

# Yahoo's 1Q disappoints, but stock rises on Yahoo Japan hopes (Update)

April 21 2015, by Michael Liedtke

---



In this Jan. 7, 2014 file photo, Yahoo President and CEO Marissa Mayer speaks during the International Consumer Electronics Show in Las Vegas. Yahoo Inc. on Tuesday, April 21, 2015, reported first-quarter net income of \$21.2 million. On a per-share basis, the Sunnyvale, California-based company said it had net income of 2 cents. (AP Photo/Julie Jacobson, File)

Yahoo is still struggling to boost its revenue nearly three years into CEO Marissa Mayer's tenure, magnifying concerns that the Internet company holds little value beyond its lucrative Asian investments.

The latest evidence of Yahoo's financial malaise emerged Tuesday with the release the company's first-quarter earnings report. Mayer and Yahoo's chief financial officer, Ken Goldman, eased investors' disappointment by pledging to cut costs, while indicating that the company may be willing to fulfill Wall Street's desire for a spinoff of its stake in Yahoo Japan.

Yahoo disclosed Tuesday that it already has trimmed its workforce by 1,100 people during the first three months of the year to 11,400 full-time employees.

Activist shareholder Starboard Value L.P., which owns a nearly 1 percent stake in Yahoo, has been urging Mayer to slash expenses and spin off the Yahoo Japan stake to lift the company's stock.

Investors had driven down the company's stock 12 percent this year before Tuesday's numbers came out. The shares initially fell by an additional 2 percent in extended trading, but then rebounded after the cost-cutting pledge and the Yahoo Japan remarks. If the Yahoo Japan is spun off, it would mirror what Mayer has already started to do with an even more valuable stake in Alibaba Group, an e-commerce star in China.

Yahoo's stock rose 47 cents to \$44.96 after Mayer's remarks in a webcast reviewing the financial results.

After accounting for ad commissions, Yahoo's first-quarter revenue fell 4 percent from the same time last year to \$1.04 billion, extending a troubling trend that began before Mayer took over in July 2012. Yahoo's net revenue has declined from the previous year in seven of the past nine quarters. The only uptick reflected mere 1 percent increases in revenue.

Before taking out ad commissions, Yahoo's first-quarter revenue

climbed 8 percent, but that didn't impress investors because they focus on the amount of money that the company retains after paying its partners for helping to draw online traffic to its ads.

Those expenses, known as "traffic acquisition costs," quadrupled from the same time last year, an indication that Yahoo is paying a steep price to show its advertising. Among other things, Yahoo recently struck a deal to be the default search engine on the Mozilla web browser that required a higher payout. Mayer told investors Tuesday that the Mozilla partnership is already profitable.

"There are some good things going on at Yahoo, but it still feels like there's a lot more still to be done," said S&P Capital IQ analyst Scott Kessler.

Although Yahoo's stock has nearly tripled under Mayer's leadership, most of the increase has been tied to the company's 24 percent stake in Alibaba Group and 35 percent stake in Yahoo Japan—not its core business.

The planned Alibaba spinoff, due to be completed by the end of this year, is designed to avoid a big tax bill on the gains. A similar benefit could be achieved with a Yahoo Japan spinoff, to the delight of investors.

Yahoo's holdings in Alibaba Group and Yahoo Japan are currently worth about \$41 billion, before factoring in potential taxes. Throw in the nearly \$7 billion in cash and marketable securities that Yahoo held at the end of March, and the company's current market value of \$42 billion implies investors think Yahoo's ongoing business is worth next to nothing.

Not surprisingly, Mayer doesn't agree with that assessment. "We know we have more to do, but with your support we will return this iconic

company to greatness and growth, and we are closer than we've ever been to realizing that renaissance," Mayer said in the webcast.

© 2015 The Associated Press. All rights reserved.

Citation: Yahoo's 1Q disappoints, but stock rises on Yahoo Japan hopes (Update) (2015, April 21) retrieved 24 April 2024 from <https://phys.org/news/2015-04-yahoo-1q-company-mired-revenue.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.