



THE POTENTIAL ACQUISITION OF PINTEREST, INC



BY MICROSOFT CORPORATION



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CLIENT SPECIFICATION

Microsoft has been shopping for communities to pick up for quite some time, but its forays into the social media since Microsoft's purchase of LinkedIn in 2016 have been unsuccessful. Last year, Microsoft has given up on Mixer since it didn't have a committed user base behind it. Microsoft is actively looking to acquire social media companies that have a committed user base to boost Azure's share in the cloud market and Azure's appeal. Microsoft executives have sought advice from MSR Investments to gain some insights on potential accretive acquisitions that can help Microsoft Azure reach more users.

Dear Mr Nadella,

Following our previous conversation, it's with immense pleasure that I am attaching the Investment Report of Pinterest, Inc (PINS)

We identify this social media company as the perfect candidate for Microsoft's acquisition plans since it would allow the company to not only boost Azure's share in the cloud market but also would allow Microsoft to use the large amount of data to customize its other apps and business services. Essentially, this sheer volume of generated by Pinterest will train Microsoft's AI technologies.

We would recommend and complete acquisition of Pinterest at a share price of \$26.87 per share with an implied valuation of \$15,537 billion.

The attached report contains:

- a) An overview of the business profile and financial profile of Microsoft
- b) An overview of the business profile and financial profile of Pinterest
- c) The proposed deal rationale
- d) An extended valuation of Pinterest, including comparable companies, comparable transactions and DCF model metrics
- e) A Post-acquisition analysis to determine Microsoft's financial position post-acquisition

We remain committed for any potential additional queries.

Best regards,

The Advisory Team
MSR Investments



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1. COMPANY PROFILE: MICROSOFT CORPORATION

1.1 Business Overview

Microsoft Corporation, listed on the NASDAQ stock exchange (MSFT), is an American multinational computer technology corporation founded in 1975 that has now become one of the most valuable companies in the world. Microsoft is involved in developing, licensing, and supporting a range of software products and services catering to different needs and requirements. For this acquisition, we will be looking further into Microsoft's cloud computing service known as Microsoft Azure.

1.2 Microsoft Azure (previously known as Windows Azure)

Windows Azure platform became commercially available in 2010. Initially, Azure received backlash from many critics and considered much inferior to AWS. Over time, Microsoft improved Azure drastically. It added support for a wide variety of programming languages, frameworks, and operating systems. Realizing that its cloud computing service had moved far beyond Windows, Microsoft renamed Windows Azure as Microsoft Azure in 2014. Today, Azure became a robust cloud platform for not only IaaS(Infrastructure as a Service¹), but also PaaS(Platform as a service²). Microsoft Azure has a rich ecosystem with a lot of partnerships and collaborations with other technology vendors, giving them unlimited capabilities when it comes to growth and changes (Bresee, 2022). Users can now add new services, up their storage capabilities, and create new applications as they go, without needing to worry about possessing the infrastructure to support any changes. Furthermore, Azure drastically eliminates the need for costly hardware and the in-house IT manpower to maintain the costly hardware, saving the companies a lot of money. Practically any cloud computing product that a business could need can be found on the platform and so the cost of Azure varies enormously depending on which parts of it a business decides to use, and how much they use it (Wright, 2022).

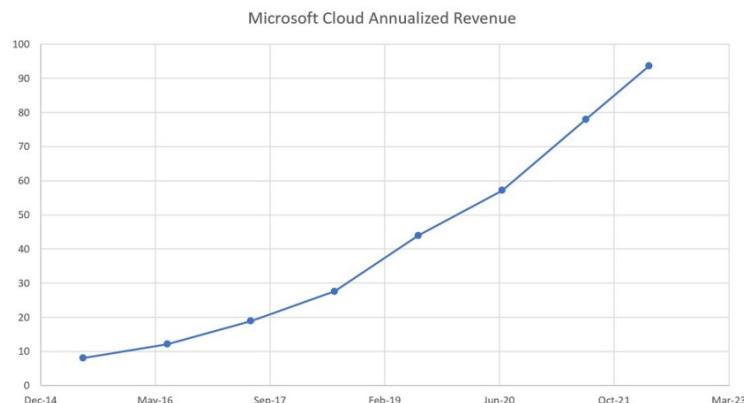
¹ Infrastructure as a Service: cloud computing service that offers essential compute, storage, and networking resources on a pay-as-you-go basis

² Platform as a Service: cloud computing service that offers resources that allow for complete development and deployment environment in the cloud.

1.3 Azure Growth

Goh (2022) claims "With benefits such as cost savings on hardware and automatic software integration, many companies are moving to the cloud ... Seizing on the cloud computing trend, Azure was able to grow its revenue at an astounding year-on-year rate of 91% and 72% for FY2018 and FY2019 respectively." Underscoring Azure's growing reputation in the industry, the FY22 Q3 results showed that Microsoft Cloud achieved a \$23.4 billion number (up 32% year-over-year), equivalent to a \$93.6 billion annualized run rate. That's a huge hike from the \$8 billion number Microsoft Cloud achieved in 2015 (Redmond, 2022).

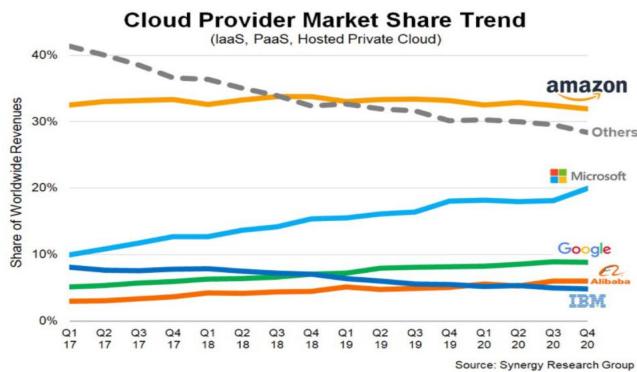
Figure 1: The growth in Microsoft Cloud revenues since 2015



(Redmond, 2022)

Goh (2022) reports "However, as Amazon entered the cloud computing space much earlier than Microsoft did, Amazon Web Services (AWS) still dominated the industry with 32.3% of market share in 2019 and Azure is just behind AWS with 16.9% of market share. Closing the gap, Azure pulled off a stunning upset against AWS to win a US\$10 billion Pentagon technology contract (Goh, 2022). Emphasizing the dominance of Amazon and Microsoft in the cloud market, Columbus (2022) reports "In 2020, according to Synergy Research Group's latest cloud market analysis, Amazon and Microsoft are over 50% of the global cloud provider market, with Microsoft reaching 20% worldwide market share for the first time."

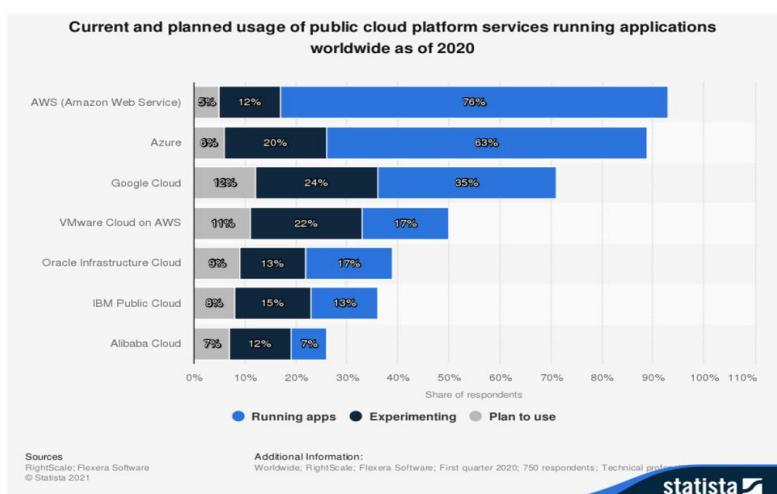
Figure 2: Cloud Provider Market Share Trend



(Columbus, 2022)

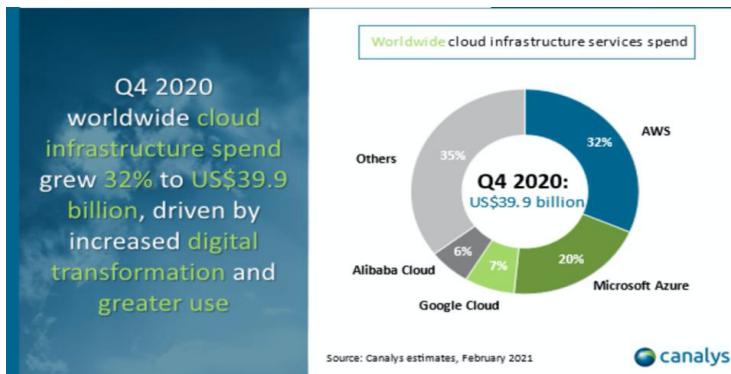
Furthermore, Columbus (2022) states “Azure is narrowing the gap with AWS in the percentage of enterprises using it...Currently, 63% of enterprises are currently running apps on Microsoft Azure, second only to AWS. The 2020 total cloud infrastructure services spending grew 33% to \$142 billion in 2020 from \$107 billion in 2019...” During this time companies were turning to trusted business partners to manage their cloud journeys. Columbus (2022) claims that the high level of sales enablement, sales and technical support Azure was providing resellers further accentuated the dominance of indirect selling channels. Microsoft’ indirect channel business fuelled their 20% market share growth.

Figure 3: Current and planned usage of public cloud platform services running apps



(Columbus, 2022)

Figure 4: Cloud Infrastructure Services Spend



(Columbus, 2022)

1.4 Financial Profile

Azure's growing reputation in the industry is reflected in the rapid revenue growth (Figure 1).

Consequently, Azure is a huge reason for Microsoft's healthy profitability growth.

Figure 5: Microsoft Financial Results

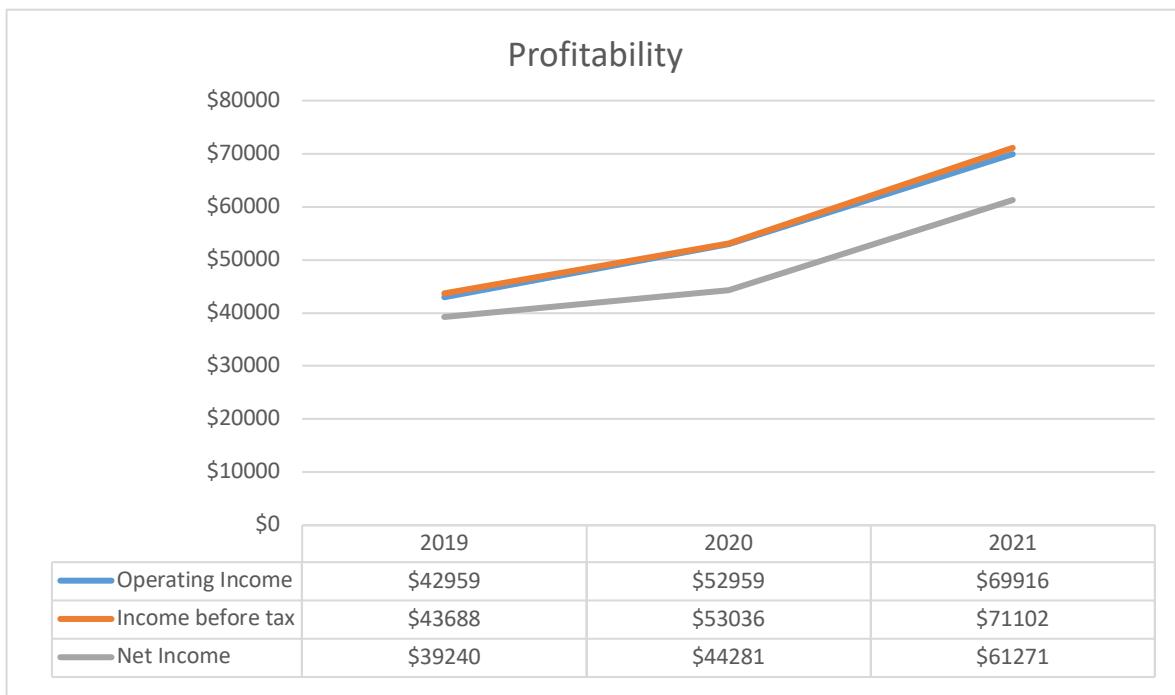
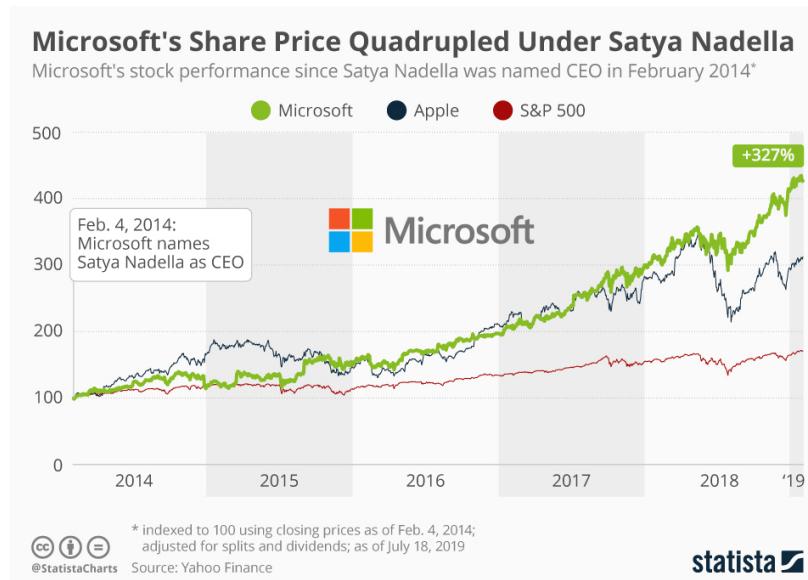


Figure 6: Microsoft's Share price performance



(Richter, 2022)

Microsoft outperformed both Apple and the wider market in the past 5 years. As seen in the chart, Microsoft's share price grew by 327% since Nadella took over, whereas Apple's share price increased by 212% over the same period. The wider market, as represented by the S&P 500 index, grew by only 71% over the same period (Richter, 2022).

2. COMPANY PROFILE: PINTEREST, INC

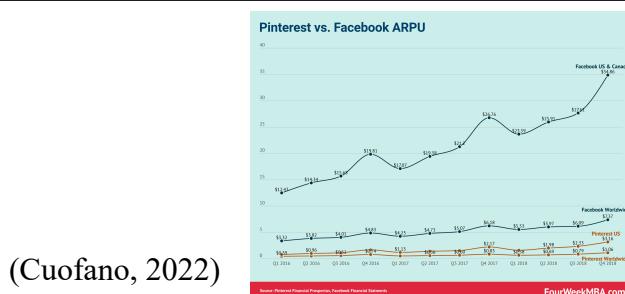
2.1 Business Overview

Pinterest, listed on the NYSE stock exchange (PINS), is an American social media service founded in 2010 that has now become one of the most beloved social media platforms in the world. Using a visual orientation, Pinterest is a social network that is focused on the concept of a person's lifestyle, allowing users (or pinners) to share tastes and interests with others and discovering those of like-minded people. Today, this social media giant is worth over \$50 billion and has over 459 million monthly active users. In the past few years, mostly attributed to the Covid pandemic, Pinterest has showed immense potential for promoting business and boosting sales (Schultz, 2022).

2.2 How Pinterest makes money?

Cuofano (2022) mentions "The key players in the Pinterest business model are pinners and advertisers. Though pinners don't pay a dime for the service, they are at the core of the business model because without an engaged, consistent, and robust user base, there wouldn't be any advertising business." Essentially, Pinterest makes money by selling advertising to marketers and companies that want to gain visibility for their brand. Like Facebook, Pinterest uses targeted advertising to monetize its user base. Pinterest has yet to tap into its growth potential as Facebook ARPU³ is about 10X of Pinterest (Cuofano, 2022).

Figure 7: Pinterest vs Facebook ARPU



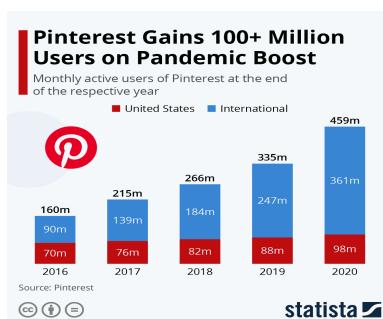
(Cuofano, 2022)

³ ARPU (or Average Revenue per user): a critical metric which shows how good is Pinterest in monetizing its user base

2.3 Growth in recent years

Pinterest has been doing tremendously well in recent years. Richter (2022) claims “According to the Financial Times, Microsoft was looking into acquiring the \$50 billion company after its plans to buy TikTok had fallen through in 2020. Microsoft’s interest is a testament to Pinterest’s success, which saw the company’s market capitalization grow roughly eightfold since March 2020.” As the Covid pandemic forced people to spend more time at home, leading to more time online, Pinterest took advantage, gaining more than 120 million active users in 2020 alone and almost tripling its user base since 2016 (Richter, 2022).

Figure 8: Growth in Monthly active users for Pinterest from 2016

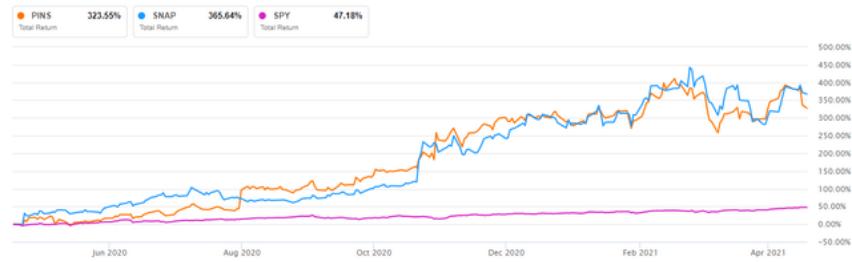


(Richter, 2022)

2.4 Financial Profile

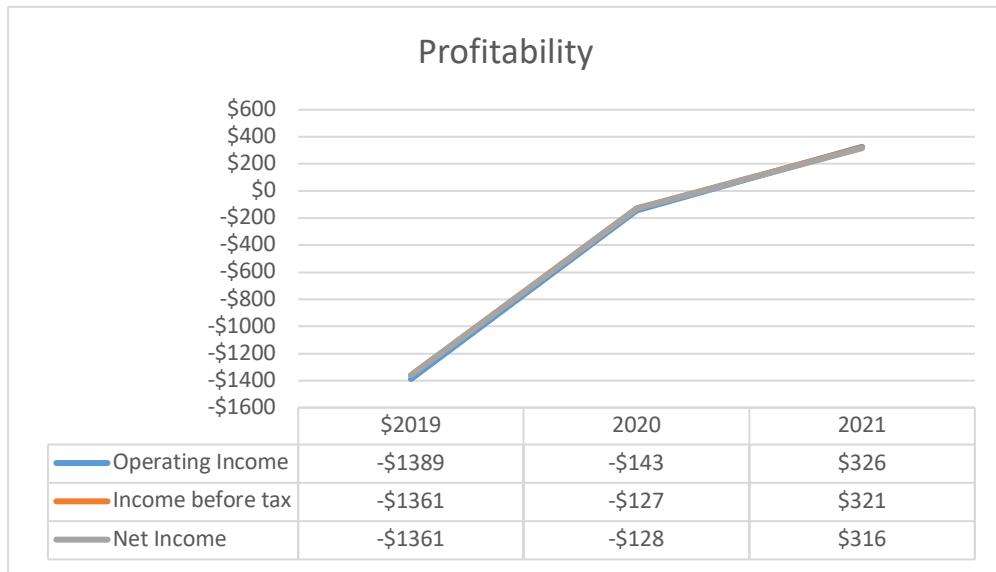
During the Covid period, PINS has returned 350% compared to SNAP’s 370% return and S&P 500 52% return. However, currently, Pinterest has been going through a rough stretch the last 12 months. As the world was moving back to normalcy and people started to return to work and classrooms, the shares plummeted. Though it’s unfair to compare Pinterest’s recent performance to its performance during the Covid period, Pinterest’s price fell below its IPO price recently and so it’s hard for any new investor to be bullish on its prospects. It has partially recovered to its levels before the pandemic, but the price is still well off its all-time highs (SeekingAlpha, 2022).

Figure 9: Pinterest's performance vs SNAP vs S&P 500



(SeekingAlpha, 2022)

Figure 10: Pinterest Financial Results

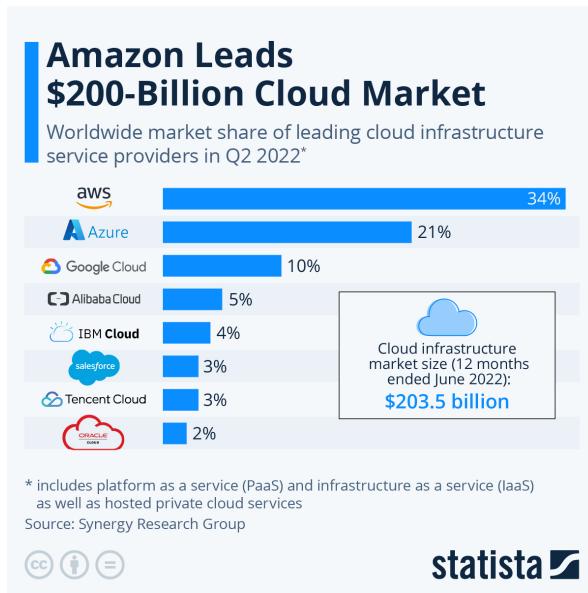


3. DEAL RATIONALE

3.1 Boost share in the Market

Gad (2022) claims “Microsoft’s acquisition strategy is predominately focused on amassing a portfolio of active online communities that could run on top of its cloud computing platform. Microsoft already revealed its interest in acquiring a social media company when it tried to buy the US operations of TikTok.” If this deal was successful, Microsoft would have been offered valuable data for its other businesses and this deal would have served as a giant ad for its partners and resellers that try to persuade businesses to choose Azure and not AWS. After adding over than 120 million active users over the course of the pandemic, Pinterest currently has over 459 million monthly active users. Essentially, the social media giant would place Microsoft in the ideal position to boost not only Azure’s appeal but also Azure’s market share (Gad, 2022).

Figure 11: Latest Cloud Market Share Numbers



(Richter, 2022)

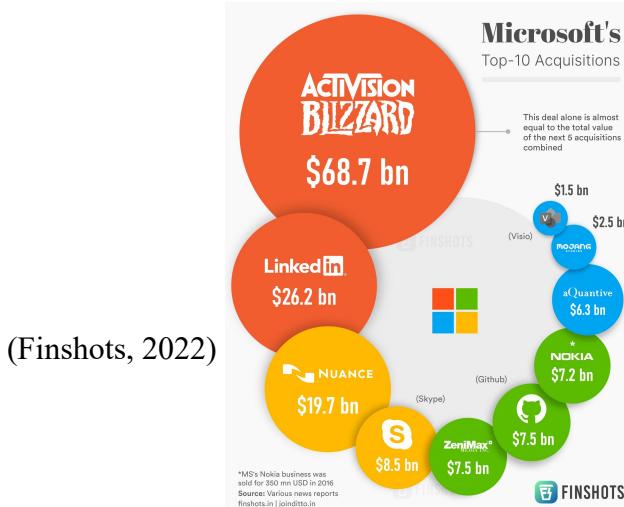
3.2 Provide valuable data for Microsoft's AI systems

Microsoft is a software company transforming into a cloud company, hoping to become a top-tier AI company like Alphabet. To pull this off, it needs a lot more data. Phillips (2022) mentions “The acquisition of a social media site, where millions of users post images of things they’re interested in, will provide valuable labelled data for Microsoft’s other businesses. For example, data from LinkedIn is used to customise other Microsoft apps and services.” Microsoft would employ this labelled data to train machine learning models that help enhance its AI systems. Microsoft could use Pinterest as testing ground for consumer AI services because Pinterest essentially at its core is a data and AI company (Protalinski, 2022).

3.3 Microsoft's recent Shopping Spree

Among the tech giants, Microsoft had more than 50 acquisitions in 2021. Monica (2022) reports “Microsoft recently capped its acquisition spree with the purchase of Activision Blizzard, \$70 billion investment in video gaming and building the metaverse. However, this isn’t the only deal in the Nadella era. Microsoft picked up advertising tech business Xandr from CNN owner AT&T late last year for around \$1 billion.” The company also bought the cloud software firm Nuance earlier in 2022 for \$20 billion. We can’t forget about the LinkedIn deal in 2016, in which Microsoft shelled out \$26.2 billion (Monica, 2022). Currently, Microsoft is looking for more deals in high growth markets where Microsoft can uniquely create value for the community. Pinterest is in the high growth market and can help Microsoft to add value to the users in the community.

Figure 12: Microsoft's Top 10 Acquisitions



3.4 Microsoft Acquisition Capacity

Monica (2022) mentions “Microsoft could be looking for acquisitions to use some of the massive amount of cash it has on its balance sheet. Currently, Microsoft has about \$130 billion, and would still have around \$60 billion left over after the Activision deal closes.” Coming to Microsoft’s capital structure, it has a low debt to equity ratio, signifying that the company can generate enough cash to satisfy its debt obligations.

Figure 13: Microsoft’s Debt to Equity Ratio



4. PINTEREST VALUATION

The valuation of Pinterest, Inc will be predicated upon the DCF model (Perpetuity approach, Exit EBITDA approach), comparable company and comparable deal multiples.

4.1 DCF Valuation

“The DCF valuation is done with Pinterest’s financial results as of August 12th. Furthermore, every market rate, share price, and financial results are from the same date. Consensus research forecasts have been employed to forecast the projected results and effective tax rates. The valuation is based on a 5-year forecast.” Adjusted Beta ⁴ is used in this valuation as it tends to estimate a security’s future beta.

→Adjusted Beta of Pinterest: 1.052(Bloomberg)

Figure 14: Cost of Equity Valuation

Risk free rate	2.50%
Beta	1.052
Market risk premium	5.50%
Cost of equity	8.3%

(Own work, Bloomberg, Duff & Phelps)

Considering the risk-free rate, current US market risk premium, and Pinterest’s Adjusted Beta, the cost of equity came out to be 8.3%

Figure 15: Cost of Debt Valuation

Cost of debt	5.80%
Tax rate	15.50%
Cost of debt (after tax)	4.90%

(Own work, Capital IQ)

Pre-tax cost of debt was calculated at 5.8% using the capital structure profile of Pinterest.

⁴ Adjusted Beta: Historical beta adjusted to reflect the tendency of beta to be mean reverting the CAPM’s beta value will move towards the market average, of 1, over time

Figure 16: Weighted Average Cost of Capital (WACC) Calculation

Equity	15,691.1
Debt	(2,465.5)
Equity Ratio	118.6%
Debt Ratio	(18.6%)
Cost of capital (WACC)	8.9%

(Own work, Capital IQ)

(In millions)

Pinterest's WACC is calculated at 8.9% using 4.9% after-tax cost of debt, 8.3% cost of equity, and 118.6% and (18.6%) capital structure.

Figure 17: DCF Model Part I (NOPAT Calculation)

Fiscal year ended	Actual	Forecasts				
		12/31/21	12/31/22	12/31/23	12/31/24	12/31/25
Revenue	2,578	2,791		3,293	3,886	4,148
% growth		8.3%		18.0%	18.0%	6.8%
Adj EBITDA	814	405		576	777	975
%margin	31.6%	14.5%		17.5%	20.0%	23.5%
EBIT	326	42		198	330	436
% margin	12.7%	1.5%		6.0%	8.5%	10.5%
Tax on EBIT	2	2		33	59	68
Tax rate	0.6%	5.5%		16.5%	17.8%	15.5%
NOPAT (aka EBIAT)	324	40		165	271	368
						504

(Own work, Capital IQ, Bloomberg)

(In millions)

Figure 18: DCF Model Part II (Unlevered Free Cash Flow Calculation)

Fiscal year ended	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
NOPAT (aka EBIAT)		40	165	271	368	504
Depreciation & amortization	28	33	36	36	39	45
Stock Based Compensation & Other	461	329	343	411	500	485
Changes in net working capital	(49)	(36)	(86)	(102)	(45)	(46)
Capital expenditures	(9)	(10)	(11)	(14)	(14)	(15)
as % of revenue	0.3%	0.3%	0.3%	0.3%	0.3%	0.3%
Net working capital (WC Assets - WC liabilities)	442	478	564	666	711	757
as % of revenue	17.1%	17.1%	17.1%	17.1%	17.1%	17.1%
Unlevered free cash flows (UFCF)		356	446	603	848	972

(Own work, Capital IQ, Bloomberg)

(In millions)

Figure 19: DCF Model Part III (Present Value of Unlevered FCF)

Present value of UFCF on Aug 12, 2022 valuation date							
Discount rate (WACC)	8.90%	Val date	Yr1-Stub	Year 2	Year 3	Year 4	Year 5
Date for discounting cash flows	Stub %	12/08/2022	31/12/2022	31/12/2023	31/12/2024	31/12/2025	31/12/2026
Unlevered free cash flows (UFCF) stub adjusted	38.6%		138	446	603	848	972
Present value of unlevered free cash flows			133	396	492	635	669

(Own work, Capital IQ, Bloomberg)

(In millions)

A combination of Capital IQ consensus estimates and analyst reports from Bloomberg were used to forecast the expected unlevered cash flows for the 5 years after 2021. With the DCF model completed, the Perpetuity and Exit EBITDA Multiple Valuation can be calculated.

Figure 20: Enterprise Value calculated using Perpetuity and EBITDA multiple

Terminal value - growth in perpetuity approach	
Long term growth rate	4.0%
2026 FCF x (1+g)	1,011
Terminal value in 2026	20,640
Present value of terminal value	14,197
Present value of stage 1 cash flows	2,326
Total enterprise value (TEV)	16,522

Terminal value - EBITDA multiple approach	
Terminal year EBITDA	1,127
EBITDA multiple	18.3x
Terminal value in 2026	20,615
Present value of terminal value	14,180
Present value of stage 1 cash flows	2,326
Enterprise value (stage 1 + 2)	16,505

(Own work, Capital IQ, Bloomberg)

(In millions)

Figure 21: Net debt

Net debt	
Source doc	Q2 2022 10Q
Source date	30/06/2022
Gross debt and equivalents	
Debt	193
Convertible debt	0
Preferred stock	0
Noncontrolling (minority) interests	0
Nonoperating assets	
Cash	2,658
Equity investments	0
Net debt	(2,466)

(Own work, Capital IQ, Pinterest 10Q) (In millions)

Figure 22: Net Diluted Shares Outstanding

Shares outstanding	Source doc	Shares
Basic shares	Q2 2022 10Q	662.000
Restricted stock / RSUs	Q2 2022 10Q	3.700
Options / warrants	Q2 2022 10Q	4.000
Convertible debt		0.000
Convertible preferred stock		0.000
Net diluted shares outstanding		669.700

(Own work, Capital IQ, Pinterest 10Q) (In millions)

Figure 23: Perpetuity and Exit EBITDA Multiple Valuation

Valuation	Perpetuity	EBITDA
Enterprise value	16,522	16,505
Net debt	(2,466)	(2,466)
Equity value	18,988	18,971
Shares outstanding	670	670
Equity value per share	\$28.35	\$28.33

(Own work) (In millions)

Both the Perpetuity and Exit EBITDA valuation methods show that the Pinterest stock (PINS) is undervalued, trading below its real value, with a share price of \$23.43. The above

valuation methods deduce an equity value around \$19 billion, whereas the current market cap is around \$15.7 billion.

4.2 Comparable Companies Multiple Valuation

The comparable companies that are going to be used to carry out the comparable company multiple valuation are Pinterest's competitors. The rationale behind using Meta, Twitter, and Snap is that they're all social media companies like Pinterest. The rationale behind using Alphabet is because Pinterest's visual search engine puts it in direct competition with it. Lastly, though it's not a social media company or a search company, the reason behind including Amazon is because of Pinterest's emphasis on shopping.

Figure 24: Comparable Company Multiples

Company	Ticker	Market Cap	Cash	Total Debt	EV	EV/Revenues	EV/EBIT	EV/EBITDA	Adj. P/E
Meta	Meta	486,150.60	40,490	16,679	462,340.50	7.7	11.6	14.1	19.8
Twitter Inc	TWTR	31,241.80	2680.6	6,717.20	34,168.70	6.5	-121.5	58.3	-
Pinterest Inc	PINS	13,142.50	1641.5	192.5	12,928.90	4.8	44.8	34.6	17.8
Alphabet Inc	GOOGL	1,502,054.90	17,936	28,810	1,460,001.70	5.2	17.7	14.5	44.6
Tencent	TCEHY	370,261.90	42,234.60	50,284	389,442.50	4.7	23.5	18	12.5
Amazon	AMZN	1,458,654.00	60,710.00	157,560	1,458,654.10	2.4	101.7	15.4	25.8
Mean						5.22	12.97	25.82	24.10
Mean excluding PINS						5.30	6.60	24.06	25.68
Mean excluding PINS and Companies with negative multiples						5	38.625	15.5	25.675

(Own work, Capital IQ, Bloomberg)

	EV/Revenue	EV/EBIT	EV/EBITDA	Adj P/E
Mean excluding PINS and Companies with negative multiples	5	38.625	15.5	25.675
High	7.7	101.7	18	44.6
Low	2.4	11.6	14.1	12.5
Bull	6.45	62.6	16.7	35.2
Bear	3.55	14.65	14.3	16.15

(Own work, Capital IQ, Bloomberg)

Figure 25: PINS, Inc Implied EV using Company Multiples

PINS, Inc Implied EV	Bull	Mean	Bear
Revenue	16628.29	12890.15	9152.01
EBITDA	13599.98	12622.74	11645.49
EBIT	20419.49	12599.09	4778.68
P/E	24935.79	17520.96	10106.13

Figure 26: PINS, Inc Implied Share Price using Company Multiples

PINS, Inc Implied Share Price	Bull	Mean	Bear
Revenue	28.50	22.92	17.34
EBITDA	23.98	22.52	21.06
EBIT	34.16	22.49	10.81
P/E	40.90	29.83	14.52

Figure 27: Comparable Multiples EV Valuation Football Field

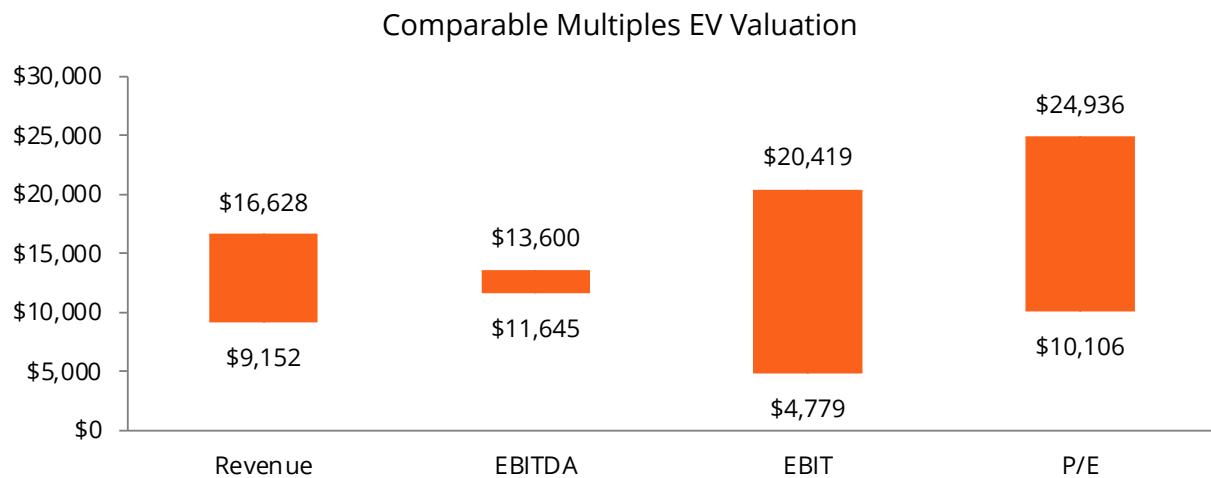
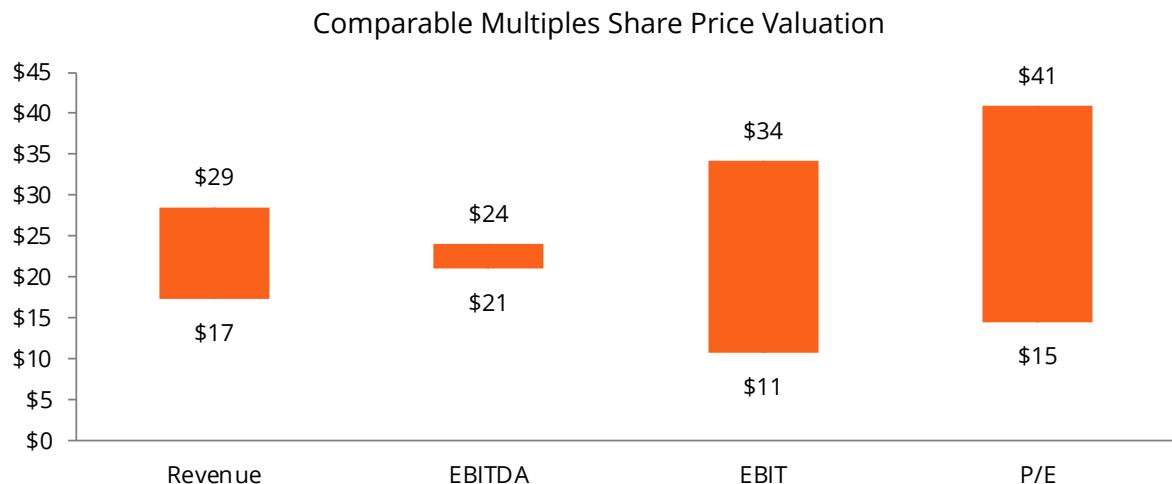


Figure 28: Comparable Multiples Share Price Valuation Football Field



The comparable companies' valuation shows that PINS, with the share price of \$23.43, is undervalued in the Bull market and overvalued in the Bear Market

4.3 Comparable Transaction Multiples

For comparable transaction multiple valuation, it's imperative to look at deals where the acquisition target has a similar business model and similar client base. Like Pinterest,

YouTube, LinkedIn, Instagram are social media giants that cater to millions of users around the world. Though technically a social network, Skype is still an application that does facilitate relationships and allows the sharing of and interaction with content. Therefore, Skype can be considered as a messaging service with social media features.

Figure 29: Comparable Deals Multiples

	EV/Revenue	EV/EBITDA	EV/EBIT
Mean	3.79	22.78	28.83
High	7.49	33.58	56.13
Low	2.49	13.58	15.92
Bull	5.04	31.94	41.73
Bear	2.54	13.61	15.96

Figure 30: PINS, Inc Implied EV using Company Deals Multiples

PINS, Inc Implied EV	Bull	Mean	Bear
Revenue	12993.27	9770.73	6548.20
EBITDA	26010.98	18551.35	11083.58
EBIT	13611.91	9404.06	5205.99

Figure 31: PINS, Inc Implied Share Price using Company Deals Multiples

PINS, Inc Implied Share Price	Bull	Mean	Bear
Revenue	23.07	18.26	13.45
EBITDA	42.50	31.37	20.22
EBIT	24.00	17.72	11.45

Figure 32: Comparable Deals Multiples EV Valuation Football Field

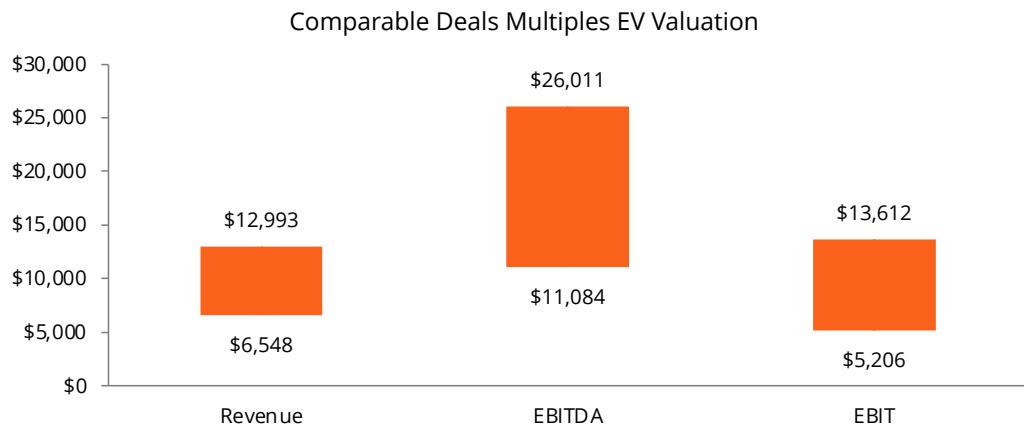


Figure 33: Comparable Deals Multiples Share Price Valuation Football Field



The revenue estimate shows that PINS, with the share price of \$23.43, is overvalued in the bull market, whereas the other two estimates show that PINS is undervalued in the bull market. All three estimates show that PINS is overvalued in the bear market.

5. POST ACQUISITION ANALYSIS

Synergies are the driving force behind most mergers and acquisitions as they represent the estimated cost savings or incremental revenue arising from a merger or acquisition. Buyers will use synergies to rationalize the higher purchase premiums. Let's see whether Microsoft and Pinterest as a whole exceed sum of the parts. This will help to justify the acquisition immensely.

Figure 34: Post-acquisition forecast (synergies not included)

	Actual	Forecasts				
Fiscal year ended	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
Revenue	170,666	201,164	226,178	254,292	285,900	321,438
% Growth	-	17.87%	12.43%	12.43%	12.43%	12.43%
COGS	52761.3	62763	69663	80102	90059	101253
% margin	30.9%	31.20%	30.80%	31.50%	31.50%	31.50%
Gross Profit	117,905	138,401	156,515	174,190	195,842	220,185
Operating expenses	47613.9	56929.4	63782.2	71710.3	80623.9	90645.5
% of sales	27.90%	28.30%	28.20%	28.20%	28.20%	28.20%
EBIT	70,291	81,471	92,733	102,480	115,218	129,539
Net Interest	(204.20)	(201.16)	(248.80)	(279.72)	(314.49)	(353.58)
% of sales	-0.12%	-0.10%	-0.11%	-0.11%	-0.11%	-0.11%
EBT	70087	81270	92484	102200	114903	129186
Tax Rate	9835.5	12678	15260	16863	18959	21316
% of sales	14.03%	15.60%	16.50%	16.50%	16.50%	16.50%
Net Income	60,251.1	68592	77224	85337	95944	107870
Diluted Shares	7608	7630	7650	7690	7720	7740
EPS	7.92	8.99	10.09	11.10	12.43	13.94

5.1 Revenue and Cost Synergies

Jhonsa (2021) mentions “Pinterest has relied on AWS for its cloud hosting needs. By migrating to Azure, Microsoft could boost Pinterest’s gross margin while also further increasing Azure’s scale.” Additionally, Microsoft could use its various online ad resources-from Bing search ads to LinkedIn’s news feed ad business to help flesh out Pinterest’s flourishing ad business. The following Revenue and Cost Synergy model will quantitatively show the financial benefits of the transaction.

Figure 35: Transaction Assumptions

Revenue Synergies	
Revenue Synergies(% combined)	5%
% Revenue Synergies Gross Margin	60%
Cost Synergies	
COGS Synergies(% combined)	20%
Operating Expenses(%combined)	40%

(M&A Synergies Understand the Concept of Revenue and Cost Synergies, 2022)

Figure 36: Post-acquisition forecast (synergies included)

	Actual	Forecasts				
Fiscal year ended	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
% Synergies Realized	30%	70%	100%	120%	130%	150%
Combined Revenue excl synergies	170,666	201,164	226,178	254,292	285,900	321,438
% Growth	-	17.87%	12.43%	12.43%	12.43%	12.43%
Revenue Synergies	2559.99	7040.74	11308.90	15257.52	18583.53	24107.84
Combined Revenue incl synergies	173,226	208,205	237,487	269,549	304,484	345,546
COGS	52761.3	62763	69663	80102	90059	101253
% margin	30.9%	31.20%	30.80%	31.50%	31.50%	31.50%
COGS Synergies	3165.68	8786.84	13932.56	19224.47	23415.24	30375.88
Combined COGS	55926.98	71550.01	83595.39	99326.43	113473.87	131628.79
Gross Profit	117,299	136,655	153,892	170,223	191,010	213,917
Operating expenses	47613.9	56929.4	63782.2	71710.3	80623.9	90645.5
% of sales	27.90%	28.30%	28.20%	28.20%	28.20%	28.20%
Operating Expenses Synergies	5713.67	15940.24	25512.88	34420.96	41924.44	54387.28
EBIT	111,585	120,714	128,379	135,802	149,086	159,530
Net Interest	(204.20)	(201.16)	(248.80)	(279.72)	(314.49)	(353.58)
% of sales	-0.12%	-0.10%	-0.11%	-0.11%	-0.11%	-0.11%
EBT	111381	120513	128130	135522	148771	159176
Tax Rate	9835.5	18800	21141	22361	24547	26264
% of sales	8.83%	15.60%	16.50%	16.50%	16.50%	16.50%
Net Income	101,545.6	101713	106988	113161	124224	132912
Diluted Shares	7608	7630	7650	7690	7720	7740
EPS	13.35	13.33	13.99	14.72	16.09	17.17

After including the synergies, there is a substantial increase in forecasted EPS, suggesting that Microsoft and Pinterest are indeed greater as a whole than the sum of their individual parts.

6. FINAL RECOMMENDATION

MSR Investment Advisors recommends that Microsoft Corporation should make an offer to acquire Pinterest, Inc at \$26.87 per share, with an implied EV of \$15,537 billion, at a 15% premium to the current share price.

This transaction would provide Microsoft with the excellent opportunity to boost its share in the cloud market by adding Pinterest's vast community to Azure's user base. Furthermore, the EPS gains through the synergies for the next 5 years shows that this deal is an accretive acquisition for Microsoft, causing its share price to go up.

Figure 37: Price Recommendation

Price Recommendation	Valuation	Weight	Weighted Value
DCF	28.34	70%	19.84
Comparable Companies Valuation	24.45	15%	3.67
Comparable Transactions Valuation	22.45	15%	3.37
TOTAL			26.87

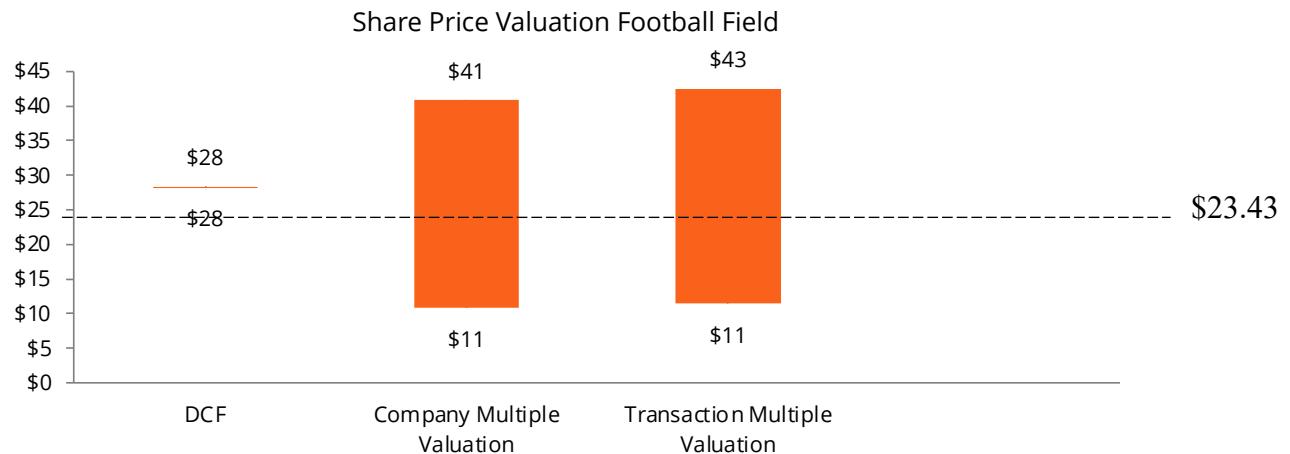
Figure 38: Implied EV

Implied Share Capital Value	18002.9
Net Debt	-2466
Implied EV	15536.9

Figure 39: Premium paid by the Acquirer

Current share price	23.43
Recommended Price	26.87
Premium	15%

Figure 40: DCF vs Comparable vs Transaction Multiple Share Price Valuation Football Field



The price recommendation is heavily swayed by the DCF model (70% weight). The comparable companies and comparable transactions was given less weightage (15% each) when it comes to pricing because comps tend to be influenced heavily by temporary market conditions.

To sum up, this report has shown with the combination of DCF valuation, comparable companies' valuation, and comparable transactions valuation that PINS is essentially undervalued in the market.

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