

Yahoo! Inc.

FINANCIAL STATEMENT ANALYSIS

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1. Introduction

Yahoo! Inc. is a leading multinational digital media and internet service company, one of the first in the Internet search business. Founded by David Filo and Jerry Yang in 1994, it is continuously growing and differentiating its service portfolio. The search engine has been accompanied with news portals, electronic mail service, web directory, finance engine, and social media products such as communications, content sharing and expert networks.

The vision of the company is to provide “deeply personal digital experiences” to its users across devices, regions and in more than 30 languages together with connecting those users to advertisers (Yahoo, 2012b). This vision is being pursued by current strategy leader, Marissa Mayer, which has been appointed as 6th CEO effective July 17, 2012 (The Times of India, 2012). Yahoo! Inc. main source of revenue is the connection of advertisers to users throughout the product portfolio. Today, Yahoo! Inc. is in the first five hundred companies in Fortune 500 on the 483rd position (CNN, 2012).

This document provides overview of the company financial profile, position within industry and other related topics.

2. Facts

This section describes the Yahoo’s corporate social responsibility policy, informs on contributed capital, paid dividends and reviews auditor’s report of last annual filing of financial statements on February 29, 2012 for fiscal year 2011.

2.1. Corporate Social Responsibility

While Yahoo! Inc. has no general corporate social responsibility policy, it has numerous activities such as its anti-human trafficking and Trust and Safety initiatives

(Yahoo, 2012a). These activities could be described as a part of its CSR, however they are often bounded to revenue generating products and are not separately depicted within the 10-K. Therefore, it is impossible to accurately map parts of operational income to these activities. The second exhibit of CSR policy of Yahoo! Inc. is its code of ethics, which highlights child protection, human rights, particularly freedom of expression (Yahoo, 2012c).

Yahoo! Inc. is often being criticized because as a search engine, it is responsible for application of governmental directives on content censoring and information provisioning. One such case has been widely reported, because it resulted into jailing of journalist in China (British Broadcasting Corporation, 2005). Such activities are often against the firm belief of the Internet freedom and organizations within the industry are not acting against SOPA and CISPA (The Government Press Office, 2012). Therefore, wider social responsibility is disputable.

2.2. Auditor's report

In Item 8 of Yahoo! Inc 10-K form, the independent registered public accounting firm, PricewaterhouseCoopers LPP reported an unqualified opinion about Yahoo's consolidated financial statements at December 31, 2011 as well as results of the three year period ending by December 31, 2011. Moreover, PWC expressed opinion that the company maintained the financial reporting based on criteria established in the Internal Control-Integrated Framework (United States Securities and Exchange Commission, 2011).

PricewaterhouseCoopers LPP expressed an opinion that Yahoo's internal financial reporting provide reliable source for financial statements and that it is in line with accounting principles. Moreover, the company's internal records provide a fair assessment of the company's performance.

2.3. Capital

The total paid-in capital of Yahoo!, Inc. as of December 31, 2011 is \$9 827 141 thousands (United States Securities and Exchange Commission, 2011). Yahoo, Inc. had 10.545 stockholders as of February 17, 2012 but didn't paid nor has plans to pay any dividends.

3. Financial Statement analysis

This section covers the analysis of liquidity, solvency, profitability and cash flows of Yahoo!, Inc. in consecutive two years. It examines its operational performance as well as financing and investing activities over the selected period. Along with the analysis of financial statements, the results are a baseline for comparison with the industry it operates in, as well as its direct competitors. The input data are obtained from most recent 10-K report (United States Securities and Exchange Commission, 2012).

3.1. Liquidity

Yahoo! Inc. has no problem with meeting its current obligations. Due to the capital structure of the company, Yahoo! Inc. can cover its current liabilities even from the cash account. This, of course means that the quick ratio, an acid test of the company displays good results in terms of liquidity of the company as well. Cash flow from operations is able to cover more than the current liabilities of the company, which confirms the high liquidity.

	2010	2011
Total current assets	\$ 4,345,548	\$ 3,452,536
Total current liabilities	\$ 1,625,872	\$ 1,207,361
Current ratio	2.67275	2.85957
Cash+Marketable Securities+Accounts Receivable	\$ 3,912,988	\$ 3,093,053

Quick Ratio	2.406701	2.561829
CF Operations	\$ 1,240,190	\$ 1,323,806
Operating CF Ratio	76,28%	109,65%

3.2. Solvency

Liabilities-to-equity ratio depicts the company use of debt to generate the revenue. The capital structure of Yahoo! Inc. is not very balanced and the business is financed mostly from the stockholder's equity.

It poses a low risk for possible creditor and with given profitability and outlook for the future growth, it becomes very low risk to lend to Yahoo! Inc. The company is able cover its debt expenses in less than 20 calendar days, which is outstanding assurance for possible lenders or purchasers of bonds. Average values used for financial leverage ratio was used for both years due to very low difference in the capital structure throughout the period. Yahoo! Inc. has only 18 cents of liabilities per 1 dollar of equity even though its retired stock accounts for \$ 560M.

	2010	2011
Financial leverage	1,18	1,18
Liabilities-to-Equity ratio	0,185672	0,175538
Times Interest earned	27,96147	20,54409

3.3. Cash Flows

The organizational statement of cash flows allows the identification of cash inflows and outflows. Categorized in operating, investing and financing activities, the cash flow analysis enables a closer look at the expenditures and revenues of the company as well as on the changes on its cash account.

	year 2010	year 2011
Cash at beginning of year	1,275,430	1,526,427
CF Operating Activities	1,240,190	1,323,806
CF Investing Activities	509,915	202,362
CF Financing Activities	(1,501,706)	(1,455,958)
Change in Cash	248,399	70,210
Effects of Exchange rates	2,598	(34,247)
Net Change in Cash	250,997	35,963
Cash at end of year	1,526,427	1,562,390

Yahoo! Inc. has consistent positive cash inflow from its operating and investing activities and cash outflow from its financing activities. The cash levels are consistent across examined period. Multinational presence caused negative effect of exchange rates for consolidated statements at \$ 34 M in 2012.

Yahoo! Inc. had positive cash flow from operating activities in examined period. At the end of 2010 at levels of \$ 1.2B and over \$1.3B at the end of 2011. Slight increase of collection of earned revenue from accounts receivable made \$ 69.5M difference between the years 2010 and 2011. It is important to note that the firm has been able to increase cash gain even though the annual net income in 2011 has been 85% of that earned in 2010. The biggest cash outflow from operating activities is accrued expenses and other liabilities which account for \$ 290M.

The company recorded slight decrease in investing activities with significantly lower spending on purchases of marketable debt securities as well as acquisition of property. It doubled the acquisitions in 2011 compared to the level of 2010 as well. It had positive cash

flow from sales and maturities of marketable debt securities which together account for more than \$ 2,825B in 2011. This indicates that company plans to grow on its acquisitions.

Financing activities recorded cash outflow on the end of 2011 due to repurchases of common stock which are over \$ 1.6 B in both examined years. There are no other significant inflows or outflows related to the financing activities.

The cash flows of Yahoo! Inc. indicate the good health of the company in regards to its operating, financing and investing activities and are represented throughout other sections of this analysis in given ratios.

3.4. Profitability and operating efficiency

This section looks at the ability of Yahoo! Inc. to generate profit out of its assets and equity. It examines the efficiency of its operations while generating profit as well.

	2010	2011
Gross Margin	58,46%	69,85%
Profit Margin	19,47%	21,04%
ROE	9,78%	8,33%
PM x AT x FL	9,78%	8,33%
PM	0,19474	0,21043
Asset Turnover	0,425746	0,335513
Financial Leverage	1,180045	1,180045
ROA	8,29%	7,06%
PM	19,47%	21,04%
Asset Turnover	0,425746	0,335513

According to the asset turnover ratio, the company is generating only 33% of its assets in revenues annually. Therefore \$ 1 in assets generates 33 cents in revenues which is decrease of approximately 25% from 2010. The improvements in operational efficiency could provide higher ratios and better utilization of its capital. With the good will at \$3.9B, the acquisitions of other companies in the sector could help Yahoo! Inc. to achieve such improvement given the investments turn valuable. Company repurchased part of its stock in 2011 but kept its capital structure. Looking at DuPont formula, it is not utilizing the debt to multiply its return on equity. It has below industry average profit margin, and should improve its operating efficiency as well as restructure its financing model given the expected low rates for debts.

Lower ROA and ROE are caused by decreased sales, which dropped by enormous 21% from 2010 to 2011. Therefore, it might indicate the problems of company to grow in following periods. Hopefully, two years of expenditures on restructuring at \$ 82 M together with new chief executive will help the company to turn the tides. The cost of goods sold decreased by 10% against the level of sales, which indicates more efficient production. This together with more efficient operating expenses led to sustained profit even though sales decreased significantly.

4. Industrial Analysis

Web 2.0 and future growth of expert systems and data-mining capabilities within knowledge economy can enable Yahoo! Inc. to grow significantly in the coming period. The accessibility of these systems using cognitive searches as well as media interconnection can help Yahoo! Inc. to utilize its strengths in exploit of the opportunities provided by the sector development. Moreover, spread of applications on mobile devices only supports the vision of Yahoo! Inc. of platform independence. Strong competition instituted by Google only

welcomes another strong player due to its market dominance and anti-monopolistic strategy of governmental institutions.

Market share for search engine, a flag ship product of all competing companies is at 13% compared to Google's 66, 7% and Microsoft's 15% in early 2012 (ComScore, 2012). Yahoo! Inc. is third largest in terms of total revenue with \$ 5 Billion, however it is just over 10% of Google's and leads before Facebook Inc. with \$ 4.6B as well as AOL with \$2.17B (Yahoo Finance, 2012a). However it is important to note, that approximately one third of the revenue is generated outside of Americas, even in China where Google terminated its operations. This provides future opportunities for localized Yahoo! Inc. services in Asia.

Looking at industry average return on equity at 15.3%, Yahoo with its proportional size has considerable 8.33 % ROE. Profit margin 21.04% ranks it in the industry default which is at 23.8% (Yahoo Finance, 2012b).

5. Summary

The new organizational strategy in preparation together with promising replacement of CEO for Google's 20th employee may provide Yahoo! Inc. with what it takes to attack on Google's dominant position. The financial indicators support the vision of growth for Yahoo! Inc. both because of good position in liquidity and solvency. Yahoo! Inc. represents very low risk for creditors and therefore can gain finances for future growth with ease if capital restructuring would be done. Its internal reserves in efficiency could provide relatively cheap way to improve its return on assets as well as profitability. The current market position provides the firm foundation and together with the above parameters, it creates a very good starting point towards future of web based services across different platforms.

Resources

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