

Yahoo's talks to sell Asian assets unravel

February 14 2012, By MICHAEL LIEDTKE , AP Technology Writer

As Yahoo tries to head in a new direction, the fate of the struggling Internet company's Asian holdings remains in limbo.

The negotiations to sell Yahoo's stakes in China's Alibaba Group and Yahoo Japan abruptly broke off in a disagreement over the sales price and the best way to get the complex deal done, according to a person familiar with the matter. Another person familiar with talks said Yahoo had second thoughts after agreeing to the sales price in a 300-page proposal outlining the proposed deal in late December.

"It was the culmination of a lot of little items," one person said of the deal's collapse.

Both people spoke to The Associated Press on Tuesday on the condition of anonymity because the negotiations are considered to be confidential, despite repeated leaks about the discussions during the past few months.

All Things D, a technology blog affiliated with The Wall Street Journal, reported earlier that the talks had unraveled.

It's the latest twist in the drama that has been swirling around Yahoo Inc. since it fired Carol Bartz as CEO five months ago.

Since the start of the year, Yahoo has hired former PayPal executive Scott Thompson as CEO and announced the departures of five board members, including Chairman Roy Bostock and company co-founder Jerry Yang. One of Yahoo's major shareholders, New York hedge fund

manager Daniel Loeb, outlined plans Tuesday to shake things up even more; he intends to wage a campaign to win a board seat for himself and three of his allies.

Thompson, Yahoo's fourth full-time CEO in less than five years, has pledged to engineer a turnaround that eluded his predecessors.

For now, though, investors are disillusioned with Yahoo's inability to close the deal on the Asian assets. The company's shares shed 76 cents, or 4.7 percent, to close at \$15.36 - below their price six weeks ago when Yahoo announced Thompson's hiring.

The Asian impasse comes as a surprise, given that Yahoo and the prospective buyers, Alibaba and Yahoo Japan shareholder Softbank Corp., all seemed motivated to seal a long-awaited deal. Yahoo was confident enough to dispatch negotiators to Hong Kong last week while Alibaba had been seeking financing to pay for its part, one person said.

But the sides couldn't agree on the value of Yahoo's holdings, which have been steadily rising in the past few years as Alibaba's electronic-commerce services prospered in China's rapidly growing Internet market. Analysts have also differed on how much Yahoo could fetch by selling its stakes, with estimates ranging from \$11 billion to \$18 billion.

To compound the challenges, the deal was arranged in a way that would have enabled Yahoo to avoid paying taxes. That proposal, according to both people who spoke to the AP, was structured a "cash-rich split-off" that would have resulted in Alibaba and Softbank contributing money and other assets into a special entity in exchange for Yahoo's stakes in the Asian companies. Yahoo then could have used the money generated from the Asian sale to placate its long-frustrated shareholders with a special dividend or other measures that might reverse a three-year slump in its net revenue.

The downturn has turned Yahoo's Asian stakes into the most valuable part of the company, even though its own operations still include websites boasting an audience of about 700 million people.

But Yahoo is having trouble attracting the advertisers who have been spending more money on the Internet in recent years, a trend that has been enriching online search leader Google Inc. and Facebook, the owner of the largest online social network.

Yahoo remains open to reviving the negotiations to sell its Asian assets at the right price, one of the people familiar with the matter said. That could include a new proposal that would be taxable in the U.S., the other person said.

When Yahoo appeared reluctant to sell its Asian stakes late last year, investment firms Blackstone Group and Bain Capital considered teaming up with Alibaba and Softbank in a joint bid to buy Yahoo in its entirety, according to media reports that cited unnamed people. Yahoo also considered selling partial stakes of the company to other investment firms.

Bostock publicly acknowledged the different proposals that Yahoo had been considering last week when he announced he will be stepping down as the company's chairman. At that time, he stressed "we are not in a position at this time ... to provide assurance that any transaction will be achieved."

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