

# What's next for leadership at long-struggling Yahoo?

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A persistent question has dogged Yahoo Inc. for many years now: Can the beleaguered company turn itself around?

Marissa Mayer, the spirited chief executive enticed from a top spot at Google, was supposed to be the answer. She was expected to boost [advertising](#) revenue, pivot the company toward mobile, staunch the loss of users to rival sites and inject some energy into a depressive corporate culture.

More than three years later, Yahoo continues to slog along, no transformation in sight. Its planned spinoff of its 15 percent stake in Chinese Internet giant Alibaba remains controversial and Yahoo's board is reportedly meeting this week to consider selling its core Internet search and advertising [business](#), under pressure from an activist investor.

Industry analysts have grown impatient. They say Mayer's future at the helm of the Sunnyvale, Calif., company could be in jeopardy and the company's days as a stand-alone, publicly traded company may be numbered.

"Yahoo's core business is in seemingly permanent decline," Pivotal Research's Brian Wieser wrote in a research note Wednesday.

"CEO Marissa Mayer is under pressure given continued declines within the core business and the departure of key executives," echoed Cowen

and Co. analyst John Blackledge.

"We believe it is prudent to reassess all options," said SunTrust Robinson Humphrey's Robert Peck.

One of the main problems: Just about everything that Yahoo does, someone else can do better.

Its email service and search functions have been cast aside by droves of users. Yahoo Maps, once highly popular, was long ago overtaken by Google Maps, and finally shut down this year.

Yahoo Screen, its YouTube competitor, has shown concerts and exclusive episodes of TV series "Community," debuted original series and even broadcast an NFL game. But none of the content has been good enough to steal market share. And Yahoo News faces strong competition from fresh news sources such as Facebook, Snapchat and Apple News.

A Yahoo spokeswoman declined to comment.

Mayer, 40, faced a daunting task when she took over as CEO in July 2012.

"She came into an extraordinarily difficult situation, one a lot of people would have said was a no-win situation," said Paul Sweeney, a media industry analyst at Bloomberg Intelligence.

Even so, she led some significant improvements at the company, hiring top-tier talent and adjusting policies to make Yahoo a cool place to work again, he said. She invested in online video content, mobile apps and the social media service Tumblr.

Yahoo has stayed in tune with hot trends in technology under Mayer,

more so than in previous years, he added. For instance, according to people familiar with the company's strategy, Yahoo is exploring opportunities in e-sports, a fast-growing sector of the video game industry centered on gaming competitions. And Yahoo has invested heavily in developing a yet-to-be-unveiled mobile search tool.

The bets are aimed at reversing the decline in Yahoo's online advertising business, which hasn't adapted quickly to technologies that have changed how ads are priced and sold.

Some analysts are already starting to bat around names for a potential successor. Former Yahoo CEO Ross Levinsohn, Facebook's Sheryl Sandberg, YouTube's Susan Wojcicki and CBS Interactive CEO Jim Lanzone were among the top 10 names offered by Peck in a note to investors Monday.

"We are unclear what the board and CEO might do," Peck said, "and compile this list merely to address the investor questions we are getting on ' ... if not Ms. Mayer, then who?'"

The heightened chatter surrounding Yahoo began Nov. 19, when activist investor Starboard Value sent a letter to Yahoo suggesting that the proposed spinoff of its Alibaba stake was not the right move, and urged Yahoo to explore the sale of its core business. Then on Tuesday, the Wall Street Journal reported that Yahoo's board was set to do just that in a series of meetings this week.

That pushed Yahoo shares up 6 percent to \$35.65 on Wednesday.

Yahoo's core advertising-driven business includes a search engine and properties such as Yahoo Mail, Yahoo News, Tumblr and Flickr. Blackledge estimated that the search and display business is worth \$3.84 billion.

Much of Yahoo's future hinges on what happens with its Alibaba stake.

"From the day she came on board, this story has almost been exclusively about what happens to Alibaba," Sweeney said. "The stock never traded up or down based on quarterly results."

In January, Yahoo said it would spin off its stake in Alibaba, then worth about \$40 billion. At the time, Yahoo said that all of its 384 million Alibaba shares would be transferred tax-free to a separate, publicly traded company called SpinCo, saving it billions in taxes that would have been due had it sold the shares on the open market.

That plan has run into a major hitch, though, with the IRS giving no assurances about whether the transaction would be tax-free. The uncertainty could lead to a court battle between the two sides; if Yahoo loses and wants to complete the spinoff, Peck estimated the tax bill could be about \$20 billion, wiping out most of the current value of the stake.

A sale of Yahoo's operating business would be "the simplest, least risky move the company could make at this point," he said.

Some say Mayer could have acted more quickly, or laid out a clearer vision early on. Critics point to AOL, which Tim Armstrong took over as chief executive in 2009 when it was facing similar problems as Yahoo. Armstrong had a head start on Mayer, but he's credited with turning around AOL's ad business more wholesale than Mayer has done at Yahoo. Armstrong's efforts culminated in May when Verizon Communications agreed to buy AOL for \$4.4 billion.

Colin Gillis, an analyst at BGC Partners, said none of Yahoo's several CEOs in recent years have been willing to swallow a short-term revenue hit in hopes of spurring long-term growth in the ad business by swapping

in new technologies and strategies.

Yahoo's reported third-quarter revenue of \$1.2 billion is up 6.8 percent from the same quarter a year earlier.

"I would like personally the story to end where the company goes into private equity hands, and gets turned around out of the scrutiny of the public market's eyes," Gillis said.

Analysts expect sizable interest in buying Yahoo. Private equity firms with stakes in technology and media, including Providence Equity Partners, Silver Lake and TPG Capital, could be potential acquirers. Corporate buyers could include media giants like Comcast, AT&T/DirecTV, Verizon, News Corp, Disney and CBS.

Sweeney said it was unlikely that Yahoo would sell for much more than \$5 billion, unless multiple buyers place a premium on the Yahoo brand name, helping drive up value.

"There's not many Yahoo-like brands," he said. "It's kind of like the last of its breed."

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