

Investors fret Yahoo's future, stock dips (Update)

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This Wednesday, Oct. 17, 2012 file photo shows a sign in front of Yahoo headquarters in Sunnyvale, Calif. Yahoo's stock fell Monday, Sept. 22, 2014, as investors grappled with uncertainty about the Internet company's future in the wake of last week's record-setting Wall Street debut by the Chinese e-commerce giant Alibaba. (AP Photo/Marcio Jose Sanchez, File)

Yahoo may be losing some appeal on Wall Street now that U.S. investors can buy directly into Alibaba.

Yahoo's stock fell Monday as investors grappled with uncertainty about CEO Marissa Mayer's efforts to turn around the struggling Silicon Valley

company. The sell-off came even though Yahoo reaped more than \$9 billion last week from selling some of its stake in Alibaba, as the Chinese e-commerce company held a record-setting initial public offering of stock.

Yahoo has promised to return at least half of the after-tax proceeds to shareholders—likely through stock buybacks.

But some investors aren't waiting, now that they're able to buy Alibaba shares directly, according to Brian Wieser, an Internet stocks analyst at Pivotal Research.

Before the Alibaba IPO, Yahoo was one of the few ways U.S. investors could tap into the growth of e-commerce in the world's most populous country. That was because of Yahoo's large stake in the Chinese company. Yahoo's stock has risen more than 30 percent over the past year, largely on the strength of investor excitement about Alibaba's booming business.

On the second day of public trading for Alibaba, Yahoo shares fell more than 5 percent to close Monday at \$38.65.

Although Mayer has not said what she'll do with \$3 billion or so of the Alibaba proceeds not going to shareholders, analysts believe she could use that for acquisitions to help Yahoo revive its struggling advertising business and expand its online video programming.

Yet many investors lack optimism about Mayer's chances of regaining some of the advertising business that Yahoo lost in recent years to newer rivals like Google and Facebook. Yahoo was an early pioneer in the lucrative market of online advertising, but it hasn't been able to keep up with rivals' fast-growing audiences and sophisticated tools for selling ads targeted to users' likes and interests.

"My expectations for Yahoo's core business are pretty muted," Wieser said. "There should be pretty tepid growth, if any, in the near term."

That didn't stop Wieser and a handful of other analysts from raising their price targets for Yahoo's stock. Yahoo, which acquired its stake in Alibaba back in 2005, still holds more than 380 million shares in Alibaba, worth more than \$34 billion at Monday's closing price.

The remaining stake in Alibaba raises the possibility of a big, future payday for Yahoo investors if the company sells more of its shares in the future.

Those Alibaba shares also represent the bulk of Yahoo's stock market value of \$38.5 billion, suggesting that investors are putting little value in the company's core business.

Since she was hired from Google two years ago, Mayer has overhauled Yahoo's online services and hired some big names like former CBS newscaster Katie Couric to anchor Yahoo's online news operation. Mayer has also begun to modernize Yahoo's online advertising programs. But ad sales have seen little change in recent quarters, while other major online companies have seen significant advertising growth.

Mayer could use some of the new Alibaba cash to continue a buying spree that has seen Yahoo acquire dozens of smaller companies since she became CEO. While many of those deals were aimed at acquiring technology or talent to help improve Yahoo's online consumer offerings, Mayer has more recently turned her attention to the company's advertising business and its video programming.

While there's always the possibility of a headline-grabbing deal, on the scale of Mayer's move to buy the social blogging service Tumblr for \$1 billion last year, analyst Martin Pyykkonen of Rosenblatt Securities said

in a recent report that it's more likely she will focus on smaller deals to improve Yahoo's advertising technology.

One area of focus, Pyykkonen suggested, might be to enhance the company's automated selling tools, which critics say are not as powerful or effective as Google's or Facebook's.

Speculation has also turned to the possibility of acquiring a new but growing social media site like Pinterest, or even an established name such as AOL. Some analysts have speculated that AOL might try to buy Yahoo. But Wieser said it seems unlikely that either company's management would agree to be acquired by the other.

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