

Yahoo announces tax-free spinoff of Alibaba stake

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The move aims to deliver more cash for shareholders than an outright

sale of the \$40-billion stake, avoiding a hefty tax bill, and to help Yahoo's efforts to refocus under chief executive Marissa Mayer.

Mayer told a conference call the deal "maximizes value for shareholders" and avoids a potential tax bill of up to \$16 billion under a traditional sales of the stake.

She said the move is part of a broader effort to help Yahoo's "remixing" of its activities around mobile Internet, video and other forms of online media.

The spinoff creates a new entity to hold Alibaba shares, in a move that responds to concerns of activist shareholders who want the struggling California group to extract value from the holdings.

Shares in Yahoo jumped 7.1 percent in after-hours trade as investors cheered the move.

Yahoo said its board had authorized the move to create an independent investment company called SpinCo to hold the Alibaba shares. SpinCo would be 100-percent owned by Yahoo shareholders.

Yahoo's current market value is \$45 billion, most of which is in Alibaba shares. Yahoo bought a 40-percent stake in the Chinese online giant in 2005 for \$1 billion.

"We have actively engaged experts in tax-efficient structures over the past two years and have considered a variety of alternatives," Yahoo chief finance officer Ken Goldman said in a statement.

Goldman said the plan is a "unique spinoff" that places the Alibaba stake in a registered investment company in a "clean transaction."

Yahoo will continue to operate its core business and hold its 35.5 percent stake in Yahoo Japan.

Goldman said Yahoo is "open minded about alternatives for value creation" of the stake in Yahoo Japan, whose value is estimated at \$7 billion.

Profits lower

Yahoo said separately its profit in the fourth quarter fell 52 percent from a year ago to \$166 million while revenue was essentially flat at \$1.25 billion.

"I'm pleased to report that our performance in the fourth quarter and in 2014 continues to show stability in our core business," said Mayer.

"Our mobile strategy and focus has transformed Yahoo and yielded significant results."

Revenue from users accessing Yahoo sites on mobile devices rose some 23 percent in the quarter to \$254 million, highlighting the company's effort to connect with users on the go.

Yahoo also struck a deal to be the primary search engine for the Mozilla Firefox browser in North America, which should help efforts to compete against market leader Google in search and related advertising revenues.

Though the deal was implemented only late in the quarter, "we are already impressed with the volume of search Mozilla has brought," Mayer said.

"Our new partnership with Mozilla gives us reason to be optimistic that growth will continue."

The Alibaba spinoff will add to the \$9.7 billion already returned to shareholders from Alibaba and bring the total amount to nearly \$50 billion.

"This level of capital return is historic, especially for a company of our size," she said.

"The plan announced today vividly demonstrates our commitment to being good stewards of capital and increasing shareholder value."

Yahoo said the spinoff is expected to occur in the fourth quarter, following the end of a "lockup" agreement on the shares with Alibaba.

The deal also requires review by US tax authorities.

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