Yahoo CEO vows to clean up Alibaba mess in China

May 25 2011, By MICHAEL LIEDTKE , AP Technology Writer

(AP) -- Yahoo Inc. CEO Carol Bartz found herself in a familiar position Wednesday: assuring stock market analysts that she will clean up a mess damaging the long-slumping Internet company's market value.

The latest challenge to confront Bartz in her nearly 2 1/2 year-tenure emerged two weeks ago. That's when Yahoo jarred investors by informing them of an abrupt change affecting the value of its 43 percent stake in Alibaba Group, one of the leaders in China's rapidly growing Internet market.

Alibaba had spun off a potential jewel - its online payment service Alipay - into a separate company controlled by its CEO, Jack Ma, without giving Yahoo anything in return.

Yahoo's stock price has plunged by 12 percent since the May 10 revelation, leaving Bartz little choice but to place the issue at the top of the agenda for a meeting that Yahoo had scheduled to provide an update on its turnaround strategy. The Associated Press monitored the San Jose, Calif. meeting through a webcast because Yahoo wouldn't allow reporters to attend.

Although she provided few specifics, Bartz spent most of the first hour trying to reassure analysts that Yahoo will be "appropriately compensated" for the loss of Alipay from its investment portfolio. .

Bartz made her points flanked by Yahoo's chief financial officer, Tim

Morse, and company co-founder, Jerry Yang, who also is a member of Alibaba's board of directors. Both men flew to Asia last week to discuss the Alipay matter with Alibaba's major shareholders, which include Ma and Japan's Softbank Corp. Bartz said all the key shareholders have committed to negotiating a fair payment for the Alipay spinoff and preserving the value of another Alibaba asset, online auction site Taobao.

"This is a very complex situation," Bartz said. "We have approached this thoughtfully and methodically. We think this is the right path to protect shareholder interests."

Bartz wouldn't predict when the Alipay issue would be resolved.

Yang, who spent 19 months as Yahoo's CEO before being replaced by Bartz in January 2009, said the Alipay spin-off was necessary to ensure Chinese regulators license the service. The licensing would have been delayed, or might not have happened at all, if Alipay wasn't wholly owned by Chinese citizens, Yang said.

Yahoo said Alibaba notified it about the change in ownership on March 31. None of the executives explained why Yahoo waited nearly six weeks to disclose it.

"We believe our disclosure was timely and appropriate," Bartz said.

Bartz's damage control didn't have much impact on Yahoo's stock price. The shares had gained 12 cents to $16.25 in Wednesday's late afternoon trading.

Bartz, 62, and her top lieutenants spent the rest of Wednesday's meeting trying to show Yahoo is finally headed in the right direction after years of misguided decisions and aimless execution.

The recurring problems have crimped Yahoo's revenue growth and held down its stock price at a time when other major Internet companies like Google Inc., Amazon.com Inc. and Facebook are thriving.

"We have rolled up our sleeves and we have done the hard work that Yahoo needed to do to be positioned as a premier digital media company," Bartz said Wednesday.

Yahoo remains one of the Internet's top destinations with about 600 million users, an audience that Bartz boasted would be the envy of once-powerful media barons such as newspaper publisher William Randolph Hearst.

But Yahoo's popularity hasn't extended to the stock market, largely because the company has been stuck in a financial malaise for most of the past five years. During that time, Yahoo has lost nearly half of its market value.

Although Bartz has been able to boost Yahoo's earnings by cutting costs, the company isn't keeping pace with the growth in the Internet ad market that generates most of its revenue.

Yahoo's net revenue - a number that reflects the money that Yahoo keeps after paying ad commissions - has dropped from the previous year in all nine quarters completed so far during Bartz's reign.

If that trend doesn't change soon, BGC Financial analyst Colin Gillis thinks Bartz might be replaced before her four-year contract expires in January 2013. He believes Yahoo brought in a potential successor when it named David Kenny to its board last month.

Kenny, 49, is an online advertising veteran and currently president of Internet networking services provider Akamai Technologies Inc.

Bartz still hasn't been able to reach the goals that the company's board set for Yahoo's stock price when she was hired. Her contract awarded her 5 million stock options that won't vest unless Yahoo shares close at average prices ranging from $17.60 to $35.19 for at least 20 consecutive days.

It looked like Yahoo's stock might finally stay above the first vesting threshold until the disclosure about the Alipay spinoff wiped out nearly $3 billion in shareholder wealth this month.

Yahoo's lackluster stock performance also has spurred new speculation that the company could be taken over. The most frequent speculation has revolved around another struggling Internet pioneer, AOL Inc., teaming with buyout firms to bid for Yahoo.

Gleacher & Co. analyst Yun Kim thinks Yahoo's big audiences in e-mail, online news and entertainment will make it a tempting target for Facebook or Comcast Corp., which has been trying to increase its Internet audience.

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Citation: Yahoo CEO vows to clean up Alibaba mess in China (2011, May 25) retrieved 8 July 2024 from https://phys.org/news/2011-05-yahoo-ceo-reassures-analysts-alibaba.html

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