

Pressure for Yahoo turnaround puts squeeze on Mayer

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Yahoo bought a 40 percent stake in the Chinese company Alibaba in 2005 for \$1 billion

Lack of a long-awaited turnaround at Yahoo has put pressure on chief executive Marissa Mayer to prove she has what it takes to revive the faded Internet pioneer.

Investors, who were already disappointed by low momentum under

Mayer, were given more to worry about this week.

A hedge fund with a stake in Yahoo urged the Internet giant Thursday to drop its planned spin off of its holdings in China's Alibaba.

The hedge fund, Starboard Value, said the company should instead sell its "core" Internet operations.

The request came with Yahoo on track to set up a new corporate entity holding its multi-billion dollar Alibaba stake in the coming months.

"We have grown increasingly frustrated with your unwillingness to accept our help and your dismissive approach to our serious concerns about the current situation at Yahoo," Starboard said in a letter to Mayer.

Potential tax hit

The Alibaba stake spin off 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 the letter that the spin off 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."

Based on current stock prices, Yahoo's market value is almost entirely from its stakes in Alibaba and Yahoo Japan, according to Starboard.

The hedge fund was worried about the plan to transfer the Alibaba stake to the new company and distributing stock in what could amount to a taxable gift of some \$30 billion to shareholders.

Starboard would prefer that Yahoo, instead, split off its own Internet operations in a technical move apparently aimed at avoiding a tax bill.

However the outcome would be the same: one company running Yahoo's core business and another handling the investment in Alibaba.

"The important thing is for the spin off to happen one way or another," BGC Financial analyst Colin Gillis told AFP.

The original decision to split Yahoo's holding in Alibaba was seen as an attempt to calm restless shareholders, starting with activist fund Starboard which lobbied for the strategy.



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From honeymoon to divorce

After slightly more than three years as Yahoo chief, the honeymoon seems to be over for Mayer, who is the latest in a line of chief executives who have tried to restore Yahoo to its former glory.

Despite her lack of experience running a large Internet firm, investors embraced Mayer as a young engineer with proven credentials at Google and a fashionably glamorous image.

She was welcomed as a savior after Yahoo was eclipsed by Google and left to wither in its shadow.

Mayer made a priority of tailoring Yahoo offerings to modern mobile lifestyles.

On her watch, widely used products such as Yahoo Mail were modernized.

Mayer also went on something of a startup buying binge, mostly using Alibaba money being pumped into Yahoo's coffers, in addition to launching a series of digital magazines.

A promising entry by Yahoo into the fantasy sports games arena has caught the attention of law enforcement officials in New York.

Yahoo was issued a subpoena in an investigation into whether daily fantasy sports games violate gambling laws, sources close to the case said Thursday.

Like other fantasy sports sites, Yahoo allows participants to select

players for a virtual team and then use the real-world performance of the athletes to win prizes.

The companies claim they are games of skill rather than gambling operations.

Counting Mayer's days



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An array of senior Yahoo executives have jumped ship in recent months, and some industry observers question how much longer Mayer will remain at the helm.

A headline "The last days of Marissa Mayer?" topped an article on Forbes magazine's website Thursday.

If Yahoo's core business continues to deteriorate, "there is a good chance that in 12 months from now, Marissa Mayer may not be there," SunTrust analyst Bob Peck told CNBC.

BGC Financial's Gillis added that "it's a difficult business to turn around."

"It's a company that fundamentally needs to be restructured, and it's not her field of expertise."

Several analysts, however, contend that just replacing Mayer will not right Yahoo's listing ship.



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"The job of the CEO is to innovate; to outsmart competition, to invest," Global Equities analyst Trip Chowdhry told AFP. "It is not her job to find a way to dodge paying taxes."

Chowdhry saw Mayer as the right person for the job because she understands the technology. If someone needs to go, Chowdhry reasoned, it is chief financial officer Ken Goldman who is "not making the right decision."

Silicon Valley analyst Robert Enderle faulted the Yahoo board, and not Mayer, for lack of turn-around momentum.

"They knew she was going to have a steep learning curve and didn't back her up well at all," Enderle said.

"The right board likely could direct Mayer more successfully and avoid the disruption and cost of replacing yet one more CEO."

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