

 Investing

## Yahoo Acquisition Is a Smart Move for Verizon Communications (YHOO, VZ)

Verizon has big plans for Yahoo, which could turn out to be a savvy acquisition.



(MANDEL NGAN/AFP/Getty Images)



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*Stocks mentioned in this article:* [VZ](#) [YHOO](#) [T](#) [GOOG](#) [GOOGL](#) [FB](#) [S](#) [TMUS](#) [BABA](#)

The year's biggest sale that never was has been consummated. [Verizon Communications](#) (ticker: [VZ](#)), the largest wireless service provider in the U.S., has outbid four other bidders – including rival AT&T ([T](#)) – and is set to absorb Yahoo's core internet business and intellectual property for \$4.8 billion.

Originally, Verizon had bid between \$3.75 billion and \$4 billion for the core web search and advertising business, leaving Yahoo's IP on the table. But in a late push, Verizon adjusted its bid to include Yahoo's "non-core" assets to acquire the struggling Sunnyvale, California-based company.

"This sale is not only an important step in our plan to unlock shareholder value for Yahoo, it is also a great opportunity for Yahoo to build further distribution and accelerate our work in mobile, video, native advertising, and social," Yahoo CEO Marissa Mayer says in a message to Yahoo employees Monday. "As one of the largest wireless and cable companies in the world, Verizon opens the door to extensive distribution opportunities."

On the surface, the Yahoo acquisition appears pretty unrelated to Verizon's core business. But it's time to stop scratching your head, because this deal makes total sense.

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**Fighting the big boys.** The [Yahoo deal](#) is a power play by Verizon, one intended to take on the two mobile advertising heavyweights of today, Alphabet ([GOOG](#), [GOOGL](#)) and Facebook ([FB](#)). Those two companies alone take in more than 50 percent of all U.S. digital advertising revenue, according to eMarketer.

Yahoo's share is a measly 3.4 percent.

There's no way Verizon swoops in and turns Yahoo into an advertising powerhouse to rival Google and [Facebook](#). But it can combine the content and advertising technology it acquired with the \$4.4 billion purchase of AOL last year to become a more legitimate third wheel to FB and GOOG. Yahoo is the fifth-most visited website in the U.S., while AOL is the 45th, according to Alexa.com.

"To compete with the Big 2, Verizon has to go international," says Usha Haley, a management professor at West Virginia University. "Yahoo has millions of domestic and international users, Flickr, Tumblr and Yahoo Finance and Sports as well as digital-ad tech like Flurry and BrightRoll. Yahoo will expand Verizon's advertising base by 200 million and include a large swathe of international visitors. Yahoo's user data will also help Verizon's ads become more relevant for a global market."

Caleb Ulku, head of Ulku Logistics, which helps businesses learn how to improve operations and management strategy, says Verizon is interested in Yahoo for the same reasons it ended up buying AOL.

The goal of the AOL deal was "adding AOL's video advertising platform to Verizon's wireless devices and location data," he says.

"Yahoo's advertising platform is an excellent addition to Verizon's strategy of serving relevant, location-based ads to its mobile devices," Ulku says. "This gives Verizon a jump-start in mobile advertising relative to its wireless industry peers."

Zooming out to look at the bigger picture, Verizon wants to diversify away from the stagnating wireless industry as the landscape devolves into a never-ending competition of who can steal the other's telecom's customers faster.

**Data diving.** As consumers increasingly shift their behavior toward mobile and video, Verizon wants to take advantage of that and profit off of the trend. Putting its AOL property aside, one way Verizon does that today is by selling data – needless to say, streaming video uses more data than idly scouring news headlines.

In buying Yahoo, Verizon can parlay its bet on that trend by owning the content that users are consuming while simultaneously targeting ads to those very users. User data and ad-targeting technology are two vital parts of Yahoo that Verizon very much intends to use.

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AOL's ad-targeting technology was a major reason behind Verizon's decision to purchase it last year, so a combination of AOL and Yahoo's user data, content, video capabilities and ad-targeting would form a formidable digital portfolio.

In a more ambitious world, Verizon could use Yahoo's search prowess as a chip for leverage, working with phone manufacturers to make it the default search engine on certain mobile phones. Unless, of course, Google or [Microsoft Corp.'s \(MSFT\)](#) Bing want to pay up for exclusivity.

**Freezing out competitors.** This deal also gives VZ some differentiation from its biggest competitors, [AT&T](#), Sprint Corp. ([S](#)), and T-Mobile US ([TMUS](#)). None of those companies have valuable digital properties, and as such they leave themselves open to secular shifts in the wireless and (in the case of AT&T) cable industries.

While Yahoo won't be an immediate financial game-changer for Verizon, which posted revenues of \$131.6 billion last year, it signals the company is ready to pivot more forcefully into the digital world as its peers remain mired in traditional telecom.

**Yahoo's fate.** For Yahoo, this is a long-awaited sale that brings a months-long process to an end. The sale will be more tax-efficient for YHOO shareholders than a previous plan, which called for the spinoff of its Alibaba Group Holding ([BABA](#)) and Yahoo Japan properties.

Post-sale, YHOO stock will essentially be a glorified holding company for [BABA stock](#), which accounts for the lion's share of Yahoo's current valuation.

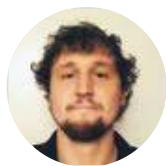
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For VZ shareholders, this might not seem like a very sexy deal. But it's well thought out, and if Verizon can use Yahoo and AOL to become a meaningful player in mobile content, video, and advertising, then \$4.8 billion may end up being a small price to pay.

*Updated on July 25, 2016: This story was updated following the sale announcement.*



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