



## Will GE Buy Yahoo?

### Iconic brand fits GE model for market leadership.

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Now that Yahoo shares have fallen into the doldrums as prospects fade for a deal with Microsoft, market pundits revel in scoffing at this company and its management. But the critics are too quickly discounting Yahoo's iconic brand. As Yahoo states in its 10K, it's "one of the most trafficked Internet destinations worldwide." Yahoo continues to live and prosper at the center of a well-functioning ecosystem of users, content providers, affiliates and advertisers. Unlike other famous Internet names that are still trying to figure out how to monetize eyeballs, Yahoo has a history of generating substantial revenues, income and cash from its traffic.

In short, Yahoo could yet attract another buyer that covets a leading Web presence. Comcast and Time Warner have been mentioned in this connection. While there would be some logic to a cable/Yahoo combination, I think Yahoo is out of the MSOs' reach today given their own depressed share values and the other priorities that fully occupy MSO managements. Also, it's dubious that Time Warner would pursue a big Internet acquisition given the still-vivid scars from its AOL merger. Instead, my favored candidate to buy Yahoo is General Electric.

Why GE? Because GE's longtime strategy has been to build or buy leadership in each of its market segments. GE's media and entertainment business—NBC Universal—reflects this strategy in that it comprises an historic TV broadcast network, TV stations in major U.S. markets, a major movie and TV studio and leading cable programming networks, among other assets. However, GE has yet to establish a commensurate leading presence on the Web that will be essential for any significant media and entertainment company. Hulu, GE's online video joint venture with News Corp., is interesting and innovative and shows great promise, but it's still a start-up and lacks GE-type scale. GE is accustomed to casting a much bigger shadow.

Buying Yahoo would ensconce GE on the Web in its familiar role as a leading, brand-name player. In 2007, NBC Universal contributed approximately 9% of GE's total segment revenues (\$15.4 billion out of \$167 billion) and approximately 11% of overall GE segment profits (\$3 billion out of \$29 billion). Yahoo's 2007 revenues (approximately \$7 billion) and net income (approximately \$660 million) are of roughly similar magnitude and could be combined with those of its new parent without capsizing the overall enterprise.

Assuming GE decides to stay in the media and entertainment business, I think a strategic Internet acquisition like Yahoo is in its future, and there is no Web business that is more like Yahoo than Yahoo itself. Now that the other most-likely prospective buyer is back in Redmond sulking (or plotting), don't be surprised if GE emerges from the weeds as Yahoo's strategic acquirer.

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