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## M&A

### Microsoft, Yahoo!: potential partners

by Kate Gibson and David Shabelman

Updated 05:18 PM EST, May-4-2007

In uniting the world's biggest software maker with an Internet titan, the potential alliance of **Microsoft Corp.** and **Yahoo! Inc.** would signal a new phase of high-tech industry consolidation. But the deal, should it materialize, might not consist of a merger, observers said Friday.

Analysts were divided about whether Microsoft would actually pull the trigger and buy Yahoo!, and some said the companies may decide on some form of partnership to jointly compete against **Google Inc.** rather than an outright acquisition.

A report May 4 in the New York Post that Microsoft had asked Yahoo! to start formal talks regarding a deal that could be valued at \$50 billion sparked renewed speculation about what moves Redmond, Wash.-based Microsoft might make to catch up to Google, the Internet search leader.

A report in The Wall Street Journal said Microsoft and Yahoo! discussed the concept of a union last year but the talks broke down.

Other recent reports said Microsoft was considering buying New York Internet advertising company **24/7 Real Media Inc.** in pursuit of its stated goal of giving Mountain View, Calif.-based Google a run for its money in offering online services.

"They are talking about something, but an outright acquisition [of Yahoo!] is unlikely," said Matt Rosoff, an analyst with **Directions on Microsoft**, a research firm that focuses exclusively on the world's biggest software company.

In Rosoff's view, a partnership or spinoff of the search initiatives of both companies to compete against Google would make sense, while an outright purchase would involve lots of duplication and unnecessary overlap, since both Microsoft and Yahoo! offer services including instant messaging and e-mail.

In addition, Rosoff points to the difficult task Microsoft would face in integrating Yahoo!'s 17,000 employees, and the likely clash of cultures.

Another technology expert also questioned the wisdom of the potential acquisition.

"Putting two bad search companies together does not make a good search company," said Robert Hoffer, managing director at **Newforth Partners LLC**, a technology-focused investment banking and consulting firm.

Others took an opposing view.

In an interview on Wednesday, before reports surfaced about the possible combination, **Dinosaur Securities LLC** analyst David Garrity was pushing for a merger between the two Internet titans, arguing that the only chance either

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has of challenging Google is to join forces.

"Why should either one of the two make the same level of dollar investments necessary to catch up with Google, when they could spend less together"? Garrity asked.

According to **comScore Inc.**, Google accounted for 3.5 billion, or 48.3%, of the 7.3 billion search queries in the U.S. in March compared to 2 billion, or 27.5%, for Yahoo! and 798 million, or 10.9%, for Microsoft.

ComScore's data also shows how Google continues to expand its lead over its rivals.

In March 2006, it garnered 42.7% of the 6.4 billion searches to 28% for Yahoo! and 13.2% for Microsoft.

In March 2005, Google had a 36.4% share to 30.6% for Yahoo! and 16.5% for Microsoft.

Garrity said despite Project Panama, Yahoo!'s latest advertising search platform acquired via the purchase of Overture Services in 2003, the company continues to lack a technology pedigree.

"If Yahoo! is going to compete with Google and wants to be more effective as a credible technology firm, a partnership with Microsoft goes a long way," he said.

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