Yahoo profit surges on Alibaba divestment, mobile (Update)

October 21 2014, by Glenn Chapman

Yahoo said Tuesday its quarterly profit surged with its sale of shares in Chinese Internet powerhouse Alibaba, and that it was seeing signs of life in its mobile Internet initiatives.

Net profit jumped to $6.8 billion, which included $6.3 billion from its Alibaba shares. But profit was stronger than expected, and pumped up Yahoo shares by 3.1 percent in after-hours trade.

Revenue from operations inched up a percent to $1.15 billion, according to third quarter results welcomed by chief executive Marissa Mayer, who is under pressure to show the company can flourish apart from its lucrative investment in Alibaba.

"We had a good, solid third quarter," Mayer said.

"We achieved this revenue growth through strong growth in our new areas of investment—mobile, social, native and video—despite industry headwinds in some of our large, legacy businesses."

More than $200 million in revenue came from mobile devices, with gross revenue from ads served up on devices such as smartphones or tablet computers projected to bring in more than $1.2 billion for Yahoo this year, according to Mayer.

"We have invested deeply in mobile and we are seeing those investments pay off," Mayer said.

Making money from Internet users accessing web sites or services online through mobile devices is seen as crucial for Internet firms, as lifestyles increasingly center on smartphones or tablets.

Strategy quagmire

Mayer used a lengthy earnings conference call on Tuesday to defend her strategy since taking the Yahoo reins two years ago and to outline how money pumped into its coffers from an early investment in Alibaba is being used to buy back shares as well as acquire talent and technology.

"She clearly did a nice dog-and-pony show, but the fundamental thing here is she has to show some significant growth; she has been there long enough," Silicon Valley independent analyst Rob Enderle said of Mayer.

"Yahoo seems to be lost in the quagmire of current and past strategies."

The pioneering Internet search firm has been striving to re-invent itself since being eclipsed by Google.

An activist investment firm is pressuring Yahoo to explore a tie-up with online rival AOL.

Starboard Value LP, which claimed a "significant" ownership interest in the company, said last month in an open letter to Mayer that bringing together the two early Internet giants could lead to "up to $1 billion of synergies" and lift the value of Yahoo as it divests a large portion of its stake in Chinese online group Alibaba.

Starboard's move came amid intense scrutiny over Yahoo, which like AOL is pushing heavily in digital media as part of reorganization efforts.

Starboard said that the value of Yahoo's core business as measured by its share price is virtually nil, when excluding the valuation of its holdings in Alibaba and Yahoo Japan.

Hurt feelings

"At least she beat the street and showed positive movement," Enderle said of Mayer.

"But in the end, Yahoo is still largely valued on the Alibaba stock."

Mayer said that her team worked hard to "heal years of hurt feelings" between Yahoo and Alibaba, which agreed to let the California company hold onto more shares of its stock than originally negotiated.

She valued Yahoo's stake in Alibaba about $34 billion. Starboard's analysis put the Yahoo share of Alibaba at the same amount, and valued its holdings in Yahoo Japan at $7.8 billion.

Yahoo has spent slightly more than $1.6 billion on acquisitions since Mayer took over as chief, with $1.3 billion of that money spent on Tumblr and Flurry combined, according to the chief executive.

"I'm concerned," Forrester's Shar VanBoskirk said while discussing Yahoo's performance with AFP.

"Marissa Mayer has had a chance to get the pieces of the puzzle together, now we need to see the pretty picture at the end."

Mayer said that Yahoo would continue making "smart" acquisitions to build its talent and technology.

Backed by money from its Alibaba investment, Yahoo reported that it has bought back $7.7 billion worth of stock, or about 24 percent of outstanding shares, since Mayer became chief in the middle of 2012.

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