

Deals

Microsoft Buys GitHub for \$7.5 Billion, Going Back to Its Roots

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- ▶ All-stock deal is expected to close by end of the year
- ▶ Microsoft will keep GitHub independent; Friedman named CEO

Microsoft Corp. is buying GitHub Inc. for \$7.5 billion in stock, bringing in house a community of 28 million programmers who publish code openly and extending a shift away from a strategy of shrouding its software in secrecy.

The move is both a return to Microsoft's earliest software-development roots and a sharp turnaround from its stance on open-source software a decade ago. Chief Executive Officer Satya Nadella said the deal, expected to close by the end of this year, will speed moves into the cloud and artificial intelligence.

"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," Nadella wrote in a blog post Monday. "Developers are the builders of this new era, writing the world's code. And GitHub is their home."

GitHub, a 10-year old San Francisco-based startup, was founded as a way for software developers to share and collaborate on coding tools and is an essential platform for many open-source programmers.

Microsoft wasn't always so welcoming to such coders, who were seen as a threat to the company's business as a commercial software company. Co-founder Bill Gates and former

Chief Executive Officer Steve Ballmer championed developers building proprietary software for Microsoft, not the kind of open-source projects found on GitHub.

In fact, in the early 2000s, Ballmer and his team were highly critical of that kind of a project, calling it a "cancer" and saying that it went against "the American Way."

A lot has changed since then. Under Nadella, who took over four years ago, Microsoft has been increasingly relying on open-source software to add programming tools, and the purchase of GitHub lets it tie up with a company that has become a key part of the way Microsoft writes its own software. Microsoft is now supporting many flavors of Linux, an open-source operating system, and has used open models on some significant cloud and developer products itself. This deal will mark another dramatic step in that direction.

The acquisition reflects Microsoft's "ongoing pivot to open-source software, seeking to further broaden its large and growing development community," said Richard Lane, an analyst at Moody's Investors Service.

Redmond, Washington-based Microsoft is now one of the biggest contributors to GitHub, and as Nadella moves the company away from

complete dependence on the Windows operating system to more in-house development on Linux, the company needs new ways to connect with the broader developer community.

Not all the developers are happy about being controlled by the world's biggest software company. "Anybody active in the open source community should be upset that Microsoft is going to be the steward of this large body of code," said coder Jacques Mattheij. He said he deleted his GitHub account.

Nadella acknowledged that he'll have to earn the trust of GitHub's users, but also said that Microsoft is "all in on open source."

"Microsoft is a developer-first company, and by joining forces with GitHub we strengthen our commitment to developer freedom, openness and innovation," Nadella said in the statement.

The deal will add to Microsoft's operating income in its fiscal year 2020, the company said in a statement Monday. The shares were up 0.6 percent to \$101.38 at 9:55 a.m. in New York.

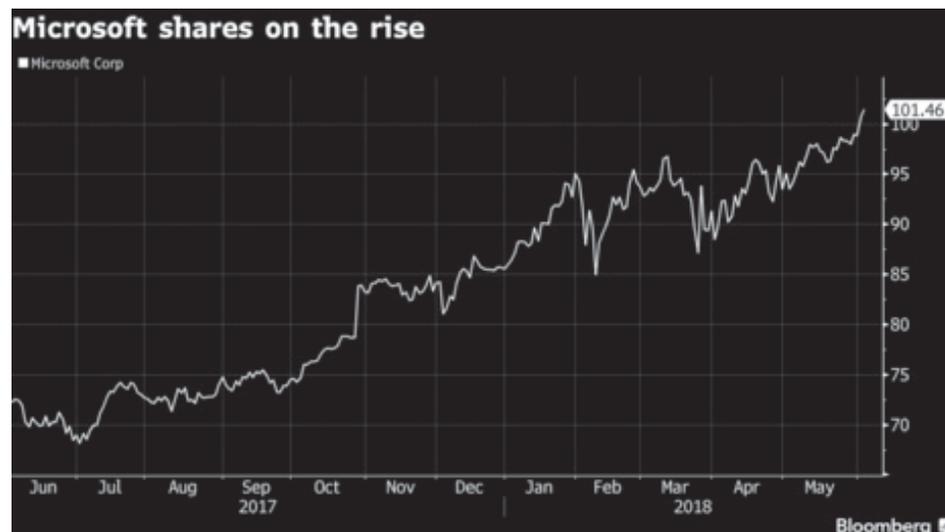
For GitHub, which has been trying for nine months to find a new chief executive officer and has yet to make a profit, the acquisition provides a new way forward.

GitHub, which will operate independently, will be led by Nat Friedman, the former CEO of Xamarin and a current Microsoft developer-tools executive. It will continue to support the programming languages, tools and operating systems of the user's choice.

GitHub preferred selling the company to going public and chose Microsoft partially because it was impressed by Nadella, a person familiar with the deal said on Sunday.

While GitHub is used by Alphabet Inc.'s Google and Microsoft to store corporate code and collaborate, the company's losses have been significant -- it lost \$66 million over three quarters in 2016. It had revenue of \$98 million in nine months of 2016.

Microsoft has talked to GitHub on and off for a few years. Recently they began talks about a partnership but progressed to discussing an acquisition, according to a person familiar with the situation.



The deal is the third of Nadella's four-year tenure that's valued at above \$2 billion, following LinkedIn in 2016 for \$26.2 billion and the maker of the Minecraft video game, Mojang AB, in 2014 for \$2.5 billion.

"The company gained, we understand, confidence in their ability to make large successful acquisitions with first Minecraft and

more recently LinkedIn," said Mark Moerdler, an analyst with Sanford C. Bernstein & Co., in a note to clients. "Each acquisition has been defined by an asset that was unique in its own way and could be leveraged in multiple parts of Microsoft. We can understand why GitHub would show that same level of uniqueness as it is the primary repository and cloud service

developers use to store and share their code."

GitHub was last valued at \$2 billion in 2015, making today's deal a win for GitHub backers like Sequoia Capital and Andreessen Horowitz.

Morgan Stanley acted as GitHub's banker, while Fenwick & West LLP served as legal adviser. Microsoft's legal adviser was Simpson Thacher & Bartlett LLP.