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Yahoo to Distribute Entire Stake in Alibaba to Shareholders Via Spinoff

By Renzo Lima, LL.M. Candidate 2015 | February 6, 2015

In response to increasing pressure from activists, Yahoo announced a tax-free plan on January 27 by which it will distribute its entire stake in the Chinese e-commerce giant Alibaba to its shareholders. Comprised of 384 million shares valued at $40 billion (closing price on January 26), Yahoo's 15.4% ownership share of Alibaba accounts for about 85% of Yahoo's market value.

The plan is to separate these assets from Yahoo's core business by spinning-off the Alibaba shares into a new publicly traded company, initially named "SpinCo." Yahoo will then distribute SpinCo's shares proportionally to Yahoo's shareholders via a stock dividend—a tax-free transaction (provided it meets certain requirements). Through this clever structure, Yahoo expects to save its shareholders roughly $16 billion in taxes.

In order for this structure to work, however, Yahoo will need to ensure SpinCo is an "active trade or business," and not merely a shell for its Alibaba shares. Accordingly, Yahoo will also spin-off a small operating division into SpinCo. Yahoo has yet to reveal which division this will be, only describing it as a "legacy, ancillary Yahoo business."

As the existence of SpinCo might be confusing to investors and cause liquidity problems for Alibaba, analysts expect Alibaba to acquire SpinCo as soon as possible. However, Alibaba executives have expressed reservations about trading $40 billion of Alibaba stock for SpinCo, citing the possible availability of more attractive investments.

Certain conditions still need to be met before the transaction is completed, such as final approval by the board of directors and a favorable ruling from the IRS regarding the structure's tax-free treatment. The 1-year lock-up set by Alibaba's initial public offering, however, will push the closing of the transaction to the 4th quarter of 2015.