# SAP Buys Business Objects – Defensive Move?

MGI Analytical Team

On Sunday, October 7, 2007, SAP AG (NYSE: SAP) announced an agreement to acquire Business Objects (Nasdaq: BOBJ) via a cash tender offer valued at EUR4.8 billion. The acquisition of Business Objects was not unexpected – the company has been in on-again, off-again conversations with Oracle (Nasdaq: ORCL) and other potential suitors for many months. The French press had leaked news of the SAP/BOBJ dialogue several weeks ago.

The transaction raises several key issues:

• Did SAP feel that its internal, organically grown initiatives will not support its goal of doubling its addressable market by 2010?

• Did SAP act defensively to thwart perceived interest in Business Objects by Oracle and others?

• Does SAP believe that by acquiring Business Objects it cuts into the Oracle customer base in a strategically meaningful way?

• Did SAP pay too much for technology that is either at its peak or will require significant investment in the next five years?

• Could SAP achieve some of its goals more cost effectively by taking advantage of many open source technology components looking for a stable corporate home?

• Given its profile of doing acquisitions, will SAP be successful in consummating the deal and absorbing the company?

• What is the impact of product overlap between the two companies on customers?

SAP's acquisition of Business Objects is a bold move that clearly signals SAP's perception that in order to achieve its growth objectives it will need to mix large acquisitions with organic development efforts like SAP BBD (see MGI Note: "Beyond the MidMarket: SAP Bets the Future on Business

**ABOUT MGI RESEARCH**

MGI Research provides its clients with Actionable Intelligence™ based on our proprietary quantitative and qualitative research processes. Using MGI's data and advice, investors gain an edge in analyzing technology companies. CEO's and management teams use MGI to benchmark their performance relative to peers. MGI's proprietary technology industry benchmarks and analysis distill a complex stream of data into clear-cut recommendations.

The MGI Index ("Margin Growth Indicator" or "MGI-X") is a quantitative benchmark that identifies companies that are the most and least efficient managers of growth and profitability. Companies with bloated cost structures and inefficient business models tend to have low and declining MGI scores, while those that are constantly trimming the corporate "fat" and increasing their efficiency tend to have high and rising MGI scores.

The MGI Index answers the following key questions:

- Which management team is the most or least efficient?
- How do companies compare vs. their peers?
- How well do executives manage costs in both up and down cycles?
- How much "fat" is there in the corporate infrastructure?
- Is management taking concrete steps to improve results?

MGI Index measures management's effectiveness across key operating areas of the business. MGI uses up to eight years of publicly available financial information derived from SEC filings and management reports. MGI Index models a company's performance and synthesizes short-term, mid-term and long-term operating results into an objective, uniform measure of corporate efficiency. MGI Index takes into account changes in key budget allocation areas such as research and development, sales, marketing, capital spending, general and administrative. The result is a single number – the MGI Index, a measure of corporate operating fitness.

© 2007 MGI RESEARCH www.mgiresearch.com 

*Disclaimer: Information is furnished on as is basis. No warranty, written or implied as to the accuracy of the data. Not responsible for typographical or reproduction errors. Not an offering to buy or sell securities of any kind. Does not represent investment advice in any form. Copyrights enforced. Reproduction without permission from MGI Research strictly prohibited. Reprints are available upon request.*

ByDesign”, September 20, 2007).

To the extent that the deal is a pre-emptive counterattack on Oracle, we feel that Oracle’s interest in Business Objects may have been far less than perceived by SAP. The justification for this transaction has to stand on its own feet in areas such as technology, access to new non-SAP customers, distribution, cross-selling, revenue growth, efficiency and profitability. One should discount any notion that SAP would do a nearly $6.8 billion transaction to get access to Business Object’s executive talent. While it may be easy to extrapolate from this transaction that SAP took a page from Oracle’s “Big Acquisition Playbook”, we remain rather sanguine on this point as we see SAP being more opportunistic and defensive rather than proactively seeking large new deals.

In spite of the high cost, we see the SAP-BOBJ marriage as a positive for both companies. On a combined basis, BOBJ fills a gap in SAP’s product portfolio and gives SAP product and credibility in the growing market for business intelligence (BI). BOBJ’s portfolio of business intelligence and reporting tools is broad and robust. By comparison, SAP’s own business intelligence (BI) tools, while not trivial, are certainly reflective of the fact that SAP is first and foremost an application suite provider. Most large SAP accounts are also large Business Objects customers. With a global installed base of 35,000+ companies and a formidable brand and sales force, SAP will have numerous opportunities to promote and cross-sell Business Objects products. BOBJ gives SAP a meaningful Silicon Valley presence and proven business intelligence/reporting solution in a category that SAP was never able to gain a leading position.

Oracle has a low probability of playing a spoiler in this deal – Oracle was recently ranked #1 in BI by IDC, and would undergo heavy scrutiny by the US Dept. of Justice if it were successful in hitting the winning price for BOBJ. Oracle has done exhaustive analysis on a BOBJ acquisition – and passed on the deal. While Larry Ellison, Chuck Phillips and Safra Catz would love to rain on SAP’s parade, - most likely they will hold fire (p=.9 probability – i.e. it would take an act of God or Larry Ellison to change this).

**Bottom Line:** With Business Objects SAP acquires a leading business intelligence brand with a significant customer base. The acquisition price is high, many of the technological components could have been obtained for far less by leveraging the open source components and the combined entity may prove not necessarily more competitive and/or more efficient than the individual companies or the competition. SAP’s MGI Index scores have been declining and BOBJ’s efficiency ranking has been average. Within twelve months of the transaction, SAP’s current integration plan for BOBJ may have to give way to practical economic realities. If SAP can demonstrate a newfound ability to efficiently integrate a business like BOBJ, then SAP/BOBJ could emerge as a threat to Oracle in the 2009 timeframe. Given what is on SAP’s plate today and its lack of experience in successful large-scale merger integration, this announcement is actually a short-term positive for Oracle and other BI incumbents such as Actuate, Cognos and Microstrategy.

© 2007 MGI RESEARCH

*Disclaimer: Information is furnished on as is basis. No warranty, written or implied as to the accuracy of the data. Not responsible for typographical or reproduction errors. Not an offering to buy or sell securities of any kind. Does not represent investment advice in any form. Copyrights enforced. Reproduction without permission from MGI Research strictly prohibited. Reprints are available upon request.*