

FINANCIAL REVIEW

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Telstra's **acquisition** of US internet video provider Ooyala for an extra \$US270 **million** (\$291 **million**) represents its newest push into Silicon Valley and is part of efforts to keep the **company** relevant in the new digital age.

Ooyala may have a name you can barely pronounce but it's a product most Australians have used when visiting popular sites, including those of Fairfax Media, publisher of The Australian Financial Review. Its software allows video to be streamed on websites and smartphones.

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But should Telstra shareholders be worried the **company** is spending hundreds of **millions** on US tech firms far off its traditional telecommunication's business? Not necessarily.

Telstra previously paid \$US61 **million** to buy 23 per cent of Ooyala. The latest deal will see it spend an extra \$US270 **million** to raise its **stake** to 98 per cent.

Telcos around the world are desperate not to become dumb pipe providers – that earn little revenue from their phone and internet users – as technology companies like Google and Facebook-owned WhatsApp eat their lunches. Telstra's diversification

The answer for large players like Telstra has been to gamble its cash pile and diversify the business into areas that can help or be helped by the **company's** existing strengths.

Telstra has **billions** of dollars thanks to the 70 per cent **sale** of its Sensis directories business for \$454 **million** in January as well as its 76.4 per cent **stake** in **Hong Kong** mobile service business CSL for around \$2 **billion**.

As a result Telstra now plays in start-ups, healthcare services, **Chinese** car **sale** websites and even file-sharing tech companies like Box.

There's a high possibility that many of these will fail to launch and **wind** up costing Telstra hundreds of **millions** of dollars. The write-off of its \$302 **million** investment in two **Chinese** mobile companies is one such example.

But it only takes one of its tech firms reaching the types of valuations of firms such as Facebook and Google to make the whole effort worthwhile. The risky investment in **Chinese** car website Autohome is valued at over \$US4 **billion** – not bad for an initial investment of \$US76 **million**.

According to leading analyst **firm** Gartner, the key to these bets winning big is staying out of their way. Telstra is a veritable **oil** tanker that moves slowly compared to the nimble start-ups of Silicon Valley. Lesson learned

Telstra global enterprise and services group executive Brendon Riley said the move was an attempt to capitalise on what a video platform market worth between \$10 **billion** and \$20 **billion** by 2020.

But Telstra is still not revealing enough information about Ooyala to let investors see if the valuation is fair. It has paid \$US331 million to buy 98 per cent of the company and yet its profits and earnings are all a mystery.

It is expected to generate revenue of \$US65 million in 2014 but expenses are not disclosed. Ooyala has 330 employees and is about to move into a brand new 65,000 square foot building in the heart of Silicon Valley.

These are details shareholders will need to be given before they can pass fair judgment on Telstra's strategy.

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