

EXHIBIT U

Message

From: Mann, Steven [/O=SAP/OU=AMERICA1/CN=RECIPIENTS/CN=000000119821]
Sent: 1/23/2005 6:04:31 AM
To: APOTHEKER, Leo [/O=SAP/OU=EUROPE1/CN=RECIPIENTS/CN=000000042403]; Homlish, Martin [/O=SAP/OU=AMERICA1/CN=RECIPIENTS/CN=000000061818]; Oswald, Gerhard [/O=SAP/OU=EUROPE1/CN=RECIPIENTS/CN=000000034905]; McDermott, Bill [/O=SAP/OU=AMERICA1/CN=RECIPIENTS/CN=000000124288]; Bradley, David [/O=SAP/OU=AMERICA1/CN=RECIPIENTS/CN=000000226125]
Subject: FW: Let The Stack Wars Begin In Enterprise Applications SAP Announces "Safe Harbor" Program To Win PSFT Customers -- Kash Rangan Wachovia Capital Markets LLC
Attachments: ENTS0012005-102718.pdf

A good assessment of the current state of the market from Wachovia given last week's events.

S.

-----Original Message-----

From: Park, Mina [mailto:Mina.Park@wachovia.com]
Sent: Thursday, January 20, 2005 2:33 PM
Subject: Let The Stack Wars Begin In Enterprise Applications SAP Announces "Safe Harbor" Program To Win PSFT Customers -- Kash Rangan Wachovia Capital Markets LLC

Key Points

* ORCL LAUNCHES COMBINED COMPANY: ORCL held a webcast on Tuesday (January 18, 2005) in which it reached out to PeopleSoft and JD Edwards customers and partners. Oracle reiterated its intention to support PeopleSoft and JD Edwards products through 2013. Oracle announced it will release combined products starting in 2007, and a next-generation suite, code-named "Project Fusion", in 2008. ORCL also confirmed that it is retaining over 90% of PeopleSoft development and support staff. While we believe ORCL now has the opportunity to emerge as the significant No.2 player in enterprise software, they still need to overcome several challenges.

* SAP STARTS BATTLE WITH ORCL FOR PSFT/JDE CUSTOMERS: SAP announced its "Safe Harbor" Program on Wednesday (January 19, 2005), with a focus on winning PeopleSoft and JD Edwards customers away from Oracle. The program provides: (1) a migration path to mySAP ERP; (2) integration services through its NetWeaver middleware; and (3) support for PeopleSoft and JD Edwards products through a small, private third-party vendor (TomorrowNow) that SAP has just acquired for an undisclosed sum. There is a lot at stake: 9,200 PeopleSoft and JD Edwards customers, \$1.3B in annual maintenance revenue, and Oracle's \$10.3B acquisition cost.

* SAP LAUNCHES UNPRECEDENTED TRADE-IN OFFER. SAP is offering to support PeopleSoft and JD Edwards customers through TomorrowNow. This is an opportunistic move by SAP to benefit from any uncertainty surrounding Oracle's integration of PeopleSoft. "Safe Harbor" offers a 75% credit on PeopleSoft and JD Edwards license costs when customers purchase mySAP ERP, and support at a cost of 17% (vs. Oracle's standard support and maintenance cost of 22%). SAP will initially target the 2,000 customers who currently run both SAP and PeopleSoft or JD Edwards applications.

* EASIER SAID THAN DONE - SUPPORT IS A TRICKY ISSUE. SAP will need to put more wood behind the arrow. TomorrowNow is a 35-person organization, supporting about 100 mostly small and mid-size customers. If all 2,000 common SAP/PSFT customers choose to switch (albeit an unlikely outcome), SAP may need to add up to 700 additional support reps with PeopleSoft and JD Edwards expertise.

* SAP "SAFE HARBOR" PROGRAM IS A TACTICAL & OPPORTUNISTIC MOVE; ORCL WILL NEED TO VIGOROUSLY DEFEND PSFT/JDE CUSTOMER BASE. SAP's purchase of TomorrowNow and its program for supporting and migrating PeopleSoft and JD Edwards customers have been well thoughtout. Executed well, "Safe Harbor" could increase SAP's footprint within existing customers and help it win new ones away from Oracle. Oracle will undoubtedly invest significant resources and effort to defend the PeopleSoft and JD Edwards customer base, which was the main premise for its \$10.3B

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acquisition. Its level of success should answer the question of whether Oracle will realize the true strategic value of its acquisition, becoming a legitimate challenger to SAP instead of just an also-ran in the enterprise applications market.

Discussion

Oracle launches combined company by reaffirming commitment to PeopleSoft and JD Edwards customers, but challenges remain. Oracle launched the combined company with a webcast on Tuesday (1/18/05) in which it reached out to PeopleSoft and JD Edwards customers and partners. As expected, Oracle reiterated its intention to support PeopleSoft and JD Edwards products through 2013, and to release product enhancements this year and next. Oracle's acquisition of PeopleSoft gives it a more complete solution across various application categories, alongside SAP (see Figure A). Oracle announced it will release next-generation products starting in 2007, and a next-generation suite, code-named "Project Fusion", in 2008. These next-generation products will incorporate the best features of existing Oracle, PeopleSoft and JD Edwards products, and will be developed using open standards on a Java-based, service-oriented development platform. Oracle also confirmed that it is retaining over 90% of PeopleSoft development and support staff. We also view the senior management changes within Oracle's applications development organization as a positive step, particularly the promotion of John Wookey, a respected development leader, to Executive Vice President. While we believe Oracle now has the opportunity to emerge as the significant No.2 player in enterprise applications, they still need to overcome several challenges: (1) although ORCL retained the vast majority of PeopleSoft development and support staff, it will still be a significant challenge to develop and maintain four separate code bases (one for Oracle, one for PeopleSoft, and two for JD Edwards), and at the same time bring to market a new combined suite; (2) carefully balance resources between existing code bases and successfully develop Project Fusion on J2EE and Service Oriented Architecture to compete with SAP's similar plans; (3) successfully integrate two sales forces while aligning territories and compensation programs; and (4) preserve the integrity of PeopleSoft's maintenance revenue stream by ensuring customers do not switch to SAP or other third-party maintenance providers. If Oracle fails to successfully address these challenges, the door will be open to SAP to pry open the PeopleSoft/JD Edwards customer base by capitalizing on the uncertainty. We note that Oracle's Project Fusion is similar to SAP's Project Vienna, expected in 2007/08, which is anticipated to provide comprehensive support for service-oriented architecture. SAP has a 2-3 year headstart in the race to deliver the next-generation application suite.

SAP has started a battle with Oracle for the PeopleSoft and JD Edwards customers. SAP announced its "Safe Harbor" Program on Wednesday (1/19/05), with a focus on winning PeopleSoft and JD Edwards customers away from Oracle. This program provides: (1) a migration path to mySAP ERP; (2) integration services through its NetWeaver middleware; and (3) support for PeopleSoft and JD Edwards products through a small, private third-party company (TomorrowNow) that SAP has just acquired for an undisclosed sum. SAP believes this will remove uncertainty and risk for PeopleSoft and JD Edwards customers given SAP's stable product portfolio and roadmap, and less controversial public image. However, it is an unprecedented move for a major software vendor to provide support for a competitor's products. This underscores the maturity of the industry as well as SAP's desire to prevent Oracle from becoming a serious challenger. It also highlights the potential vulnerability of the PeopleSoft / JD Edwards customer base, and the fact that Oracle (and investors too) cannot take the PeopleSoft and JD Edwards maintenance streams for granted. Customer loyalty is not a given, and software companies have to fight to earn it. There is a lot at stake: 9,200 PeopleSoft and JD Edwards customers, \$1.3B in annual maintenance revenue, and Oracle's \$10.3B acquisition cost. We view this battle between SAP and Oracle as another validation of our stack wars thesis that we laid out on 7/27/04, as vendors compete for customers along different components of the stack, in this case both applications and middleware (see Figure B).

SAP launches unprecedented trade-in offer for PeopleSoft and JD Edwards customers, which is likely to cause a modest revenue impact near-term, but could translate into meaningful upside longer-term. SAP is offering to support PeopleSoft and JD Edwards customers through TomorrowNow. This is an opportunistic move by SAP to benefit from any uncertainty surrounding Oracle's integration of PeopleSoft. Customers can choose to pay an annual fee of 10% of license costs to get standard support (though no upgrades) for PeopleSoft and JD Edwards products, which is TomorrowNow's current business model as a third-party support company. Or, customers can sign up for the "Safe Harbor" program under which they would: 1) pay to migrate from PeopleSoft and/or JD Edwards to mySAP ERP; 2) benefit from NetWeaver as an integration platform; and 3) pay 17% of license costs (before credit) for support. The program gives customers a 75% credit on its PeopleSoft and JD Edwards license costs when they purchase mySAP ERP. As an example, if a customer had originally purchased 1,000 seats of PeopleSoft at a cost of \$3,000/seat (total cost of \$3M), and now chooses to buy 1,200 seats of mySAP at \$3,000/seat (total cost of

\$3.6M), it would receive a credit of \$2.25M (75% of \$3M), resulting in a net license cost of \$1.35M (\$3.6M - \$2.25M). Despite the initial low license revenues (post-credit), acquiring these customers offers SAP the opportunity for additional license revenues by expanding product footprint and seat count either at the time of switching or in the future. Support will be calculated on the gross license cost (e.g., 17% x \$3.6M). The credit is also given to existing SAP customers as an incentive to upgrade from R3 to mySAP, so it is really an extension of an existing pricing policy. However, the credit is not available to customers who do not already own SAP R3, PeopleSoft or JD Edwards licenses. SAP will initially target the 2,000 customers who currently run both SAP and PeopleSoft or JD Edwards applications. However, it will likely extend the "Safe Harbor" program to the other ~9,200 PeopleSoft and JD Edwards customers that do not run SAP. Given the implementation costs associated with applications projects (normally many times more than actual license costs), customers are loath to switch vendors unless there are major issues with an implementation or dissatisfaction with the vendor. We would note that Oracle's "Beat BEA" switching program in 2003 met with limited success due to similar issues. SAP's task of convincing PeopleSoft customers to switch will not be easy unless SAP can offer them a compelling value proposition and take advantage of any potential missteps by Oracle. SAP's salesforce may face a bandwidth issue as it attempts to connect with PeopleSoft customers during this window of opportunity, though presumably it is well-trained in handling similar up-sell opportunities (R3 -> mySAP), and finds these sales opportunities to be comp-neutral and therefore equally attractive to other deals.

Easier said than done - support is a tricky issue. SAP will need to put more wood behind the arrow. If the "Safe Harbor" offering is successful, SAP will need to scale its PeopleSoft and JD Edwards support quickly. TomorrowNow is only a 35-person company, supporting about 100 mostly small and mid-size customers (about three customers per support rep). If all 2,000 common SAP/PeopleSoft customers choose to switch (albeit an unlikely outcome), SAP may need to add up to 700 additional support reps who have PeopleSoft and JD Edwards expertise. This assumes a similar support ratio of three customers per support rep, which is about the same as SAP's existing customer support ratio of ~2.9 customers per support rep and Oracle's ratio of ~3.8. Given the number of trained PeopleSoft and JD Edwards professionals on the labor market, we believe the resources are available. However, this is easier said than done, as good customer support can be tricky. Clearly SAP will need to put more wood behind the arrow than TomorrowNow's existing 35 people. Even if SAP does scale its support organization, we believe the margin impact will be minimal, since maintenance revenues tend to be highly profitable.

SAP's "Safe Harbor" program is a tactical and opportunistic move; Oracle will need to vigorously defend its PeopleSoft and JD Edwards customer base. SAP's purchase of TomorrowNow and its program for supporting and migrating PeopleSoft and JD Edwards customers have been well thought-out. Executed well, "Safe Harbor" could increase SAP's footprint within existing customers and help it win new ones away from Oracle. It would also help SAP increase its lead over Oracle (based on applications license revenues), which it holds both globally and within North America (see Figure C). Oracle will undoubtedly invest significant resources and effort to defend the PeopleSoft and JD Edwards customer base, which was the main premise for its \$10.3B acquisition. Its level of success should answer the question of whether Oracle will realize the true strategic value of its acquisition, becoming a legitimate challenger to SAP instead of just an also-ran in the enterprise applications market.

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