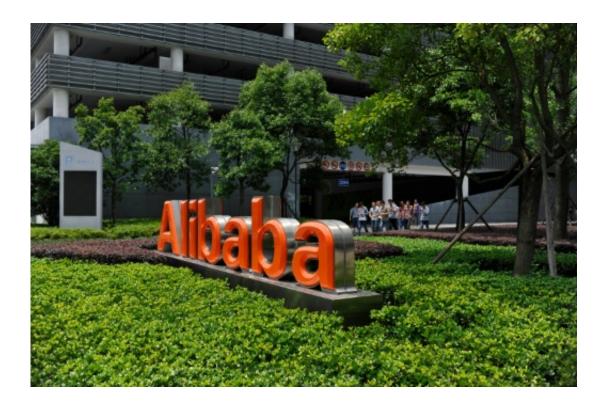


Hedge fund urges Yahoo to shift Alibaba strategy

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A hedge fund with a stake in Yahoo urged the Internet giant Thursday to drop its planned spinoff of its stake in China's Alibaba and instead sell the "core" search business.



The call by hedge fund Starboard Value comes with Yahoo on track to set up a new corporate entity holding the multibillion-dollar stake in the coming months that would be spun off, to give the struggling California tech pioneer funds to reorganize.

But that spinoff plan has been clouded by concerns that it may not get tax-free status from US authorities, resulting in a hefty tax bill for Yahoo shareholders.

Starboard said in a letter to Yahoo's board and chief executive Marissa Mayer that the spinoff of the entity called Aabaco Holdings "is not Yahoo's best alternative" and argued that "instead, you should be exploring a sale of Yahoo's core search and display advertising businesses."

This proposal, Starboard said, would leave the existing Yahoo corporate entity holding stakes in Alibaba and Yahoo Japan.

Starboard said that even if the Alibaba spinoff is ruled tax-free, the market value for the rest of Yahoo is minimal or even negative.

"As we have communicated to you over the past year, we believe separating Yahoo's Alibaba Group and Yahoo Japan stakes from its core business would unlock immediate value for shareholders and allow Yahoo's core business to better recruit and retain talent," said the letter from Starboard managing member Jeffrey Smith.

"Yahoo is the only Silicon Valley company we know that currently has a stock price almost entirely driven by the value of an entity outside of its control. Yahoo is at a disadvantage in recruiting the best talent because its stock price performance does not reflect the performance of Yahoo employees, but rather the performance of Alibaba Group."



The latest proposal comes amid worries that the turnaround efforts by Mayer have been faltering.

Based on current stock prices, Yahoo's market value of \$31 billion is almost all from the value of its stakes in Alibaba and Yahoo Japan, according to Starboard.

The <u>hedge fund</u> said that Yahoo's core business value in the market less its cash holdings is only around \$2 billion.

It said Yahoo shareholders would benefit from a sale because "the cash generated from the core business sale can be returned to shareholders in a tax efficient manner in some combination of share buybacks, returns of capital, and dividends."

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