S&P cuts IBM debt rating following Red Hat acquisition

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S&P Global Ratings cut the grade for IBM by one notch following the massive acquisition of cloud computing firm Red Hat for a staggering $34 billion in cash

S&P Global Ratings on Monday cut the grade for IBM by one notch following the massive acquisition of cloud computing firm Red Hat for a staggering $34 billion in cash.

S&P said the transaction would increase IBM's debt level, prompting it to downgrade the firm's credit rating to A from A+ but also lowered the outlook to negative due to the rising indebtedness.

"The rating downgrade reflects prospective changes in IBM's debt leverage," S&P said in a statement. "IBM will issue substantial debt to fund the acquisition of Red Hat."

The computing giant could face another downgrade if it underperforms the expected low single-digit growth in revenues.

Despite the change, the ratings agency said the acquisition would help IBM compete and generate a new revenue stream.

S&P said the acquisition would help "IBM by adding Red Hat's strong recurring revenue from its open source software subscriptions. We also expect that the acquisition will strengthen IBM's position in hybrid cloud solutions and enhance opportunities for cross-selling goods and services."

IBM announced the deal Sunday to buy Red Hat, making it among the biggest tech mergers in history.

If approved it will be the third-biggest tech merger in history, according to business news site CNBC. Red Hat said it was the biggest involving a software company.

The deal will see IBM acquire all of the issued and outstanding common shares of Red Hat for $190.00 a share in cash, more than $70 above the trading price at the close of business on Friday.

Ginni Rometty, IBM's chairman, president and CEO, called the merger "a game-changer."

"IBM will become the world's number one hybrid cloud provider, offering companies the only open cloud solution that will unlock the full value of the cloud for their businesses."

Cloud computing refers to the delivery of computing services, including storage and software, over the internet to achieve economies of scale.

Hybrid cloud relates to the linking of public and private cloud platforms.

Rometty added that most companies are currently being held back in their cloud transformation due to closed platforms.

Once known primarily for its computer hardware, IBM has made cloud computing a priority in its growth strategy, like Amazon and Microsoft.

Over the past few years, the company has been refocusing on markets such as analytics, mobile and security, grouped under the banner of "strategic imperatives" and designed to offset the decline of its traditional activities. These now represent about half of its turnover.

Shares in the company fell four percent at the start of trading in New York on Monday.

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