



Instant Insight

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Larry's Big Parade

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Late last week Oracle announced that it has made a \$5.1 billion cash offer to acquire PeopleSoft, makers of ERP software. The unanticipated – and apparently unwelcome – bid by Oracle comes just after PeopleSoft announced last week it would be acquiring J.D. Edwards for \$1.7 billion. Oracle indicated that if it was successful in acquiring PeopleSoft, Oracle would offer support for existing PeopleSoft customers but would no longer sell new PeopleSoft products. Instead the company indicated that it would offer migration tools to existing PeopleSoft customers in an effort to migrate them to Oracle offerings. Oracle CEO Larry Ellison this week asked for a special meeting with the PeopleSoft Board of Directors to present his case, after negative reactions to the offer came from both PeopleSoft and J.D. Edwards executives, the latter arguing that the proposed acquisition of PeopleSoft by Oracle would require clearance from anti-trust officials in both the U.S. and Europe. Oracle has approximately \$5 billion in cash on hand, and has a \$5 billion line of credit specifically arranged for the acquisition. Ellison has justified his move by maintaining, as he has for some time now, that the business software market is poised for consolidation.

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On one point, the incumbent consolidation of the ERP market, we are in total agreement with Ellison. The simple fact that there are too many suppliers and not enough demand is obvious when one looks at the state of various vendors in the space. Baan is sold for a fraction of its acquisition price. PeopleSoft and J.D. Edwards are trying to combine. One-time high flyers like Siebel Systems are having a rough go of it. Adding to this supply/ demand issue is the continuing stagnation of the economy: there are no big enterprise IT spending booms in the near future, ones that could revive struggling business application vendors. Consolidation is most certainly upon us and do we think Larry Ellison has any reluctance about being out in front of the parade? Of course not.

Larry's leading that parade by trying to position Oracle as a lone wolf, a "can't do without" player in the IT market threatened with potentially devastating competition from powerhouses IBM and HP. While there is much discussion in the marketplace about the growing architectural split between application infrastructure (including Application Servers, Web Servers, Web Services, EAI, IDE, and Portal Technology) and application software, Oracle's move would seem to send the message that it wants to be the one-stop shop for all of these technologies. By doing so, the company might be able to bolster its lone wolf position despite the market trend of continued consolidation.

But what of PeopleSoft? If this acquisition comes to pass, PeopleSoft would be positioned to take the lead in enterprise applications sales. If Oracle fails, then PeopleSoft would be able to build from its Number Two position – and use the DB2 trump card to demand better terms whenever Oracle came calling with its tin cup extended. But if Oracle is successful, it could gain access to a near captive relationship with the largest enterprise software vendor, which would likely cause many a chagrined face at IBM and Sybase given their strong relationships with PeopleSoft and J.D. Edwards.