IBM ACQUIRES HASHICORP

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CONTEXT

IBM announced its intention to acquire HashiCorp, a multi-cloud infrastructure automation company, for $35 per share in cash, totaling an enterprise value of $6.4 billion.

HashiCorp specializes in Infrastructure Lifecycle Management and Security Lifecycle Management, crucial for hybrid and multi-cloud environments. This move aligns with IBM's focus on hybrid cloud and AI, which are vital for today's businesses.

News of the acquisition comes just a month after reports surfaced that the company was looking for buyers.

WHO IS HASHICORP?

HashiCorp delivers open-source tools and commercial software products focused on cloud infrastructure automation, orchestration, and management.

HashiCorp's products are designed to help organizations manage infrastructure as code, automate application deployment, enhance security, and improve cloud infrastructure operations.

Essential products and tools from HashiCorp include:

- **Terraform**: An open-source infrastructure-as-code tool that enables users to define and provision infrastructure using a declarative configuration language. It can work with multiple cloud providers like AWS, Azure, and Google Cloud Platform.

- **Vault**: A tool for managing secrets and sensitive data like API keys, passwords, and certificates. It provides secure storage, encryption, and access controls.

- **Consul**: A tool for service discovery, configuration, and service mesh, which facilitates service-to-service communication and health checks in a distributed environment.

- **Nomad**: A workload orchestrator designed for managing containers and other workloads across multiple platforms, with support for multi-cloud deployments.

These tools are widely used in DevOps and cloud computing environments to streamline infrastructure management, improve security, and enable automation.

HashiCorp has also expanded into commercial products that offer additional enterprise features, support, and integrations with other software and cloud providers.

COMPANY PERFORMANCE

HashiCorp beat estimates for revenue and earnings for its most recent quarter (FQ4 2024), though it disappointed with its lackluster outlook.

Q4 FY2024 Financial Overview & Highlights

($ Millions)	Q4 FY2024	YoY Comparison
Total Revenue	$155.8M	+15% YoY vs. +41% YoY in Q4 FY2023
Customers ≥$100k in ARR	897	vs. 798 in Q4 FY2023
Revenue from Customers ≥$100k in ARR	89%	vs. 89% in Q4 FY2023
Trailing Four Quarter Average Net Dollar Retention Rate	115%	vs. 131% in Q4 FY2023
Non-GAAP TTM FCF Margin[1]	−4%	−20% in Q4 FY2023
Total Customers[4]	4,423	vs. 3,870 in Q4 FY2023
HashiCorp Cloud Platform Revenue[2]	$21.3M	vs. $14.5M in Q4 FY2023
Total Non-GAAP RPOs[5]	$801.4M	vs. $673.8M in Q4 FY2023
% Non-GAAP RPO Recognized Within a Year	60%	vs. 59% in Q4 FY2023
% of TTM recurring revenue[3]	>90%	>90% in Q4 FY2023

1. **Revenue**: The company's revenue reached $155.8 million, a 15% increase from the previous year. Annual revenue reached $583.1 million, a 23% uplift.
2. **Gross Profit**: Reported at $128.8 million (GAAP) and $133.5 million (non-GAAP), maintaining solid margins of 83% and 86%, respectively.
3. **Operating and Net Loss**: Operating loss improved to $48.3 million (GAAP) and $6.5 million (non-GAAP). Net loss was reduced to $31.6 million (GAAP), while non-GAAP net income turned positive at $10.2 million.
4. **Remaining Performance Obligations (RPO)**: The company ended with a GAAP RPO of $775.8 million and a non-GAAP RPO of $801.4 million, evidencing strong future revenue potential.
5. **Cash Position**: Net cash from operating activities was $10.3 million, with total cash and investments at $1,278.6 million.
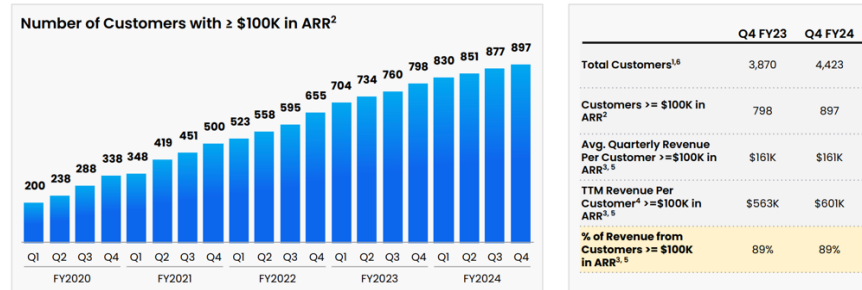
Operational Highlights:

1. Customer base grew to 4,423, with 897 customers contributing over $100,000 in ARR, underscoring HashiCorp's strong market presence and value proposition.

2. Subscription revenue from the HashiCorp Cloud Platform (HCP) increased to $21.3 million in Q4.

3. Net Dollar Retention Rate was 115%, reflecting solid customer expansion despite a slight decrease from previous quarters.

ANALYSIS

HashiCorp is a solid strategic fit with IBM's strategic focus on hybrid and multi-cloud infrastructure, automation, and DevOps. The move reinforces IBM's leadership in hybrid cloud solutions where it can leverage HashiCorp's popular tools like Terraform, Vault, Consul, and Nomad, which are designed for flexible, interoperable infrastructure across various cloud platforms and on-premises environments.

The deal helps IBM achieve several strategic goals:

- **Strengthening Hybrid Cloud Capabilities**: IBM is a leader in hybrid cloud solutions. HashiCorp's suite of tools, like Terraform, Vault, Consul, and Nomad, complement IBM's focus on providing flexibility and interoperability across different cloud platforms and on-premises infrastructure.

- **Expanding DevOps and Automation Portfolio**: HashiCorp's products are widely used in DevOps practices, offering infrastructure automation, secrets management, service discovery, and workload orchestration. By acquiring HashiCorp, IBM bolsters its DevOps offerings, aligning with the growing demand for automation in IT operations.

- **Leverage Open-Source Community**: HashiCorp has a strong presence in the open-source community, fostering a vibrant ecosystem of developers and users. With its history of embracing open source, IBM will likely leverage this community to drive innovation and expand its customer base.

- **Accelerating Multi-Cloud Adoption**: HashiCorp's tools work with various cloud providers, making them attractive to organizations pursuing a multi-cloud strategy. By integrating these tools into its portfolio, IBM could further support customers in navigating multi-cloud environments, which aligns with its hybrid cloud strategy.

- **Cross-Selling Opportunities**: IBM's extensive customer base and enterprise relationships open numerous cross-selling opportunities with HashiCorp's tools. This integration will create synergies across IBM's existing products and services, adding value to its cloud and infrastructure solutions.

- **Differentiation from Competitors**: Acquiring HashiCorp provides IBM with a unique differentiator in the competitive cloud market, enabling it to offer a comprehensive suite of cloud automation and orchestration tools. This differentiation could help IBM stand out against major cloud providers like AWS, Azure, and Google Cloud.

This deal positions IBM as a more comprehensive hybrid cloud provider, bridging the gap between traditional infrastructure and emerging AI-driven workloads. Combining HashiCorp's automation tools with IBM's portfolio, including Red Hat and watsonx, creates a robust platform designed to navigate the complexities of modern IT infrastructure.

This gives IBM a unique differentiator in the fiercely competitive hybrid-cloud market. It allows IBM to offer enterprise clients a unified solution that manages both public and private clouds as well as on-prem environments. This differentiation sets IBM apart from its largest competitors while bolstering its ability to help enterprises benefit from hybrid cloud infrastructure.