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## Microsoft and GitHub: Jaw-Dropping Price Tag Brings Competitive Concerns

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August 29, 2018

Microsoft has offered \$7.5 billion to acquire GitHub, a software company unknown to most people, but on which programmers, developers, and other techies depend. GitHub is the dominant open source platform that provides a repository and version control systems used by programmers to store code and collaborate on projects.

Even in a world in which billion dollar tech acquisitions have become run-of-mill, this deal raises eyebrows. Microsoft's \$7.5 billion offer is approximately 30 times GitHub's annual recurring revenue---an incredible multiple. After all, Microsoft's 2016 acquisition of LinkedIn for \$26 billion was a mere 7.2 times LinkedIn's annual recurring revenue.

It is a fair question to ask what Microsoft plans to do with GitHub to make the acquisition not only profitable, but *very* profitable to justify this multiple. This question seems especially salient because GitHub is apparently losing money at an alarming rate. As a recent Wall Street Journal op-ed warned, Microsoft might restrict a crucial platform for its rivals, mine GitHub for data of competitors' activities, target ads towards users, or restrict free services. Its control could lead to a sort of surveillance of innovative activity, giving it a unique, macro-scaled insight into software development. Indeed, groups are forming, like SaveGitHub.com, to urge the Federal Trade Commission (FTC) and policymakers to take a closer look.

In response, the Cato Institute's Alan Reynold argues that Microsoft would never engage in such harmful behavior because it would be unprofitable for GitHub. Microsoft, he argues, "is buying GitHub to sell it, not wreck it."

But, at a price of less than 1% of Microsoft's staggering \$815 billion total capitalization and given that it is currently losing money, GitHub offers a profit potential—a financial value—that is difficult to discern. Indeed, as Paul V. Weinstein has written in the Harvard Business Review, GitHub's value to Microsoft likely does not reside its financial value: how many customers it has, its revenue, or growth potential.

Rather, as Weinstein argues, GitHub's value to Microsoft is *strategic*, not financial. GitHub's value is realized not by its ability to generate and/or protect Microsoft's profits. Instead, as Weinstein claims, Microsoft is paying \$7.5 billion for GitHub's "access to the legions of developers who use GitHub's code repository products on a daily basis" so they can be "guided into the Microsoft developer environment, where the real money is made."

Reynold's argument, therefore, misses the point. It may not matter to Microsoft that restricting access, compromising private data, or engaging in unfair data mining would be unprofitable to GitHub. Microsoft is not interested in making money from GitHub. Rather, Microsoft *might* engage in these strategies to protect its existing, fabulously profitable software business.

These strategic concerns could very lead Microsoft to harm users and competitors, particularly in the area of intellectual property and data privacy. GitHub gives Microsoft insight into competitors' entire development history. This information would allow Microsoft to more vigorously enforce its patents and other IP rights against competitors becoming a sort of patent troll of epic proportion—a veritable IP balrog. While this strategy would harm GitHub, it would protect the Microsoft's software where, as Weinstein says, the real money is made.

Similarly, GitHub's incentives for privacy also change under new ownership. Microsoft has an incredibly diverse array of products and services including Office, Windows and hundreds of other software programs, LinkedIn, Skype, and Azure's Cloud services. Microsoft combines data from all of these platforms for everything from A.I. development to targeted advertising. The value of GitHub user's data may be worth more to Microsoft than the number of users it loses if it changes its policies.

The merger, of course, has many positive benefits as well. Microsoft's investment could add additional resources to improve GitHub's services and may come up with innovative ways to integrate it with other platforms, producing a better product for consumers.

But that is why GitHub users and those involved with SaveGitHub.com want to encourage Microsoft to make commitments not to use the service to mine data, harm competitors, or to launch IP lawsuits. The FTC should be asking similar questions as well.