

Yahoo teaming up with Google as 3Q results disappoint

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This Jan. 14, 2015, file photo shows a sign outside Yahoo's headquarters in Sunnyvale, Calif. Yahoo reports quarterly financial results on Tuesday, Oct. 20, 2015. (AP Photo/Marcio Jose Sanchez, File)

Unable to revive Yahoo's revenue growth on her own, CEO Marissa Mayer is hoping for a little help from her old friends at Google.

Mayer, a top Google executive until defecting to Yahoo in 2012,

announced the two companies had reached a three-year deal to work together in Internet search and advertising. The pact was unveiled after Yahoo released a disappointing report on its third-quarter performance.

The numbers announced Tuesday showed Yahoo's revenue, after paying ad commissions, dropped 8 percent from the same time last year to \$1 billion.

It marked the ninth time in the past 11 quarters that Yahoo's net revenue has declined or remained unchanged from the previous year. The ongoing erosion has magnified worries that the Internet company will be stuck in a financial sinkhole after spinning off its lucrative stake in China's Alibaba Group.

Mayer is still promising to boost revenue and now it appears Google—the Internet's most profitable company—may play a key role.

This is Yahoo's second attempt to lean on Google's expertise in Internet search and advertising.

Yahoo Inc. tried to team up with Google Inc. in search during 2008 as part of its defense against a takeover attempt by Microsoft Corp. The Google alliance unraveled after the U.S. Justice Department threatened to block the partnership on the grounds that it would thwart competition.

After being rebuffed, Yahoo wound up negotiating a deal to rely on technology from Microsoft's Bing search engine. Yahoo will still use Bing, but will also mix in results from Google's search engine if it can win antitrust approval of its new deal this year.

It may be easier to gain the government's approval this time because Yahoo's share of the Internet search market has shrunk during the past seven years. Google's search engine, though, still processes about two out

of every three search requests in the U.S., roughly the same volume as it did when the Justice Department originally objected to a Yahoo partnership.

While awaiting clearance to team up with Yahoo, Mayer is pledging to trim the company's expenses as revenue declines, and concentrate the remaining workforce on fewer products.

"We see a unique moment and opportunity for Yahoo as we move into 2016 to narrow our strategy and focus on fewer products with higher quality to achieve better growth and better results," Mayer said during a review of the third-quarter results. She promised to elaborate on her plan by the time Yahoo releases its fourth-quarter results in 2016.

Mayer already has been trimming the company's payroll. Yahoo ended September with 10,700 workers, down from 11,000 in June. Yahoo's workforce now has 1,800 fewer people than it did a year ago.

The Sunnyvale, California, company is expecting another tough time in the current quarter ending in December. Revenue, after ad commission, is expected to range from \$920 million to \$960 million, an 18 to 22 percent decline for the previous year. That would be by far the largest quarterly drop in Yahoo's net revenue since Mayer became CEO in July 2012.

Yahoo's stock dipped 53 cents, or 1.6 percent, to \$32.30 in extended trading after the numbers came out.

Investors are now focused on the fate of Yahoo's plan to place its remaining Alibaba holdings—384 million shares currently worth about \$28 billion—into a new company called Aabaco Holdings.

Yahoo is doing the spin-off in an effort to prevent the remaining profits

from its \$1 billion investment in Alibaba from being taxed in the U.S., but it's now unclear whether that will pan out. The Internal Revenue Service raised doubts by declining to guarantee the spin-off will protect the Alibaba stake from being taxed.

Despite that setback, Yahoo Inc. is still planning to complete the spin-off by next year with the expectation that it will qualify as a tax-free maneuver.

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