



BUSINESS VALUATION ▪ TRANSACTION ADVISORY SERVICES ▪ VALUE MAXIMIZATION STRATEGIES



DID MICROSOFT OVERPAY FOR LINKEDIN?



Edward E. Pratesi, CPA/ABV, ASA, CM&AA, CVA

860.519.5648

Fax 860.519.1982

EdP@BrentmoreAdvisors.com

www.BrentmoreAdvisors.com

18 North Main Street, 3rd Floor West Hartford, CT 06107

152 Madison Avenue, Suite 200 New York, NY 10016

Microsoft's recent \$26.2 billion acquisition of LinkedIn provides an illustrative example of a strategic acquisition – the type of sale that usually garners the most gain for the acquired company's shareholders.

You may be wondering what a billion-dollar acquisition has to do with your business, but the very same reasons a strategic acquirer buys a \$26 billion business holds true for the acquisition of a \$2 million company.

You may be wondering what a billion-dollar acquisition has to do with your business...

The Financial vs. Strategic Buyer

A financial buyer is buying the future stream of profits coming from your business, whereas the strategic buyer is buying your business for what it is worth in their hands. To simplify, a financial acquirer buys your business because they think they can sell more of your stuff, whereas a strategic buyer acquires your business because they think it will help them sell more of their stuff.

One might argue that Microsoft overpaid for LinkedIn given that

LinkedIn only generated a few hundred million dollars in EBITDA last year, meaning the good folks in Redmond paid an astronomical multiple of LinkedIn's earnings.

But earnings are not the only thing strategic acquirers care about when they go to make an acquisition.

Microsoft's acquisition of LinkedIn is a classic example of a strategic acquisition. The Redmond-based technology giant has been undergoing a major transformation from being a software company focused on operating systems to a business concentrating on cloud-based software applications. Microsoft enjoys a dominant market share in the basic tools white-collar business people use to get their job done, but other software packages have begun to nip at the heels of their dominance in many product lines.

Take Microsoft Office for example. Many businesses have started to use competitive offerings from Google and Apple. Even more companies cling to older versions of Microsoft Office software, even though Microsoft is keen to move eve-

ryone over to the cloud-based Office 365.

In purchasing LinkedIn, Microsoft saw an opportunity to suck data from LinkedIn into Microsoft's cloud-based software applications, making them irresistible. Imagine you're a sales person and you just landed a big meeting with a new prospect. You enter the appointment as a Microsoft Outlook event and suddenly the details of the event feature everything LinkedIn knows about your prospect.

Now you can make small talk about where they went to school, the previous jobs they have held and know the scope of their current role – all without ever leaving Outlook.

Microsoft is betting this kind of integration across its platforms will compel more people to upgrade to the latest software applications. While your company is likely smaller than LinkedIn, the same thing that makes a giant buy another giant holds true for smaller businesses. To get the highest possible price for your business, remember that companies make strategic acquisitions because they want to sell more of *their* stuff.