

Yahoo going back to the drawing board with Alibaba spinoff

December 9 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 announced Wednesday, Dec. 9, 2015, it is scrapping its original plan to spin off its prized stake in China's Alibaba Group and will instead break off the rest of its business into a new company. (AP Photo/Julie Jacobson, File)

Yahoo's long-running identity crisis is spiraling in a new direction now that the company is abandoning a year's work on a tax-dodging spinoff to pursue an alternative path that will carve off its Internet business

instead.

The about-face announced Wednesday opens another chapter in the dysfunctional drama that has been swirling around Yahoo for most of the past decade and raises more questions about the fate of websites and mobile applications used by hundreds of millions of people around the world.

Many of Yahoo's 10,700 employees may also be fretting about their job security, with CEO Marissa Mayer promising to announce plans for a cost-cutting reorganization late next month and many analysts speculating that the company's Internet business will be sold if the latest overhaul doesn't bear fruit quickly.

The uncertainty and reshuffling threaten to cause more distractions at a time when Yahoo already is struggling to keep up in the race for digital advertising with bigger rivals such as Google and Facebook and nimbler startups. It also may raise more doubts about whether Mayer will be able to turn around Yahoo, even though company Chairman Maynard Webb said Wednesday that the board of directors remains in her corner after three-and-half years on the job.

"The bottom line is the saga continues," Macquarie Securities analyst Ben Schachter wrote in a Wednesday note titled "The Never-Ending Story."

The latest twists revolve around Yahoo's efforts to avoid paying taxes on a \$1 billion investment that it made a decade ago in one of China's hottest Internet companies, Alibaba Group. That investment is now worth \$32 billion, far more than the rest of Yahoo's operations.

Yahoo began this year by drawing up plans to spin off the Alibaba stake into a separate holding company called Aabaco in what was supposed to

be a tax-free move. But the Internal Revenue Service jeopardized the plan by refusing to guarantee the Alibaba spinoff would qualify for a tax exemption.

Under mounting shareholder pressure, Yahoo scrapped that spinoff Wednesday and said that it will instead try to break off everything but the Alibaba holdings into another company. That process could be even more complicated than the original spinoff and take more than a year before Yahoo shareholders get stock in a newly formed company that has yet to be named.

"This means they have squandered an entire year and now it's going to take another year while the core business continues to get weaker," BGC Financial analyst Colin Gillis said.

With Yahoo hanging in limbo, prospective bidders could emerge for the company's Internet operations, which Wall Street has been valuing at next to nothing amid a decline in revenue. Analysts believe Yahoo's websites, mobile applications, ad services and well-known brand eventually could be worth \$3 billion to \$5 billion to a list of suitors that could include AT&T Inc., Verizon Communications, Comcast Corp., IAC/InterActiveCorp and private equity firms that specialized in buying troubled companies.

Webb, though, emphasized there are no plans to sell Yahoo's Internet business. "We believe that we are tremendously undervalued and we think the best path to unlocking that value is by separating the Alibaba assets from our operating businesses and also turning around the performance in our operating business," Webb said during a Wednesday conference call.

Those remarks seemed to disappoint investors hoping that Yahoo's latest change in course might be a precursor to a sale. Yahoo's stock fell \$1.19,

or 3.4 percent, to \$33.67 in Wednesday's afternoon trading. As Wall Street's frustration with Yahoo's follies has grown, the company's stock has fallen by about 33 percent so far this year.

Yahoo's board met last week to review Mayer's stalled turnaround attempts, as well as whether to move ahead with the previously planned Alibaba spinoff. Although the board unanimously voted in favor of dropping the spinoff, it emerged from last week's meeting with one less director. The company disclosed Wednesday that Paypal co-founder Max Levchin, a director recruited by Mayer, is resigning from the board to concentrate on running his latest financial services startup.

Mayer said she believes Yahoo's Internet business in significantly better shape than when she arrived, largely because it is pulling in more traffic and advertising in the increasingly important smartphone and tablet market. Even so, Yahoo's net revenue declined by 8 percent from the prior year in the third quarter and an even steeper decline is forecast for the current quarter ending in December.

When Yahoo announces those fourth-quarter results next month, Mayer also plans to unveil a shake-up that is supposed to jettison the company's least profitable products and likely will lead to layoffs.

It will be the latest overhaul of a company that is now on its fifth full-time CEO in the past decade, all of whom have struggled to define what Yahoo's mission should be. In the backdrop, Yahoo also has had to ward off a hostile takeover bid from Microsoft Corp. and quell shareholder uprisings spearheaded by activist investors Carl Icahn and Daniel Loeb. Another activist shareholder, Jeff Smith of the New York hedge fund Starboard Value, had threatened to lead a mutiny if Yahoo's board hadn't backed off from the Alibaba spinoff.

"The narrative around Yahoo and our valuation is complicated," Mayer

said Wednesday during an appearance on the financial news channel CNBC.

The handling of the Alibaba stake is crucial to Yahoo shareholders because of the money involved. If Yahoo is taxed on its gains from the fortuitous investment negotiated by co-founder Jerry Yang, the bill would exceed more than \$10 billion.

Yahoo also owns a stake in Yahoo Japan that's worth \$7 billion to \$8 billion. The revised plan calls for the Yahoo Japan holdings to move into the new company that will house its Internet operations.

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Citation: Yahoo going back to the drawing board with Alibaba spinoff (2015, December 9)
retrieved 20 April 2024 from <https://phys.org/news/2015-12-yahoo-board-alibaba-spinoff.html>

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