

## Deal of the Week: IBM to buy Red Hat for \$34.0 Billion

Announcement Date	<ul style="list-style-type: none"> <li>October 28, 2018</li> </ul>	
Acquirer	<ul style="list-style-type: none"> <li>International Business Machines Corporation (“IBM”) (NYSE: IBM)</li> </ul>	
Acquirer Description	<ul style="list-style-type: none"> <li>A globally integrated technology and services company with the following operating segments: Cognitive Solutions, Global Business Services, Technology Services and Cloud Platforms, Systems, and Global Financing</li> <li>Founded in 1911 and headquartered in Armonk, NY</li> </ul>	
Acquirer Financial Statistics	<ul style="list-style-type: none"> <li>Mkt Cap: \$110.6 billion</li> <li>EV: \$145.0 billion</li> <li>LTM Revenue: \$80.4 billion</li> </ul>	<ul style="list-style-type: none"> <li>LTM EBITDA: \$17.0 billion</li> <li>LTM EV / Revenue: 1.8x</li> <li>LTM EV / EBITDA: 8.6x</li> </ul>
Target Company	<ul style="list-style-type: none"> <li>Red Hat, Incorporated (NYSE: RHT)</li> </ul>	
Target Description	<ul style="list-style-type: none"> <li>Provides open source software solutions to develop and offer operating system, virtualization, management, middleware, cloud, mobile, and storage technologies to various enterprises worldwide</li> <li>Founded in 1993 and headquartered in Raleigh, NC</li> </ul>	
Target Financial Statistics	<ul style="list-style-type: none"> <li>Mkt Cap: \$30.7 billion</li> <li>EV: \$20.3 billion</li> <li>LTM Revenue: \$3.2 billion</li> </ul>	<ul style="list-style-type: none"> <li>LTM EBITDA: \$601.5 million</li> <li>LTM EV / Revenue: 6.4x</li> <li>LTM EV / EBITDA: 33.7x</li> </ul>
Acquirer Advisor(s)	<ul style="list-style-type: none"> <li>Goldman Sachs, JP Morgan and Lazard</li> </ul>	
Target Advisor(s)	<ul style="list-style-type: none"> <li>Morgan Stanley and Guggenheim</li> </ul>	
Price / Consideration	<ul style="list-style-type: none"> <li>\$34.0 billion</li> </ul>	<ul style="list-style-type: none"> <li>Cash</li> </ul>
Rationale	<ul style="list-style-type: none"> <li>The acquisition provides IBM a way to provide portability of data and applications across multiple clouds, data security in a multi-cloud environment and consistent cloud management. This will enable IBM to tap into the 80% of businesses that do not use cloud services due to those very concerns that the merger addresses</li> <li>IBM has seen revenue decline by almost a quarter since 2012 as the company has struggled to compete with younger technology companies. With the acquisition of Red Hat, IBM is a credible player in the cloud space with an asset that looks forward, not backward</li> <li>Red Hat’s Q3 2018 sales missed analysts’ expectations and the forecast for Q4 2018 also falls short, fueling concerns that it may be losing out to rivals. Red Hat would benefit from access to IBM’s deep list of clients and cross segment revenue synergies</li> <li>The acquisition will be free cash flow and gross margin accretive within 12 months, accelerate revenue growth and support a solid and growing dividend</li> </ul>	
Deal Points	<ul style="list-style-type: none"> <li>IBM will use a combination of cash and debt to fund its acquisition of all shares in Red Hat for \$190 per share, representing a 63% premium to Red Hat’s closing price of \$116.68 as of October 26, 2018 representing an enterprise value of approximately \$34 billion</li> <li>Red Hat’s current management team will be kept in place and IBM intends to maintain Red Hat’s headquarters, facilities, brands and practices</li> </ul>	
Of Note	<ul style="list-style-type: none"> <li>Open source code has been the biggest theme in technology in 2018. Prior to IBM’s purchase of Red Hat, two of the biggest tech deals of the year were Microsoft’s \$7.5 billion purchase of GitHub, a code-sharing service, and Salesforce’s \$6.5 billion acquisition of MuleSoft, whose technology stitches together disparate software applications, data and devices</li> </ul>	