Value of the firm & sustainable growth rate analysis in internet portal industry : a case study of yahoo!

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Abstrak

Yahoo! is an Internet portal company which was founded in 1995 in Santa Clara, California. As one of the portal market leaders, Yahoo! offers various services including Internet communication, commerce (B2B and B2C), on-line media, eiiterprise portal solution, and audio-video streaming.

Yahoo!?s business strategy (until the year 2000) was to make profit by selling advertisements and banners, and by establishing B2C commerce (including co-marketing with amazon.com, E*Trade, and eLoan. Yahoo! do not charge subscription fee to its user. Because the company revenue is mainly from advertising, Yahoo! tries to reach as many customers as they can and build its brand awareness.

Yahoo! has a strong customer base, reaching a number of 180 million unique users and 13,000 merchants (in Yahoo! Shopping) . Its users are spreading across many countries. Figure 3.3. shows Yahoo! ?s users by region.

Yahoo!?s financial performance, in the period of 1995 ? 2000, shows a rapid revenue growth of CAGR 278%. Despite of its high revenue growth, Yahoo! Experienced negative profit in the period of 1995 ? 1999. Yahoo! finally booked profit in the fiscal year of 1999 and 2000.

In the year 2000, Yahoo ! successfully gained revenue o f US s 1 . 1 billion, significant growth of 88% from the previous year. EBITDA increased 1 17% from the previous year amounting to US $ 41 1 millions. The two remarkable increases both in revenue and in EBITDA indicated a good financial performance in the year 2000.

The main problem which is faced by Yahoo! is its threatened future revenue. From the period of 1995 to 2000, Yahoo! experienced a high growth of revenue, however, the prospect of Yahoo!?s future revenue can be threatened by several risks of competitors, macro economy condition, and volatility in the Internet industry.

The weighted average probability is used to do the final calculation of value of the firm by considering all scenarios. Each scenario is weighted according to its probability to take place (0% to 100%), then it is totaled to get the final value of the firm. In determining the probability, each scenario is compared to the industry analysis and macro economic assumptions. The final value is obtained by multiplying each scenario?s value by its probability and then totaling all the weighted average values to get the final value of the firm. The final calculation of Yahoo! ?s value of the firm as of 3 1 December 2000 results a value o f US $ 8 . 6 billions . That value is far from Yahoo!?smarket capitalization as of 31 December 2000 which

amounts to US $ 16.8 billions.

The significant differences between Yahoo!?s final value and Yahoo!?s market capitalization, indicate the volatility of Yahoo! stock price caused by high uncertainty in the internet portai industry (Yahoo! has a high beta = 3.6). The valuation result in this thesis has been considered the slow down in the US macro economy in the year 200 1 , which directly influence the Internet advertising spending. Recent data as of 3 1 March 2001 (after the impact of the US macro economy slow down was recognized by investors) reveals that Yahoo! market capitalization was Us s 8.9 billions (close to the final valuation result).

Yahoo !?s growth tends to lower . Even with the optimistic scenario , Scenario C, Yahoo! ?s revenue growth rate in the year 2005 is 49.48%, while in the base case amounts to 27%. To finance its revenue growth, Yahoo! should increase its sustainable growth rate.

Yahoo! should diversify its revenue structure to minimize the interdependence on advertising revenue. Yahoo! should seek other sources of revenue such as subscription fees., B2B, or B2C.

Yahoo! should increase net operating margin by increasing revenue per customer. To increase the revenue per customer, Yahoo! could charge the subscription fee or could establish B2C. The high revenue per customer would result in low customer acquisition cost, which at the end would increase net operating margin. The high net operating margin could be used to support high growth strategy, or to pay dividends as a positive signal to shareholders in order to increas e value o f the firm.