

BondCliQ

Institutional Market Monitor

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It's been quite a wild ride for short-video app and social media sensation, TikTok. Following a turbulent July with threats from the U.S. government to shut down the app due to privacy issues and security concerns, TikTok has been thrust into a high-profile potential takeover that involves the Trump Administration, US-Sino tensions, Microsoft and 800 million anxious users of the beloved app.

As Microsoft recently arose as the serious candidate to purchase TikTok, many have questioned whether this move aligns with Microsoft's business structure. Can CEO Satya Nadella navigate the turbulent waters of this high-profile takeover, particularly with a looming Trump-issued deadline in September? Using BondTiQ, we can monitor the outstanding debt of Microsoft as they land dead center in the middle of a messy takeover bid.

Dancin' the Byte Away?

Throughout July, TikTok had been under scrutiny by the Trump Administration over security and privacy concerns of their Chinese parent company, ByteDance. Government officials have claimed that TikTok, and therefore ByteDance, could be providing U.S. user data to the Chinese government, posing a national security threat.

In the first weekend of August, the Trump Administration gave ByteDance an ultimatum: sell TikTok or cease operations in the United States. ByteDance now has until September 15th to find a buyer, and Microsoft made it no secret that they were immediately interested.

While Microsoft equity shares rose 5.6% on August 3rd following Trump's announcement and Microsoft's public interest in a takeover, the bond market told a very different story. Using BondTiQ, we can observe the outstanding corporate debt of Microsoft to see how it its bonds performed across the curve following President Trump's surprise announcement:

MSFT Client Flow: -43% Volume: 176.8MM Mkt. Share: 100.00%	Market Size		Maturity						Credit Rating			Trade Size		
	Totals		0-3	3-5	5-7	7-10	10-15	15+	<=CC	CCC TO BB+	>=BBB-	<1MM	1MM-5MM	>5MM
Volume	176,779,140		4%	38%	3%	0%	2%	52%	0%	0%	100%	16%	23%	60%
Trades	389		16%	16%	31%	0%	2%	35%	0%	0%	100%	91%	6%	2%

The Clock is Tik-ing

Microsoft has moved quickly to pursue the purchase of TikTok, but many speculate whether the synergies of the two companies would jive. Microsoft has had only a few high-profile acquisitions since Nadella became CEO in 2014, including the virtual building video game Minecraft, as well as their largest acquisition to date, the \$26b purchase of professional social network LinkedIn. TikTok, recently valued at \$50b, would pit Microsoft against internet advertising titans Facebook and Google, while potentially doubling the purchase price of LinkedIn.

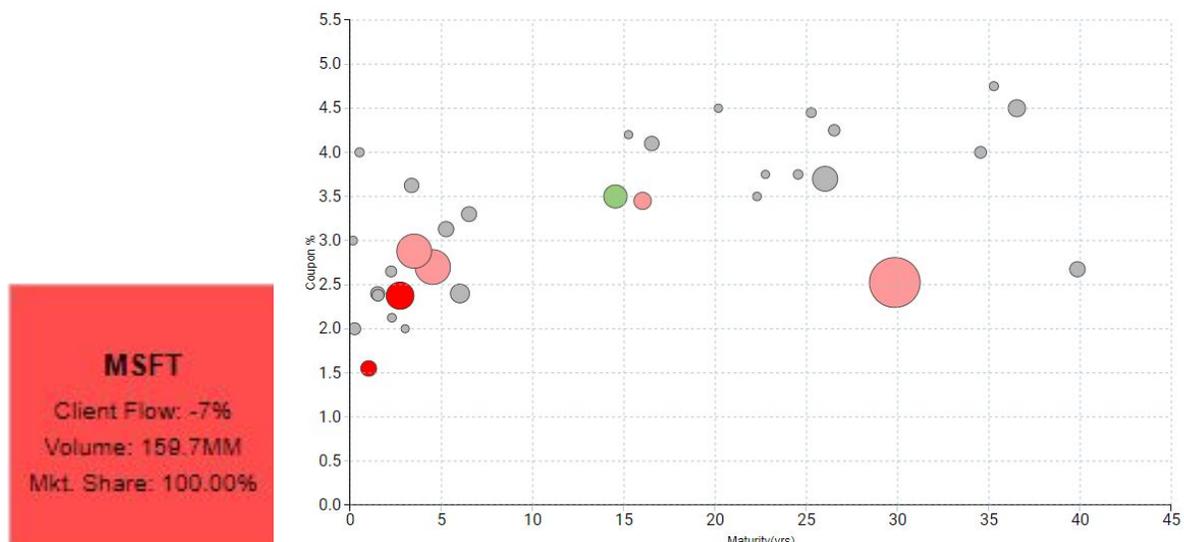
However, many also see this as an opportunity for Microsoft to diversify its product set and appeal more to the younger generation. Microsoft has also ensured that all private data will be deleted from servers outside of the US once acquired.

Facebook Tries to Reel Users In

As if there weren't enough moving parts, on August 5th Facebook announced the launch of Reels, an Instagram-based application that clones the structure of TikTok's short-video platform. Launching in 50 countries, Facebook is hoping to attract users while the future of TikTok is unclear.

Facebook has a long track record of copying features of rival platforms and rolling them out to their billions of users. In 2016 they launched Instagram Stories, which was accused of plagiarizing the structure of rival social media platform Snapchat. However, Instagram Stories quickly surpassed Snapchat in daily users and has continued to be a staple of the app. Based on past success, can Facebook successfully poach another idea, making TikTok the next Vine?

Using both BondTiQ's Issuer Page and Heat Mapping function, we can easily observe the effect that the rollout of Reels had on Microsoft debt:



A Closer Look

At the time of this writing, news has broken that Microsoft is no longer the lone wolf in the pursuit of TikTok. Twitter announced their interest in combining operations with TikTok to further strengthen their digital footprint and diversify their content, however the probability of this outcome seems low given the timing and ability to finance the deal. It will be very interesting to see if other companies come to market for TikTok and, when they do, how it will affect the purchase price and the outstanding debt of the bidders.

Microsoft's potential purchase of TikTok carries a wide range of risks, and throws them directly in the middle of a simmering US-Sino conflict, big-tech scrutiny and turbulent domestic politics. How will these factors play out over the next month as the September 15th deadline looms, and how will the debt of Microsoft react to a deal, or lack thereof?

Using BondTiQ, you can easily observe the past and present trends of specific issuers like Microsoft, and watch how bond investors are cautiously positioning themselves as Microsoft navigates this potential blockbuster acquisition.

If you are interested in a free trial of BondTiQ, reach out to us at info@bondcliq.com.