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Opinion: Facebook-Microsoft marriage looks Doomed

By Palash R. Ghosh

Although Microsoft (NASDAQ: MSFT) has long been identified as a potential suitor to take over Facebook, the social networking giant might now have become too pricey a target, suggesting the time has passed for Microsoft to make a serious deal.

Microsoft already owns a small stake in Facebook (as well as an ongoing advertisement/collaboration/relationship through the Bing search engine) and they might have to be content with that.

Microsoft initially invested \$240 million in Facebook in late 2007, and at some point thereafter Microsoft boss Steve Balmer reportedly offered \$15-billion for the entire company outright (a proposal that was rejected by Facebook founder Mark Zuckerberg).

"I think it's probably too late for Microsoft to make a serious attempt to buy Facebook," said Alan Lancz, president of Alan B. Lancz and Associates Inc., a money manager in Toledo, Oh.

"Although Microsoft has a huge amount of cash on its balance sheet, acquiring Facebook now would be prohibitively costly."

Given Facebook's soaring prominence on the business landscape and its 550-million-plus number of global users, Facebook's valuation has also skyrocketed – some estimates place the company's worth as high as \$50- to \$100-billion.

"Thus, any price Microsoft pays for Facebook now would have to come at a pretty hefty premium," Lancz noted.

"Facebook is also apparently gearing up for an IPO in a few years, so they may have decided to remain an independent entity. The money they received from Microsoft a few years ago certainly helped their expansion, but they retained control of the company."

However, as recent brokerage downgrades have strongly suggested, Microsoft has to do something to find some new sources of revenue and kick-start some meaningful growth.

Goldman Sachs (NYSE: GS) just downgraded Microsoft to "neutral," citing worries about the slow recovery in personal computer sales and the increasing threat posed by tablet computers that use non-Windows software. In particular, Goldman warned that Apple's iPad could begin encroaching onto PC sales.

"Analysts are looking for Microsoft to do something dramatic, and buying Facebook would certainly suffice," Lancz said.

"But I just don't see it happening. It would simply cost them too much at this point." Microsoft has been hurt by the huge success of Apple (NASDAQ: AAPL) and Google Inc. (NASDAQ: GOOG).

"Microsoft has fallen far behind in the realm of mobile computing," Lancz said. "Facebook would've given them a presence in that realm and a springboard into

the huge Asian market, particular China.”

Indeed, Microsoft's business model is starting to look a bit long in the tooth.

“The average Chinese household, for example, is not going to buy a PC,” Lantz said. “They'd rather have a mobile computing device, like a cellphone or an iPad or something. The PC lacks the convenience and cost-effectiveness of mobile computing. This is [a business segment] where new consistent revenue will come from, and exposure to the Asian market would be hugely lucrative.”

Microsoft's stock has stagnated for the past ten years, and unless it makes a big M&A splash sometime soon, it's in danger of becoming a dinosaur.

As for Facebook itself, it is executing its business plan very well and really has no reason to go public quite yet, nor does it need to be taken over by any entity.

“I think Facebook will likely follow Google's example,” Lantz said. “They are now monetizing their existing assets, waiting patiently for the right time to go public in order to maximize their potential. And once they go public, they will probably – like Google – go on a buying spree and seek to leverage the huge number of users they already have.”

Lantz added that Google, which has also been mentioned as a another potential candidate to take over Facebook, will probably not make any such play for it.

“I think Google is focusing on building its own social network,” he said. “Google is now looking at Facebook more as its chief competitor. Just four or five years ago, that would've been unthinkable.”