

THE OIC GROUP

HKG GROUP 5

Monthly Report

November 2024



OIC Research Group | Analyst Group Report

Associate: Alan Chen Analysts: David Tian, Kate Chen, and Renee Ngan

November 2024

IBM's US\$6.4 bn Acquisition of HashiCorp, Inc.

Transaction Summary

| | |
|-------------------|------------------------|
| Announcement Date | April 24, 2024 |
| Transaction Size | US\$6.4 bn |
| Close Date | Q4, 2024 |
| Deal Structure | Cash, US\$35 per share |
| EV/Revenue | 10.98x |

Deal Background

- IBM's acquisition of HashiCorp aligns with its investment thesis of strengthening **hybrid cloud capabilities, AI integration, and automation management**, addressing the growing enterprise need for managing complex infrastructure across public, private, and on-premises environments.
- The deal leverages HashiCorp's expertise in providing critical workflow management systems for **hybrid and multi-cloud environments**, particularly crucial as organizations face increasing cloud workload complexity and **generative AI demands**.

Deal Rationale

Acquirer

- Market Opportunity:** Acquisition targets the expanding hybrid cloud market (**\$1.1T in 2023, high-teens CAGR through 2027**). HashiCorp's technology could strengthen IBM's end-to-end hybrid cloud solutions across hyperscale cloud, private, and on-premise environments.
- Strategic Product Portfolio Integration:** Following IBM's \$34B acquisition of Red Hat in 2019, HashiCorp's two major products - **Terraform** (an infrastructure as code (IaC) solution) and **Vault** (a credentials management platform) - **offer strong synergies with Red Hat's Ansible and OpenShift software** layers.
- Cross-selling Opportunity:** HashiCorp's leadership in IaC space brings over 4,400 premium enterprise clients, including 85% of Fortune 500 companies. Given IBM Cloud's current 1.8% market share, HashiCorp's established enterprise customer base **creates significant cross-selling opportunities** to expand IBM's cloud services footprint.

Seller

- Financials:** HashiCorp faced severe profitability challenges, reporting **\$274 mn loss** on **\$583.1 mn** revenue in FY2023, with weak growth metric to profit by FY2025. It exemplified challenges in open-source business models.
- Market Position Challenge Due to License Change:** HashiCorp's switch **from Mozilla open-source license to restrictive BSL 1.1** backfired, sparking community backlash and leading to OpenTofu, a competitor with less restrictive model and mature ecosystem support from cloud providers.

Acquirer

IBM (NYSE: IBM)



IBM is a global technology leader with a distinctive hybrid cloud and AI ecosystem, its competitive edge stemming from the integration of open-source solutions with enterprise consulting and pioneering work in quantum computing and AI.

| | |
|----------------|-------------------|
| Founded Year | 1911 |
| HQ | The United States |
| Market Cap | US\$189.54 bn |
| LTM Revenue | US\$14.97 bn |
| LTM EBITDA | US\$3.62 bn |
| LTM EV/Revenue | 3.77x |
| LTM EV/EBITDA | 15.84x |

NYSE:IBM Share Pricing USD



Target



HashiCorp, Inc. (NASDAQ: HCP)

HashiCorp stands as the industry standard for infrastructure automation and security software, offering cloud-agnostic enterprise solutions. Its comprehensive product portfolio includes Terraform, Vault, Consul, and Nomad for multi-cloud operations.

| | |
|----------------|-------------------|
| Founded Year | 2012 |
| HQ | The United States |
| Market Cap | US\$6.846 bn |
| LTM Revenue | US\$165.14 mn |
| LTM EBITDA | US\$-35.68 mn |
| LTM EV/Revenue | 8.89x |
| LTM EV/EBITDA | -22.85x |

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Short-term Implications

- **Growth Performance:** IBM reports US\$14.5 bn first-quarter sales with 1% yoy growth and stagnant consulting division performance, while HashiCorp posts **22% sales growth** reaching US\$583 mn in its recent fiscal year.
- **Market Response:** IBM's stock price plummeted from US\$184.10 to US\$168.91 by 8.3% after the date of acquisition announcement. While HashiCorp's **stock price of US\$31.41 aligns with IBM's \$6.4 bn acquisition valuation**, following a 10% decline over the past year. Meanwhile, IBM maintains its market value around US\$167 bn and **reiterates its \$12 bn free cash flow forecast**, indicating relative market stability despite decrease in stock price during the pending acquisition period.
- **Strategic Independence Signal:** HashiCorp's recent rollout of Terraform 2.0 and new security features during the acquisition period, while deliberately downplaying the \$6.4 bn IBM deal at HashiConf 2024, mirrors Red Hat's successful transition under IBM. This **product-focused approach**, backed by CEO David McJannet's emphasis on innovation over acquisition details, suggests HashiCorp is actively positioning itself for a **Red Hat-style autonomous operational model** where it maintains technical independence while leveraging IBM's enterprise resources.

Long-term Implications

- **Integration vs Service-Led Revenue:** IBM's consulting-focused business model and Red Hat's open-source influence suggest a potential shift away from HashiCorp's product-licensing strategy towards **an integrated hybrid cloud offering** that prioritizes service revenue - this strategic pivot could reshape IBM's competitive position in the hybrid cloud market while **alleviating the monetization pressures** that drove HashiCorp's original licensing decisions.

Precedent Transaction

| Announce Date | Target | Acquirer | %Cash | Offer per Share (\$US) | EqV/ Book Value | Transaction Value (\$US mn) | EV (\$US mn) | EV / Revenue |
|---------------|-------------------------|---|-------|------------------------|-----------------|-----------------------------|--------------|--------------|
| Jul 30, 2023 | New Relic | TPG Capital; Francisco Partners Management | 100% | 87.00 | 19.7x | 7,054.2 | 6,597.3 | 6.9x |
| Mar 12, 2023 | Qualtrics International | Silver Lake Technology Management; Canada Pension Plan Investment Board | 100% | 18.15 | 6.0x | 11,166.2 | 10,910.9 | 7.5x |
| Dec 11, 2022 | Coupa Software | Abu Dhabi Investment Authority; Thoma Bravo | 100% | 81.00 | 23.8x | 9,053.7 | 8,193.6 | 10.0x |
| Aug 8, 2022 | Avalara | Vista Equity Partners Management | 100% | 93.50 | 8.5x | 9,831.4 | 8,367.6 | 10.6x |
| Jun 24, 2022 | Zendesk | Hellman & Friedman; Permira Advisers; GIC; Abu Dhabi Investment Authority | 100% | 77.50 | 30.7x | 10,989.5 | 9,890.9 | 6.9x |
| Nov 22, 2022 | Vonage Holdings | Telefonaktiebolaget LM Ericsson | 100% | 21.00 | 9.2x | 6,364.3 | 6,315.9 | 4.9x |
| Jul 25, 2021 | Medallia | Thoma Bravo | 100% | 34.00 | 15.1x | 7,070.8 | 6,530.3 | 13.2x |
| Mean | | | | 58.9 | 16.1x | 8,790.0 | 7,649.27 | 8.6x |
| Median | | | | 77.5 | 15.2x | 9053.7 | 8,193.6 | 7.5x |