

# Deal Logic LinkedIn/Microsoft

WHU Finance Society  
WHU Allianz Endowed Chair of Finance

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## Abstract

**After a period of unchallenged market leadership in the segment of PC soft- and hardware, Microsoft faced increasing pressure from its competitors after 2010. Following this increase Microsoft initiated a new strategic alignment in recent years.**

**With more than 230 acquisitions Microsoft exhibits an extensive history of M&A transactions. In order to support its strategic shift, Microsoft announced in June 2013 its biggest deal with the acquisition of LinkedIn, bidding \$26.2 billion.**

**Looking back on Microsoft's deal history, especially due to value destroying deals like the acquisition of Nokia's device segment, experts are sceptical whether Microsoft is able to generate value for shareholders.**

After Microsoft Corporation (Microsoft) lost connection to its competitors in the mobile and devices industry, the company attempted to boost its activity in 2013 by the acquisition of Nokia's mobile and device segment. Until 2016 Microsoft had not been able to generate profits from its acquisition of Nokia and faced increasing pressure in the market of PC soft- and hardware. Therefore, the company decided to shift its strategy by focussing on new market segments in order to tackle Microsoft's major competitive disadvantages. These are mainly summarized by the lower offering of apps and services on its mobile devices as well as lower possibilities of device connection for its customers compared to competitors like Apple Inc. and Google Inc.

Facing those disadvantages Microsoft decided to increase activities in the application and service segment to offer its customers a broader range of services, especially increasing the offerings in the productivity segment. In alignment with this shift in strategy Microsoft decided to acquire LinkedIn and initiate the largest deal in its M&A history.

The main rationale behind this acquisition was to merge Microsoft's existing cloud with the accompanying professional network of LinkedIn. The combination of **Microsoft's Dynamics Cloud** business (*a cloud-based application platform combining CRM and ERP along with productivity applications and artificial intelligence tools*) with **LinkedIn Sales Manager** (*an advanced sales tool aiding sales teams to build and foster customer relationships on the network*) allowed Microsoft to enter and challenge the profitable Client Relationship Market. Additionally, LinkedIn allowed Microsoft to monetize over 400 million business professionals as prospective customers.

Combining its productivity suite (*general term for office and other software*) with LinkedIn, Microsoft is able to boost its addressable market in this segment significantly while adding value to 300 million Windows users, 1.2 billion Office users and 8 million paid Dynamics CRM (*part of Dynamics Cloud*) users.

However, this deal's implied premium of 48% raised doubts whether Microsoft suffered from the Winner's Curse, having won the acquisition against Salesforce Inc. Therefore, critics argued whether value created by the acquisition justified the significant premium paid. This was also in part due to the fact that that LinkedIn was reporting losses prior and even after the acquisition.

From today's point of view it is still ambiguous whether the premium paid was justified. Certainly, since the acquisition LinkedIn's user base has increased by nearly 50% to 645 million. By the end of 2018, LinkedIn reported a 28% increase in revenue attributed to an improved usability of the app as well as increased user time on the platform. Both companies also seem to have benefited from the integration of LinkedIn's Sales Navigator and Microsoft's Dynamics. From an optimistic perspective this may have only scratched the surface of the potential benefits that Microsoft can utilize from this deal. Yet, it remains to be seen if and to what extent Microsoft can monetize the targeted customer base and its operating profits.

## Summary

Target	LinkedIn Corporation
Acquirer	Microsoft Corporation
Date, Announ.	13/06/2016
Date, Effective	08/12/2016
Deal Attitude	Friendly
Consideration	100% Cash
% Held / % Acq.	0%/100%
Deal Value (USDbn)	26,200
Price, Initial	131.08
Price, Paid	196.00
Total Fees (USDbn)	91.1
Premium, 1d (in %)	67.1
Premium, 1w (in %)	66.5
Premium, 4w (in %)	76.5

Sources: Thomson Reuters Eikon

## Synopsis

- In June 2016, Microsoft announced its intention to acquire LinkedIn, a social network platform specifically designed for connecting business professionals
- Initially, Microsoft and Salesforce, a cloud-based software company, were competing to acquire LinkedIn; ultimately resulting in a bidding war
- While Microsoft offered an all-cash deal from the beginning, Salesforce bid around \$200 per share using a mix of cash and stock
- Due to the potential downside risk associated with a payment in equity by Salesforce, LinkedIn eventually agreed to sell to Microsoft for \$196 per share amounting to a total deal value of \$26.2 billion

## LTM Trading Multiples

	Target	Acquirer	Industry†
<b>EV/Sales</b>	8.2x	4.1x	2.5x
<b>EV/EBITDA</b>	91.2x	16.0x	16.8x
<b>EV/EBIT</b>	-163.0x	21.3x	24.6x
<b>P/B</b>	3.5x	2.2x	5.1x
<b>P/E</b>	-159.9x	29.8x	104.9x

† Of Target, SIC Code 7371 (Data from eValtech)

## Rationale

- Until then Microsoft had focused mainly on software and operating systems – the acquisition of LinkedIn broadened its reach in terms of social networking services and professional content
- The acquisition allowed Microsoft to gain from product synergies utilizing LinkedIn data to enhance the capabilities of Microsoft Dynamics business software
- Tying Microsoft's Dynamics CRM with LinkedIn's Sales Navigator allows Microsoft to obtain LinkedIn information of customers and enables a personalized selling approach
- The issuance of debt associated with the financing of the deal helps Microsoft to lower its WACC due to its equity dominated capital structure

## Financial Advisors

Target	Fees	Acquirer	Fees
Quatalyst Partners	55.0	Morgan Stanley	32.1
Allen & Co Inc	4.0		

## Recent News

- **11/2019** Microsoft in AI deal with UK chipmaker Graphcore
- **10/2019** Microsoft wins \$10 billion Pentagon cloud contract
- **09/2019** Microsoft shares rise on dividend lift and buybacks boost to \$40 billion
- **07/2019** Microsoft backs OpenAI effort to replicate brain
- **07/2019** Microsoft tops earnings forecasts on cloud growth

## News prior to Transaction

- **2016/11** Microsoft-LinkedIn deal raises new competition concerns
- **2016/10** Microsoft shares climb to record high on cloud forecast
- **2016/08** Microsoft sells \$20 billion of debt to fund LinkedIn deal
- **2016/07** Microsoft profit rises into the cloud
- **2016/06** Microsoft recruits help in strategy shift; shifting from operating systems to applications and services that run on top of them

Sources:

*Financial Times, Thomson Reuters Eikon*

## Company Description

- Microsoft is an US-based technology company with business segments including: Productivity and Business Processes, Intelligent Cloud and More Personal Computing
- Besides the production of soft- and hardware it offers an array of services, including cloud-based solutions that provide customers with software, services, platforms, and content, and it provides solution support and consulting services
- Microsoft is listed at 6 stock exchanges including NASDAQ Global Select, BM&F Bovespa SA, Bolsa De Comercio, London Stock, NASDAQ Stock Exchange Global and Frankfurt Stock Exchange

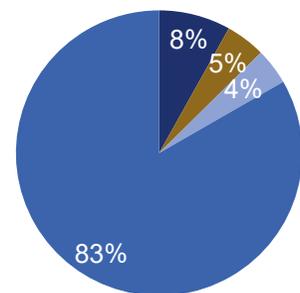
## Key Management & Ownership Structure



Satya Nadella  
CEO  
Since 2014



Amy E. Hood  
CFO  
Since 2013



- The Vanguard Group, Inc.
- BlackRock Institutional Trust Company
- State Street Global Advisors (US)
- Other Investors

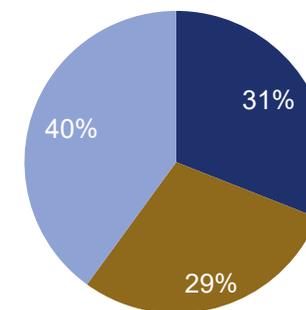
## Key Financials

All values in USDbn, except EPS (USD)

	Pre-deal	Deal year	Post-deal	Current year
	2015A	2016A	2017A	2019F
Revenue	93,580	91,154	96,571	125,843
% growth	7.8	(2.6)	5.9	14.0
EBITDA	17,978	25,756	28,970	42,933
% margin	19.2	28.3	30.0	34.1
NI	12,193	20,539	25,489	39,240
% margin	13.0	22.5	26.4	31.2
EPS	2.31	2.74	3.66	4.80

## Sales

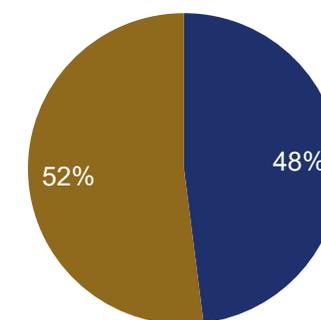
FY2018



■ More Personal Computing

■ Productivity and business processes ■ Other Countries ■ United States

■ Intelligent Cloud



## Recent News

- **11/2019** LinkedIn is the best free business advertising for attracting clients (Forbes)
- **11/2019** LinkedIn launches 'Open for Business' feature globally for SMEs
- **10/2019** LinkedIn engagement continues to rise, as per Microsoft's latest performance report (SocialMediaToday)
- **08/2019** LinkedIn fights China's effort to recruit spies in US (FT)

## News prior to Transaction

- **11/2016** Microsoft-LinkedIn deal raises new competition concerns
- **08/2016** LinkedIn recovery continues ahead of Microsoft deal
- **07/2016** Bidding war drove up Microsoft's LinkedIn bill
- **06/2016** LinkedIn finds its greatest endorsement in Microsoft deal
- **04/2016** LinkedIn shares rise as profits top estimates

Sources:  
Financial Times, Thomson Reuters Eikon

## Company Description

- LinkedIn is a social network for professionals which is focused on business-relations and is employment-oriented, with approximately 400 million members in over 200 countries and territories
- The company provides most of its services free of charge. Its paid-services can be divided into three product lines: Talent Solutions (including Hiring, and Learning and Development); Marketing Solutions and Premium Subscriptions
- LinkedIn is based in the US and was prior to the deal listed at the New York Stock Exchange

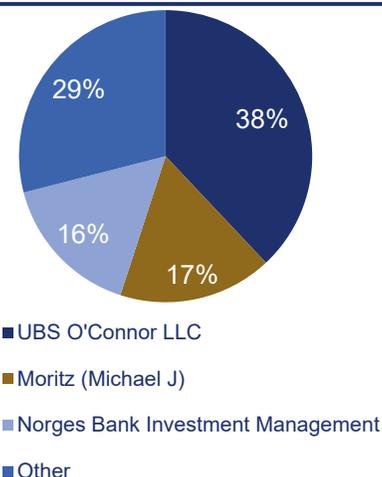
## Key Management & Ownership Structure



Jeff Weiner  
CEO  
Since 2009



Steve Sordello  
CFO  
Since 2007



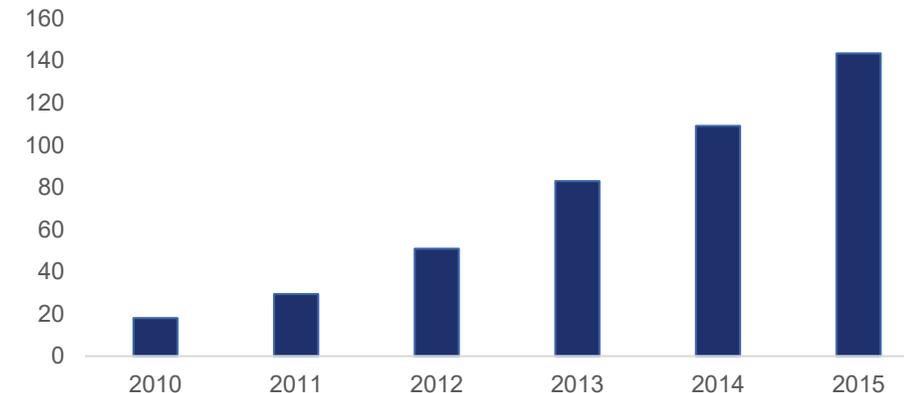
## Key Financials

All values in USDbn, except EPS (USD)

	2013A	2014A	2015A
Revenue	1,529	2,219	2,991
% growth	57.3	45.1	34.8
EBIT	47.8	36.1	(150.9)
% margin	3.1	1.6	(5.0)
NI	26.8	(15.7)	(166.1)
% margin	1.8	(0.1)	(0.5)
EPS	0.23	(0.13)	(1.29)

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