

# Not All Acquisitions are Made Equal

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*Perspectives: May 1<sup>st</sup>, 2025*

A common line of thinking, infused by empirical academic studies and anecdotes, is that *'acquisitions in aggregate destroy shareholder value'*. It reminds me of an old joke about a statistician with his head in a freezer and his feet in a fire being, on average, perfectly comfortable.

I found over the years that many market participants reduce the academic studies and anecdotes to a belief that *'all acquisitions destroy shareholder value'*. I believe that might be a big mistake.

Here is how I have come to think about it.

1. **Some acquisitions are just terrible, in every respect** . They end up permanently destroying significant shareholder value. At their worst they can even outright bankrupt any size company.
2. **Most acquisitions are in the realm of 'so-so' – not a big failure, but not a big success either.** They typically end up boosting only the total size of the business, its overall complexity, the size and compensation of the board, and the levels of executive compensation, while having a negligible impact on shareholder value.
3. **Some acquisitions are absolutely amazing, in every respect** . They create massively significant shareholder value, which continues for decades.

It is tempting but wholly unnecessary to add to the huge existing library of global case studies that fit the first and second categories. My interest and focus lies in further exploring this third category of acquisitions.

In 2006, **Google** [nowadays known as **Alphabet**] acquired a 2-year old startup called **Youtube**. Founded by three former Paypal employees, Youtube launched in November 2005 with US\$11,5mn in funding from Sequoia Capital. The numbers are not publicly available, but it is estimated that, at the time of

the acquisition in 2006, Youtube generated annual sales of US\$20mn and that it was unprofitable.

For this, Google paid US\$1,65bn – a multiple of 82 times annual sales. This would have totally blown out the modelling of any respectable valuation-cognizant financial analyst with a short-term time horizon. I can only assume that Youtube's founders and funder shareholders were happy sellers at that valuation. I mean, they did actually sell.

Now, fast-forward to the present day. Alphabet's latest results for Q1 2025 show that sales from Youtube ads alone were US\$8,9bn. They do not disclose sales from Youtube subscriptions, but it is safe to assume that is also a meaningful number. Keep in mind; this is just over a 3-month period.

It is estimated that Youtube's combined sales from ads and subscriptions was US\$50bn or more in their latest full year. Despite its huge scale, it continues growing rapidly – Youtube ad sales have nearly doubled since 2020.

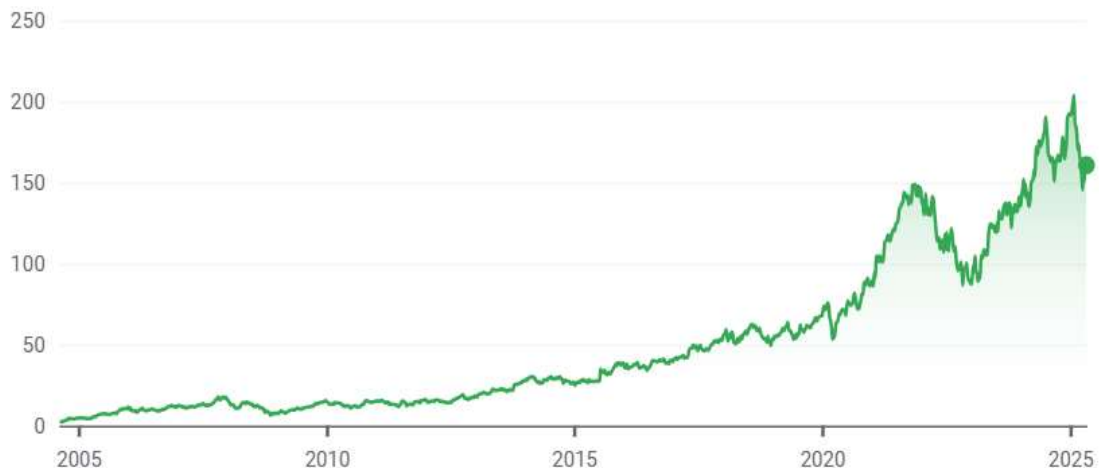
I rest my case as the numbers are utterly convincing. Clearly acquisitions that fit into my third category can, and do, occur. A key takeaway is the importance of acknowledging their existence in our team's research process; opening our minds to look for the possibility they may have occurred in any businesses we own, or wish to own; and if they have occurred, to hold on for dear life for *decades* as that shareholder value is created and recognized in the market price over time. *It is rather sobering that Alphabet's share price was US\$10 in 2006, and that it is US\$161 today.*

## Alphabet Inc Class A

**\$161.28** ↑ 5,851.29% +158.57 MAX

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1D 5D 1M 6M YTD 1Y 5Y MAX



Source: Google Finance

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