

IBM's \$34B Red Hat deal is risky bid to boost cloud business

October 29 2018, by Michelle Chapman And Matt O'brien



This undated photo provided by IBM shows IBM Chairman and CEO Virginia Rometty, right, and Red Hat president and CEO Jim Whitehurst. Shares of Red Hat skyrocketed at the opening bell Monday, Oct. 29, 2018, after IBM, in the biggest acquisition of its 100-year history, acquired the software company. (IBM via AP)

IBM's plan to buy Red Hat is both the biggest acquisition in IBM's century-long history and a risky effort to position itself as a major player in cloud computing.

The \$34 billion stock deal translates to \$190 per Red Hat share—a 63 percent premium to the closing price Friday for the Raleigh, North Carolina, company. Red Hat Inc.'s stock soared about 45 percent in trading Monday.

The path for revitalization for IBM may be found in cloud technology, a driving force behind the blockbuster deal for Red Hat over the weekend.

"It's a big bet but ultimately they're in a situation where they needed to make a significant acquisition to move them potentially forward," Wedbush analyst Daniel Ives said.

Cloud computing, in which services are delivered over the internet from remote computers, accounted for nearly a quarter of IBM's total revenue over the past year. But the [company](#) has been overshadowed by top cloud rivals Amazon, Microsoft and Google in competing to sell its internet-based computing services to businesses.

"This is about resetting the cloud landscape," IBM Chairman and CEO Virginia Rometty said Monday in a conference call.

The hybrid cloud—when companies use a mix of on-site, private and third-party public services—is an emerging \$1 trillion opportunity that the companies want to be prepared for, Rometty said.



In this April 26, 2017, file photo, pedestrians walk past the IBM logo displayed on the IBM building in New York. Shares of Red Hat skyrocketed at the opening bell Monday, Oct. 29, 2018, after IBM, in the biggest acquisition in its 100-year history, acquired the software company. (AP Photo/Mary Altaffer, File)

Ives said there's still plenty of room for growth as financial services, retailers and industrial firms increasingly migrate their workloads into the cloud.

IBM's Red Hat acquisition follows Microsoft's recently completed \$7.5 billion purchase of computer coding hangout GitHub. Both deals will allow the larger companies to tap into a broader community of open-source software developers.

Red Hat, founded in 1993, has built a software platform using the open-source Linux operating system that's become "one of the key paths for

enterprises in their moves to the cloud," Ives said.

The deal requires the approval of Red Hat shareholders as well as U.S. regulators. It is targeted to close in the second half of 2019, but Stifel's Brad Reback said others may wish to make a counterbid given Red Hat's strengths in data centers.

That prospect sent shares up \$52.88 to \$169.56, close to an all-time high. The stock of IBM, which is headquartered in Armonk, New York, slipped nearly 5 percent.

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