

Yahoo to sell half of its Alibaba stake for \$7.1B (Update)

May 21 2012, By KELVIN CHAN , AP Business Writer

(AP) -- Struggling Internet company Yahoo Inc. has secured a lifeline after agreeing to sell half of its prized stake in Chinese e-commerce group Alibaba for about \$7.1 billion, with most of the cash going to shareholders.

The deal, announced Sunday in the U.S., will see Alibaba Group buying back half of its 40 percent stake from Yahoo Inc. for \$6.3 billion cash and up to \$800 million of Alibaba preference shares.

The announcement caps at least a year of rocky on-and-off talks as Yahoo tried to sell the stake as part of efforts to turnaround its business. Money from the sale will give Yahoo the financial firepower to return cash to disgruntled shareholders, many of whom are still upset after it squandered an opportunity to sell itself to Microsoft Corp. in May 2008 for \$33 per share, or \$47.5 billion. Yahoo's stock has sagged since then, trading at \$15.42 on Friday.

Yahoo said in a joint statement with Alibaba that it plans to return "substantially all" of the after-tax cash proceeds to shareholders. It said its share buyback program had been increased by \$5 billion though a final decision on how to return the cash had not been made.

Yahoo's interim CEO Ross Levinsohn said the stake sale provides "clarity" for Yahoo shareholders. Levinsohn stepped into the role earlier this month after Yahoo cast aside CEO Scott Thompson because his official biography included a college degree that he never received.

Alibaba and Yahoo also have an agreement for Yahoo to sell the remainder of its Alibaba stake in stages later on. Yahoo bought the stake in 2005 for \$1 billion and the deal suggests it's now worth \$14.2 billion.

The statement also indicates Alibaba may hold an initial public offering in the future.

Under the terms of the deal, if Alibaba Group goes public, it would have to buy back another 10 percent stake from Yahoo or let Yahoo sell those shares in the IPO.

According to a blog post on Alizila, Alibaba's in-house news site, that condition expires in December, 2015. That would provide an incentive for Yahoo to have an IPO before then.

Alibaba Chairman and CEO Jack Ma said the deal establishes a "balanced ownership structure that enables Alibaba to take our business to the next level as a public company in the future."

After the \$7.1 billion transaction is completed, Yahoo and Japan's Softbank, which owns 30 percent of Alibaba, will hold exactly 50 percent of Alibaba. But the two companies have agreed to cap their collective [shareholder](#) voting rights at less than 50 percent, according to the Alizila blog post.

That means Alibaba will be in the driving seat for decisions made by shareholders, though the board will still have control over strategic issues.

Yahoo and Alibaba also agreed to modify their technology and intellectual property licensing agreements.

Under the changes, Yahoo will grant Alibaba a license to continue using

the Yahoo China brand for up to four years. [Alibaba](#) will pay Yahoo \$550 million and make royalty payments over that period. [Yahoo](#) will no longer be restricted from making other investments in China.

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