

# Case Analysis: The Acquisition of Alibaba and Yahoo China

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## ABSTRACT

As every business grows rapidly, company faces significant capital operations many times. For companies, these are often important deals and key moments to realize the value and create value for the future. M&A is an opportunity for the enterprise open-source industry. Expanding g markets, acquiring competitors and acquiring new technology through acquisitions are some of the ways deals can be done. By analyzing the case of Alibaba's acquisition of Yahoo, this paper discusses the background, reasons, results and impact of the acquisition, and draws the following conclusions. Through mergers and acquisitions, the company can improve its market share, enhance its strategic position in the industry and enhance its competitiveness. The company can obtain advanced production technology, management experience, management network, professional talents and other resources. At the same time, there are a lot of risks in mergers and acquisitions.

**Keywords:** *Mergers and Acquisitions, Alibaba, Yahoo, Analyzing*

## 1. INTRODUCTION

With the development of the market economy, a large number of companies make a great success of their developments from mergers and acquisitions (M&A). M&A has become an important means for enterprises to expand business and capital and optimize resource allocation. In a merger, two firms merge to form a single new company. A firm may merge with or be acquired to obtain access to new markets or to increase its share of the overall market (Hargrave, 2021) due to higher return, special development strategy and diversification of operating risks. The following article specifically analyzes Alibaba's merge with Yahoo China including the reason and the influence of this merger, providing an indication for future mergers in the Internet industry.

## 2. REASONS FOR ALIBABA'S ACQUISITION OF YAHOO

Alibaba.com, known as the Chinese multinational technology firm Alibaba Group Holding Limited, is a leader in online shopping, internet, and telecommunications in China. It is a global corporate

conglomerate with a diversified portfolio of firms in a wide range of industries (McClay and Rebecca) [1]. Yahoo! is a U.S.-based supplier of internet-related services. Despite offering a web portal and a search engine, it also offers several other services, such as My Yahoo!, Yahoo Mail, Yahoo News, and Yahoo Finance, as well as its own advertising platform, Yahoo! Native. Yahoo China, established in 1995, successfully went public in 1996[2].

In 2005, Baidu, one of the leading Chinese Internet search providers, went public on the Nasdaq exchange. Baidu became the first Chinese firm to be listed in the NASDAQ-100 index in December 2007 (Chmielewski). Alibaba therefore became the one of the next potential Internet companies which is highly valued[3].

Alibaba acquired Yahoo in 2012 in a \$7.6 billion deal that involved purchasing 40% of Yahoo, Inc. stock. Sue Decker, former president of Yahoo, discussed the deal in the Harvard Business Review in 2014, revealing the reasons for the acquisition. Before the purchase, Yahoo's investors had endured years of low returns and low performance in the stock market. Moreover, the company's revenue had failed to grow in the years

leading up to the acquisition. After the purchase, Yahoo distributed most of the acquisition proceeds to its shareholders and left \$1.3 billion to its new Chief Executive Officer, Marissa Mayer, to court new talent and turn around the company [5]. Accordingly, the

rationale that informed the acquisition was the poor financial and operational performance of the company and the need to inject more liquidity into Yahoo's operations



Figure 1 Yahoo share price.

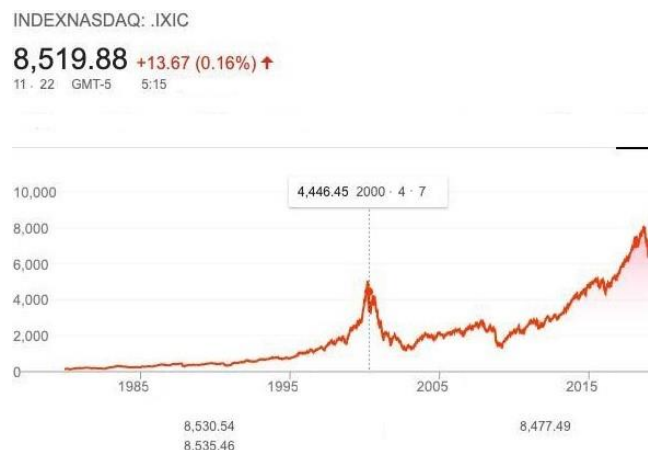


Figure 2. Alibaba share price.

Seven years before the deal, in 2005, Yahoo acquired a 40% stake in Alibaba worth \$1 billion, which is sold back for \$7.1 billion in cash and \$550 million in a patent and revised technology agreement. Yahoo's income statement as of June 30, 2012 had \$1.9 billion in cash, and the after-tax estimates will inject a further \$4.3 billion in the company, which further increased the company's liquidity[5]. The company's liquidity ratio was relatively low compared to the industry averages, and the proceeds were thus significant toward repurchasing its stock and providing the necessary finances for the new CEO to revitalize the company. The fundamental issues for the acquisition were that Yahoo needed to give its shareholders a return on their investment and retain a substantial level of cash for the company to invest for growth in the future[5].

On Alibaba's side, [4] states that initially, Alibaba did not focus on promoting Yahoo China's products in the market. Instead, the acquisition was informed by the

need to secure cash that could help mitigate the losses the company experienced in the operations of Taobao and Alipay. Further, Alibaba needed to leverage Yahoo's global brand strength for its international expansion goals and facilitate long-term value [4]. Consequently, it was important for Alibaba to acquire a stake in Yahoo to support its global business.

### 3. INFLUENCE AND CHANGES ON THE COMPANY AFTER THE ACQUISITION

After its acquisition by Alibaba, Yahoo initiated significant management and business changes. After the deal, Yahoo hired the former Google Vice President, Marissa Mayer, for a turnaround program that aimed to streamline its operations to increase its revenue. Further, immediately after the deal, Yahoo indicated that it planned to distribute all the yield from the acquisition by Alibaba to its investors [5]. However, after hiring Mayer,

Yahoo began reconsidering the decision and later indicated that its new CEO was planning to use part of the cash to pursue her strategy for the company. [5] shows the level of influence and independence that Yahoo's board accorded Mayer, who planned the company's expansion by acquiring other major brands, including Foursquare and Pinterest.

The changes in the company after its acquisition showed that Yahoo was leveraging its brand to create value for its investors and effectively compete in the market. The previous study states that the proceeds from the Alibaba deal indicate the talents that Yahoo possessed in terms of strategic partnerships and learning from earlier mistakes. Additionally, Yahoo identified the benefits of allowing other investors to control its business and enter new markets with a reasonable level of flexibility [4]. Alibaba received a \$250 million cash investment from Yahoo. Second, after the transaction, Alibaba will own all the shares of Taobao. In addition, Alibaba gets coveted search technology. Therefore, Alibaba's acquisition of Yahoo was beneficial to both entities as has been since the first partnership in 2005.

#### **4. DISCUSSIONS ON THE ACQUISITION**

From the results, Alibaba's acquisition of Yahoo China was successful. Due to Alibaba and Yahoo China "The business of Alibaba is different. The two sides belong to upstream and downstream relations and there is no competition. Therefore, Alibaba's acquisition of Yahoo China is a vertical acquisition. In the market economy, the economies of scale and division of labor brought by vertical acquisition reduce costs. After the acquisition of Yahoo China, Alibaba has expanded its portal and search engine. Yahoo China inherits the advanced technology of Yahoo in the United States, which makes Alibaba's R & D costs on portal websites and search engines have been greatly reduced. Alibaba has gained Yahoo's market and customers, and further expanded the market while enhancing its competitiveness in China. Output has only increased a little, so the marginal cost has also decreased. Advanced portal websites have brought more competitive power to Alibaba, thus increasing its market share. Alibaba's e-commerce is also more competitive in the Internet market after it has obtained a mature search engine. In the market economy, consumers prefer goods and services which have high quality and lower prices. Therefore, Alibaba's acquisition of Yahoo China has effectively hit other e-commerce companies. For Yahoo China, Google and Baidu have strong competitiveness. While the cost remains unchanged, Yahoo's profits will be squeezed. The cooperation with Alibaba and the combination with e-commerce also expand Yahoo's market.

However, there are still risks in Alibaba's M & A. It has timely obtained the exclusive right to use all Yahoo

China's assets and brand technology, but Yahoo has also become a major shareholder of Alibaba and obtained a large proportion of Alibaba's shares and voting rights. Alibaba and Yahoo, as two independent brands, mergers and acquisitions also bring integration risks. Ma Yun began to integrate after the merger. In order to enhance the competitiveness with Google and Baidu, Yahoo China's portal was greatly simplified and news information was canceled, only three columns of finance, sports and entertainment are retained. Perhaps this is an expedient measure to avoid layoffs, stabilize the team and ensure the revenue of online advertising [6]. When enterprises do M & A, they should clarify the purpose of M & A in combination with their own situation, take into account the marginal cost, so as to maximize the benefits, and consider the risks and the integration after M & A. In the case of Alibaba's acquisition of Yahoo China, Alibaba made clear the purpose of using Yahoo's mature search engine to obtain strong competitive conditions in the market around e-commerce, so that both brands have the opportunity to expand the market. In order to prevent the risks brought by Yahoo holdings, Ma Yun signed SA regulations to ensure his control over Alibaba as CEO. And the transformation and integration of Yahoo after the merger ensure the competitiveness of Yahoo as a search engine with Google Baidu.

#### **5. CONCLUSION**

This article mainly focuses on the research of the case for Alibaba's merger with Yahoo China. Although low profitability of Yahoo China reduced previous shareholders' confidence contributed to the merger, Yahoo's own technology benefited a lot to Alibaba's e-commerce development at that time as well. get several aspects of enlightenment. Obviously, the merger was successful, Alibaba now has become a leading corporation in this industry, while Yahoo also obtains success in its foreign businesses. Yet, M&A can be a risk and needs massive researches of both two companies as selecting the right target enterprise and choosing the right form of M&A can obtain the maximum benefit with the minimum cost.

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