

## Deal of the Week: Microsoft to Buy GitHub for \$7.5B

Announcement Date	<ul style="list-style-type: none"> <li>June 4, 2018</li> </ul>	
Acquirer	<ul style="list-style-type: none"> <li>Microsoft Corporation (NASDAQ: MSFT)</li> </ul>	
Acquirer Description	<ul style="list-style-type: none"> <li>Develops, manufactures, licenses, supports and sells computer software, consumer electronics, personal computers, and services</li> <li>Founded in 1975 and headquartered in Redmond, Washington</li> </ul>	
Acquirer Financial Statistics	<ul style="list-style-type: none"> <li>Mkt Cap: \$785.2 billion</li> <li>EV: \$707.0 billion</li> <li>LTM Revenue: \$99.3 billion</li> </ul>	<ul style="list-style-type: none"> <li>LTM EBITDA: \$35.1 billion</li> <li>LTM EV / Revenue: 7.1x</li> <li>LTM EV / EBITDA: 20.2x</li> </ul>
Target Company	<ul style="list-style-type: none"> <li>GitHub Inc.</li> </ul>	
Target Description	<ul style="list-style-type: none"> <li>Web-based hosting service for version control using Git, mostly used for computer code. It offers all of the distributed version control and source code management (SCM) functionality of Git as well as adding its own features</li> <li>As of June 2018, GitHub reports having over 28 million users and 57 million repositories, making it the largest host of source code in the world</li> <li>Founded in 2008 and headquartered in San Francisco, California</li> </ul>	
Target Advisor	<ul style="list-style-type: none"> <li>Morgan Stanley</li> </ul>	
Price / Consideration	<ul style="list-style-type: none"> <li>\$7.5 billion</li> </ul>	<ul style="list-style-type: none"> <li>Stock</li> </ul>
Rationale	<ul style="list-style-type: none"> <li>Microsoft has seen its once-dominant Windows unit slip in market share in recent years, spurring a cloud-first reorganization and sending Microsoft looking for alternatives to court developers. Owning GitHub and LinkedIn also means that Microsoft now owns two top professional networks -- important in the continuing war for scarce tech talent</li> <li>Microsoft is acquiring GitHub because it's a perfect fit for its own ambitions to be the go-to platform for every developer, and every developer need, no matter the platform</li> <li>"Microsoft is a developer-first company, and by joining forces with GitHub we strengthen our commitment to developer freedom, openness and innovation," said Microsoft CEO Satya Nadella in today's announcement. "We recognize the community responsibility we take on with this agreement and will do our best work to empower every developer to build, innovate and solve the world's most pressing challenges."</li> <li>GitHub founder Chris Wanstrath has limited his efforts to make money from the service out of a desire to give free tools to developers, but was drawn to Microsoft because of his relationship with Nadella. Since taking over Microsoft four years ago, Nadella has embraced open-source software and programmer tools to restore growth and attract third-party developers</li> <li>Despite its popularity with enterprise users, individual developers and open source projects, GitHub has never turned a profit and chances are that the company decided that an acquisition was preferable over trying to IPO</li> <li>Microsoft projects that the acquisition will be accretive to adjusted operating income in fiscal 2020 and have minimal dilution of less than 1 percent to adjusted EPS in fiscal 2019 and 2020</li> </ul>	
Deal Points	<ul style="list-style-type: none"> <li>Microsoft paid 25x revenue of \$300 million</li> </ul>	
Of Note	<ul style="list-style-type: none"> <li>An incremental share buyback, beyond Microsoft's recent historical quarterly pace, is expected to offset stock consideration paid within six months after closing. Microsoft will use a portion of the remaining ~\$30 billion of its current share repurchase authorization for the purchase</li> <li>Microsoft Corporate Vice President Nat Friedman, founder of Xamarin, will become GitHub CEO. Chris Wanstrath, current CEO, will become a Microsoft technical fellow working on strategic software initiatives</li> </ul>	