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## Yahoo to buy Overture for \$1.63 billion

The Web portal says it plans to buy search company Overture Services, a move that's squarely aimed at taking on Google, MSN and other search engine competitors.

**Stefanie Olsen**

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**Yahoo announced on Monday its plan to buy search company Overture Services in a \$1.63 billion deal, bolstering its position against rivals Google and Microsoft in the booming market for Web search advertising.**

The deal calls for each share of Overture stock to be exchanged for \$4.75 in cash and 0.6108 of a Yahoo share, which values each share of Overture at \$24.63, roughly a 15 percent premium over Overture's Friday closing price.

Yahoo said the deal will allow it to expand its pay-for-performance search business and to expand contextual advertising throughout its network. Overture specializes in selling advertising links that accompany search results on sites such as Yahoo and MSN. It's a market into which search rival Google has been making inroads.

But Overture had been fighting back against Google, making acquisitions designed to help it [offer a broader array of search services](#).

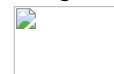
Yahoo has also been getting more competitive about search, recently [acquiring Inktomi](#), an algorithmic search company that competes more directly with Google.

In a conference call Monday morning, Yahoo Chief Executive Officer Terry Semel said the combined companies represent the largest player in the Internet advertising sector and that the deal gives Yahoo a greater ability to market itself to small and medium-size advertisers.

"Yahoo now owns all the crucial elements of an end-to-end search offering," Semel said. "Consumers will benefit from more relevant messages, and marketers from more effective results."

Semel said there are substantial opportunities for the companies to integrate capabilities in key online advertising markets, including the shopping, travel and local information segments.

The search market will also face new competition from Microsoft. The software giant recently [launched new software to index Web sites](#) and [hired](#)



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top scientists as part of its efforts to make headway in the lucrative market.

Search is a key element in Yahoo's advertising business, which, while growing, last week fell short of analysts' expectations. The company's earlier partnership with Overture accounted for nearly one-fifth of

Yahoo's overall first-quarter revenue, Yahoo recently reported.

Forrester Research analyst Charlene Li said the Overture deal is significant in that Yahoo has essentially filled out its portfolio for marketers, specifically around branding and the paid search market. A major benefit, Li said, is that Yahoo will be able to insert paid search capabilities into its product listings and other areas such as yellow pages.

"It was really a question of who was going to buy Overture--Yahoo or MSN," said Li. "The deal would have had big implications for either company, but I think Yahoo is the better fit, as they were already more advanced in the paid search market."

Overture is highly reliant on deals with distributors, most notably Yahoo and Microsoft's MSN Web portal, which together accounted for 54 percent of its sales in 2002. Both Yahoo and Microsoft recently extended agreements to run Overture's paid links on their Web properties. Still, Monday's deal could ultimately threaten Overture's partnership with MSN, which accounted for about a third of the company's revenue in 2002 and is set to expire at the end of 2004.

Li said MSN would continue to build its own paid search capabilities in-house, but noted that the company may be forced to reconsider some of its strategy as MSN retains existing paid search partnerships with both Overture and Inktomi. Li said MSN may be uncomfortable with Yahoo's increased ability to review its advertising policies as a result of those agreements.

The Overture deal is a "strong move" for Yahoo in terms of competition with MSN, Li said, but she believes there is sufficient room in the growing paid search sector for both companies to see gains. Perhaps the biggest question, Li said, is what rival Google will do to compete against its larger rivals.

Yahoo also cited the increasing opportunity to tap into foreign advertising markets, specifically in Europe and Asia. Executives said the deal made more sense than attempting to separately build holdings comparable

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with those of Overture, based on that company's standing in the paid search business and the time required.

Overture CEO Ted Meisel cited complementary capabilities between the two companies as a major catalyst behind the deal, highlighting Yahoo's strengths in usage, audience and advertising. Meisel said during the conference call that the two companies would also benefit from accelerated product development as a result of the merger.

After the deal closes, Overture will become a wholly owned Yahoo subsidiary. Meisel will continue to oversee Overture operations and will report to Yahoo chief operating officer Dan Rosensweig.

Rosensweig said Yahoo expects to break even in the first year and that the deal will be "highly accretive" in future years.

### Searching for profits

Commercial search has been a bright spot in the \$6 billion a year online advertising market. According to the trade group Interactive Advertising Bureau and PricewaterhouseCoopers, commercial search in 2002 accounted for nearly \$1 billion in total sales, an increase of 210 percent over 2001. Researchers expect the paid search market to reach as much as \$4 billion by 2005.

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Overture is the biggest player in the market for now, with projected revenue of about \$1 billion this year, up from \$667 million in 2002. But the company has come under pressure recently due to declining profit margins, as it's been forced to pay a higher percentage of its sales to its distribution partners.

Yahoo has become highly dependent on Overture since signing its first deal to run the company's paid links on its search pages in November 2001. Yahoo's contract

currently runs until April 2005, with an option to extend the deal to 2011.

According to a securities filing from May, nearly one-fifth of Yahoo's overall first-quarter revenue, or about \$54 million, grew out of its partnership with Overture. That's more than double total the roughly \$23 million in revenue reported in the same period in 2002.

The partnership has been one of the biggest factors helping Yahoo rebound from a dismal performance in 2000, when the bottom dropped out of the dot-com economy and the company's revenue suddenly collapsed. Now, the company is on the mend, having posted five straight quarters of profits.

Conceived by co-founders Jerry Yang and David Filo in a Stanford, Calif., trailer in 1994, much of Yahoo's popularity was built on the company's search directory, which gave a semblance of order and organization to the unruly Web. As legend has it, Yahoo was developed by Yang and Filo as a way to categorize

their favorite sumo wrestling Web sites. Even the company name--originally the acronym "Yet Another Hierarchical Official Oracle"--highlighted its directory roots.

But directories, which use human editors rather than automated methods to rank Web pages, proved unable to keep up with the explosive growth of the Web. They were largely pushed to the sidelines by so-called algorithmic search providers such as Inktomi and Google and by the advent of commercial search providers lead by Overture.

Yahoo had earlier indicated that it might try to build its own paid search service to compete with Overture. But the financial community had long speculated that Yahoo might instead acquire Overture, a rumor that was recently fueled when Yahoo secured a short-term interest-free loan that boosted its cash hoard to about \$2 billion. Its stock has also soared to near a 52-week high, although some of those gains were given back following a disappointing earnings report last week.

Yahoo plans to have the deal closed by the end of 2003 and expects to issue shares amounting to 7 percent of its total outstanding shares as a result of the acquisition.

*CNET News.com's Matt Hines contributed to this report.*

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**Katherine Watt**

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