Yahoo closes $7.6 billion deal with Alibaba Group (Update)

September 18 2012, by Michael Liedtke

In this Monday, April 19, 2010 file photo, Google vice president of search products and user experience, Marissa Mayer, attends the 2010 Matrix Awards presented by the New York Women in Communications at the Waldorf-Astoria Hotel in New York. Yahoo has closed a $7.6 billion deal that includes selling half its stake in rapidly growing Chinese company Alibaba Group. The resolution announced Tuesday, Sept. 18, 2012 comes four months after Yahoo Inc. and Alibaba outlined the details of the complex deal. Back in May, Yahoo pledged to distribute most of the Alibaba windfall to its shareholders. But after making that promise Yahoo hired longtime Google Inc. executive Marissa Mayer to its CEO. Last month, Yahoo revealed Mayer is considering holding on to the money. (AP Photo/Evan Agostini, File)

Yahoo has completed a long-awaited $7.6 billion deal with China's Alibaba Group, generating a windfall that could help ease the pain of Yahoo shareholders who have endured the company's foibles during the past few years.

After Yahoo distributes most of the proceeds to its shareholders, its recently hired CEO Marissa Mayer will still have an extra $1.3 billion to finance acquisitions or hire new talent as she tries revive the company's revenue growth.

Tuesday's resolution comes four months after Yahoo Inc. and Alibaba Group Holding Ltd. outlined the details of a complex transaction that took more than two years of on-again, off-again negotiations to hammer out. The deal will give Alibaba greater autonomy as it prepares to pursue an initial public offering of stock within the next three years, while rewarding Yahoo for one of the few moves that has gone right for the troubled company in the past few years.

Yahoo paid $1 billion for a 40 percent stake in Alibaba in 2005 and is now reaping a huge return. Alibaba is paying $7.1 billion in cash and stock to buy back half of Yahoo's holdings. Another $550 million is being paid to Yahoo under a revised technology and patent licensing agreement with Alibaba.

After paying taxes, Yahoo estimates it will pocket about $4.3 billion to supplement the $1.9 billion in cash the company had as of June 30.

Yahoo, which is based in Sunnyvale, California, plans to spend about $3 billion of the Alibaba proceeds buying back its own stock in the upcoming months, leaving Mayer with some financial flexibility to pay for other items on her turnaround agenda.

"This yields a substantial return for investors while retaining a meaningful amount of capital within the company to invest in future growth," Mayer said in a statement.

The decision on how to handle the proceeds may have reflected a compromise between Mayer and Yahoo's board.

Before hiring Mayer away from Google in July, Yahoo had pledged to distribute virtually all of the proceeds from the Alibaba sale to its shareholders.

But the company wavered from that stance last month when it filed regulatory documents disclosing that Mayer was considering holding on to the money to help carry out her vision for Yahoo. Without providing specifics, the documents said Mayer was mulling possible acquisitions.

Analysts have speculated that Mayer may try to make a big splash by putting together a takeover offer for one of the Internet's hot websites, such as online scrapbook Pinterest or check-in service Foursquare

Another big payoff looms for Yahoo when Alibaba goes public, an event expected by the end of 2015. Alibaba, which owns China's version of eBay and e-commerce sites, has the right to buy back half of Yahoo's remaining 23 percent stake before the IPO. Yahoo then could chose to sell its remaining Alibaba stock after the shares begin trading.

Alibaba currently has a market value of about $40 billion, based on the prices paid for the stock that the company recently sold to raise enough money to finance the Yahoo deal. Yahoo, in contrast, has a market value of less than $20 billion.

A big chunk of Yahoo's value remains locked up in Alibaba. Based on Alibaba's market value and the preferred shares it just picked up, Yahoo is still sitting on Alibaba stock worth about $8.9 billion. That amount will increase if Alibaba is able to continue to thrive as more people in China get online access.

"The completion of this transaction begins a new chapter in our relationship with Yahoo," Alibaba CEO Jack Ma said in a statement.

While Alibaba has been growing, Yahoo has been shrinking. The contraction has occurred even as the advertisers that provide most of Yahoo's revenue have been spending more money on the Internet. Most of that online marketing has been flowing to Internet search leader Google Inc. and, to a lesser extent, Facebook Inc.'s popular social network.

Yahoo's financial funk has depressed its stock for years, increasing the pressure on the company's management to extract money from its Alibaba investment to reward its shareholders.

Since beginning its discussions with Alibaba in 2010, Yahoo has had five CEOs, including two interim leaders. The deal head already been agreed upon in May, while Yahoo was being run by Ross Levinsohn, who left shortly after the company hired Mayer in July.

Although Mayer is highly regarded in the Internet industry, investors still seem skeptical about whether she can find a way to pump up a stock that has been stuck below $20 for the past four years. The stock was trading around $35 when Yahoo invested in Alibaba seven years ago.

Yahoo shares added 22 cents, or 1.4 percent, to end Tuesday's session at $15.90. That's about the same level where the shares stood when Mayer took the helm. The technology-driven Nasdaq composite index has climbed 10 percent during the same period while the broader Standard & Poor's 500 has risen by 8 percent.

Buying back stock could boost Yahoo's stock by reducing the company's outstanding shares. With fewer shares trading, it will be easier for Yahoo to increase its earnings per share—one of the yardsticks that investors rely on to evaluate a company's value.

Key events involving Yahoo and its performance

On Tuesday, Yahoo said it has completed a long-awaited $7.6 billion deal with China's Alibaba Group, and will distribute most of the proceeds to its shareholders.

Here are some key developments involving Yahoo Inc. and its performance:

Nov. 17, 2008: Yahoo Inc. says co-founder Jerry Yang will step down as CEO as soon as a replacement is found. It ends a rocky reign marked by Yang's refusal to sell the Internet company to Microsoft Corp. for $47.5 billion, or $33 per share, in May 2008. Yahoo's board had been facing pressure to push him out as its stock plunged to its lowest levels since early 2003 and well below Microsoft's last offer price.

Jan. 13, 2009: Yahoo names technology veteran Carol Bartz as its new chief executive, bringing in a no-nonsense leader known for developing a clear focus.

Feb. 26: Yahoo announces a management shake-up. Chief Financial Officer Blake Jorgensen is pushed out, while Yahoo's chief technology officer and its top advertising executive in the United States get expanded duties.

April 21: Yahoo announces plans to cut nearly 700 jobs, or about 5 percent of its workforce.

June 3: At an investors conference, Bartz says a turnaround will take time. She also plays down talk of turning over Yahoo's search operations to Microsoft.

June 11: Yahoo hires a cost-cutting specialist, Tim Morse, as its new chief financial officer.

June 25: At a shareholders meeting, Bartz seeks to assure investors that she will polish Yahoo's tarnished brand and end a three-year financial funk that has depressed the company's stock.

July 29: Microsoft and Yahoo announce a 10-year search deal. Yahoo turns over responsibility for search technology to Microsoft, while Yahoo concentrates on sales of billboard-style advertising on the Web.

Feb. 18, 2010: Regulators in the U.S. and Europe approve the search partnership.

March 2: In pleading for patience, Bartz points to the years it took Steve Jobs to revive Apple Inc. after his return in 1997.

Oct. 7: Yahoo rolls out new tools to get people to the information they seek more quickly, especially when searching about entertainment, sports and major events. The hope is to distinguish itself from its Internet search partner, Microsoft, because Yahoo gets a cut of ad revenue when searches are done on its own site.

Dec. 16: Word leaks of services that Yahoo is thinking of shutting down, days after it shed 600 employees, or about 4 percent of its workforce.

May 10, 2011: Yahoo makes a surprise disclosure that Alibaba Group, one of China's most powerful Internet companies, had spun off its online payment service, Alipay. The split causes investors to re-evaluate the value of Yahoo's then-43 percent stake in Alibaba.

June 23: Yahoo Chairman Roy Bostock seeks to defuse speculation about Bartz's job security at Yahoo's annual shareholders meeting, only to have it ignited again at the end of the session by an exasperated investor.

Sept. 6: Yahoo fires Bartz after less than three years on the job. Morse, the chief financial officer whom Bartz lured from chip-maker Altera Corp., is named interim CEO.

Jan. 4, 2012: Yahoo names Scott Thompson, president of eBay Inc.'s PayPal division, as Yahoo's new CEO, its fourth in less than five years.

Jan. 17: Co-founder Yang leaves the company as he steps down from the board of directors. He had been on Yahoo's board since its 1995 inception.

Feb. 7: Chairman Roy Bostock and three other longtime board members say they won't seek re-election to give Thompson an enhanced team of independent directors. Many Yahoo shareholders had been clamoring for Bostock to step down since the company balked Microsoft's 2008 takeover offer.

March 25: Yahoo announces three new board members, gearing up for a proxy fight with one of its largest shareholders, Third Point LLC, which is trying to win four seats on Yahoo's board.

March 28: Hedge fund manager Daniel Loeb, who controls a 5.8 percent stake in the company through his Third Point fund, blasts Yahoo's board appointments as "illogical."

April 4 Yahoo announces plans to lay off 2,000 employees, or about 14 percent of its workforce. The cuts are part of an overhaul aimed at focusing on what Thompson believes are Yahoo's strengths while also trying to address its weaknesses in the increasingly important mobile computing market.

April 6: Thompson unveils a plan to reorganize the company into three main divisions focused on users, advertisers and technology. Yahoo believes the new structure will improve users' experience with Yahoo, work closely with advertisers in different regions of the globe and strengthen the company's technology group.

April 17: Yahoo reports first-quarter earnings, the first results under Thompson. The company shows signs of modest progress. Net income rose 28 percent from a year ago. Revenue grew less than 1 percent, but it's a breakthrough because the company's revenue has been steadily falling for years.

May 3: Loeb, the disgruntled Yahoo shareholder, questions Thompson's qualifications and integrity after exposing a misrepresentation about the executive's education. Yahoo confirms that Thompson doesn't have a bachelor's degree in computer science from Stonehill College, as Yahoo previously stated. Thompson only has an accounting degree from Stonehill. Yahoo blames an "inadvertent error" and says its board will investigate.

May 4: Loeb calls on Yahoo to fire Thompson and gives the company a May 7 deadline.

May 7: Deadline passes with Thompson still on the job. Loeb's Third Point makes a legal demand for internal records about Thompson's hiring. In a memo to employees, Thompson apologizes for the distractions caused by furor without offering an explanation on who was responsible. He also promises to cooperate with an investigation by

Yahoo's board.

May 8: Patti Hart, who led the committee that hired Thompson, surrenders her board seat, becoming the first casualty in the dust-up. Hart says she decided to not to seek re-election to Yahoo's board to focus on her job as CEO at gambling machine maker International Game Technology. Yahoo also says its probe will be handled by a committee of three directors who joined the company's board after Thompson was hired.

May 13: Thompson is out at Yahoo. Ross Levinsohn, who oversees Yahoo's media and advertising services worldwide, is named interim CEO.

May 20: Yahoo agrees to sell half of its prized stake in Chinese e-commerce group Alibaba for about $7.1 billion. The deal calls for Alibaba to buy back half of the 40 percent stake that Yahoo owns in the Chinese company for $6.3 billion cash and up to $800 million of Alibaba preferred shares. After paying taxes, Yahoo expects to get about $4.2 billion. Most of the cash is expected to go to shareholders.

June 18: Yahoo says Michael Barrett, a former colleague of its interim CEO, will run Yahoo's advertising sales team as chief revenue officer.

July 6: Yahoo and Facebook agree to settle a patent dispute, averting a potentially lengthy legal battle. They also agree to an advertising alliance that could help Yahoo recover some of the revenue lost as marketers shift spending to a larger, more engaged audience at Facebook. Hulu discloses that its CEO, Jason Kilar, has decided not to pursue the top job at Yahoo, leaving Levinsohn as the lead candidate to be permanent CEO.

July 12: Thompson faces angry investors at annual shareholders meeting. Responding to skeptical questioning, Levinsohn talks like someone who expected to be running Yahoo for more than just a few months.

July 16: Yahoo names longtime Google executive Marissa Mayer as its next CEO.

July 17: On Mayer's first day on the job, Yahoo reports lackluster quarterly results, underscoring the challenges she will face. Second-quarter net income fell 4 percent from a year ago, and adjusted earnings were short of expectations. Revenue fell 1 percent.

Aug. 9: Yahoo says Mayer may revise plans to pay shareholders billions of dollars from an anticipated windfall later this year from Yahoo's agreement to sell half its stake in Alibaba. Mayer is mulling a shift in direction as part of a sweeping review of the company.

Aug. 28: Yahoo hires a new chief marketing officer, Kathy Savitt, who has been running the online commerce service Lockerz since 2009.

Tuesday: Yahoo says it has completed Alibaba deal and will distribute most of the proceeds to its shareholders after all. After the distribution, Yahoo will still have an extra $1.3 billion to finance acquisitions or hire new talent as she tries revive the company's revenue growth.

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