

MicroStrategy's Perspective on the SAP Acquisition of Business Objects

SAP recently announced its plans to acquire Business Objects for €4.8 Billion (\$6.8 Billion). As a leading provider of business intelligence (BI) software, MicroStrategy has closely followed this announcement. We would like to share our perspectives on the impact of this acquisition on the BI market.

A Shakeout in the BI Market

We believe that this acquisition is a continuation of a shakeout process in the BI market. Although Business Objects has grown to considerable size through a long series of acquisitions, these acquisitions have masked some fundamental weaknesses in its technology offerings. Business Objects' BI products are fragmented, lacking both scalability and integration, making them inappropriate for many applications in the new generation of enterprise BI.

In the markets for Departmental BI and Small to Medium-Sized Business (SMB) BI, Business Objects faces increasingly stiff competition from Microsoft and various start-up BI companies who have targeted the same space. In the Budgeting/Planning/Forecasting market space, Business Objects faces difficult competition from the more established products from Hyperion (now Oracle), Adaytum (now Cognos), and from organic offerings from the ERP vendors.

MicroStrategy is well positioned for success in the market as a leading pure-play BI vendor with a fully organic architecture. Our niche is "industrial-strength" BI which is ideally suited for large organizations with vast amounts of data, large user populations, and who need end-user analytical self-service. We have maintained our consistent focus on this market, and we continue to relentlessly enhance our technology to provide a high level of service to our customers.

Important Questions to Ask About This Acquisition

1. Why was Business Objects so eager to be acquired?

We believe that Business Objects needed to be acquired because it had accumulated such a large collection of non-integrated technologies in a market where organic technical integration is essential for providing enterprise BI solutions. Business Objects' array of disparate technologies has diluted its focus, resulting in poor license results across its product lines. Business Objects needed a large buyer, such as SAP, to act as a lifeline to give it a new, and more pliable, market in which to pitch its range of disparate products.

2. Did SAP rush into the purchase of Business Objects?

Some analysts suggest that SAP rushed into the purchase of Business Objects and paid a premium price, even though Business Objects warned that Q3 revenues and earnings would be well below Wall Street estimates.

We question whether the acquisition was a defensive move by SAP to prevent a competitor from acquiring Business Objects. If there was no competition, SAP would have waited for Business Objects to announce its Q3 results and potentially purchased the company for significantly less than the \$6.8 Billion purchase price.

If the Business Objects acquisition was part of a well-considered acquisition strategy and strategic plan, then why would SAP have purchased OutlookSoft just two months earlier? OutlookSoft competes directly with Business Objects' Cartesis.

If SAP rushed into the purchase, it likely did so without fully analyzing the quality of Business Objects' product set, Business Objects' competitive position in the market, and the inability of Business Objects' sales force to position all of its overlapping products. The other hidden liability for SAP is the pervasive difficulty that Business Objects' customers have experienced in migrating to XI Release 2. A large percentage of Business Objects' customers still have not successfully migrated to XI Release 2 after more than two years of the product being on the market.

3. Will Business Objects' customers be forced to undergo even more major migrations?

Unless SAP maintains Business Objects purely as a portfolio investment, it is likely that Business Objects' various architectures will be changed to help them integrate with the more cohesive SAP suite. The implication is that several major migrations are ahead for Business Objects' customers. Many of these customers, who are not also SAP customers, will be forced to undergo these migrations with no direct benefit.

By contrast, MicroStrategy customers have not undergone any architecture migrations since the major re-architecting of MicroStrategy that was completed in 2000 with MicroStrategy 7. Our new modern and organic architecture is expected to have a long life ahead.

4. Will Business Objects' technology become even less applicable for data warehousing?

As SAP influences Business Objects' product set to be more aligned with the needs of SAP customers and SAP applications, the design priorities of Business Objects' products will change. They will become less focused on the needs for standard data warehouses. While Business Objects and SAP will probably claim that Business Objects' technology will be optimized for both SAP BI and enterprise data warehouses, the hard fact is that modern enterprise software is so complicated that it can only be optimized for one major architecture.

"Other acquisitions that SAP has made have tended to end up being engulfed in its maw and never seeing the light of day again. Worse, the technology it acquires tends to end up being specifically targeted at SAP customers even when the company has said that won't happen. For example, when SAP acquired TopTier it was quite explicit that that company's product would continue to be marketed to non-SAP customers. And was it? In theory perhaps, in practice no." *Philip Howard, Director of Research - Technology, Bloor Research, October 7, 2007*

By contrast, MicroStrategy's development priorities are driven by the needs of enterprise BI, the cornerstone of which is high performance support for very large relational data warehouses.

5. How will Business Objects and SAP reconcile their overlapping technologies? What will happen to the customers as products are reconciled?

There is significant overlap within the SAP and Business Objects' product suites. Customers with products that are undergoing integration will face painful migrations. Customers with products that are not being integrated face the likelihood that SAP will slow development on those products, and ultimately "sunset" them.

Analysts have expressed concerns about SAP's ability to produce a comprehensive product road map in a timely fashion.

"Until both companies go through a formal product road map exercise, which may take at least a few months, it is unclear which products will remain front and center of SAP's Performance Management strategy and which ones will be relegated to the 'second class citizen' status." *Boris Evelson, Forrester, October 7, 2007*

Consider these significant areas of product overlap between the two companies:

Product Category	Business Objects	SAP
Dashboards and Scorecards	Xcelsius, Dashboard Manager, Crystal Vision	Visual Composer, Web Application Designer
Query, Analysis and Reporting	Web Intelligence, OLAP Intelligence, Voyager, Crystal Reports, Cartesis, Inxight Software	BEx Web Analyzer, BEx Analyzer, ABAP™, BEx Report Designer, Pilot
Office Plug-ins	Live Office	BEx Analyzer
Application Infrastructure	Nsite (on demand), crystalreports.com Vertical and Horizontal Apps	SAP® xApps™ Vertical and Horizontal Apps
Desktop Design Tools	Desktop Intelligence, Designer	BEx Query Designer
Portals	InfoView	SAP NetWeaver® Portal
Performance Management or CPM	SRC Software, ALG Software, Cartesis	SEM-BCS, BPS, NetWeaver® BI-Integrated Planning, OutlookSoft, NetWeaver® BI Advanced Planner and Optimizer, mySAP ERP Express Planning
Master Data Management	Metadata Manager, Composer	SAP NetWeaver® Master Data Management
ETL / EII / EIM	Data Integrator (Acta), Data Federator (Medience), Data Quality (Firstlogic, FUZZY! Informatik)	Data Extraction routines to populate SAP BI
Mobile	Mobile Interactive Viewing (InfoView Mobile)	SAP NetWeaver® Mobile

By contrast, MicroStrategy offers its customers a unified architecture with plug-n-play modules that allows its users to start with small, narrowly focused BI applications, and grow to a fully integrated architecture that scales across an enterprise. With MicroStrategy, each new modular addition adds dramatic new functionality, and incrementally improves value to everything they have previously deployed.

6. What are the chances of a smooth integration for Business Objects and SAP?

Business Objects and SAP appear to be a cultural mismatch on several levels:

- Applications company vs. platform company
 - SAP is an applications company to its very core. It has a questionable track record marketing and selling platform technology.
 - Business Objects' platform priorities and architecture will ultimately be subservient to SAP's application priorities since SAP's applications business generates many times the revenue of Business Objects.
- Departmental vs. enterprise culture
 - Business Objects' sales and engineering has focused on expedient solutions for departmental solutions.
 - SAP's sales and engineering has focused on cohesive solutions at enterprise-scale.
- SAP has an unproven track record of integrating third party platform technology
 - Since inception, SAP has pursued an organic growth strategy and has never made an acquisition of this magnitude. "We believe there will be significant integration risks since SAP has not made an acquisition of this size before." *Pacific Growth Equities, October 7, 2007*

MicroStrategy's Commitment to Our Customers and to Business Intelligence

MicroStrategy is now the second largest independent BI provider in the market. As an independent company, we listen to our BI customers for our direction – not Waldorf GE, not Redmond WA, not Redwood Shores CA.

MicroStrategy is entirely focused on BI technology, not financial applications, not ETL, not EII, and not MDM, because we believe that there is still a lot of hard innovative work to be done before BI achieves its full potential. That work requires intense focus, not caretaking.

As an independent BI vendor, MicroStrategy's technology will continue to be optimized to interoperate with a diversity of market-leading technologies including DBMSs, ETL, server platforms, portal platforms, development tools, and web browsers, because this is the same diversity that exists in our customers' real environments. Our intention is not to lock customers into a single technology stack.

As an independent vendor, we are able to dedicate 100% of our resources and energy into making each one of our customer's BI implementations highly successful. MicroStrategy is committed to delivering the best-engineered BI technology to make our customers successful – helping them run their businesses more efficiently, more profitably, with lower risk, and with faster growth.