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Google Acquisitions Expected To Target Mobile, Display Ads

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Google's plan to scour the market for acquisitions will likely target firms in the display, mobile and local ad fields, rather than a huge name such as social media firm Twitter, analysts say.

The Web search leader, in reporting its third-quarter results on Thursday, said it's looking for acquisitions. The company is "open for business in making strategic acquisitions, both large and small," Google CEO Eric Schmidt told analysts.

This marked a change in fortune. In the past year, Google made its first — albeit mild — company layoffs and exited some businesses that had failed to generate much revenue.

The company had a cash hoard of $12 billion as of Sept. 13, but many analysts doubt that it's looking to spend the $1 billion-plus that it would take to buy Twitter. The microblogging service had been hugely popular, but hasn't generated much revenue or a plan to do so.

Google, says Kaufman Bros. analyst Aaron Kessler, will seek acquisitions that can quickly generate revenue.

Greg Sterling, principal for Sterling Market Intelligence, agrees that Twitter's high value likely precludes any interest from Google.

Rumors that Google is in talks with Twitter have surfaced at times, most forcefully last April. But Twitter's founders have vowed to stay independent.

In September, Twitter said it closed a big round of funding, widely reported at $100 million. The funding was said to have valued Twitter at $1 bil.

"They might have tried (buying) Twitter at one time, but with its billion-dollar valuation and expectations of future glory, that's now a lot less likely," Sterling said.

Kessler says Google will focus on firms that can help it get more mobile, online display and local small-business ad revenue. Google's biggest acquisition was the $3.1 billion it paid to buy display-ad service provider DoubleClick in 2008.

Google still needs more technical help to make display ads a more effective business, says Kessler, who rates Google stock a buy.

"They also need to improve the behavioral targeting and the automation of ads," he said.

Google gets nearly all of its revenue from text-based search ads served up on computers, but the company has made mobile display ads a priority.

Google needs to improve adapting its display ads for smart phones and other mobile devices, Sterling says.

"Their (mobile display) ads now are kind of crude," he said. "They are essentially taking text ads and pumping them into a banner, but they are not doing a particularly good job. "

In Thursday's earnings conference call, CEO Schmidt said Google is "certainly looking for large businesses to buy, but in those cases it would have to be some significant strategic rationale — some accelerant that it would provide for revenue, some major, major user base that we did not currently have access to."

Schmidt said Google might be willing to make a large acquisition "maybe every year or two, but certainly not every month."

Schmidt also said the company has looked at buying small companies in the areas of search, advertising and enterprise software.

Besides DoubleClick, Google's other big acquisition was its $1.65 billion deal for YouTube, but it has admitted having trouble selling enough ads on the video site.

Schmidt's comments prepare the market for acquisitions, possibly a large one, says Martin Pyykkonen, an analyst for Janco Partners.

"Most people took that as Eric telegraphing, to say that they are looking pretty actively," said Pyykkonen, who rates Google stock a buy.

The company's latest results exceeded analyst views. In a down day for the overall market, Google shares Friday rose 3.8% to 549.85, a 15-month closing high.

Google's acquisition talk didn't spook investors because the company has so much cash and has resumed its growth, Pyykkonen says.

"People are assuming that if there is a deal, even for a couple billion, they have plenty of cash," he said.

In any case, even before Schmidt's comments, acquisitions by Google were a certainty, says Kessler, given the company's strong focus on fast growth and reluctance to spend money to buy back shares.

"What else," he said, "would they do with all that cash?"