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PeopleSoft to Buy J.D. Edwards

By LAURIE J. FLYNN

PeopleSoft Inc., a maker of business software for large corporations, announced yesterday that it would acquire a rival software maker, J. D. Edwards & Company, in a stock deal worth \$1.7 billion.

The acquisition will make PeopleSoft, based in Pleasanton, Calif., the second-largest maker worldwide of software that companies use to run their business. SAP of Germany, which holds more than a third of the \$20 billion market, is the largest.

PeopleSoft, with revenue of \$1.9 billion, sells software that tracks inventory and manages payroll systems to large companies primarily in service industries like health care and finance. J. D. Edwards, based in Denver, reported revenue of \$886 million last year. It sells software primarily to midsize companies.

The deal calls for each share of J. D. Edwards stock to be exchanged for 0.86 share of PeopleSoft. PeopleSoft's stock closed yesterday at \$14.97, down \$1.42.

The acquisition is part of a trend toward consolidation in an industry that is increasingly global and dominated by SAP. Without the merger, PeopleSoft is the third-largest company, behind the business software unit of the [Oracle Corporation](#). While PeopleSoft has been steadily taking market share from Oracle the last few years, the continuing slump in sales of information technology to corporations has made competing with SAP difficult, according to analysts.

Both PeopleSoft and J. D. Edwards have been hit hard by the decline in corporate spending in recent quarters. In April, PeopleSoft reported that net income fell 14 percent from a year earlier. Revenue declined 4.8 percent, to \$460.3 million, which the company attributed to the war in Iraq and to general economic conditions. J. D. Edwards posted a loss of \$393,000 in the latest quarter, as revenue fell 9 percent.

"This has become a global market, where in order to compete effectively you have to be able to serve markets around the world, in different languages," said Jim Shepherd, a senior vice president of [AMR Research](#), a software market research company in Boston. "If you want to compete you have to be big, and you have to try to match the R&D spending of SAP." Mr. Shepherd said neither PeopleSoft nor J. D. Edwards alone had enough of a presence in the global market nor enough software developers to compete with SAP.

The acquisition gives PeopleSoft a stronger footing in the market that serves midsize businesses, and analysts say that is the fastest-growing segment in business software. PeopleSoft also stands to benefit from J. D. Edwards's strength in selling to the manufacturing industry.

"This could not be a more compelling merger," said Craig Conway, chief executive of PeopleSoft, in a conference call announcing the merger. "It brings together two companies whose strengths are extraordinarily complementary." Executives from both companies said their similar corporate cultures should help ensure that the merger goes smoothly.

But the midsize-business market is itself becoming more competitive. Most notably, [Microsoft](#) is in the position to increase its share of that market through its acquisition of Great Plains Software, a leader in accounting software, and Navision, which it acquired last July. "Microsoft is making all these companies, including PeopleSoft, shiver in the spine," said Trip Chowdhry, an analyst with FTN Midwest Research in Cincinnati.

Mr. Chowdhry described PeopleSoft's acquisition of J. D. Edwards as an attempt "to show relevancy in the midmarket," where its competitors are gaining strength.

Under the terms of the deal, which is expected to close in the fall, J. D. Edwards will become a wholly owned subsidiary of PeopleSoft. The combined company will have annual revenue of \$2.8 billion and roughly 13,000 employees. The companies said the merger would enable the merged company to reduce operating expenses by \$80 million annually, through improvements in operational efficiencies.

The company will maintain offices in Denver, where J. D. Edwards now has its corporate headquarters. After the closing, J. D. Edwards's shareholders will control roughly 25 percent of the combined company's shares.