Microsoft Corp to acquire GitHub for $7.5 billion - M&A Call

Company Participants

- Amy E. Hood, Executive VP & CFO
- Chris Wanstrath, CEO
- Nat Friedman, Unknown
- Satya Nadella, CEO & Director
- Unidentified Speaker, Unknown

Presentation

Operator

Greetings. Welcome to the Microsoft-GitHub Conference Call. (Operator Instructions) As a reminder, this conference is being recorded. It is now my pleasure to turn the conference over to your host, (Tori Woodstein). Thank you. you may begin.

Unidentified Speaker

Thank you for joining us today for the conference call regarding Microsoft's acquisition of GitHub. Joining us this morning on the call we have Satya Nadella, CEO of Microsoft; Chris Wanstrath, CEO and Co-Founder of GitHub; Nat Friedman, the incoming CEO of GitHub; and Amy Hood, the CFO of Microsoft. During this call, we will make forward-looking statements which are predictions, projections or other statements about future events.

These statements are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially because of factors discussed in today's press release and presentation, in the comments made during this call and in the risk factors section of our Form 10-K, Form 10-Q. And other reports and filings with the Securities and Exchange Commission. We do not undertake any duty to update any forward-looking statements. And with that, let me pass to Microsoft CEO, Satya Nadella.

Satya Nadella {BIO 3224315 <GO>}

Thank you, (Tori) It's a pleasure to be here today to talk about GitHub and Microsoft. And our shared goal to empower developers. I want to share what this acquisition will mean for our industry and for developers. The era of the Intelligent Cloud and the Intelligent Edge is upon us. Computing is becoming embedded in the world with every part of our daily life and work and every aspect of our society and

economy being transformed by digital technology. And developers are the builders of this new era, writing the world's code. As every industry is being impacted by technology from precision medicine to precision agriculture, from personalized education to personalized banking, the developer community will only grow in numbers and importance. Developer workflows will drive and influence business process and functions across the organization, from marketing to sales to service to IT and HR. And this is just not happening in the technology sector but in every industry. According to LinkedIn data, software engineering roles in industries outside of tech, such as retail, health care and energy are seeing double-digit growth year-over-year, 25% faster than the growth of developer roles in the tech industry itself. As every company becomes a digital company, value creation and growth across every industry will increasingly be determined by the choices developers make.

In short, developers will be at the center of solving the world's most pressing challenges. However, the real power comes when every developer can create together, collaborate, share code and build on each other's work. And in all walks of life, we see the power of communities and this is true for software development and developers. That's why we're so excited about today's announcement. Building technology so that others can build more technology is core to our mission to empower every person and every organization on the planet to achieve more. We don't celebrate technology for technology's sake. We celebrate what others can do with technology. Also core to our mission is empowering communities from the world's professionals to IT professionals to gamers. We believe in the power of communities to achieve more than what their members can do on their own. It's our ability to work together that helps our dreams become reality. And we are dedicated to cultivating and growing communities to do just that. More than 28 million developers already collaborate on GitHub and it's home to more than 85 million code-repositories used by people in nearly every country. From students to hobbies to startups to large organizations, GitHub is the destination for developers to learn, share and work together to create software. And GitHub is the world's leading software development platform. It's a destination for Microsoft too. As GitHub shared in a recent report, Microsoft is the most active organization on GitHub with more than 2 million commits or updates made to projects. And from our earliest days, we've been a developer-focused company with our very first product, the basic interpreter for the Altair in 1975. Obviously, a lot has happened since then. But we still focus on creating tools and platforms for this new generation of developers. We have always loved developers. And we love open-source developers. We've been on a journey ourselves with open source and the open source community. Today, we are all in with open source. We are active in the open source ecosystem, we contribute to open source project. And some of our most vibrant developer tools and frameworks are open sourced. When it comes to our commitment to open source, judge us by the actions we have taken in the recent past, our actions today and in the future. Given all this, together with GitHub, we see 3 clear opportunities ahead. First, we will empower developers at the -- every stage of their development life cycle, from ideation, to collaboration, to deployment, to the cloud and to the edge. Going forward, GitHub will remain an open platform, which any developer can plug into and extend. Developers will continue to be able to use the programming languages, tools and operating systems of their choice for their projects. And will still be able to deploy their code to any cloud and any device. Second, we will accelerate

enterprise developers use of GitHub with our direct sales and partner channels and access to Microsoft's global cloud infrastructure and services. Finally, we'll bring Microsoft developer tools and services to new audiences.

To close, I want to share some details of the transaction. Microsoft will acquire GitHub for $7.5 billion in all stock consideration. Most importantly, we recognize the responsibility we take on with this agreement. We are committed to being stewards of the GitHub community, which will retain its developer-first ethos, operate independently and remain an open platform. We will always listen to developer feedback and invest in both fundamentals as well as new capabilities. Once the acquisition closes later this year, GitHub will be led by CEO, Nat Friedman, an open source veteran and founder of Xamarin, who will continue to report to the Microsoft Cloud and AI Group Executive Vice President, Scott Guthrie. GitHub's CEO and Co-Founder, Chris Wanstrath, will be a Technical Fellow at Microsoft and reporting to Scott. Together, we will continue to advance GitHub as a platform loved by developers and trusted by organizations. And to share more on GitHub, I'll turn it over to Chris.

Chris Wanstrath {BIO 18716070 <GO>}

Thank you, Satya. I'm super excited about today's news. We started GitHub because we wanted an easier way to work together on all sorts of projects, whether they were open source, private or just something in between. And since then we've seen the rise of smartphones, VR, AR, self-driving cars, all sorts of amazing innovations. And the thing they all have in common is software. The future is powered by software. And for 10 years, it's been our mission to make it easier for people to become software developers and easier for existing developers to build better software together. Today we've grown to become one of the largest code hosts and development platforms in the world, with over 28 million developers globally using GitHub to help build software. Through every step of our growth, we've been obsessed with building a product for the people using it. Our focus has been the developer. And our belief has been that making life better for developers would result in better software and a better life for us all. As we look to the next decade of software development and beyond, we know it will focus on people, the people building the software and the people using it. As we've gotten to know the team at Microsoft over the past few years through partnerships, collaborating on open source and working together to improve Git, we've learned that they agree. Their work, in particular, on open source has been inspiring. In record time, they've gone from dabbling to full on embracing the community, releasing .NET as open source, developing VS Code in the open and using Git internally are just a few things they've done that helped us decide Microsoft is the right home and the right future for GitHub. Their success with Minecraft and LinkedIn acquisitions has also shown us how serious they are about growing new businesses while maintaining their independence and identity. And their contributions to developer tooling and the cloud have showed they are continuing to innovate. But more than all of that, what stands out to me is Microsoft's vision for the future of software, their focus on developer-first and how these philosophies match our own. We both believe GitHub needs to remain an open platform for all developers, no matter your language, stack, platform, cloud, license, device, GitHub will continue to be your home, the best place for software creation, collaboration and discovery. We both believe that

software development needs to become easier, more accessible, more intelligent and more open. So more people can become developers and existing developers can spend more time focusing on the unique problems they're trying to solve. We both see the growing need for developers and the growing importance of software in all facets of our life. I think, all of us recognize that. But most importantly, we both believe that we can do greater things together than alone. Collaboration, after all, is at the heart of everything GitHub does. And spending time with the team, it's also become clear that Nat Friedman embodies this ideas and passions to his core. He is a long-time open source developer and cofounded Xamarin, a pretty awesome development tool that recently joined Microsoft. In my mind, he is the perfect fit to take on the role of GitHub's, CEO, upon the close of this deal and help lead us into the future. I could not be more excited about our future with Nat and Microsoft. Last year, I announced that I'd be stepping down as GitHub's CEO and remaining involved as an adviser. And I'm very, very happy to be joining Microsoft in a similar role and completely confident in Nat and the team. So with that, let me hand it off to Nat.

Nat Friedman {BIO 4010928 <GO>}

Thank you, Chris and Satya. I am incredibly excited to be here today. I've been a developer almost my entire life. I think I wrote my first line of code when I was six years old. So I've been coding since as long as I can remember. And I've been hooked. And I grew up as a developer. And with the developer mindset, I discovered Linux and open source in high school in the '90s. And I went deep down that rabbit hole and I spent about a decade of my career working in open source and Linux. And in fact, I made my first commit on GitHub just a year after it started in 2009. As Chris said, I joined Microsoft two years ago as a part of the acquisition of my company Xamarin. And so I know how Chris is feeling right now. I was in a similar spot to him a couple of years ago embarking on this new chapter and everything that, that entails. Since joining Microsoft, I've been running our developer services team. And so the common thread across my career has really been about creating and engaging with developers across multiple dimensions. And that's why I'm so excited about today's news. GitHub is, to me, the most important developer-first company in the world. It's a company that has already accomplished so much to become the largest community in the world and has changed the way developers collaborate together to build software. And I'm passionate about not just what GitHub is today. But the potential for what it can be in the future and unlocking that potential to create new opportunities for developers around the world. Core to this, is the idea that GitHub is the developer's home. And what I mean by that is, it is the place developers go to be a developer, to discover, to create, to learn. And collaborate and communicate with each other. And as I think about our path forward and this idea of the developers' home, there are 2 critical aspects that underpin that road ahead. The first, as Satya said and as Chris mentioned, is our commitment to openness. GitHub was founded as an open platform, as a free marketplace where anyone could upload their code and anyone could extend the platform, Open APIs, an open community and an open platform. And we continue that commitment. The second is the potential for an even more expanded set of opportunities. We want to bring more developers and more capabilities to GitHub because, as a network and as a group of people and a community, GitHub is stronger the bigger it is. Lastly, an

important part to all of this is, as Satya said, GitHub will operate independently. I think it's important to reiterate that here.

So next, let me share with you a few examples of how we see all this potential coming to life and give you a taste for what's possible together with GitHub and Microsoft. And the first is centered on the cloud, The cloud is increasingly a core priority for developers. And since at GitHub everything we do should be about making a developer's life better at every stage of their work and life cycle, that includes helping them make it easier to build on the cloud. As part of this, we think broadly about the new and compelling types of ways that we can integrate cloud services into GitHub. And this doesn't just apply to our cloud. GitHub is an open platform. So we have the ability for anyone to plug their cloud services into GitHub and make it easier for you to go from code to cloud. And it extends beyond the cloud as well, from code to cloud, code to mobile, code to edge device, code to IoT, every workflow that a developer wants to pursue, we will support. A second example to illustrate how we'll do this is the GitHub marketplace. Today, GitHub offers a marketplace that any organization or even any individual developer can use to integrate their developer tools and services. And GitHub is as healthy as the network and marketplace that it has. This is a great way for developer tools and services to reach developers. Now when it comes to Microsoft, as we're acquiring GitHub, we have the opportunity to go all in on the GitHub marketplace.

And so we will be offering all Microsoft developer tools and services in the GitHub marketplace. The last illustration that we want to share has to do with VS Code. Chris already mentioned that VS Code is a development environment and editor that Microsoft released fairly recently. And we were honored last year to be chosen by developers on stack overflow as the most popular development environment. We have almost 5 million developers a month who use VS code. It, itself, is open source and developed in the open on GitHub. Now with the acquisition of GitHub, we can integrate new capabilities into VS Code to create a more seamless experience for developers so that they can collaborate and merge code and just have a more productive experience from end-to-end.

So in summary, our vision is really all about empowering developers and creating a home where you can use any language, any operating system, any cloud, any device for every developer, whether you're a student, a hobbyist, a large company, a startup or anything in between, GitHub is the home for all developers. Now let me pass it to Amy to run through the financial aspects of the deal.

Amy E. Hood {BIO 18040963 <GO>}

Thanks, Nat. Over the past four years, you've seen our consistent approach to mergers and acquisitions of all sizes. We focus on structurally growing markets, aligned to our strategic priorities, where we can add unique value to the users or the community. And at a price that supports the long-term shareholder value creation. GitHub certainly meets those criteria. We have agreed to acquire GitHub for $7.5 billion in Microsoft stock. The transaction has been unanimously approved by the Boards of Directors of both Microsoft and GitHub. We will finance this transaction through all stock consideration. We expect that an incremental share buyback,

beyond our recent historical quarterly pace, will offset stock consideration paid within six months after closing. We will utilize the portion of the approximately $30 billion remaining in our current share repurchase authorization for the purchase. Based on the expected close date and Microsoft's fiscal '19 and '20, we anticipate this transaction will be minimally dilutive, less than 1% to EPS on a non-GAAP basis. And in FY '20, we expect the transaction to be accretive to operating income on a non-GAAP basis. In this context, non-GAAP excludes the expected impact of purchase accounting adjustments as well as the integration and transaction-related expenses. Following the close of the transaction, we expect to report results for GitHub in our Intelligent Cloud segment.

Finally, our regulatory approach. As you can see on the slide, we plan to obtain regulatory approval in the United States and the European Union before we close the transaction. We're confident about our prospects for obtaining regulatory approval by the end of this calendar year.

And with that, thank you all for joining Satya, Chris, Nat and me on this exciting morning.

Questions And Answers

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for participation. And have a wonderful day.