

>: Coming Soon: Technology Takeovers

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Well, the Internet and Media sectors have been exploding with merger talks lately. You can't turn a single page in the *Wall Street Journal* without reading something about News Corp. (NYSE: NWS) looking to acquire a new company, or the possibility of two Internet behemoths joining forces.

Some of these mergers make sense, and some don't.

What I thought would be fun to do today (and profitable) is talk about a few possible merger scenarios and what it would mean for the companies involved, their respective industries and their stock prices.

So here we go ...

Microhoo! ? Microsoft (Nasdaq: MSFT) and Yahoo (Nasdaq: YHOO)

By far and away, this was one of the most talked about 'potential' mergers for the last year.

The companies supposedly were in talks late last year about how they could work together in order to stem the 'Google Threat.' But it seems that nothing ever came of it.

However, according to the Journal, as of last week, these two companies were hot and heavy again and talking about jumping into bed together.

I'm not quite sure where a software based operating system company has any business owning a pure-play internet company like Yahoo, but they seem to think it'll work.

Like others, I feel that a spin-off of MSN-Yahoo would make the most sense from a competitive perspective and possibly include Microsoft's Live unit and its experimental entertainment division (Zune player, Xbox, etc.) in the mix as well.

This would allow the company to have a substantially larger piece of the search engine and search marketing pie. However, consolidating those operations under a single technology standard would prove to be extremely difficult considering the fact that both companies have yet to really refine their advertising software offerings.

Yahoo's Panama project has proven to be moderately successful, but has yet to achieve the efficiency and effectiveness of Google's (Nasdaq: GOOG) AdWords.

Yahoo, being the smaller (\$50 billion) company, would have to be the one to get swallowed up by the Redmond giant. This would obviously do wonders for Yahoo's languishing share price, but that's not the issue here.

The real question is, can this add exponential value to the combined entity?

With Microsoft's product line and Yahoo's existing traffic base, I definitely think some cross-promotional ventures could add a lot of fuel to both businesses. That obviously doesn't require a merger.

However, the combined entity could result in a lot of cost savings and improved efficiency on Microsoft's part due to Yahoo's experience and knowledge of the web.

AOL (NYSE: TWX) and ???

This company had it all ? AOL *was* the Internet for most folks.

And even though the company has some of the most visited web properties in the world, it still isn't monetizing its traffic or growing at the rate it should.

With that many paying subscribers, and now that they're giving away everything for free, it stuns me that this company still doesn't 'get it.' They don't understand social media, they don't understand the new dynamics that are in place on the web, and they really haven't capitalized on the latest advertising boom.

Similar to Yahoo, this company needs a partner that will light a fire under its rear end, and, in my opinion, that will come from a sizable acquisition.

Facebook is the epitome of a company who "gets it." They have a virtual monopoly on the college demographic, and, as more and more members graduate, they continue to use Facebook to keep in touch with school friends.

That means this site is getting fresh customers each and every year while still retaining older ones. This site will eventually dwarf News Corp.'s MySpace.com, and now that it's open to non-college goers as well, I think that could happen even faster.

The company was rumored to have turned down a \$1 billion bid from Yahoo and/or Viacom last year in hopes of scoring \$2 billion. And while that might be a rich price from a valuation perspective, I nonetheless feel a company like AOL could easily monetize that relationship.

With its advertising.com network of ads and the relationships it has through its parent company, AOL could market and cross-promote through Facebook until it was blue in the face and green in its pockets.

An acquisition at this level would put AOL right back on the map and give Time Warner a huge leg-up on other Internet/Media companies attempting to get involved with the social media market.

United Online (Nasdaq: UNTD) - Here's another company that I think would be a fantastic fit for AOL.

They're in the same (old) business as AOL - dial-up internet access - which, as we all know, isn't doing so hot these days.

However, United has a little trick up its sleeve - the company is the owner and operator of one of the most popular social networks on the web, Classmates.com.

You wouldn't know it, but Classmates is owned by United and is taking advantage of the latest advertising boom.

The company is also sitting on several hundred million dollars in cash and has a large installed subscriber base.

If AOL acquired United and began marketing advanced/free services to its existing members and then leveraged the traction classmates.com already has in the online ad market, this deal could pay off in spades for AOL.

It would not only get them involved in the social media space in a very big way, but it would also allow the company to capture several million new users that match its existing demographic.

Will Any of These Deals Happen?

I'm not sure (obviously).

But I do know that there will be a number of large moves made in this space by AOL, Yahoo and Microsoft. These guys were the kings of the hill for so long, and to be usurped by a start-up from Stanford and a stodgy media company like News Corp. is just forcing these first-generation tech players to rethink their strategies.

And that, my friend, is always a good thing!



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