

Alibaba IPO gives fresh life to Yahoo

September 14 2014, by Sophie Estienne



A woman walks past the Alibaba booth at an exhibition in Hangzhou, eastern China's Zhejiang province on September 9, 2014

China's Alibaba will star on Wall Street with its upcoming stock offering, but US-based Yahoo also gets a windfall, which may help the turnaround efforts of the fading Internet pioneer.

Yahoo, which bought a 40 percent stake in the Chinese online giant in 2005 for \$1 billion, still holds 22.4 percent of Alibaba. And the California company is expected to walk away with \$7 billion to \$9 billion by paring that stake down to 16.3 percent.

The huge public offering for Alibaba comes with Yahoo seeking a new direction under chief executive Marissa Mayer, who took the reins in 2012 in an effort to redefine the company's mission after it took a back seat to Google and others.

Analysts say the cash offers Yahoo an opportunity, but that it needs to use it productively.

"Alibaba is giving rocket fuel to Yahoo, but the problem is Yahoo still has to develop the engines," said Trip Chowdhry at Global Equities Research.

Yahoo said in July the majority of the proceeds of the sale of Yahoo's stake would be returned to shareholders.

The remainder could help fuel acquisitions to help Yahoo rev up its sagging revenue base, after a four percent year-on-year drop in the latest quarter.

Mayer has been on a buying spree, which has included the blogging platform Tumblr last year for \$1.1 billion as part of an effort to draw in younger Internet users.

Chowdhry said Yahoo should also use some of the cash to "innovate" and improve some of its existing services, such as Yahoo Mail and Yahoo Finance, and Web hosting and services for small business.

But it is unclear if Yahoo will be able to wow its users and investors with products and services like others in the sector such as Apple or Google.

Mayer has been moving Yahoo toward more online video, with plans to produce its own entertainment programs to go along with news and music, but has not been able to challenge Google-owned YouTube.

A Yahoo buyout?

In addition to winning over consumers, Yahoo must restore confidence in its investors.

Yahoo's [market value](#) has nearly tripled in the past two years to some \$42.6 billion—but analysts point out that much of that value is from its investment in Alibaba, worth between \$31 and \$34.6 billion.

Some investors may have used Yahoo as a proxy for Alibaba and now might cash out.

"I wonder if investors will sell Yahoo to buy Alibaba directly," said Gregori Volokhine at Meeschaert Financial Services.

"Or will they keep their Yahoo shares to benefit from any appreciation or Alibaba? It's not clear."

Another possibility being talked about is Alibaba—whose market value could be as much as \$200 billion—simply swallowing up Yahoo, if the US firm fails to return to growth.

Yahoo rejected a takeover a few years ago from Microsoft, but since then its fortunes have sagged and it has fallen behind rivals in key areas such as online advertising.

Alibaba could invest a lot of cash in Yahoo and could use it as a way to enter the difficult US market. And its IPO is expected to raise a record amount, possibly as much as \$24 billion.

Chowdhry said it's unlikely that Yahoo would be sold to a Chinese firm because of "the perception that there is a lot of censorship and government control on Internet companies in China."

"I don't think the (US) regulatory agencies will allow Alibaba to acquire Yahoo," he said.

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