

## Yahoo closes door on Microsoft with Google ads deal

Microsoft's plan to establish a strong footing in online advertising has suffered a big blow as merger talks with Yahoo finally failed, with Yahoo allowing Google to sell ads on its site.

Separate statements from Microsoft and Yahoo signalled a real rift between the two after their agonising on-off talks, and Yahoo shares fell 10% as final hopes of a full or partial acquisition faded.

Microsoft shares rose more than 4% as investors showed relief that the company would not be paying too high a price for a deal they considered risky - even though its biggest rivals on the web are to work together.

Yahoo says it has agreed to let Google put search ads - advertisements placed next to search results - on its site in what it calls an \$800 million (£411 million) annual revenue opportunity that would boost cash flow by \$250-\$450 million in the first year.

"Google has made an enormous gain strategically," says Sanford Bernstein analyst Jeffrey Lindsay. "This move might well have shut Microsoft out of the online space altogether."

Google and Yahoo, No. 1 and No. 2 in search respectively, will pit ads against each other in auctions for the ad that pays the most. "Yahoo is being a reseller of Google whenever it makes sense, and that is likely to be a lot of the time, given how much more effective Google web search ads have proven to be," says Global Crown Capital analyst Martin Pyykkonen.