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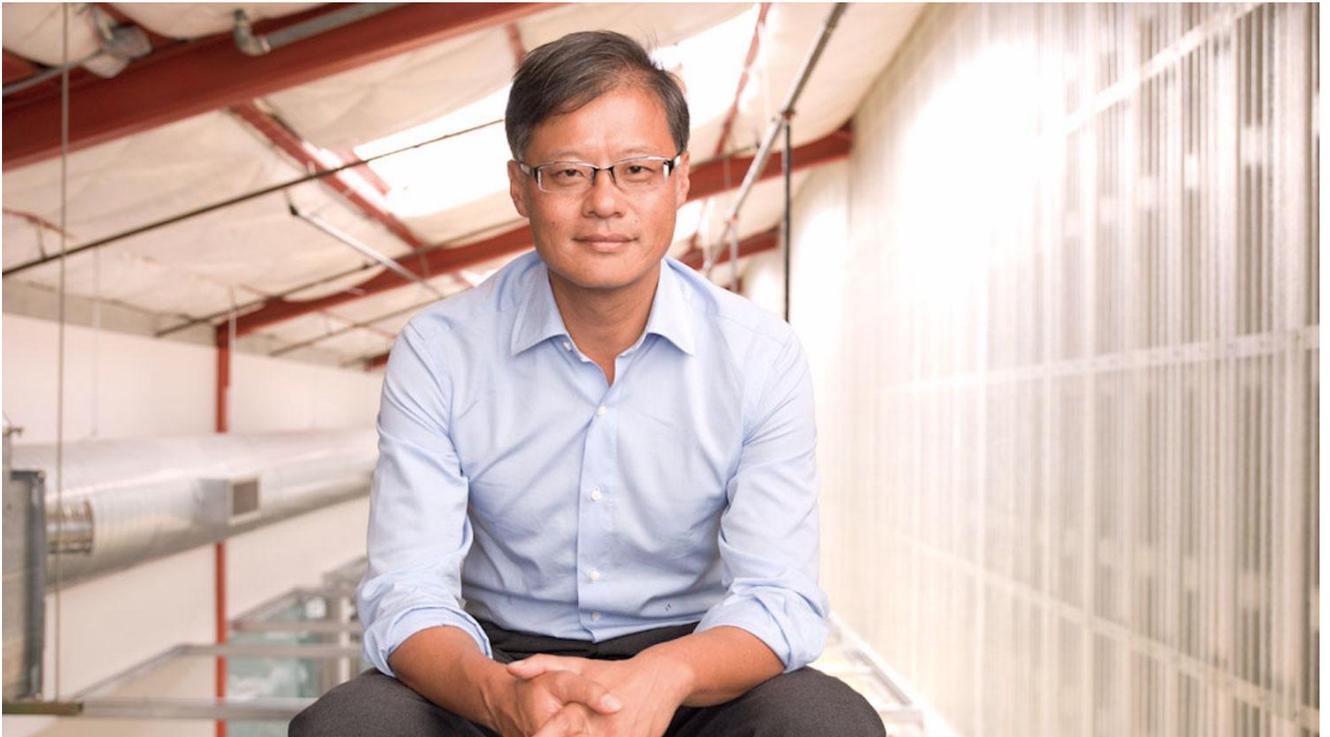
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# Finding Alibaba: How Jerry Yang Made The Most Lucrative Bet In Silicon Valley History

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Yahoo's co-founder Jerry Yang at the office of his venture firm AME in Palo Alto, Calif. (Ethan Pines For Forbes)

Jerry Yang is giving a quick tour of the conference room at his private investment firm in Palo Alto, Calif. It's dotted with gifts and photos from his 20 years in Silicon Valley. Yahoo's 45-year-old billionaire co-founder stops before a glass deal toy on a low table.

"Um, I have no idea what that is." He peers more closely, checks the date: September 2012. "That is... that was after I'd gone. I think that was the last deal I worked on at Yahoo."

The plaque commemorates what may have been one of the dumbest business decisions of all time. Yahoo's board agreed to sell 523 million Alibaba shares, half of its stake, back to Alibaba at \$13 apiece. Yang hadn't been so keen to sell. They did anyway. By then he'd quit the board. Sure enough, Alibaba's IPO last month rocked global markets. Shares of the Chinese e-commerce giant are now worth around \$90. Yahoo still has a 16% stake worth \$36 billion, but it left almost as much money on the table—some \$35.5 billion—as its entire current market capitalization.

Changing the subject, Yang spots a nearby photo: "Stanford! You know, I'm a Stanford kid through and through."

Where's all the Yahoo memorabilia? Yang smiles. "We come here to go to work. It's not a museum. I feel like this is a place to look forward and not look back too much."

Typical Jerry Yang: self-effacing and as cool as an engineering supernerd can be. When the official history of Silicon Valley is (re)written, it will be hard to judge which of Yang's achievements is bigger: starting Yahoo or betting early on Jack Ma, chairman and CEO of Alibaba.

Nine years ago, before Yang was CEO of Yahoo, he spent \$1 billion of Yahoo's money for 30% of Ma's company. He knew the asset would be hugely valuable someday and refused to sell Yahoo to Microsoft when Steve Ballmer came calling in 2008, a decision that cost him his CEO job. Yahoo's current CEO, Marissa Mayer, can do whatever she wants to put a better face on things, but Wall Street has marked her business down to zero. It's now a proxy for Alibaba, and that was all Yang's doing.

“It’s not like I did anything,” he says, shrugging and tossing all the credit to Ma and his deputy, Joe Tsai. “They built the company. I didn’t.”

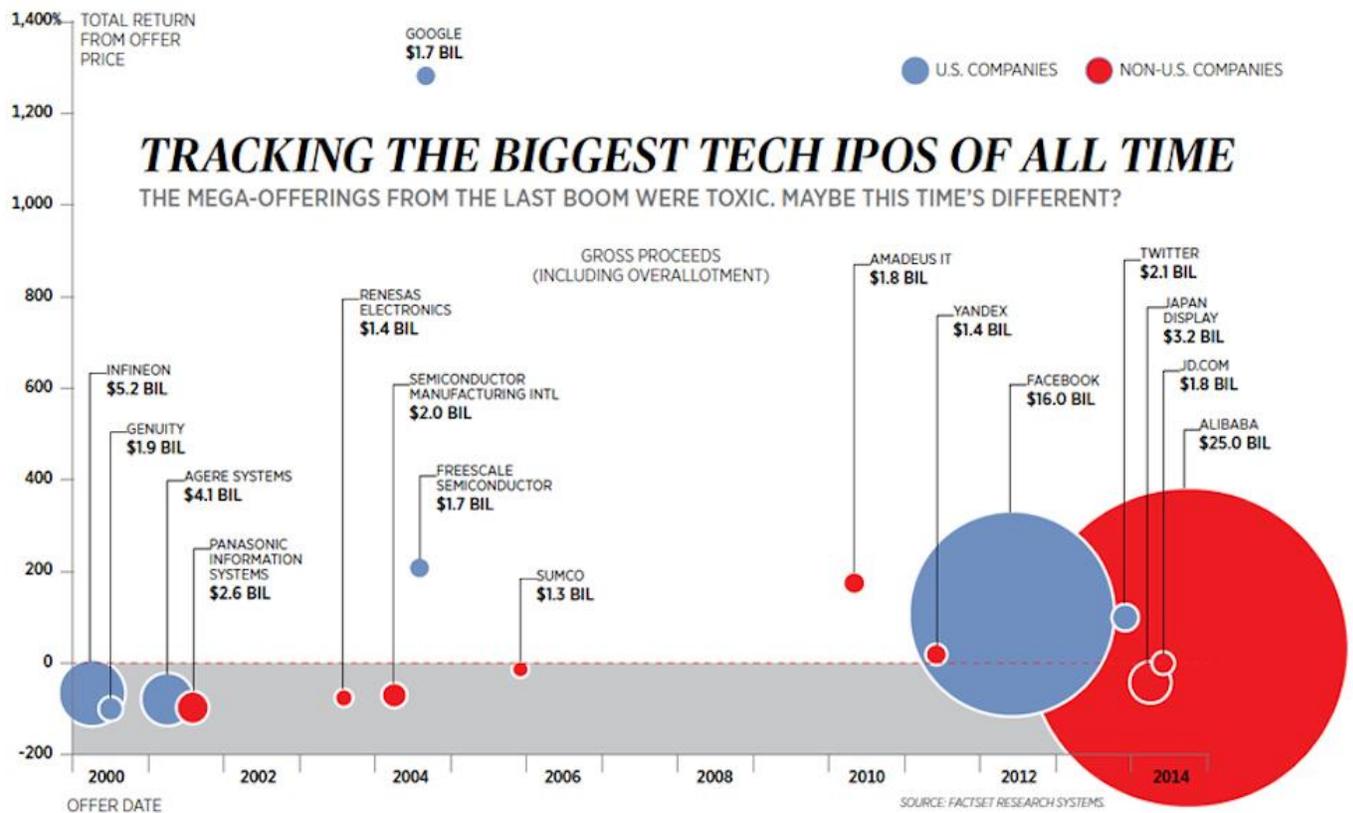
But guess who’s getting a seat on Alibaba’s board post-IPO: nobody affiliated with Yahoo except Yang. His clear-eyed and early confidence in Alibaba has brought a whole new appreciation to his role as Silicon Valley’s new East-West power broker.

Alibaba and a passel of Chinese, Korean and Japanese firms such as Baidu, Tencent, LINE, Naver and Rakuten are cranking up U.S. acquisition plans in commerce, messaging, gaming and search. Yang has deep ties in Asian tech circles and will be there to point Jack Ma and the others in the right direction. Earlier this year Tango, a messaging-app firm in Mountain View, Calif., took on \$215 million from Alibaba at a \$1 billion valuation, a deal that Yang helped along through his connections to Jack Ma’s deputy. Since leaving Yahoo, Yang has bankrolled more than 50 startups, including Evernote, Wattpad and Tango, through his investing firm, AME Cloud Ventures. (AME is pronounced “ah-meh” and means “rain” in Japanese, signifying Yang’s initial interest in cloud computing startups.)

His new role of superangel offers a chance to shed his reputation as a bounced-out business mogul. Under his watch Yahoo steadily lost search and advertising share to Google. It also let Facebook slip through its fingers in 2006 by dithering over a \$1 billion price tag.

The only signs of his chapter with Yahoo today are a smattering of gray in his hair, the \$2 billion in his bank account (he ranks 324th on The Forbes 400) and that neglected glass tombstone. “I wanted to get back to being close to entrepreneurs,” says Yang, sipping Taiwanese green tea and ignoring his smartphone for an hour straight.

“I wanted to be able to do things at my own pace, make mistakes and nobody would care. People who observe me say I’m so much happier.” In many ways he’s more powerful as well.



**BORN IN TAIPEI**, Taiwan, Yang was two when his father died from a pulmonary disease, leaving his mother, a professor of English and drama, to raise Yang and his brother. When it looked like Taiwan could be unified with mainland China in the late 1970s, she moved with her boys to San Jose when Yang was 10. Yang changed his first name from Chih-Yuan to Jerry. His grandmother and extended family around San Jose took care of him while his mother taught English to other immigrants.

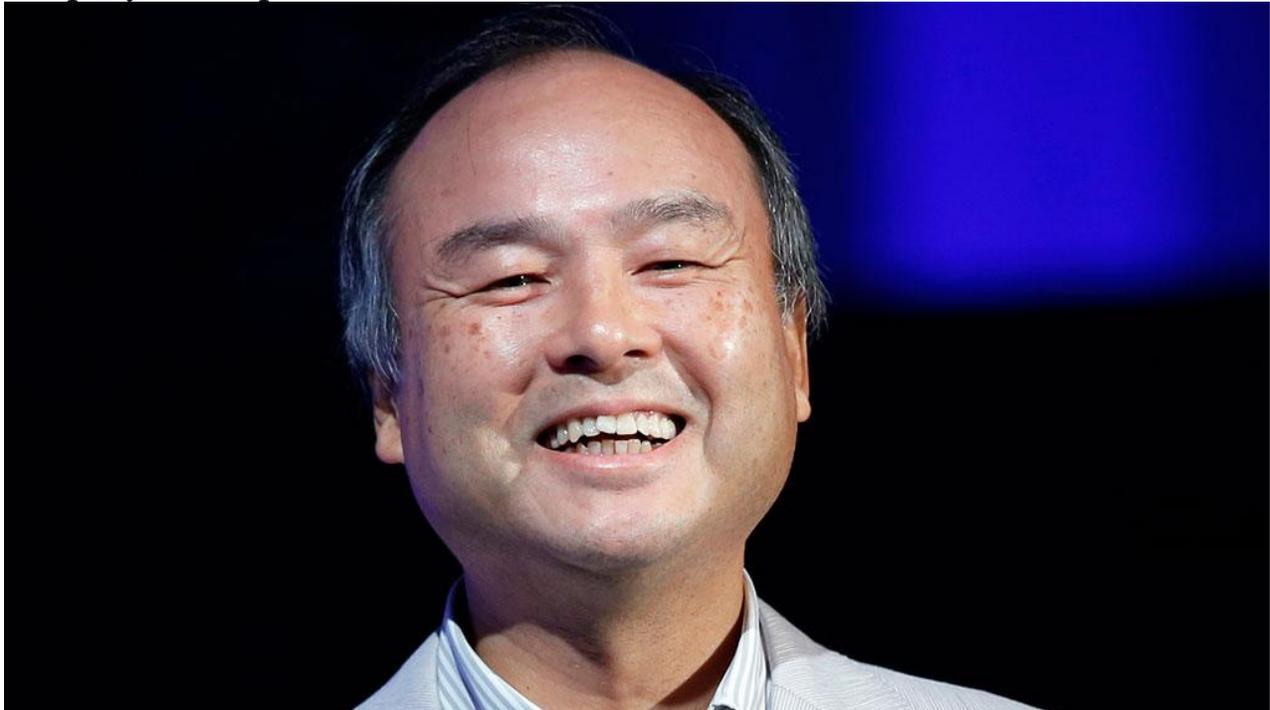
Yang's own shaky English pushed him toward math and science through high school, which led him to building his first computer and then to a course in engineering at Stanford, where he jelled with Yahoo cofounder David Filo. In January 1994 they created Jerry and David's Guide to the World Wide Web, an initially crude directory of links they renamed Yahoo several months later.

Yahoo's fortuitous connection with Alibaba would never have happened if a Japanese telecom billionaire named Masayoshi Son hadn't made a detour to Mountain View in 1995 to sit down with the young Yang and Filo.

His SoftBank had just bought Ziff Davis, the computer-focused publishing company, which was planning to put money into Yahoo but now couldn't because of Son's acquisition. Son was in a hotel room in Las Vegas when he asked his executive assistant, Masahiro Inoue, what he thought of Yang's startup, according to *Aiming High*, a biography of Son.

"An Internet company," Inoue said. "I think it's good."

The next day Son went to Mountain View and had take-out pizza and sodas with the young Yahoo founders. SoftBank invested \$2 million for a 5% stake in Yahoo, putting in another \$105 million in 1996 and then another \$250 million in 1998 to take as much as 37% of the company at one point.



*Softbank founder Masayoshi Son (Kiyoshi Ota/Bloomberg)*

Yang was meanwhile getting stacks of proposals from Japanese companies wanting to build the first Web portal in Japan. About a month after Son's initial investment Inoue went to visit Yang again. He'd failed to bring any documents for a formal proposal, so he just made his suggestion in person. "Let's create Yahoo Japan," he told Yang, according to the book. "We could start with two or three people and, if necessary, add more."

Yang liked that Inoue wanted to move quickly, and so the two shook hands. The following month Yahoo and SoftBank established their joint venture, Yahoo Japan, the country's first real Web portal, and began operations the following April using Yahoo's search engine. Inoue became its president.

While Yahoo Japan began gaining millions of customers, Yang took his first trip to China in 1997. A junior staffer in the economic ministry was assigned to take Yang on a tour of the Great Wall of China. His name was Jack Ma, a former English teacher who had tried and failed to start a Chinese version of the Yellow Pages.

"Jack was one of the first people I ever met [in China]," Yang says.

Along the hike the two hit it off and talked about the growth of the Web. "He was very curious about what it's like on the Internet and what the future might be." Several months later Ma began building another startup based on grand and rather vague plans to connect Chinese companies with the rest of the world. He called it Alibaba.

**BY THE SPRING OF** 1999, the height of the dot-com bubble, Yahoo had bloomed into one of the most popular websites on Earth, and Son was briefly almost as rich as Bill Gates. Ma's Alibaba outfit was piddling by comparison, just a handful of people working out of his apartment in Hangzhou.

But Son found him during his periodic hunts for new investments. After visiting Ma for the first time, Son recalled that he liked "the look in [Ma's] eye" and his "animal smell. It was the same when we invested in Yahoo, when they were still only five or six people." Son put \$20 million into Alibaba, before eventually amassing a 37% stake in the company, even as the dot-com crash wiped 99% off of SoftBank's market cap and close to 90% of his net worth.

Son and Yahoo survived the crash, if a bit dinged up. Out went Yahoo CEO Tim Koogle, replaced with Hollywood mogul Terry Semel, who led a strong growth period but finally ran out of momentum in the face of Google's search ad machine. Yahoo tried to tap Asia fairly early, building a Chinese portal that translated U.S.

content and then buying local Chinese browser 3721 to gain a foothold on the Chinese Web. Both strategies failed to attract local users.

In May 2005 Yang finally brokered Yahoo's saving-grace move. Both Yang and Ma were invited to an inaugural summit for Chinese and Silicon Valley executives in Pebble Beach, Calif. Ma almost didn't come, since it was Golden Week in China, a public holiday. Summit organizer and venture capitalist Feng Deng called Ma to change his mind.

"We really think you should come," Deng told him. "A lot can happen." Ma agreed at the last minute.

The star attraction at the event: Robin Li, CEO of search giant Baidu. Though Ma's startup had swelled to 2,400 employees and \$50 million in sales, Alibaba's future looked uncertain. EBay had bought Ma's auction-site rival EachNet two years prior and was dominating the market. Ma needed funding and hoped to get it from talking to Li, according to people who attended the summit.

Yang stopped by the summit for golf on the fourth day, intending also to open a dialog with Baidu. "Robin said he couldn't do the deal with Jerry," says one attendee who heard it from Li directly, "because Baidu is pretty big already."



*Left to right: William Ding, founder of Netease, Baidu CEO Robin Li, Jerry Yang and an unknown attendee at the 2005 Pebble Beach, Calif. summit for Chinese tech executives. Yang initially approached Baidu CEO about a partnership, but it wasn't to be. (Photo courtesy of HYSTA / Hua Yuan Science and Technology Association)*

Ma stood on the sidelines while bankers, keen to underwrite Baidu's IPO, scrambled to tee off with Li. As a nongolfer Ma even found himself the subject of a teasing, \$100 bet by other delegates: Which newbie could drive the golf ball the farthest—the slight Ma or the brawnier founder of SoftBank-backed UTStarcom, Ying Wu?

Most money went on Wu. Ma watched him swing at the ball several times, and when Wu finally made contact it didn't go far. Ma only had to kiss the ball to surprise everyone and win the bet. It was a telltale sign of what was to come with Ma's fight against EachNet back home.

At the cocktail reception later that day Yang started talking to Ma, his old tour guide from eight years before. Some suspect their meeting was indirectly encouraged by SoftBank's Son, but Yang won't comment.

Soon they slipped out through the patio doors ahead of a steak-and-seafood dinner and headed for the beach, a five-minute walk away. Within 30 minutes they had talked—mostly in Mandarin—about a partnership that would change the fortunes of both their companies.

In the following weeks Yahoo management launched Project Pebble to explore a relationship with Alibaba. Yang had earlier pushed to get Yahoo to build an e-commerce rival to Alibaba, partly as a way to lure Ma to the negotiating table.

The ploy worked. When Alibaba expressed interest in partnering, a coterie of Yahoo execs shot over to China. Yang and Semel dealt directly with Ma, while Yahoo chief operating officer Dan Renshaw, chief financial officer Sue Decker and strategy chief Toby Coppel dealt with Joe Tsai.

Ma later told venture capitalist Deng that he had never expected to negotiate with Jerry at Pebble Beach. "Somehow they just chatted and then found out it was a good idea," Deng remembers. "They made the decision quickly."

Yang refuses to talk about how he built a relationship with Ma, but it wouldn't have been easy for him as a Taiwanese-American who'd come of age in Silicon Valley, while most of the business elite in China are graduates of Chinese universities. "The Chinese ecosystem was not really Jerry's natural habitat," says Carmen Chang, a lawyer who helped lead Google's 2005 investment in Baidu. "It meant he had to work harder."



*Serendipity: Jack Ma announces Yahoo's \$1 billion investment in Alibaba in 2005. Behind him is a photo of himself and Yang at the Great Wall of China in 1997, when Ma was a government-employed tour guide. (REUTERS/Claro Cortes IV CC/TC)*

The Yahoo contingent hashed out a proposal in which they would put in \$1 billion in cash and the assets from Yahoo China, worth \$700 million, for a whopping 40% of Alibaba, while SoftBank and existing management each kept 30%.

The deal was exceedingly complex, and both Yahoo and Ma almost walked away a few times. At a CEO conference last March, Ma recalled that Yang eventually sat him down for dinner at a small Japanese restaurant and convinced him over a glass of sake.

**THE ALIBABA DEAL ALWAYS** looked a bit risky. Even Yang had to be talked into doing it initially. Half of Alibaba's value was attributed to Alipay, an online payment service, and Taobao, the e-commerce site that was up against eBay's EachNet. Both were losing money. But Yang says he was captivated by the founder.

"Once you meet an entrepreneur like Jack Ma, you just want to make sure you bet on him," he says. "It's not a hard decision."



*Jack Ma and Jerry Yang returning from their 30 minute walk on the beach in September 2005, a casual exchange that shifted the fortunes of both their companies. (Photo courtesy of HYSTA / Hua Yuan Science and Technology Association)*

Analysts questioned the deal after it was announced, but Yahoo's troops, for once, were impressed. "Everyone was thinking that it was a really smart deal," says Rich Riley, a former executive vice president at Yahoo who now runs music app Shazam. "Markets like China had proven challenging for Western companies to get leadership positions in, and this seemed like a smart way to go."

It was. EachNet, the rival that looked like it might kill Alibaba, was doing just as badly as the brawny golfer who'd hacked at the ball at Pebble Beach. eBay's management insisted on controlling the Chinese firm from San Jose, demanding a 3% charge for listings and a standardization based on eBay's technology, slowing the site down. Ma watched and learned.

With its \$1 billion investment from Yahoo, Alibaba held off on charging for listings, prompting merchants to flee EachNet for cheaper, faster Taobao. By spring 2007 Taobao had taken 82% of the online auction market, leaving EachNet with just 7%.

Things were not going as well at home for Yahoo, with its share price slipping and momentum shifting to Google. Semel was ousted in June 2007 with Yang in as interim CEO, but before he could even hatch a turnaround Yahoo got drawn into one hellish negotiation after another. Microsoft in February 2008 announced a \$44.6 billion, \$31-a-share tender offer, representing a 62% premium to Yahoo's market value at the time. Investors such as Carl Icahn fumed after Yang refused to sell for less than \$37. As Yahoo's stock tanked, Yang was forced to resign in January 2009, replaced by former Autodesk CEO Carol Bartz. Microsoft yanked its offer that May.

Yang held on to his board seat and kept relations going with China, but critics blasted him for not stopping Ma from spinning out the Alipay business in 2011. Investors started to doubt Yahoo's ability to maximize the value of its Asian assets. Activist investor Dan Loeb won a proxy skirmish and grabbed three board seats. He called for Yang's head and got it in January 2012, when Yang finally stepped down from the boards of Yahoo, Yahoo Japan and Alibaba.

Ma all along had been agitating to buy back the equity he had sold to Yahoo (and SoftBank). New Yahoo CEO Scott Thompson was happy to oblige, if only to appease Loeb and keep his job. He told his CFO, Tim Morse, who had replaced Yang on Alibaba's board, to work out a sale.

Thompson wouldn't last long enough to see the deal done, though; Loeb outed him for fibbing on his résumé. Yahoo sold half its stake in September 2012 for \$7.1 billion before tax, or \$13 a share. (Alibaba would close at \$94 exactly two years later.)

"In some ways the Americans got played," says hedge funder and Yahoo investor Eric Jackson. "Yahoo panicked while Masayoshi Son kept his head down. If Jerry had been around, he would have had the long-term view as well."

Now an outside observer, Yang claims to have "no idea" how Yahoo Chief Executive Marissa Mayer should spend all her new cash. Some say she should plow it into already-successful channels like finance

and sports, or strike more partnerships in Asia with the likes of Tencent and Baidu. Despite all the work she's done, Facebook, Google and Twitter continue to eat into Yahoo's ad revenue. Its share of global digital ad revenue is projected to decline to 2.5% this year from 3.4% in 2012, according to eMarketer.

Yang says he and Marissa are friends but that contact is infrequent. "I don't want to be inside the company. I don't want insider information. I don't want to know anything that pulls me into the company itself."

When asked about his confidence in Mayer, he hesitates. "She has the right credentials, coming from Google," he says, then adds, "She's a first-time CEO." Yang seems more excited that his cofounder, David Filo, still works out of a cubicle at Yahoo and sits on the board. "That gives me the biggest amount of comfort."

He says Alibaba, which still hangs in its Hangzhou office a 1997 photo of Yang and Ma taken at the Great Wall, is "a good buffer" for Yahoo.

**YANG'S AME INVESTMENT** fund has become something of a tourist stop for Asian startups looking to enter the U.S., though Yang won't back any of them unless they plan to move to the Bay Area. There's enough money flowing in from Asia that he can stay close to home in Palo Alto.

AME's managing director, Nick Adams, helps runs the China side of things. He spent five years building startups in China and India and is fluent in Mandarin. Among his myriad connections: He also runs business development for Cloud Valley, a massive incubator for cloud startups outside Beijing run by Web mogul Edward Tian. It was Tian who introduced Adams and Yang to productivity app Evernote, before they both took part in a \$70 million investment round in spring 2012, right after Yang left Yahoo.

Yang sits on many strands of the web of connections between Asia and Silicon Valley. In 2013 he joined the board of Lenovo as a

nonvoting observer. One year later he played an active role in helping the Chinese computer giant decide to buy Motorola's handset business from Google for \$3 billion.

"[Yang] has a unique ability to help us understand how we can build bridges with the innovative community in Silicon Valley," says Lenovo CEO Yang Yuanqing.

Yang expects more Asian money to flood the American tech industry. "Every week there's a new Chinese fund being set up," he notes. Messaging is the hot draw right now. Tencent at one point was interested in spending \$10 billion on WhatsApp before Facebook swooped in and picked it up for \$19 billion.

Yang brokered one of the first successful Asian investments in the messaging sector earlier this year when he introduced Alibaba to one of his investments, Tango, which has more than 200 million registered users. While Alibaba had its own Chinese messaging service, Laiwang, it wanted a presence outside the country and in March invested \$215 million, valuing Tango at \$1 billion.

"I didn't have to do very much," Yang shrugs.

Yang, who sits on the boards of enterprise software powerhouse Workday and is vice chair of Stanford University, points out that Silicon Valley doesn't just stand to gain cash from Asia but also new business models.

"China's Web has grown away from just duplicating services from the U.S.," he says. Tech heroes like Alibaba have been able to "skip a generation of payment logistics and commerce" that Amazon and eBay had to muddle through, and they use customer feedback to update their products several times a month.

Chinese travel site Shijiebang, one of Yang's only Asian investments, a startup founded by the former head of Yahoo China, sells automated, customizable travel plans for tourists. "In China, as people have more consumption power, they need to feel, 'We're not

just being cookie-cuttered.’ The question is, can you develop services and products to satisfy that trend?” Yang believes this kind of faux-tailored approach to software could make a splash in enterprise IT or education.

Wish, another one of Yang’s investments, is emulating the success of Chinese e-commerce apps that ship a dizzying array of goods directly to customers. Shoppers typically use the service on their phones to share or collect interesting products—like Pinterest but with more shopping. It’s raised \$79 million to date. “They’re starting to fulfill these wish-list items from dolls to 5-pound gummy bears, and all of a sudden they’re creating a lot of demand, and some of their merchants are from China,” he says.

Yang has also been burnishing his East-West bona fides through art.

Forced to take calligraphy lessons as a boy, he again became drawn to it around the same time he discovered a rapport with the leaders of modern-day Asian social networks, like Ma and Son. Calligraphy and social networking are a lot alike, Yang says, since artists from China’s educated elite would add to one another’s work and even leave comments on certain scrolls.

None of his 200 pieces of Chinese calligraphy hang in his office or home.

After exhibitions in San Francisco and New York they’re destined for storage facilities in the Bay Area. As Yang speaks of his art collection and sips his green tea, it’s not hard to see the parallels as he reinvents himself as Silicon Valley’s China whisperer: “I’m a guardian for these decades I have them.”

Source: <http://www.forbes.com/sites/parmyolson/2014/09/30/how-jerry-yang-made-the-most-lucrative-bet-in-tech-history/>