Yahoo under fire as Marissa Mayer faces critical moment

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Two years into her reign as Yahoo's chief executive officer, Marissa Mayer is sitting on a mountain of cash from the Alibaba IPO even as she faces an investor revolt that could derail her long-range plans for the Sunnyvale, Calif., Internet giant.

Mayer is expected to return to shareholders some of the $9.4 billion from the sale of 140 million Alibaba shares, while continuing to pursue her strategy to boost the company's flat revenues with new products and acquisitions along the lines of Tumblr, Flurry and the dozens of other purchases she has made since taking over in July 2012. But so far, those acquisitions haven't done much to boost revenues.

And that has some investors grumbling, with one proposing a plan that would bring her acquisitions to an abrupt halt, and another suggesting new management is the solution to Yahoo's problems.

The clash of contrasting visions could determine the fate of one of Silicon Valley's most iconic companies - and one of its highest-profile executives. Mayer has responded to the criticism with a letter promising to continue with "our strategy, investing in products that will drive sustainable growth: search, communications, digital magazines and video."

At the heart of the matter is the cash hoard that Yahoo is sitting on after its sale of Alibaba stock during the IPO of the Chinese e-commerce giant. Yahoo still owns another 383.5 million shares, worth about $33 billion at current prices.

The combination of a large pile of cash from the stock sale and tepid growth of Yahoo's core business has investors circling. While Yahoo's share price has risen dramatically since Mayer took over, many analysts say that is largely because, until Alibaba went public last week, the only way investors could get a piece of that company was to buy Yahoo stock. Now they can buy Alibaba on the New York Stock Exchange.

On Tuesday, a Swiss investment advisory firm, Alternative Investment Management and Research, proposed in a letter to Mayer that Yahoo merge with Japanese telecommunications and Internet company SoftBank, which owns a stake in Yahoo Japan.

The firm also recommended putting SoftBank's chairman, Masayoshi Son, in charge of handling the combined company.

"We would rather have Mr. Son in charge of investing Yahoo's cash hoard," wrote Albert Saporta, the firm's managing director, in a letter first reported by Bloomberg. "We think that Yahoo would be far better off under the stewardship and vision of Mr. Son than under Yahoo's current top management."

That swipe at Mayer came on the heels of a letter released Friday from activist investor Jeffrey Smith's New York investment group, Starboard Value, revealing that it had acquired a "significant stake" in Yahoo and urging that Yahoo combine with AOL, another old-line Internet company struggling to reinvent itself.

One advantage to the combination would be a halt to Mayer's "aggressive acquisition strategy," which Starboard said has cost $1.3 billion while revenues have remained "stagnant."

Yahoo might have to pay $3 billion to $4 billion for AOL, but Starboard said the two companies could realize $1 billion by combining redundant operations. It also proposed a tax-advantaged deal that could be done without violating lockup agreements on Yahoo's remaining Alibaba holdings and realize "$16 billion in value" from them.

Mayer responded in her letter, saying, "We will review Starboard's letter carefully and look forward to discussing it with them."

Yahoo shares gained 4.4 percent to $40.66 the day after the Starboard move was disclosed. It closed at $41.03 on Friday.

Mayer came to Yahoo at the urging of activist investor Daniel Loeb. And for the past 26 months, she seemed to be running at top speed as she took on the task of reinventing the company in the age of smartphones and tablets. She launched new products in the form of digital magazines and a regular news digest. Mayer also bolstered video by hiring stars such as Katie Couric and reaching a deal to put "Saturday Night Live" on Yahoo, and she landed the U.S. pre-theatrical release of the film "One Chance."

And she embarked on a series of deals aimed at moving the venerable Internet company into the mobile future. Of 40-plus acquisitions, the most expensive was microblogging and social networking company Tumblr, acquired last year for $1.1 billion.

"We promise not to screw it up," Mayer said at the time in a Tumblr post.

But all those acquisitions have yet to translate into much revenue growth. Yahoo had sales of $1.2 billion in the second quarter of 2012, and $1.1 billion in the same quarter of 2014.

James McQuivey of Forrester Research was skeptical that a merger with AOL would solve Yahoo's problems.

"These things all might be worth doing financially, but none of them give either Yahoo or AOL a say in the shape of the Internet in the future," said "That job is squarely in the hands of Apple, Google, Facebook and Amazon at the moment."