Yahoo's Restructuring Continues To Underwhelm Wall Street

By Scott Morrison

January 29, 2008

SAN FRANCISCO -(Dow Jones)- More than half a year into Yahoo Inc.'s (YHOO) restructuring effort, co-founder and CEO Jerry Yang and his team continue to underwhelm Wall Street.

Shares in the Internet giant sank 10% to $18.72 in after hours trading Tuesday after the company reported respectable fourth quarter results, but issued weak guidance for 2008 and announced it would cut about 7% of its workforce.

"The Q4 results were reasonable, but the outlook suggest significant new steps are necessary," said Citigroup analyst Mark Mahaney in a research note.

Speaking to analysts on a conference call Tuesday afternoon, Yang reiterated his long-term growth strategy to make Yahoo a "must buy" for advertisers, a starting point for consumers and an appealing platform for third-party developers.

"We're not tinkering around the edges. We're making significant, and what we believe are game-changing investments in Yahoo's future," Yang told analysts.

But investors had heard the broad strategy before and they were eager to see indications that Yahoo was moving aggressively to regain its footing in the face of stiff competition from rival Google Inc. (GOOG).

For example, CFO Blake Jorgensen said Yahoo would realign about 1,000 employees in mid-February, but official did not specify how they would target cuts, nor did they state how many workers would actually be cut.

"I wish they would give more granular vision of their plan," said Sandeep Aggarwal, analyst at Oppenheimer.

Aggarwal added that he was encouraged that Yahoo was showing signs it was beginning to change, but he lamented that the company's return on new investments would be realized "not in '08 but sometime in '09."

Yahoo shares have plunged sagged roughly 35% in the past three months, while shares in Google have fallen almost 19% over the same period.

Yang returned to the CEO suite last June, replacing Terry Semel in an effort to demonstrate that Yahoo was serious about making changes that would enable it to compete with Google in the Internet search and advertising market. But critics have complained Yang has done little to stave off Google, which has continued to gain share of the Internet search market.

Yahoo accounted for 17.7% of all U.S. search queries in December 2007, while Google continued to dominate with a 56.3% share of the market, according to Nielsen Online.

Google gained ground on other fronts as well, said Nielsen Online. Web traffic to Yahoo web sites rose 2% to a three-month average monthly unique audience of 112.2 million unique visitors in the fourth quarter of 2007. Meanwhile, traffic to Google sites rose to a three-month average monthly unique audience of 117.5 million in the final three months of 2007, up 13% from 2006.

Mike McGuire, analyst at research group Gartner, said Yahoo cannot afford to wait much longer before providing specifics about how the company intends to achieve its goals. He said Yahoo must soon start providing regular progress reports that demonstrate it is building momentum among advertisers, Internet users and developers.

But Ned May, lead analyst at market researcher Outsell Inc., decried Wall Street's short-term horizon and praised Yahoo's long-term vision. He agreed with Yahoo that Web users were moving from their search-driven approach to the Internet and leaning toward a usage model in which they are drawn to destinations and networks.

"(Yang is) caught in a difficult position of improving morale while pleasing Wall Street. Most of the critics want numbers and this is coming at a time when we are slipping into a recession, if we are not already in one," said May.

Yang implicitly acknowledged there would no quick fixes, claiming that Yahoo's restructuring would put the company on track to generate double-digit cash flow growth in 2009. "This sort of transition takes time," he said.

That may well be true, but investors served notice late Tuesday that their patience is wearing thin.

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01-29-08 2141ET