Oracle Peoplesoft Takeover

Yogendra Sisodia
Oracle’s Takeover of Peoplesoft

Yogendra Sisodia
• On December 13, 2004, PeopleSoft (Second largest ERP maker) succumbed to a $10.3 billion bid from Oracle.
• The announcement followed a tender offer in which more than 97% PeopleSoft shareholders tendered their stock.
• Post-merger, Oracle emerged as the second largest manufacturer of Business Application Software in the world, next to SAP.
Introduction

• June 6, 2003 when Oracle first made a hostile attempt to acquire PeopleSoft.
• In July 2003, PeopleSoft acquired JD Edwards.

DISCUSSION

• Oracle’s acquisition of PeopleSoft materialized after 18 months of struggle.
## Oracle products

<table>
<thead>
<tr>
<th>Product</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oracle Databases</td>
<td>Industry’s first database designed for Grid computing. Suitable for large, medium and small enterprises.</td>
</tr>
<tr>
<td>Oracle Applications</td>
<td>Oracle E-Business suites automate, streamline, and simplify business processes and put all business information in one place to enable enterprises to share high-quality consistent data in real time.</td>
</tr>
<tr>
<td>Oracle Application Server</td>
<td>The first application server that integrates everything for development and deployment of e-business portals, transactional applications and Web services.</td>
</tr>
<tr>
<td>Oracle Collaboration Suite</td>
<td>An integrated system for all organizational communication and information needs including web conferencing, files, email, voicemail, fax and wireless.</td>
</tr>
<tr>
<td>Oracle Enterprise Manager</td>
<td>A single, integrated product for monitoring and managing Oracle software infrastructure as well as application and business service in diverse IT environments.</td>
</tr>
<tr>
<td>Oracle data Hub</td>
<td>Synchronizes information centrally, from all systems to enable an accurate, complete and consistent view of a company’s data from packages, legacy or custom applications.</td>
</tr>
<tr>
<td>Oracle development tools</td>
<td>A complete, integrated environment that combines application development and business intelligence.</td>
</tr>
</tbody>
</table>
### Peoplesoft products

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<tr>
<td>PeopleSoft Enterprise</td>
<td>A family of applications based on Pure internet architecture designed for flexible configuration, and open multi-vendor integration. Ideally suited for financial, government, education, health care and other services.</td>
</tr>
<tr>
<td>PeopleSoft Enterprise One</td>
<td>A complete suite of modular, pre-integrated industry-specific business applications designed for rapid deployment and ease of administration on a pure Internet architecture. Suitable for organizations that manufactures, constructs, distributes, services, manages product or physical assets</td>
</tr>
<tr>
<td>PeopleSoft Word</td>
<td>An application suite for IBM iSeries platform. Applications are tightly integrated and pre-bundled on a single database, with a web-enabled architecture.</td>
</tr>
</tbody>
</table>
ERP & Related Product Lines

- **Financial Accounting**  
  Regulatory ‘books of record’

- **Controlling**  
  Internal cost/management accounting

- **Asset Management**  
  Tracking, valuing assets

- **Human Resources**  
  Payroll Management

- **Quality Management**  
  Planning, Execution, Inspections & Certificates

(Key Players - SAP, Oracle, The Sage Group, Microsoft Dynamics)
ERP Explained
Oracle’s Strategy

Oracle to replace IBM DB2, MS SQL Server, SAP maxDB and others.
Views of Parties involved
Analyst’s Rationale Behind the Acquisition

• The acquisition would enable Oracle to capture the Enterprise Application software business, used by large companies.
• Oracle is a newer entrant, but the organization has invested heavily in R&D.
• PeopleSoft would provide Oracle’s customers with a one-stop global shop for databases, applications and other technologies.
• The acquisition would represent a horizontal merger in the ERP industry and would have created a legitimate rival to SAP, the market leader.
Oracle’s View

• Product integration using Oracle RDBMS.
• Procurement of innovations (PeopleSoft’s knowledge system which will result in the design of Enterprise software)
• Challenging market leader SAP for No 1. position.
Oracle’s View

• Oracle had the largest application customer base in North America, and after the acquisition, its combined application would be in open source Java.

• In contrast, SAP application was based on a proprietary language - ABAP, and a proprietary set of applications.
Peoplesoft Management’s View

Upon hearing of the offer Conway started to fight the takeover in a number of ways including:

• The adoption of a poison pill provision in the articles, accelerating board member re-elections.

• Lobbying customers to write to the DOJ and complain of antitrust concerns. The DOJ and EC antitrust groups have both filed suit blocking the acquisition from going forward.

• Accelerating the re-election of the board to deny Oracle sufficient time to lobby the shareholders.

• Adopting an aggressive 200-500% license fee rebate if PeopleSoft were to discontinue support (Customer Assurance program).
Contradiction between Management and Shareholders

• The management also installed a legal action “Customer Assurance program” (CAP) to protect PeopleSoft’s product lines from being terminated.

• The shareholders believed that CAP would reduce share price gains as a result of the takeover bid.

• PeopleSoft made attempts to convince its shareholders that the value offered by Oracle was less than the real value.
Customers Concerns

• Oracle wanted to target PeopleSoft’s customers who were using databases of IBM and Microsoft and sell them its own database products.

• They believed that the takeover would result in reduced support, and finally migration into Oracle’s platform.

• Oracle can discontinue PeopleSoft and JD Edwards abruptly.
Fragmented Systems
Integration & Workflow
Integration & Orchestration (Fusion Middleware)
Gartner – Integration Leader (2005)
Legal Issues

• Against Oracle - Customers not liked being forced into an upgrade and enlisted the DOJ to block the Oracle offer on grounds that it would be anti-competitive.

• Against Peoplesoft - A group of shareholders filed a lawsuit accusing the management of intransigence and acting against the interest of the shareholders by offering CAP.
Pre Merger Oracle
Pre Merger Peoplesoft
Pre Merger Price Movement

NAS/NMS COMPOSITE (NASDAQ STOCK)
as of 2-Apr-2004

Splits:
Shareholding Pattern of Peoplesoft

• Individual investors held about 20% of the PeopleSoft’s Stocks.
• PeopleSoft investors held 10%
• Institutional investors held the remaining 70%. (California Employees’ Retirement System, Capital Guardian Trust company)
Final Bid

• A majority of PeopleSoft shareholders met Oracle's deadline and agreed to tender their shares (97% shares tendered).
• Total amount of $10.3 billion
• $26.50 per share.
• Premier Support, Extended Support and Sustaining Support
• Oracle E-Business Suite
SAP’s Response

• The result of the hostile resistance of PeopleSoft meant that these two defocused companies spent 18 months fighting not the good fight about technology direction and applications excellence but a down-and-dirty legal and public relations battle.
Post Merger Performance (SAP v/s Oracle)
## Current Scenario (SAP v/s Oracle)

### DIRECT COMPETITOR COMPARISON

<table>
<thead>
<tr>
<th>Metric</th>
<th>SAP</th>
<th>IBM</th>
<th>MSFT</th>
<th>ORCL</th>
<th>Industry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Cap:</td>
<td>55.81B</td>
<td>165.90B</td>
<td>259.52B</td>
<td>126.23B</td>
<td>177.38M</td>
</tr>
<tr>
<td>Employees:</td>
<td>47,578</td>
<td>410,830</td>
<td>93,000</td>
<td>86,000</td>
<td>340</td>
</tr>
<tr>
<td>Qtrly Rev Growth (yoy):</td>
<td>-8.50%</td>
<td>0.80%</td>
<td>14.40%</td>
<td>4.50%</td>
<td>21.90%</td>
</tr>
<tr>
<td>Revenue (ttm):</td>
<td>N/A</td>
<td>95.76B</td>
<td>58.69B</td>
<td>23.23B</td>
<td>94.00M</td>
</tr>
<tr>
<td>Gross Margin (ttm):</td>
<td>68.83%</td>
<td>45.73%</td>
<td>79.78%</td>
<td>81.08%</td>
<td>68.85%</td>
</tr>
<tr>
<td>EBITDA (ttm):</td>
<td>N/A</td>
<td>23.66B</td>
<td>24.43B</td>
<td>11.04B</td>
<td>9.89M</td>
</tr>
<tr>
<td>Oper Margins (ttm):</td>
<td>N/A</td>
<td>19.49%</td>
<td>37.64%</td>
<td>38.98%</td>
<td>9.94%</td>
</tr>
<tr>
<td>Net Income (ttm):</td>
<td>N/A</td>
<td>13.43B</td>
<td>16.26B</td>
<td>5.80B</td>
<td>N/A</td>
</tr>
<tr>
<td>EPS (ttm):</td>
<td>N/A</td>
<td>10.009</td>
<td>1.815</td>
<td>1.148</td>
<td>0.04</td>
</tr>
<tr>
<td>P/E (ttm):</td>
<td>N/A</td>
<td>12.76</td>
<td>16.30</td>
<td>21.94</td>
<td>26.10</td>
</tr>
<tr>
<td>PEG (5 yr expected):</td>
<td>1.3</td>
<td>1.3</td>
<td>1.29</td>
<td>1.16</td>
<td>1.26</td>
</tr>
<tr>
<td>P/S (ttm):</td>
<td>N/A</td>
<td>1.74</td>
<td>4.42</td>
<td>5.48</td>
<td>2.85</td>
</tr>
</tbody>
</table>

### SOFTWARE COMPANIES RANKED BY SALES

<table>
<thead>
<tr>
<th>Company</th>
<th>Symbol</th>
<th>Price</th>
<th>Change</th>
<th>Market Cap</th>
<th>P/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microsoft Corporation</td>
<td>MSFT</td>
<td>29.59</td>
<td>-0.07%</td>
<td>259.52B</td>
<td>16.30</td>
</tr>
<tr>
<td>IBM Software</td>
<td>Private - [View Profile]</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Oracle Corp.</td>
<td>ORCL</td>
<td>25.19</td>
<td>-0.75%</td>
<td>126.23B</td>
<td>21.94</td>
</tr>
<tr>
<td>SAP AG</td>
<td>SAP</td>
<td>46.94</td>
<td>-0.91%</td>
<td>55.81B</td>
<td>N/A</td>
</tr>
<tr>
<td>CA, Inc.</td>
<td>CA</td>
<td>23.45</td>
<td>-0.26%</td>
<td>12.19B</td>
<td>16.57</td>
</tr>
</tbody>
</table>
Lessons Learned
Lessons Learned

• By stating that Oracle would discontinue PeopleSoft ERP products, it was also implying that most of the employees would have less job security.

• Customers don’t want to hear that they will be forced to change systems.

• From the shareholders point of view, another troublesome area is the 42.5m that PeopleSoft had spent on legal fees.

• The legal battle currently cost over 8c/share eating into profits and contributing to the downward slide of share prices of Peoplesoft.
Thanks – This is last slide