware investment in new contracts with Sun by locking in five-to-seven-year support agreements on SPARC hardware.
- Proceed with caution on making new commitments to Sun middleware products until Oracle delivers a detailed roadmap for these products. As a precautionary measure, current Sun middleware customers should begin to evaluate alternatives and, if appropriate, develop a migration strategy.

Additional research contribution and review: Philip Dawson, Roger W. Cox

RECOMMENDED READING

- "Key Issues for Oracle Research, 2009" — Gartner examines the megavendor's strategies, opportunities and challenges for 2009 and beyond. **By Kenneth Chin**
- "Oracle's Post-BEA Middleware Road Map Unveiled" — Oracle's ambitious integration plans for BEA Systems technology will require aggressive long-term design and development work. **By Massimo Pezzini and Yefim Natis**

(You may need to sign in or be a Gartner client to access the documents referenced in this First Take.)

This research is part of a set of related research pieces. See "Oracle's Planned Acquisition of Sun: Changing the Industry Landscape" for an overview.

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