Yahoo rakes in another jackpot from Alibaba's IPO

September 19 2014, by Michael Liedtke

This Wednesday, Oct. 17, 2012, photo, shows a sign in front of Yahoo! headquarters in Sunnyvale, Calif. Yahoo's latest windfall will be delivered with Alibaba's record-setting IPO Friday, Sept. 19, 2014, which is expected raise more than $24 billion for the e-commerce company and its early backers. (AP Photo/Marcio Jose Sanchez, File)

Yahoo is making amends for years of blundering with one smart move: an early investment in Alibaba Group that has turned into a multibillion-dollar boon.

The latest windfall came with Alibaba's record-setting IPO completed late Thursday, in which the Chinese e-commerce giant raised $25 billion. Alibaba's shares began trading for the first time on Friday on the New York Stock Exchange.

Yahoo is in line to make $8.3 billion to $9.5 billion from the initial public offering, depending on whether investment bankers exercise their right within the next month to buy additional stock in the deal.

The payoff supplements the $7.6 billion jackpot that Yahoo collected two years ago after selling another chunk of its Alibaba holdings and reworked a licensing agreement with the company.

Even if Yahoo ends up selling its maximum allotment of 140 million shares in the IPO, the Sunnyvale, California, company will retain a roughly 16 percent stake in Alibaba Group Ltd. worth another $36 billion to $37 billion.

Not a bad return, considering Yahoo acquired its Alibaba stake for $1 billion in 2005 in a deal engineered by company co-founder Jerry Yang and former CEO Terry Semel.

The Alibaba investment has helped ease the pain of Yahoo's struggles in Internet advertising, the heart of its business. Yahoo's annual revenue has slipped from a peak of $7.2 billion in 2008 to a projected $4.5 billion this year, a decline of nearly 40 percent.

The downturn has occurred even as advertisers steadily shift more of their budgets to the Internet and mobile devices, but most of that money is flowing to Yahoo rivals such as Google Inc. and Facebook Inc.—companies that have built more compelling digital services.

Yahoo has gone through seven different CEOs since 2006, including current leader Marissa Mayer, trying to figure out how to rejuvenate its growth.

Wall Street's exasperation with Yahoo's financial malaise caused the company's stock to sink below $9 in late 2008. The company's stock is now hovering around $43, a level that hasn't been touched since 2006. Most of the comeback occurred during the last two years as investors latched on to Yahoo's stock to profit from Alibaba's success leading up to the IPO.

Yahoo now must decide what to do with the money that will pour in from Alibaba's IPO. Mayer has promised that at least half the amount, after taxes, will be returned to shareholders through dividends or, more likely, buying back stock. That leaves open the possibility that Yahoo might use the rest of the money from the Alibaba IPO to help finance an acquisition of another Internet company such as AOL Inc. or a hot startup such as social media company Pinterest in its latest attempt to revive its business.