



Yahoo shares drop on Microsoft rejection

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Yahoo! Inc's shares tumbled as investors punished the company for rejecting Microsoft Corporation's \$US47.5-billion bid, though the fall was cushioned by hopes a deal may still be possible.

Shares of Yahoo! fell as much as 20 per cent in early Nasdaq trading before recovering some to trade at \$US24.47, still down 14 per cent and far below the \$US33-per-share Microsoft offer.

"I think at \$US24, the stock's overvalued as a standalone Yahoo!" said Mike Binger, a fund manager at Thrivent Financial, which owned both Yahoo! and Microsoft shares. "I think \$US33 was fairly generous for Yahoo! and if Yahoo! won't accept it, they (Microsoft) did the right thing in walking."

Microsoft chief executive Steve Ballmer withdrew the bid on Saturday after talks collapsed, with Yahoo! chief executive Jerry Yang demanding \$US37 per share.

Shares of Microsoft rose 0.5 per cent on investor relief that it was not overpaying for Yahoo!, although concerns remained about how the software maker would develop its web strategy in the face of a dominant Google Inc.

"We did like the idea of the Yahoo! acquisition in the long run for Microsoft, but we did have reservations about how high a price they were willing to pay," said Dan Davidowitz, a portfolio manager at Polen Capital Management, which owns Microsoft and Google shares. "I'm not necessarily certain that the Yahoo! deal is completely off the table."

One clear winner from the collapse of Microsoft-Yahoo! talks is Google, whose shares rose 2 per cent. A deal would have been one of the biggest mergers in the technology sector and may have threatened Google's steady expansion on the web.

"The terminated Microsoft-Yahoo! negotiations eliminate the risk for now of a stronger online advertising competitor to Google," Stifel Nicolaus analysts George Askew and Scott Devitt wrote in a research note.

Analysts expect a flurry of shareholder lawsuits against Yahoo!, even as the web pioneer pursues possible deals with other internet media and advertising companies, such as Time Warner Inc's AOL internet division.

But Yahoo!'s share fall was not as steep as the 30 per cent plunge anticipated by some analysts, indicating there was still an "acquisition premium" built into the stock.

At \$US24.47, the stock is comfortably above its January 31 close of \$US19.18, before Microsoft disclosed its unsolicited offer.

"This is going to play out over the next several months and there is still a chance Microsoft will buy the company for somewhere around \$US33 a share," said Todd Dages, general partner at venture capital fund Spark Capital. "What Microsoft is hoping is that Yahoo! shareholders get militant."

Yahoo! is likely to push for a search advertising deal with Google, sources familiar with the matter said. That should boost Yahoo!'s operating performance in the near term, but runs the risk of regulatory scrutiny over an alliance between the internet's top two players.

Already, some Yahoo! shareholders have started to make their discontent public.

Bill Miller, a portfolio manager for Legg Mason, Yahoo!'s second-largest shareholder, told The New York Times in an interview on Sunday that he would have considered selling to Microsoft for \$US34 or \$US35 a share.

While that was more than Microsoft's offer, it was less than the \$US37 per share Yahoo!'s board insisted on.

Yang, a Yahoo! co-founder who owns about 4 per cent of the company, was expected to hold a meeting with employees on Tuesday in an effort to reassure staff in the wake of the Microsoft talks ending.

Yang said in a post on the company's blog on Monday night: "No one is celebrating about the outcome of these past three months ... and no one should. We live and work in a competitive world and the web is only going to get more competitive. Executing on our strategic plan is what matters most."