M&A Research Report

Search: A Hot Sector in Play

AGILE EQUITY

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Founded in 1996, Agile Equity is an investment bank specializing in mergers & acquisitions in the technology sector. Located in New York City, Agile Equity is lead by a strong team of corporate finance professionals with extensive technology sector transaction experience.

Agile Equity provides research reports on a sector basis from an M&A perspective. Agile Equity does not underwrite or make a market in any securities; thus, it's M&A advisory services are free of potential conflicts of interest.

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I.   Purpose

Search is a hot growth sector in play. Companies such as Google have led the way, but there are numerous public and private companies focused on emerging sub sectors in search. Mergers & acquisitions activity is heating up as larger search companies acquire smaller, nimble rivals and non-search companies increasingly buy into the sector. This report analyzes the growth in the sector, clarifies the market topography, discusses M&A transaction drivers, reviews recent M&A transactions, and predicts future changes in the search sector.

II.   Growth in the Search Engine Sector

The number of U.S. searches grew 55 percent in December 2005 over December 2004, according to data released by Nielsen//NetRatings. The growth accounts for 5.1 billion searches conducted in December 2005, up from 3.3 billion searches carried out the previous December. During this time, the U.S. Internet user base increased by just 3 percent to reach 207 million users in the total digital media universe, which includes some non-active users.

Figure 1: Top Three U.S. Search Engines[1]

Search Engine	December 2004 Searches (000)	December 2005 Searches (000)	Growth (%)
Google	1,414,778	2,475,895	75
Yahoo!	711,857	1,085,918	53
MSN	460,377	553,476	20
Source: Nielsen//NetRatings, February 2006			

According to the Search Engine Marketing Professional Organization's (SEMPO's) most recent survey, North American advertisers spent $5.75 billion on search engine marketing ("SEM") in 2005, 44 percent more than 2004's reported $4 billion. This year, they plan to spend $7.2 billion, rising to $11.1 billion in 2010. The bulk of this spend (83 percent) will be on paid placement. And more and more marketers will look to search for branding, not just direct sales.

A Piper Jaffray research report put the paid search industry at $10 billion globally in 2005, and estimated its growth at 41 percent in 2006, reaching more than $14 billion. Piper Jaffray also predicted the industry will grow at a 37-percent compound annual growth rate (CAGR) to more than $33 billion in 2010. In December, the author of the Piper Jaffray report, Rashtchy, made a "conservative" estimate that online advertising will exceed $55 billion globally by 2010, a 27-percent compound annual growth rate (CAGR) over 2005, largely due to an expected inflection point for brand advertising this year.

Search, however, is moving out of a period of hyper growth, fueled largely by Google's own dazzling IPO. Search is a maturing industry, which is confirmed by an increase in mergers & acquisitions activity in 2005 and Q1 2006.[2]

III.   Market Topography

The market topography for search engines is changing, with more search engines emerging for a specific task. For example, news search engines are much better at combing through news stories than a more

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[1] Search Sees Double Digit Growth, ClickZStats, Enid Burns, February 9, 2006
[2] Is Search Shrinking? Rebecca Lieb, ClickZ Experts, March 3, 2006

general search engine. Images, video and audio search engines are available that focus a search on multimedia. Enterprise search engines and mobile search engines are all recent additions to the complex topography for the search sector.

Major Search Engines

Major search engines generate the most traffic, so for most webmasters, they are the most important places to be listed. The chart below shows the percentage of online searches done by US home and work web surfers that were performed at a particular search engine.[3]

Figure 2: Share Of Searches: November 2005
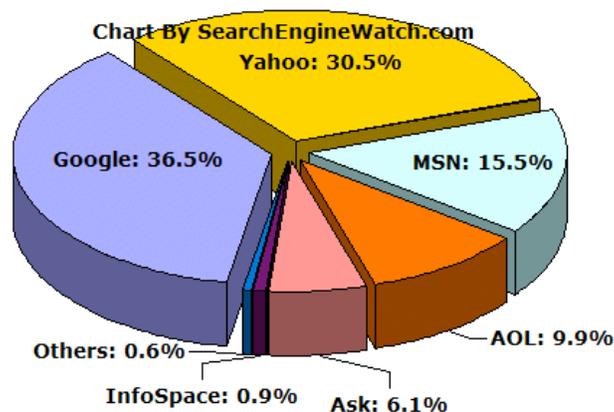
Metacrawlers and Metasearch Engines

Unlike search engines, metacrawlers don't crawl the web themselves to build listings. Instead, they allow searches to be sent to several search engines all at once. The results are then blended together onto one page. Below are some of the major metacrawlers.

Dogpile
http://www.dogpile.com
Popular metasearch site owned by InfoSpace (INSP) that sends a search to a customizable list of search engines, directories and specialty search sites, then displays results from each search engine individually.

Kartoo
http://www.kartoo.com
If you like the idea of seeing your web results visually, this meta search site shows the results with sites being interconnected by keywords.

SurfWax
http://www.surfwax.com
Searches against major engines or provides those who open free accounts the ability to chose from a list of hundreds. Using the "SiteSnaps" feature, you can preview any page in the results and see where your terms appear in the document.

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[3] SearchEngineWatch.com, Danny Sullivan, Editor-in-Chief, August 23, 2005

News Search Engines

News search engines only crawl news sites so the results are exceptional for current event searching.

AllTheWebNews
http://www.alltheweb.com/?cat=news
This Overture-owned service, now part of Yahoo! (YHOO), lets you keyword search against content gathered from news sites across the web. Advanced news search page allows narrowing news sources to particular categories, such as sports or technology.

AltaVista
http://news.altavista.com/
This Overture-owned service, now part of Yahoo! (YHOO), lets you keyword search against news content found by sister-search engine AllTheWeb (above) and content supplied by major news partners such as the New York Times.

Daypop
http://www.daypop.com/
Daypop lets you keyword search through content it finds from crawling thousands of news sites throughout each day. You can also search through weblog content or information from RSS feeds.

Pay Per Click Search Engines (CPC/PPC)

The services listed below generally sell paid listings on a cost-per-click or CPC basis. They are also sometimes called PPC or pay per click search engines. Advertisers pay for every click the search engine sends them, and those who pay the most generally get listed higher.

Google AdWords (GOOG)
https://adwords.google.com
The Google AdWords program places paid listings within Google's search results, as well as on some other sites that carry its listings.

Espotting.com
http://www.espotting.com/
Major paid placement service with wide distribution in the United Kingdom and Europe. It merged with FindWhat (now MIVA,Inc, listed below) in July 2004 and operates as a division of that company.

MIVA, Inc. (MIVA)
http://www.findwhat.com/
MIVA, formerly known as FindWhat, is an important paid placement service in particular because the company has distribution on many major meta search engines. It offers marketing and services to help businesses throughout the business cycle in reaching prospects, converting prospects to customers and then retaining those customers.

LookSmart (LOOK)
http://listings.looksmart.com/
Provides both PPC-based paid inclusion listings and more traditional PPC-based paid placement listings that have wide distribution on second tier search engines and meta search engines.

Overture
http://www.overture.com/
Overture is the oldest major paid placement search engine. It distributes its listings to a wide-range of search engines, including that of its owner, Yahoo!. It was purchased by Yahoo! (YHOO) in October 2003.

Shopping Search Engines

The shopping search engines below are designed to check prices at various online stores or locate e-commerce outlets by category.

Shopzilla, Inc.
http://www.shopzilla.com
Shopzilla allows you to search for products from 65,000 retailers offering clothes, electronics, and other products. Its proprietary search algorithm, ShopRank, orders results by relevance, weighing factors such as price, popularity, product availability, and the reputation of stores that sell them.

DealTime
http://www.dealtime.com
One of the major comparison shopping search engines on the web that integrates product reviews from Epinions, which it acquired in May 2003. Also owns Shopping.com, which essentially is a clean-search version of DealTime. Most of Shopping.com's revenue comes from referral fees paid by merchants and listings sites.

Froogle
http://www.froogle.com
Comparison shopping search engine from Google (GOOG). Gathers listings from crawling the web and accepting product feeds vendors.

Kelkoo
http://www.kelkoo.co.uk/
Major comparison shopping search engine for the United Kingdom and other European countries. According to the company, 16 out of the top 20 e-commerce sites in the UK are currently advertising through Kelkoo.

MSN
http://shopping.msn.com/
MSN Shopping, formerly known as eShop, offers Buyer's Guides with tips and tools, editor suggestions, and other features beyond the price comparisons offered by other shopping search sites.

mySimon
http://www.mysimon.com/
mySimon has a pretty simple proposition: use the Internet to find the lowest prices on consumer goods. Part of CNET Networks, the online shopping service searches and indexes products from thousands of merchant Web sites and allows users to compare prices from competing stores.

NexTag
http://www.nextag.com/
Comparison shopping search engine with "TruePrices" feature that shows prices including tax and shipping charges, as well as user ratings. Offerings include the NexTag ToolBar and RSS feeds for comparison shopping search results.

PriceGrabber.com
http://www.pricegrabber.com/
Comparison shopping search engine with ability to see member ratings of products. Available in English or Spanish, including specialized product searches for retailers in Mexico and Brazil.

Yahoo! (YHOO)
http://shopping.yahoo.com/
Yahoo! Shopping connects you with thousands of merchants -- traditional retail stores, name-brand catalog companies, small boutiques, and specialty vendors.

Multimedia: Image, Audio & Video Searching

The multimedia search engines listed below will help you locate sound, image and video files.

AllTheWeb
http://www.alltheweb.com/
Find images from across the web, as gathered by the AllTheWeb crawler. To image search, select the "Pictures" tab above the search box. To find video files, use the "Video" tab. Choose the "Audio" tab to find MP3 and other sound files. AllTheWeb was acquired by Overture in April 2003 and Overture was acquired by Yahoo! in October 2003.

AltaVista
http://www.altavista.com/
Find images, audio and video from across the web, as discovered by AltaVista's crawler technology. To image search, select the "Image" tab above the search box. For audio and MP3 files, use the "MP3/Audio" tab. For video, select the "Video" tab.

Ditto
http://www.ditto.com/
Search or browse to find pictures on the web. Matches are displayed in thumbnail format. Formerly known as Arriba Vista.

Google (GOOG)
http://images.google.com / http://video.google.com
Find images and videos from across the web, as discovered by Google's crawler-technology.

Kazaa Media Desktop
http://www.kazaa.com/
Kazaa is widely acknowledged as the leading MP3 search and download service. Rather than crawling the web to gather music listings, Kazaa lets you search against a collection of music files that other Kazaa users contribute.

LTU Technologies
http://www.ltutech.com/en
LTU specializes in image search and recognition solutions. Its product suite includes Image-Seeker™, the world's most widely deployed visual search engine, and Image-Filter™, the leading image recognition platform. JASTEC Co, a Japanese software developer, bought LTU Technologies (through its subsidiary) in early 2005.

Lycos Pictures and Sounds (LCY)
http://multimedia.lycos.com/
The Lycos multimedia search service. Lets you find pictures from licensed collections and from across the web. Also provides options to search for audio & MP3 files, as well as video clips.

MIDI Explorer
http://www.musicrobot.com/
Allows you to search for MIDI files.

Neven Vision
http://www.nevenvision.com
Neven Vision has developed a suite of mobile recognition technologies that enable images to become the interface to digital content—photos of advertisements become hyperlinks to branded content portals, while your camera phone can snap a picture of your face to secure verification of identity and control access to your private data.

Picsearch
http://www.picsearch.com/
Presents image results from across the web.

Singingfish
http://www.singingfish.com/
Singingfish lets you locate audio or video files from across the web, through its own crawling activity and partnership with sites that provide feeds through free and paid deals.

The Music Finder
http://www.music-finder.net/
Enter some bands or music artists, and the Music Finder will suggest others you may wish to consider. The search engine has a database of over 13,000 bands and artists.

Webshots
http://www.webshots.com/
Webshots, part of CNET Networks, Inc., has over 23 Million monthly visitors and provides consumers with a variety of ways to enjoy photos - on their computer desktops as wallpaper and screensavers, on their wireless phones, and in their own homes and offices as prints.

Search Toolbars & Utilities

There are a variety of ways you can search and navigate the web without first going directly to a search engine. Search toolbars provide direct access to search engines from within your browser, while meta search utilities make it easy to search more than one search engine at the same time. Search companions often help you "discover" information as you browse pages on the web.

AltaVista Toolbar
http://www.altavista.com/toolbar/default/
Provides access to AltaVista web, news and multimedia search, page translation, term highlighting and pop-up blocking.

Ask Jeeves Toolbar
http://sp.ask.com/docs/toolbar/
A part of IAC/InterActiveCorp (NA: IACI), the Jeeves toolbar lets you limit your search to news, dictionary, stock market, weather, events, maps, and the Ask Jeeves Kids web sites.

Dogpile Search Toolbar
http://www.dogpile.com/info.dogpl/tbar/
Consolidates a variety of useful web and specialized searches into a single, easy to use interface.

Google Deskbar (GOOG)
http://toolbar.google.com/deskbar/
Provides the ability to search with Google from the taskbar within Windows. In other words, you can search without having to be in your browser.

Google Toolbar (GOOG)
http://toolbar.google.com
Special toolbar for Internet Explorer users that puts a Google search box right into your browser. In addition, you can use it to see the "PageRank" popularity score of any page you are viewing, search within the particular site you are viewing, see a previous of "cached" copy of any dead pages, find pages similar to the one you are viewing, block pop-ups and more.

HotBot Quick Search Deskbar
http://www.hotbot.com/tools/
Provides instant access to HotBot and is jam-packed with other useful tools and goodies as well.

MSN Toolbar
http://toolbar.msn.com/
Provides the ability to search the web using MSN Search, perform site specific searches, term highlighting and pop-up blocking.

Search Companions & Discovery Tools

The search companions and navigation tools below are designed to help you find or discover information, often in non-traditional ways.

AdSubtract
http://www.intermute.com/adsubtract/
This software removes paid listings from search engine result pages, along with banner ads and pop-ups. Paid inclusion listings are not removed.

Annotate Net Radar
http://www.annotate.net/html/download/download.py
Similar to Alexa above, this browsing companion suggests content from its partners that is related to what you are viewing.

Grokker
http://www.groxis.com/service/grok/g_products.html
Grokker lets you "fly" through search results grouped into different topics. It can be a helpful way to easily maneuver yourself into the right results, when there's more than one set of answers to your question.

Answers Corporation
http://www.answers.com
Answers, formerly known as then Gurunet, lets you highlight words or Alt-Click on them in a document and then send the word to an online dictionary or thesaurus.

HydraLinks
http://www.hydralinks.com/hl1001.htm
HydraLinks is a simple utility that lets you manipulate and save search results to a customizable list, speeding up your searching and letting you easily share results with others. (Review: Speed Up Your Searching with HydraLinks, June 19, 2003)

TouchGraph
http://www.touchgraph.com/TGGoogleBrowser.html
Enter a URL, then see a pretty picture showing you interlinks between that URL and other sites based on Google's "related" command. However, don't misinterpret this as an illustration of actual site interlinking.

UCmore
http://www.ucmore.com/
This tool installs into your browser and then shows information related to the page you are viewing. It's billed as "contextual search," but it's more a discovery tool along the lines of Alexa.

Kids Search Engines

The services below are designed primarily to serve the needs of children, either in focus, or by filtering out sites that some parents and teachers might find inappropriate for kids. These usually include sites that deal with explicit sexual matters, porn sites, violence, hate speech, gambling and drug use.

Ask Jeeves For Kids
http://www.ajkids.com/
Ask Jeeves, a part of IAC/InteractiveCorp (NA: IACI) is a unique service where you enter a question, and Ask Jeeves tries to point you to the right web page that provides an answer.

KidsClick!
http://www.kidsclick.org/
Backed by librarians, KidsClick lists about 5,000 web sites in various categories.

Looksmart's Kids Directory
http://search.netnanny.com/?pi=nnh3&ch=kids
The Kids Directory is a listing of over 20,000 kid friendly websites that were hand picked by employees of Looksmart subsidiary Net Nanny and vetted for quality.

Yahooligans
http://www.yahooligans.com/
Yahoo! for kids, designed for ages 7 to 12. Sites are hand-picked to be appropriate for children. Also, unlike normal Yahoo!, searches will not bring back matched found by crawling the web, if there is no match from within the Yahooligan listings.

Radio & TV Programs

Feed Room
http://www.feedroom.com/
View segments from local television newscasts on your computer. A searchable database of current stories is available. May not load if you block cookies, lack Flash or other browser components.

Public Radio Fan
http://www.publicradiofan.com/
A customizable web site that provides one-click access to public radio programming from around the world.

Country-Specific Search Engines

Search Engine Watch provides listings for search engines that serve the entire world, which you can find on the Major Search Engines page. There are also search engines that are devoted to particular countries and regions of the world. The resources below will help you locate these country-specific web sites.

Abondance
http://www.abondance.com
Anyone in France who knows search engines will tell you that this web site operated by Olivier Andrieu is THE source for information, both on searching and on search engine marketing.

SearchDesk
http://www.searchdesk.com/
This long-established web site is well regarded for information about search engines in Japan.

Enterprise/Intranet/Portal Search

The enterprise/intranet search space consists of web-like searching of corporate intranet, enterprise information and its related data stores. Used both internally for support and customer service purposes, as well as providing an easy way for external web site visitors to locate the information that they require, such as serving themselves for support related questions, or allowing investors to locate news and relevant articles.

Autonomy (AU)
http://www.autonomy.com
Built on ground-breaking research carried out at Cambridge University, Autonomy Corporation plc (AU. or AU.L) was founded in 1996 and has experienced a meteoric rise to become the undisputed leader in the field of handling and processing unstructured information such as emails, documents, phone calls and video.

Convera (CNVR)
http://www.convera.com
Convera is a leading provider of search technologies to commercial enterprises and government agencies. Through its two offerings, Excalibur™, a newly developed Web search solution and RetrievalWare®, its enterprise search product, Convera offers unique search technology capable of providing an integrated results page derived from both intranet and Internet content.

Coveo
http://www.coveo.com

Coveo is a privately-owned corporation launched in late 2004 to address the need for easy-to-use, powerful and secure enterprise search software. Its flagship product is Coveo Enterprise Search (CES), the first all-in-one tool that offers integrated and secure search for the desktop, Intranet and the Web to businesses and organizations around the world.

Recommind
http://www.recommind.com

Recommind's search and categorization systems automatically organize, manage, and distribute large volumes of text from multiple sources. With faster access to the right information, organizations in law, media/publishing, life sciences, and government can save time, enhance the quality of work product, increase the value of information assets, and improve competitiveness and profits.

Siderean Software
http://www.siderean.com

Siderean Software, Inc. provides organizations with the world's first comprehensive turnkey navigation solutions for enterprise digital content and catalogs. Siderean's Seamark Navigator reveals the full scope of digital assets and cataloged items available to enterprise users and customers, presenting a discovery and precision search framework for navigating to the most pertinent choices.

Transparensee
http://www.transparensee.com

Transparensee's BestMatch search engine is a powerful and easy-to-use technology that lets a Web site's visitors find the best match for any product or service using an unlimited number of search criteria — even if there are no exact matches. Transparensee's uses proprietary "fuzzy" search technology.

Web Traffic Analytics

With the rapid rise in web related searches and commerce, companies can benefit from knowing which particular pages and links end users are clicking on. While the raw data is almost always available, converting that raw data into useful information can be complex and time consuming. Many offerings are available, both from the niche web analytics providers as well as the business intelligence providers. With the significant diversity in the space, consolidation may be a possibility.

NetTracker
http://www.nettracker.com

NetTracker Web analytics solutions are used by companies worldwide to analyze and optimize their online channels--Internet, intranet and extranet sites.

WebSideStory (WSSI)
http://www.websidestory.com

WebSideStory (WSSI) is a leading provider of on-demand digital marketing applications. Its Active Marketing Suite™ is the first integrated suite of its kind in the industry and includes web analytics, site search, web content management and keyword bid management.

Vertical Search

Vertical search is a specialized search engine that mines data for one narrow niche of the market place, such as jobs, travel, or even high end real estate. Because the data sources are so fragmented, there seems to be an opportunity to massage the data and present it in a manner that is simple to use and

easy to consume. Vertical search can offer a more focused audience, and thus increase the efficiency of ads on the search engine.

NimbleCat
http://www.nimblecat.com
NimbleCat is an Application Service Provider (ASP) of "expert-driven" matching and routing technology to recruitment departments and recruiting agencies.

SideStep
http://www.sidestep.com
SideStep® searches more than 100 sites to find the Web's best travel bargains. It checks online agencies, consolidators, and the sites of the airlines, hotels, vacation package providers and rental car companies.

SimplyHired
http://www.simplyhired.com
Simply Hired is a vertical search engine company based in Silicon Valley, and its building the largest online database of jobs on the planet.

Local Search

Local search properties enable users to find businesses within a specific geographic area. Paid search advertising by local advertisers is poised to more than double this year to $987 million, and nearly double again in '07.[4]

LocalMatters
http://www.localmatters.com
Headed by Perry Evans, who developed an online mapping directory that later became MapQuest, Denver-based Local Matters is developing a "shopping engine" for online directory providers such as Denver-based Dex Media Inc. and Cary, N.C.-based R.H. Donnelley Corp.

Loki
http://www.loki.com
A product of Skyhook Wireless, Loki is a new and unique way of interacting with the Internet. For the first time, your computer can automatically incorporate its exact physical location into your Internet experience. It can also let you quickly, efficiently and automatically share your location with others.

Mobile Search

Mobile search will grow more robust with the rollout of 3G services. Those media companies, and the search engines themselves, are interested largely because of the opportunity to attract local advertisers.

4INFO
http://www.4Info.net
4INFO enables the search of real-time information to a mobile device. 4INFO's suite of mobile services provides access to business listings, sports scores, weather, flight information, horoscopes, news, stock quotes, hotel reservations, and mobile downloads.

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[4] "2006 Local Search Advertising" report, Borrell Associates, March 2006

Fast Mobile Search
http://www.fastsearch.com
FAST mSearch is a mobile search platform that unleashes the revenue potential of mobile data services while building a custom branded, differentiated experience for their subscribers. FAST mSearch integrates any content from anywhere, including local or global content partners, media companies, directory services, multimedia sources, and the worldwide mobile Web.

MotionBridge
http://www.motionbridge.com
MotionBridge, based in Paris, is a leader in mobile search technology that is currently available to customers through contacts with major mobile communications companies in Europe and North America. MotionBridge was acquired by Microsoft in February 2006.

Targetize
http://www.targetize.com
Targetize search enables a mobile subscriber to get actual content right on the phone screen, with just a few keystrokes. Unlike search engines for PC's on the net, Targetize brings actual content, NOT a link, as the search results.

Medio Systems
http://www.mediosystems.com
Medio Systems, based in Seattle, helps carriers and content providers to realize their content revenue goals through efficient, effective search. Medio's technologies provide a click-saving experience, returning answers instead of links, all the while taking into account subscriber preferences, device and location.

m-spatial
http://www.mspatial.com
m-spatial is one of the market leaders in mobile local search. m-spatial's hosted, consumer facing services are deployed at a variety of Western European mobile operators.

IV.   M&A Transaction Drivers

For search engine companies, consolidation will accelerate in 2006 and 2007. The transaction drivers for M&A include:

Market Consolidation

Market consolidation will accelerate as search companies acquire other search companies to gain market share. For example, Yahoo! (YHOO) acquired Overture, in a cash-and-stock deal valued at $1.6 billion in July 2003. In March 2003, Yahoo! completed its acquisition of Inktomi. In April 2003, Overture completed its purchases of AltaVista and AllTheWeb. Expect more consolidations to occur in 2006 and especially 2007 as the growth in the search sector levels off.

Product Expansion

Companies often acquire a product portfolio in order to expand. America Online's recent acquisition of Truveo is an excellent example. Truveo was founded in January 2004 and was acquired by America Online in December 2005 in order to expand its video search capabilities. This acquisition deal comes at a time when Google is revamping their video search engine with a video store, which would enable anyone and everyone to upload videos for sale online. However, the deal is significant in the sense that

video searching is going to become a big market in the coming times as the broadband connectivity becomes more widespread and people start using search engines for hunting for videos.[5]

Product Extension

Product extension is extending the depth of an existing product. For instance, Google acquired a blogging company, Pyra Labs, in February 2003. Google became the preeminent search engine by exploiting the structure of hyperlinks that make up the Web. Instead of using a simple keyword search, which is how most early search engines found their results, the company developed a proprietary system, called PageRank, which looks at hyperlinks as well as keywords to determine which pages are most popular on the Web. Weblogs are a rich source of links, which are posted in a fast, timely manner. Not only that, many weblogs are readable in RSS, or rich site summary, a standard syndication format that is easily parsed and indexed by search engine spiders, the bots that search engines use to crawl and index the Web. Google will likely use Blogger to develop sophisticated searches that utilize the rich metadata inherent in the RSS feeds from weblogs: who wrote what and when, what it linked to, what linked to it and its level of popularity with Web surfers.[6]

Geographical Reach

Cross-border acquisitions are driven by the need for geographical reach. This will occur especially as large companies desire to advertise via search globally. The UK-based Aegis Group acquired the search engine marketing firm iProspect for $50 million. Aegis will pay $32 million in cash and $18 million in deferred cash over two years, subject to iProspect's performance. Watertown, Mass.-based iProspect will become part of Isobar, Aegis' umbrella brand created in July 2004 to house its worldwide digital and one-to-one assets, which include Boston's Carat Interactive, Korea's Agency W, Australia's One Digital, and China's WWWINS. The CEO is quoted: "Most importantly, our new place within the Isobar family will give us global reach and a direct affiliation with some of the world's most talented and innovative digital agencies."[7]

Non-Search Company Acquisition

Non-search companies are buying into the sector. In March 2005, a group of three newspaper publishers (Tribune, Knight-Ridder, and Gannett) jointly acquired 75% of Topix.net, a targeted news search engine. The Tribune, Knight-Ridder, and Gannett consortium are also joint partners with CareerBuilder.com, Cars.com, ShopLocal.com and other properties. The new owners plan on keeping Topix editorially independent versus giving a higher ranking and placement to content from their publications. The partnership will allow these publishers to leverage advertising inventory from their other properties while using Topix.net 150,000 topical "channels" (including one for every U.S. Zip Code) to show more contextually related advertising. Expect more non-search engines buying into the sector. Given the complexity of building a search engine, buying a search engine company is often the best strategic course.

V.   Selected M&A Transactions

The pace of M&A activity will increase in 2006 and 2007. Agile Equity maintains a database of financials metrics for search M&A transactions that is accessible to clients. In 2005, Agile Equity represented

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[5] America Online Acquires Video Search Company Truveo, TechWack News, January 10th, 2006
[6] Why Did Google Want Blogger? Leander Kahney, Wired News, February 22, 2003
[7] Aegis Acquires iProspect for $50M, Kevin Newcomb, ClickZ News, December 22, 2004

Jastec, a Japanese public company, in its acquisition of LTU Technologies, a French private visual search company, which is mentioned below.

Figure 3: Selected Search M&A Transactions

| Date	Acquirer (Ticker)	Target (Ticker)	Sector
04/11/06	Google (GOOG)	Orion	Core Search Technology
03/08/06	Microsoft (MSFT)	Onfolio	Search Toolbar
03/06/06	Hitwise	HitDynamics	Campaign Optimization
02/13/06	Microsoft (MSFT)	MotionBridge	Mobile Search
02/02/06	R.H. Donnelley Corporation (RHD)	Dex Media	Local Search
01/02/06	Yahoo! (YHOO)	WebJay	Music Search
12/21/05	AOL (TWX)	Truveo	Video Search
12/09/05	Yahoo! (YHOO)	Del.icio.us	Local Search
05/23/05	Ask (ASKJ)	Excite Europe	Web Search
04/18/05	Jastec (9717)	LTU Technologies	Image/Video Search
03/28/05	Google (GOOG)	Urchin	Web Analytics
03/25/05	Tribune, Knight-Ridder, and Gannett	Topix.net	Targeted News Search
03/21/05	InterActive Corp (IACI)	Ask Jeeves (ASKJ)	Local Search
12/30/05	CGI Holding Corporation	Proceed Interactive	Search Marketing
11/24/04	Mamma.com Inc.	Copernic Technologies Inc.	Desktop Search
10/27/04	Google (GOOG)	Keyhole Corp	Digital Mapping
07/13/04	Google (GOOG)	Picasa	Image Search
04/12/05	Overture (OVER)	TeRespondo	Paid text Advertising
06/25/04	AOL (TWX)	Advertising.com	Interactive Marketing
03/04/04	Ask Jeeves (ASKJ)	Interactive Search Holdings	Web Search

11/18/03	AOL (TWX)	Singingfish	Music and Video Search
10/24/03	Google (GOOG)	Sprinks	Contextual Advertising
08/02/03	Incisive	SearchEngineWatch.com	Search Technology
07/14/03	Yahoo! (YHOO)	Overture (OVER)	Paid text Advertising
06/03/03	ValueClick, Inc.	Search123.com Inc	Search Marketing
06/18/03	FindWhat (FWHT)	Espotting	Online Marketing
04/28/03	Overture (OVER)	AltaVista	Commercial Search
04/24/03	Google (GOOG)	Applied Semantics	Online Advertising
02/25/03	Overture (OVER)	AllTheWeb.com	Web Search
02/18/03	Google (GOOG)	Pyra Labs	Blogging

VI.   Market Predictions

Consolidation Will Continue

Mergers & acquisitions activity will increase as consolidation occurs, growth slows, and companies outside of search buy in the sector. Search engines are complex, so buying is often a better option than building. An example of Google's complex search engine architecture is provided below:

Figure 4: Google's Search Engine Architecture
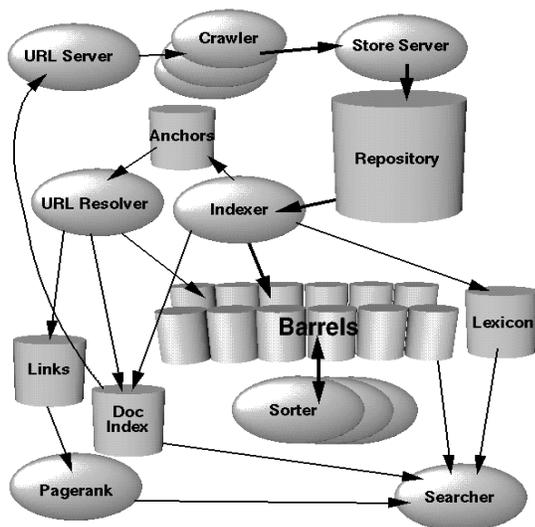
Specialty Search Engines Will Increase

The search engine sector will grow rapidly the next few years, as consumers and enterprises discover that specialized search engines produce superior results. This report has outlined a number of sub-sectors, e.g. local search that is more compelling than a general search when searching for a restaurant. Some sub-sectors, such as vertical search and local search will merge into one sub-sector, since the search for restaurants is more effective when the geographical location is taken into account.

Google Morphs into a Media Company

Google, and other major search engines that have not already taken the plunge such as Yahoo!, will increasingly become media companies, since search will become more commoditized and the barriers to entry are minimal. Google's first efforts at media, such as "Google News", will be extended into other areas of media.

Search Will Be Subsumed

As with the development of the Internet, eventually search will be subsumed through acquisition into logical sectors. In the Internet sector, news sites were acquired by media companies. For example, in December 2004, The Washington Post Co. bought Slate in an effort to boost the media company's online traffic. In March 2005, Tribune, Knight-Ridder, and Gannett acquired the news search engine Topix.net. Advertising companies acquired digital media companies in the internet sector and will acquire search marketing companies. Shopping search engines eventually will be acquired by retail companies.

M&A Valuations Will Decrease

As consolidation increases, the multiples paid for search engine companies will decrease. The tenth image search engine sold will not receive the same high multiple as the first image search engine sold, since as the number of potential buyers decreases. Lower valuations are caused by the interplay of supply and demand for a company, which affects mergers & acquisitions like any other market. Shareholders of search companies should take this into account as they consider whether to raise capital and sell later, or sell now.

VII.   Agile Equity Contact Information

Founded in 1996, Agile Equity is an investment bank specializing in mergers & acquisitions in the search sector as well as other technology sectors. Please feel free to contact us if you have any questions or comments regarding this research report.

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