YAHOO'S ACQUISITION OF TUMBLR

On May 20, 2013, Marissa Mayer, president and CEO of Yahoo! Inc. (Yahoo), announced Yahoo's $1.1 billion acquisition of Tumblr on her Tumblr blog:[1]

I'm delighted to announce that we've reached an agreement to acquire Tumblr!

We promise not to screw it up. Tumblr is incredibly special and has a great thing going. We will operate Tumblr independently. David Karp will remain CEO. The product roadmap, their team, their wit and irreverence will all remain the same as will their mission to empower creators to make their best work and get it in front of the audience they deserve. Yahoo! will help Tumblr get even better, faster.

Tumblr has built an amazing place to follow the world's creators. From art to architecture, fashion to food, Tumblr hosts 105 million different blogs. With more than 300 million monthly unique visitors and 120,000 signups every day, Tumblr is one of the fastest-growing media networks in the world. Tumblr sees 900 posts per second (!) and 24 billion minutes spent onsite each month. On mobile, more than half of Tumblr's users are using the mobile app, and those users do an average of 7 sessions per day. Tumblr's tremendous popularity and engagement among creators, curators and audiences of all ages brings a significant new community of users to the Yahoo! network. The combination of Tumblr+Yahoo! could grow Yahoo!'s audience by 50% to more than a billion monthly visitors, and could grow traffic by approximately 20%.

In terms of working together, Tumblr can deploy Yahoo!'s personalization technology and search infrastructure to help its users discover creators, bloggers, and content they'll love. In turn, Tumblr brings 50 billion blog posts (and 75 million more arriving each day) to Yahoo!'s media network and search experiences. The

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[1] *Marissa's Tumblr* (blog), May 20, 2013, http://marissamayr.tumblr.com/post/50902274591/im-delighted-to-announce-that-weve-reached-an (accessed Jul. 20, 2013).

two companies will also work together to create advertising opportunities that are seamless and enhance user experience.

Yahoo and Marissa Mayer

Marissa Mayer took over as president and CEO of Yahoo in July 2012 after a 13-year stint at Google. As employee number 20 at Google, she played a major role in developing Google's minimalist design and oversaw some of its most successful products, including Gmail and Google Maps. Yahoo hired Mayer to apply a "simple" vision to Yahoo, unifying Yahoo products such as Flickr, Yahoo Mail, and the home page.

Yahoo's $1.1 billion deal to buy Tumblr was a tremendous gamble. The purchase price amounted to more than one-quarter of the cash and short-term investments on Yahoo's balance sheet. Other near-term large acquisitions were likely off the table, and it would be years before the Tumblr deal could be deemed a success.

Mayer was faced with the challenge of leveraging Tumblr's massive user base to boost Yahoo's bottom line. She needed to act quickly but carefully. Internet users were fickle, especially teenagers. If Tumblr's loyal users felt Yahoo was "messing" with their beloved community, the site could face a mass exodus.

Peter Kafka of AllThingsD[2] summed up the acquisition on Twitter: "Resist urge to attach Big Ideas to Yahumblr. Yahoo is a declining company trying to buy growth. Might work, might not. Full stop."[3]

One reason for concern about the deal appeared in the data. Since November 2012, traffic was down slightly. (See **Exhibit 1** for metrics on worldwide traffic at Tumblr's site.) Was the drop a blip, or was it part of a long-term trend? For Yahoo's sake, it needed to be a blip.

Monetizing Tumblr

Founded by 20-year-old David Karp in 2007, Tumblr was a popular microblogging platform and social networking website. The platform allowed users to post photos, videos, and other content to short-form blogs on desktop and mobile devices. The website's features were accessed from the "dashboard" interface, where users could both post content to their own blogs and view posts by others.

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[2] AllThingsD was a website owned by Dow Jones, publisher of the *Wall Street Journal*. It was devoted to news, analysis, and opinion on technology, the Internet, and the media.

[3] Tweet posted by "pkafka," May 19, 2013, https://twitter.com/pkafka/status/336280717363408896 (accessed Sep. 4, 2014).

Tumblr, which had revenues of $13 million and expenses of $25 million in 2012, had just begun the process of monetizing its site through advertising. The plan for 2013 was $100 million in revenue and $40 million in expenses.[4] For years, Karp had resisted plastering the site with ads. Mayer had plans to accelerate the process. In a May 20, 2013, conference call, Mayer laid out her plans for advertising on Tumblr:[5]

> On Tumblr, there's a number of different places where we think we can monetize in a way that is meaningful and really additive to the user experience.
>
> For example, Tumblr has what's called the "dashboard," which is their version of the news feed—or, in old-school terms, an "inbox" for the blogs you follow. So basically different bloggers that you follow can all appear there in your feed.
>
> And today, Tumblr already does some advertising, though minimal, in that feed. We would like to look at them and understand how we could introduce ads—in a very light ad load—where the impact is really created, because the ads really fit the users' expectations and follow the form and function of the dashboard.
>
> We also see some opportunities to possibly work with bloggers who want ads, to provide ads on their websites. That would always be done with the blogger's permission.

Although the revenue potential was largely unproven, there were other reasons to be optimistic about advertising at Tumblr. Tumblr had a high proportion of users in their teens and early twenties, desirable demographics for many advertisers. Tumblr's penetration of these age groups was higher than other social networks, including Facebook and Twitter.

Karp insisted that advertising on Tumblr differ from the model of Google, Facebook, or Twitter. Those companies engaged in "hyper-hyper-targeting of little blue links."[6] They were focused on getting a consumer to click on a link after he or she had already decided to purchase something. Karp wanted to affect attitudes and emotions earlier in the process, in the way brand advertisers did on TV and in magazines.

Unlike other major social networks, Tumblr's platform was designed to deliver the types of artistic and creative expression brand advertisers had long used to form emotional bonds with consumers. The opportunity was huge. Almost all of the $50 billion spent on brand messaging was still spent on traditional media.

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[4] Allan Roth, "Did Marissa Mayer pay too much for Tumblr?," *Inc.*, May 21, 2013.
[5] Peter Kafka, "Yes, Yahoo Is Going to Run More Ads on Tumblr, Says Marissa Mayer," AllThingsD, May 20, 2013, http://allthingsd.com/20130520/yes-yahoo-is-going-to-run-more-ads-on-tumblr-says-marissa-mayer (accessed Jul. 20, 2013).
[6] Jeff Bercovici, "Tumblr: David Karp's $800 Million Art Project," *Forbes*, January 2, 2013.

The Comparables

In its announcement of the Tumblr acquisition, Yahoo emphasized that Tumblr had "more than 300 million monthly unique visitors." But this number was misleading to many industry because it included short-stay visitors who were less valuable to advertisers. The common metrics reported by social networks such as Facebook and Twitter were monthly active users (MAU) and daily active users (DAU).[7] Despite this industry standard, Tumblr declined to make its active-users numbers publicly available.

Nonetheless, a source familiar with the company estimated that Tumblr's MAU was 30 million to 50 million at the time of the acquisition.[8] This number was far behind Facebook's 1.056 billion monthly users in the fourth quarter of 2012. In terms of traffic, however, the comparison was not as bleak. According to Quantcast.com,[9] an estimated 136 million people in the United States accessed Facebook's site in May 2013, whereas 45 million people in the United States accessed Tumblr's site over the same time period. (See Facebook's and Tumblr's U.S. traffic numbers in **Exhibits 2** and **3**, respectively). Because Tumblr was an open network, a person could access the site without registering (or logging on) as a user.

Aside from active users and traffic, another big concern for Yahoo was Tumblr's average revenue per user (ARPU). Facebook's ARPU was $1.54 in the fourth quarter of 2012.[10] (For more data on Facebook's active users and revenues, see **Exhibit 4**.) Considering Tumblr's high-engagement community, could Yahoo expect to see higher ARPU from Tumblr? What numbers—for active users and revenue per user—justified the acquisition of Tumblr? How many users did a person accessing the Tumblr site equate to?

Investors were eager to know the answer to these questions, and estimates of Tumblr's revenue growth and valuation were popping up everywhere. One published report valued the company as high as $11.4 billion and as low as $300 million, depending on its growth in revenue.[11] (**Exhibit 5** provides a preliminary valuation model based on forecasted growth in people worldwide accessing Tumblr and how advertising to those people might convert into revenue.) Projecting forward the trailing year's average monthly growth rate of 1.52% and using some comparable metrics from Facebook, the value of Tumblr stood at $1.23 billion. Had Mayer paid too much?

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[7] Facebook defined a monthly active user (MAU) as a registered user who logged in and visited, or took an action to share content or activity with his or her Facebook friends or connections via a third-party website, in the past 30 days from the date of measurement. Facebook defined a daily active user (DAU) as the average number of daily active users over the month ended.

[8] Peter Kafka, "How Many Users Does Tumblr Really Have?," May 21, 2013, AllThingsD, http://allthingsd.com/20130521/how-many-users-does-tumblr-really-have (accessed Jul. 20, 2013).

[9] Quantcast is a free provider of information about website traffic.

[10] Facebook defined ARPU as total revenue in a given geography during a given quarter, divided by the average of the number of MAUs in the geography at the beginning and end of the quarter.

[11] Roth.

Exhibit 1

YAHOO'S ACQUISITION OF TUMBLR

Tumblr's Worldwide Monthly Direct Audience Measurements

Date	Uniques	People	Visits	Page Views	Mobile Web
Apr-10	25,349,036	19,020,118	69,837,544	1,015,761,920	
May-10	28,001,532	21,096,692	75,802,128	1,061,456,128	
Jun-10	30,279,004	22,496,896	86,279,520	1,265,348,480	
Jul-10	33,237,588	24,571,154	96,291,688	1,470,884,480	
Aug-10	37,326,484	27,744,680	105,718,912	1,664,430,976	
Sep-10	40,863,800	30,076,088	119,718,336	1,854,833,792	
Oct-10	43,169,608	31,175,164	134,986,816	2,291,991,808	
Nov-10	47,188,576	33,880,472	150,272,848	2,823,663,104	
Dec-10	49,037,412	34,924,704	160,452,736	3,311,109,376	
Jan-11	57,963,812	41,301,888	188,368,416	4,086,928,384	
Feb-11	66,005,040	47,274,360	209,648,432	4,557,380,608	
Mar-11	71,810,592	51,564,920	225,196,544	4,985,839,616	
Apr-11	81,144,880	58,317,276	252,242,864	6,072,128,512	
May-11	86,220,960	61,791,824	269,872,768	6,633,003,520	
Jun-11	92,864,688	65,738,312	302,446,528	8,395,395,584	
Jul-11	96,766,816	68,923,552	307,647,744	11,171,966,976	
Aug-11	102,736,800	72,821,928	331,085,056	11,710,914,560	
Sep-11	103,348,104	73,609,824	327,252,672	11,661,173,760	
Oct-11	108,685,128	78,024,504	333,555,968	12,117,823,488	
Nov-11	115,729,016	82,445,192	363,336,992	13,037,852,672	8,937,000
Dec-11	128,263,416	92,087,096	388,764,448	14,020,779,008	11,940,532
Jan-12	141,254,192	102,296,752	411,443,200	15,470,049,280	13,382,846
Feb-12	150,845,248	109,841,544	427,660,064	15,600,432,128	14,279,108
Mar-12	144,538,016	104,106,168	428,548,096	14,919,027,712	14,945,914
Apr-12	159,860,096	115,758,448	459,963,648	16,286,919,680	17,206,288
May-12	157,223,536	113,899,360	452,455,072	14,786,557,952	16,491,142
Jun-12	150,399,104	108,543,472	440,980,480	15,352,449,024	15,773,518
Jul-12	156,465,760	112,769,072	459,181,536	15,903,661,056	19,840,210
Aug-12	166,808,528	120,256,160	485,624,512	14,668,607,488	22,140,054
Sep-12	172,062,880	124,390,192	493,932,928	13,998,592,000	26,643,136
Oct-12	184,667,216	134,480,224	510,799,456	15,234,562,048	29,179,220
Nov-12	201,892,656	147,525,568	543,773,824	16,674,483,200	31,805,100
Dec-12	197,982,400	145,602,464	521,876,704	16,516,643,840	35,192,792
Jan-13	200,280,768	146,146,144	543,114,240	16,718,012,416	39,517,752
Feb-13	188,579,824	140,544,144	475,777,344	14,677,705,728	38,900,468
Mar-13	184,908,016	136,447,584	485,839,744	13,837,069,312	34,973,080
Apr-13	191,476,128	138,832,112	536,019,584	12,958,793,728	38,361,680
May-13	186,668,560	136,477,904	507,532,928	13,379,749,888	36,820,980

Notes: *Uniques* is the number of mobile app users and online cookies for a property. *People* is the estimated number of people worldwide accessing a property. *Visits* is the number of individual sessions initiated by all the visitors to this property. *Page views* is the number of views of all the pages on this property (a *page view* is an instance of a page being loaded by browser).

Data source: Quantcast, "Tumblr Blog Network," https://www.quantcast.com/tumblr.com (accessed Jul. 2, 2013).

Exhibit 2

YAHOO'S ACQUISITION OF TUMBLR

Facebook's U.S. Monthly Direct Audience Measurements

Date	People
Jul-12	145,777,103
Aug-12	139,508,214
Sep-12	141,196,660
Oct-12	137,726,205
Nov-12	139,210,657
Dec-12	148,516,293
Jan-13	147,933,108
Feb-13	140,478,327
Mar-13	136,060,033
Apr-13	135,590,141
May-13	136,019,729

Data source: Quantcast, "facebook.com," https://www.quantcast.com/facebook.com (accessed Jul. 2, 2013).

Exhibit 3

YAHOO'S ACQUISITION OF TUMBLR

Tumblr's U.S. Monthly Direct Audience Measurements

Date	Uniques	People	Visits	Page Views	Mobile Web
Apr-10	11,747,588	8,600,926	34,796,176	532,647,872	
May-10	12,914,020	9,512,435	37,296,948	540,280,000	
Jun-10	14,354,238	10,510,566	42,186,288	654,634,432	
Jul-10	15,894,178	11,502,011	48,489,672	796,054,976	
Aug-10	17,272,078	12,490,288	52,623,392	890,989,632	
Sep-10	17,885,260	12,697,970	58,042,416	949,975,680	
Oct-10	19,543,620	13,682,499	66,247,812	1,152,758,272	
Nov-10	21,255,462	14,876,519	71,802,024	1,447,996,160	
Dec-10	22,123,400	15,356,831	76,648,040	1,690,287,104	
Jan-11	25,477,372	17,550,350	89,743,976	2,118,378,496	
Feb-11	28,364,152	19,523,976	99,431,752	2,301,165,568	
Mar-11	29,950,706	20,740,012	102,498,712	2,364,452,352	
Apr-11	34,169,012	23,773,100	113,756,472	2,810,123,008	
May-11	36,050,592	25,171,076	117,920,304	2,968,192,000	
Jun-11	40,038,036	27,704,266	133,635,544	3,952,461,312	
Jul-11	40,949,852	28,396,444	135,301,744	5,467,986,944	
Aug-11	44,451,040	30,696,310	147,535,040	5,917,330,432	
Sep-11	42,893,172	29,613,140	143,125,744	5,623,397,888	
Oct-11	46,817,692	32,875,280	145,261,392	5,818,850,816	
Nov-11	49,344,704	34,233,752	158,779,904	6,554,800,640	4,943,055
Dec-11	57,633,760	40,312,588	175,415,744	7,086,670,848	6,839,828
Jan-12	61,393,312	43,024,632	183,317,312	7,819,784,192	7,277,295
Feb-12	67,097,468	47,092,508	195,438,784	7,951,558,656	7,895,209
Mar-12	63,050,392	43,849,896	192,582,272	7,478,280,704	7,844,614
Apr-12	68,296,408	47,386,080	206,870,112	8,044,654,080	9,040,642
May-12	64,585,808	44,912,904	196,377,040	7,095,313,920	8,086,736
Jun-12	56,125,740	38,781,812	179,469,056	7,408,085,504	7,251,678
Jul-12	58,482,312	40,276,592	187,893,504	7,788,696,576	9,483,424
Aug-12	64,687,680	44,583,532	203,155,888	7,209,520,128	11,566,846
Sep-12	64,473,264	44,356,548	203,986,736	6,655,901,184	14,002,496
Oct-12	70,097,672	48,589,760	211,806,912	6,908,087,808	15,271,290
Nov-12	76,352,304	53,148,696	222,232,528	7,668,860,416	16,365,916
Dec-12	73,579,872	51,739,476	207,906,144	7,529,568,256	18,129,978
Jan-13	75,785,400	52,908,104	218,539,888	7,615,451,648	20,719,080
Feb-13	71,321,712	51,339,176	185,091,632	6,657,366,016	19,871,920
Mar-13	65,020,200	45,887,920	186,736,064	6,036,355,072	17,604,548
Apr-13	67,315,776	46,370,232	209,991,264	5,391,501,824	18,301,324
May-13	64,252,544	44,818,252	193,385,728	5,611,339,776	17,250,052

Data source: https://www.quantcast.com/tumblr.com.

Exhibit 4

YAHOO'S ACQUISITION OF TUMBLR

Facebook's Active User and Revenue Data

Worldwide

Quarter	Advertising	Payments and Other Fees	Total Revenue	MAU	DAU	DAU/MAU	ARPU
2010:Q3				550			
2010:Q4	$655	$76	$731	608	327	54%	$1.26
2011:Q1	$637	$94	$731	680	372	55%	$1.14
2011:Q2	$776	$119	$895	739	417	56%	$1.26
2011:Q3	$798	$156	$954	800	457	57%	$1.24
2011:Q4	$943	$188	$1,131	845	483	57%	$1.38
2012:Q1	$872	$186	$1,058	901	526	58%	$1.21
2012:Q2	$992	$192	$1,184	955	552	58%	$1.28
2012:Q3	$1,086	$176	$1,262	1007	584	58%	$1.29
2012:Q4	$1,329	$256	$1,585	1056	618	59%	$1.54

U.S. and Canada

Quarter	Advertising	Payments and Other Fees	Total Revenue	MAU	DAU	DAU/MAU	ARPU
2010:Q3				144			
2010:Q4	$359	$53	$412	154	99	64%	$2.77
2011:Q1	$332	$62	$394	163	105	64%	$2.49
2011:Q2	$394	$77	$471	169	117	69%	$2.84
2011:Q3	$395	$87	$482	176	124	70%	$2.79
2011:Q4	$462	$105	$567	179	126	70%	$3.19
2012:Q1	$419	$106	$525	183	129	70%	$2.90
2012:Q2	$479	$111	$590	186	130	70%	$3.20
2012:Q3	$538	$99	$637	189	132	70%	$3.40
2012:Q4	$631	$149	$780	193	135	70%	$4.08

Note: All numbers in millions except DAU/MAU and ARPU.

Data source: Facebook annual report, 2012, 44–47, http://investor.fb.com/annuals.cfm (accessed Sep. 4, 2014).

Exhibit 5

YAHOO'S ACQUISITION OF TUMBLR

Preliminary Tumblr Valuation Model

Assumptions			*Notes*
Growth in People Worldwide		1.52%	Monthly growth rate in people worldwide accessing Tumblr's site
Decline in People, U.S.		1.67%	Straightline decline until Facebook's 18% is reached in year 10
People-to-User Equivalency		2.0	People required to generate the revenue of a traditional social network user
Increase in Rev/UE, U.S.	$	0.30	Straightline increase in revenue; UE: user equivalent
Increase in Rev/UE, ROW	$	0.03	Straightline increase in revenue; ROW: rest of world
Cash Margin Percent		31.7%	From Facebook's 2012 annual report
Engagement Multiplier		4.5	Facebook users spend 6.75 hours to Tumblr's 1.5 hours per month[1]
Discount Rate		10%	Weighted-average cost of capital
Perpetuity Growth Rate		3%	Growth rate in cash flows expected after year 10

Valuation Model

		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
People Worldwide (in millions)		145	167	201	240	288	345	414	496	594	712
Percentage of U.S. People		33%	31%	30%	28%	26%	25%	23%	21%	20%	18%
People, U.S.		48	52	60	67	76	85	95	106	117	128
People, ROW		97	115	141	173	212	260	319	390	477	584
User Equivalents, U.S.		24	26	30	34	38	43	48	53	58	64
User Equivalents, ROW		49	58	71	87	106	130	159	195	239	292
FB Revenue/User, U.S. (2012)	$	13.58	$13.88	$14.18	$14.48	$14.78	$15.08	$15.38	$15.68	$15.98	$16.28
FB Revenue/User, ROW (2012)	$	3.21	$ 3.24	$ 3.27	$ 3.30	$ 3.33	$ 3.36	$ 3.39	$ 3.42	$ 3.45	$ 3.48
Revenues (in millions)	$	62	$ 122	$ 145	$ 172	$ 203	$ 240	$ 283	$ 333	$ 390	$ 458
Operating Cash Flows	$	20	$ 39	$ 46	$ 54	$ 64	$ 76	$ 90	$ 105	$ 124	$ 145
Terminal Value											$ 2,132
Total Cash Flows	$	20	$ 39	$ 46	$ 54	$ 64	$ 76	$ 90	$ 105	$ 124	$ 2,277
Firm Value (in millions)	$	1,230									

Note: Revenues in 2013 are for seven months (June through December).

[1] Lauren Indvik, "Users Stay Longer on Tumblr than Facebook, Says David Karp," Mashable, April 17, 2013, http://mashable.com/2013/04/17/users-stay-longer-on-tumblr-than-facebook (accessed Aug. 25, 2014).

Source: Created by case writers.