

# YAHOO!

## Q3'15 FINANCIAL HIGHLIGHTS

October 20, 2015

This presentation contains forward-looking statements concerning the expected financial performance of Yahoo! Inc. and its consolidated subsidiaries (“we,” “Yahoo” or the “Company”) and Yahoo’s strategic and operational plans. Risks and uncertainties may cause actual results to differ materially from the results predicted, and reported results should not be considered as an indication of future performance. The potential risks and uncertainties include, among others, possible delays or failure in satisfying conditions to completion of our proposed spin-off of our remaining stake in Alibaba Group into a newly-formed registered investment company; other factors related to the spin-off, including adverse regulatory developments or determinations or adverse changes in, or interpretations of, U.S. or foreign tax laws, rules or regulations, that could delay or prevent completion of the proposed spin-off or cause the terms of the proposed spin-off to be modified; risks related to realization of the expected benefits of the spin-off to Yahoo and its shareholders; risks related to acceptance by users of new products and services (including, without limitation, products and services for mobile devices and alternative platforms); risks related to Yahoo’s ability to compete with new or existing competitors; reduction in spending by, or loss of, advertising customers; risks associated with the Search and Advertising Services and Sales Agreement (the “Search Agreement”) between Yahoo and Microsoft Corporation (“Microsoft”); risks related to acquiring or developing compelling content; risks related to joint ventures and the integration of acquisitions; risks related to possible impairment of goodwill or other assets; risks related to Yahoo’s ability to protect its intellectual property and the value of its brands; adverse results in litigation; security breaches; interruptions or delays in the provision of Yahoo’s services; risks related to Yahoo’s regulatory environment; risks related to fluctuations in foreign currency exchange rates; risks related to Yahoo’s international operations; dependence on third parties for technology, services, content, and distribution; risks related to the calculation of our key operational metrics; and general economic conditions. All information in this presentation is as of October 20, 2015. Yahoo does not intend, and undertakes no duty, to update this information to reflect subsequent events or circumstances; however, Yahoo may update its business outlook, or any portion thereof, at any time in its discretion. More information about potential risk factors that could affect Yahoo’s business and financial results is included in Yahoo’s filings with the Securities and Exchange Commission (“SEC”) including its Quarterly Report on Form 10-Q for the quarter ended June 30, 2015, which is available on the SEC’s web site at [www.sec.gov](http://www.sec.gov).

Throughout this presentation, we have rounded numbers as appropriate. In this presentation, “year-over-year” (y/y or YOY) refers to the change from the corresponding period in the prior fiscal year to the specified period in the specified year; and “quarter-over-quarter” (or QOQ) refers to the change from the immediately preceding fiscal quarter to the specified quarter.

We periodically review, refine, and update our methodologies for monitoring, gathering, and counting numbers of paid clicks and ads sold, and for calculating search click-driven revenue, price-per-click, and price-per-ad. Based on this process, from time to time we may update such methodologies. Prior period amounts have been revised to conform to the current presentation.

Yahoo and the Yahoo logos are trademarks and/or registered trademarks of Yahoo! Inc. Tumblr is a registered trademark of Tumblr, Inc. All other names are trademarks and/or registered trademarks of their respective owners.

## Definitions and Non-GAAP Financial Measures

This presentation includes the following defined terms and non-GAAP financial measures:

- **Adjusted EBITDA** is defined as net earnings before taxes; depreciation; amortization of intangible assets; stock-based compensation expense; other income, net (which includes interest); earnings in equity interests; net income attributable to noncontrolling interests; and other gains, losses, and expenses that we do not believe are indicative of our ongoing results.
- **Alibaba Group** means Alibaba Group Holding Limited, and **"IPO"** means Alibaba Group's initial public offering of American Depositary Shares ("**ADS**"), in which Yahoo was a selling shareholder, and which was completed on September 24, 2014.
- **Display revenue ex-TAC** is defined as GAAP display revenue less display TAC that has been recorded as a cost of revenue. **Search revenue ex-TAC** is defined as GAAP search revenue less search TAC that has been recorded as a cost of revenue. **Other revenue ex-TAC** is defined as GAAP other revenue less other TAC that has been recorded as a cost of revenue.
- **Free cash flow** is defined as net cash provided by (used in) operating activities (adjusted to include excess tax benefits from stock-based awards), less acquisition of property and equipment, net (i.e. acquisition of property and equipment less proceeds received from disposition of property and equipment) and dividends received from equity investee.
- **Gross search revenue** is defined as GAAP search revenue plus the related revenue share with third parties. **Gross mobile revenue** is defined as GAAP mobile revenue plus the related revenue share with third parties.
- **Net earnings** is defined as GAAP net income (loss) attributable to Yahoo! Inc.
- **Non-GAAP cash expenses** is defined as GAAP total operating expenses excluding cost of revenue - TAC, depreciation and amortization, stock-based compensation expense, other non-cash expenses (if any), and certain other cash expenses that we do not believe are indicative of our ongoing operating expenses.
- **Non-GAAP EPS (or non-GAAP net earnings per share) – diluted** is defined as non-GAAP net earnings divided by diluted shares outstanding.
- **Non-GAAP net earnings** is defined as net earnings (loss) excluding certain gains, losses, expenses, and their related tax effects, that we do not believe are indicative of our ongoing results and further adjusted to exclude stock-based compensation expense and its related tax effects.
- **Non-GAAP operating income** is defined as GAAP income (loss) from operations excluding certain gains, losses, and expenses that we do not believe are indicative of our ongoing operating results and further adjusted to exclude stock-based compensation expense.
- **Non-GAAP total operating expenses** is defined as GAAP total operating expenses excluding cost of revenue - TAC and certain other expenses that we do not believe are indicative of our ongoing operating expenses and further adjusted to exclude stock-based compensation expense.
- **Revenue ex-TAC** is defined as GAAP revenue less TAC that has been recorded as a cost of revenue.
- **RPS guarantee** refers to Microsoft's obligation under the Search Agreement, as amended, to guarantee the Company's revenue per search in transitioned markets for certain specified periods, or to provide fixed quarterly payments in lieu thereof.
- **TAC** refers to traffic acquisition costs. TAC consists of payments to third-party entities ("**Affiliates**") that have integrated Yahoo's advertising offerings into their websites or other offerings (those websites and other offerings, "**Affiliate sites**") and payments made to companies that direct consumer and business traffic to Yahoo Properties.
- **Total operating expenses less TAC** is defined as GAAP total operating expenses excluding TAC that has been recorded as a cost of revenue.
- **Yahoo Properties** refers to the online properties and services that Yahoo provides to users.

Please refer to the Appendix for reconciliations of the non-GAAP financial measures to the GAAP financial measures the Company considers most comparable.

In addition, certain margin information is presented on a non-GAAP basis:

- **Adjusted EBITDA margin ex-TAC** is calculated as adjusted EBITDA divided by revenue ex-TAC;
- **Income from operations margin ex-TAC** is calculated as income (loss) from operations divided by revenue ex-TAC;
- **Net margin ex-TAC** is calculated as net earnings (loss) divided by revenue ex-TAC; and
- **Non-GAAP operating income margin ex-TAC** is calculated as non-GAAP operating income divided by revenue ex-TAC.

3 Please refer to the Appendix for presentations of the most comparable margins calculated on a GAAP basis.

Please refer to the Company's earnings release for definitions of other terms appearing in this presentation, and for more information regarding the Company's non-GAAP financial measures.

**YAHOO!**

# Key Takeaways from Q3'15

- Revenue Growth
  - › GAAP revenue of \$1,226 million, an increase of 7% on a YoY basis.
  - › Search GAAP revenue increased 13% on a YoY basis.
  - › Display GAAP revenue increased 14% on a YoY basis.
- Mavens Growth (Mobile, Video, Native, Social)
  - › Mavens GAAP revenue of \$422 million, an increase of 43% on a YoY basis.
  - › Mobile GAAP revenue of \$271 million, an increase of 31% on a YoY basis.
- Solid Display Trends
  - › Display GAAP revenue of \$509 million with growing affiliate business
  - › Display TAC of \$104 million, resulting in display revenue ex-TAC of \$405 million.
  - › Price-per-Ad and number of Ads Sold each increased 8% YoY.
- Adjusted EBITDA of \$244 million and non-GAAP operating income of \$92 million
- Non-GAAP cash expenses came in at \$758 million, the lowest since Q3'13 (excluding benefit from patent sales).

# Financials and Key Metrics at a Glance (\$ in millions, except per share amounts)

	Q3'14	Q3'15	YOY
GAAP revenue	\$1,148	\$1,226	7%
Revenue ex-TAC	\$1,094	\$1,002	(8%)
Adjusted EBITDA	\$306	\$244	(20%)
Income (loss) from operations <i>Income from operations margin ex-TAC</i>	\$42 4%	(\$86) (9%)	(305%) (1,300bps)
Non-GAAP operating income <i>Non-GAAP operating income margin ex-TAC</i>	\$156 14%	\$92 9%	(41%) (500 bps)
Earnings in equity interests	\$399	\$95	(76%)
Net earnings <i>Net margin ex-TAC</i>	\$6,774 <sup>(1)</sup> N/M	\$76 8%	(99%) N/M
EPS attributable to Yahoo! Inc. – diluted	\$6.70	\$0.08	(99%)
Shares used in per share calculation – diluted	1,008	947	(6%)
Non-GAAP EPS – diluted	\$0.52	\$0.15	(70%)
Acquisition of property and equipment, net	\$112	\$150	34%
Free cash flow	\$212	\$18	(92%)
Cash and marketable securities <sup>(2)</sup>	\$12,251 <sup>(3)</sup>	\$6,822	(44%)
Headcount	12,500	10,700	(14%)

(1) Includes a gain from the sale of Alibaba Group ADSs in the IPO of \$6.3 billion, net of tax.

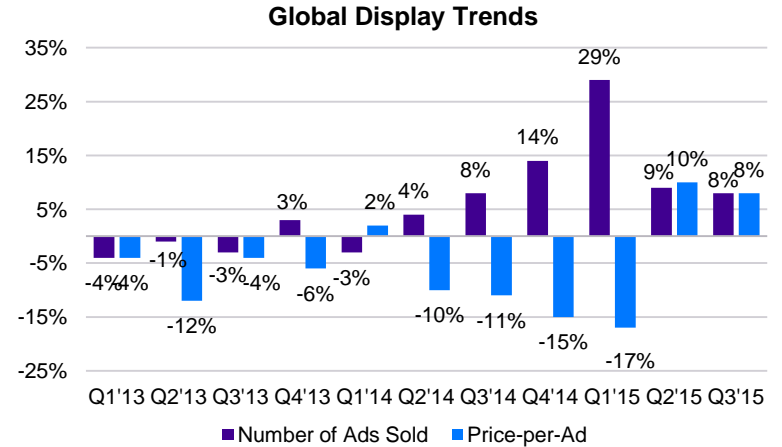
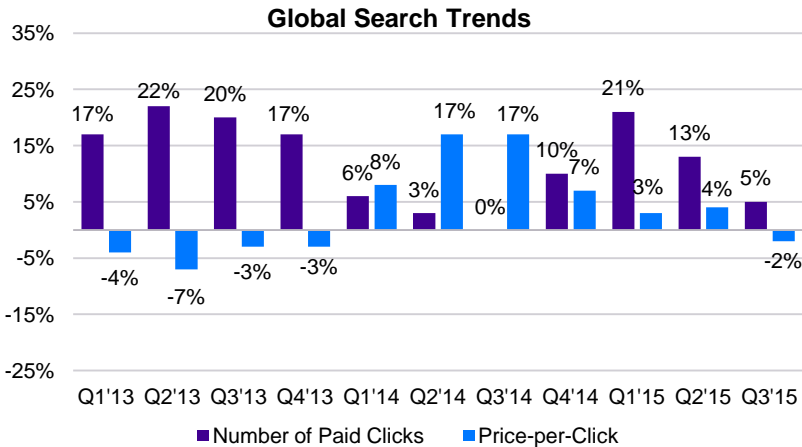
(2) Excludes the Company's remaining investment in Alibaba Group equity securities.

(3) In Q3'14, cash and marketable securities (a) increased as a result of our receipt of \$9.4 billion in cash, pre-tax, from our sale of Alibaba Group ADSs in the IPO, and (b) decreased as a result of our pre-payment of \$1.1 billion under an accelerated share repurchase agreement, among other factors.

**YAHOO!**

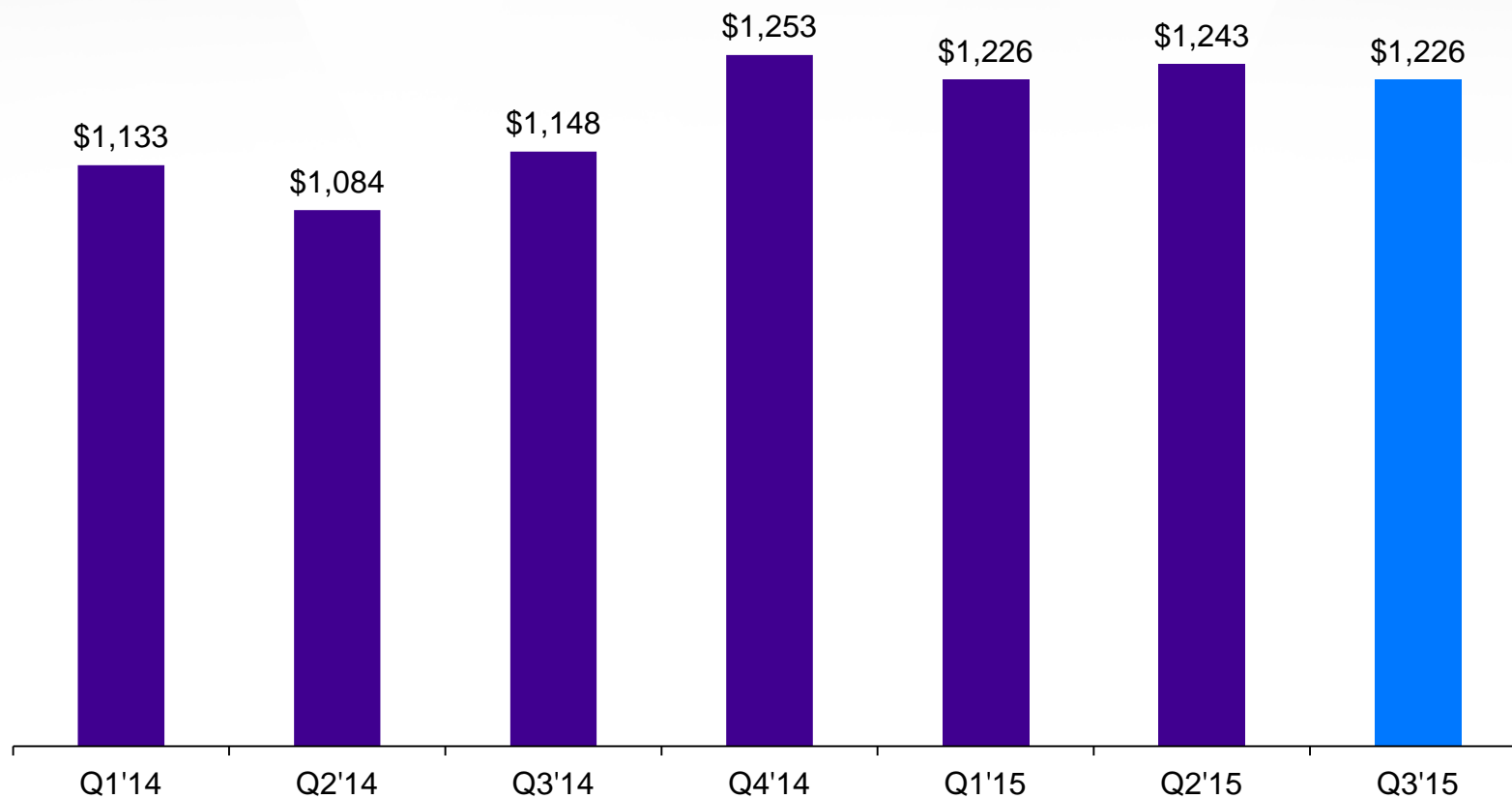
# Search and Display Metrics

YOY % Growth	Q1'13	Q2'13	Q3'13	Q4'13	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>Global Search<sup>(1)</sup></b>											
Number of Paid Clicks <sup>(2)</sup>	17%	22%	20%	17%	6%	3%	0%	10%	21%	13%	5%
Price-per-Click ("PPC") <sup>(3)</sup>	(4%)	(7%)	(3%)	(3%)	8%	17%	17%	7%	3%	4%	(2%)
Search click-driven revenue <sup>(4)</sup>	13%	14%	17%	14%	14%	20%	18%	18%	24%	17%	3%
<b>Global Display<sup>(1) (5)</sup></b>											
Number of Ads Sold <sup>(6)</sup>	(4%)	(1%)	(3%)	3%	(3%)	4%	8%	14%	29%	9%	8%
Price-per-Ad ("PPA") <sup>(7)</sup>	(4%)	(12%)	(4%)	(6%)	2%	(10%)	(11%)	(15%)	(17%)	10%	8%

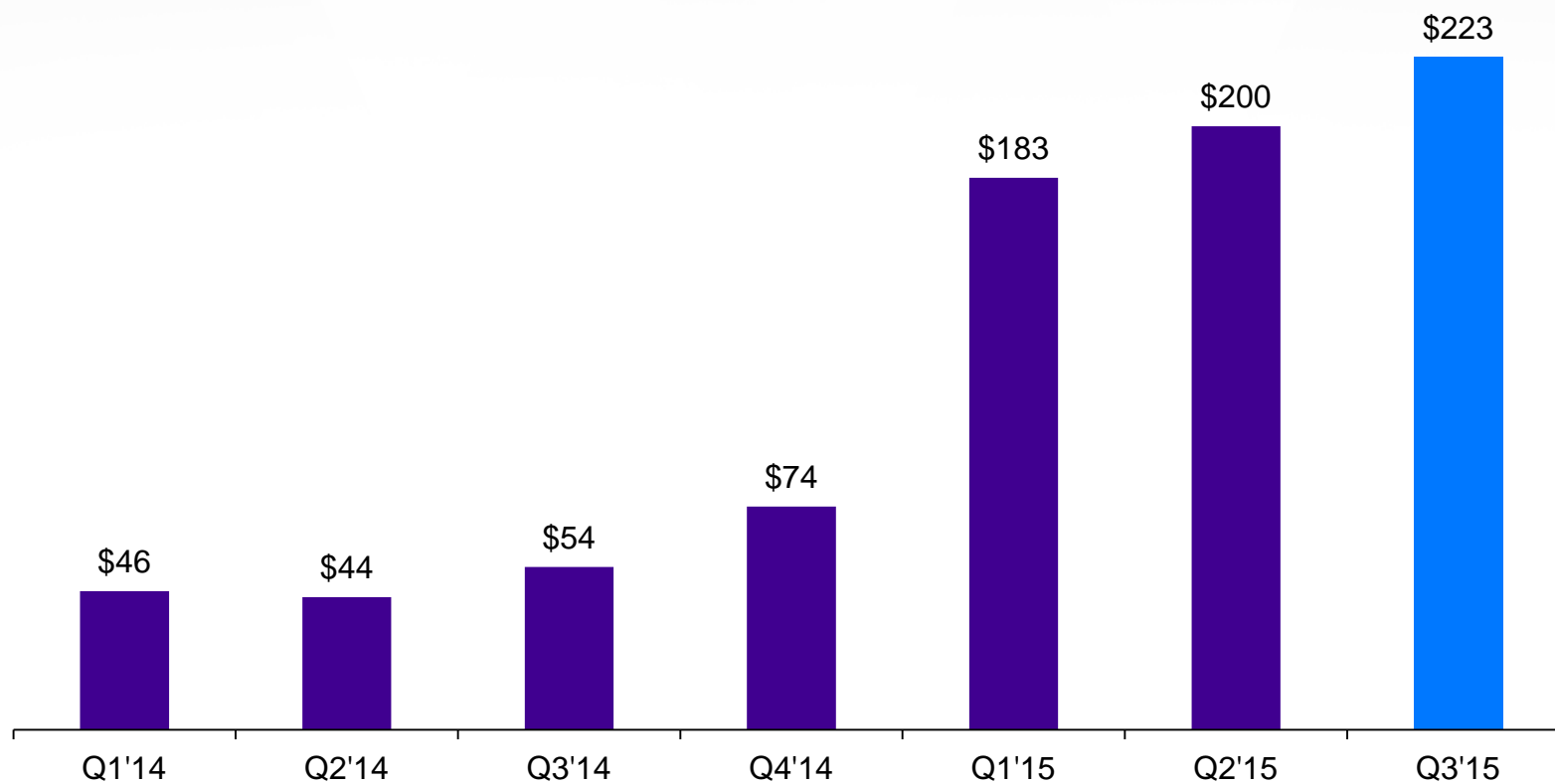


- (1) Source: Internal data from Yahoo Properties (including mobile) and Affiliate sites (including Affiliates of Flurry and BrightRoll); excludes China and Japan (where Yahoo-branded sites have been operated by third-party licensees). Year over year growth for 2013 excludes the Korean market, due to the closure of our Korea business in Q4'12.
- (2) "Paid Clicks" are clicks by end-users on sponsored search listings (excluding native ads).
- (3) "Price-per-Click" is defined as Search click-driven revenue divided by our total number of Paid Clicks.
- (4) "Search click-driven revenue" is gross search revenue excluding the Microsoft RPS guarantee and search revenue from Yahoo Japan.
- (5) Display metrics include data for graphical, sponsorship, and native ad units. Commencing in Q1'15, our methodology for calculating the display metrics takes into account (a) results from certain countries and regions previously excluded due to historical data incompatibility, (b) results from Affiliate sites (including Affiliates of Flurry and BrightRoll); and (c) certain historical Tumblr data. Prior period amounts have been updated to conform to the current presentation.
- (6) "Ads Sold" consist of display ad impressions for paying advertisers.
- (7) "Price-per-Ad" is defined as display revenue divided by our total number of Ads Sold.

## GAAP Revenue Trends (*\$ in millions*)

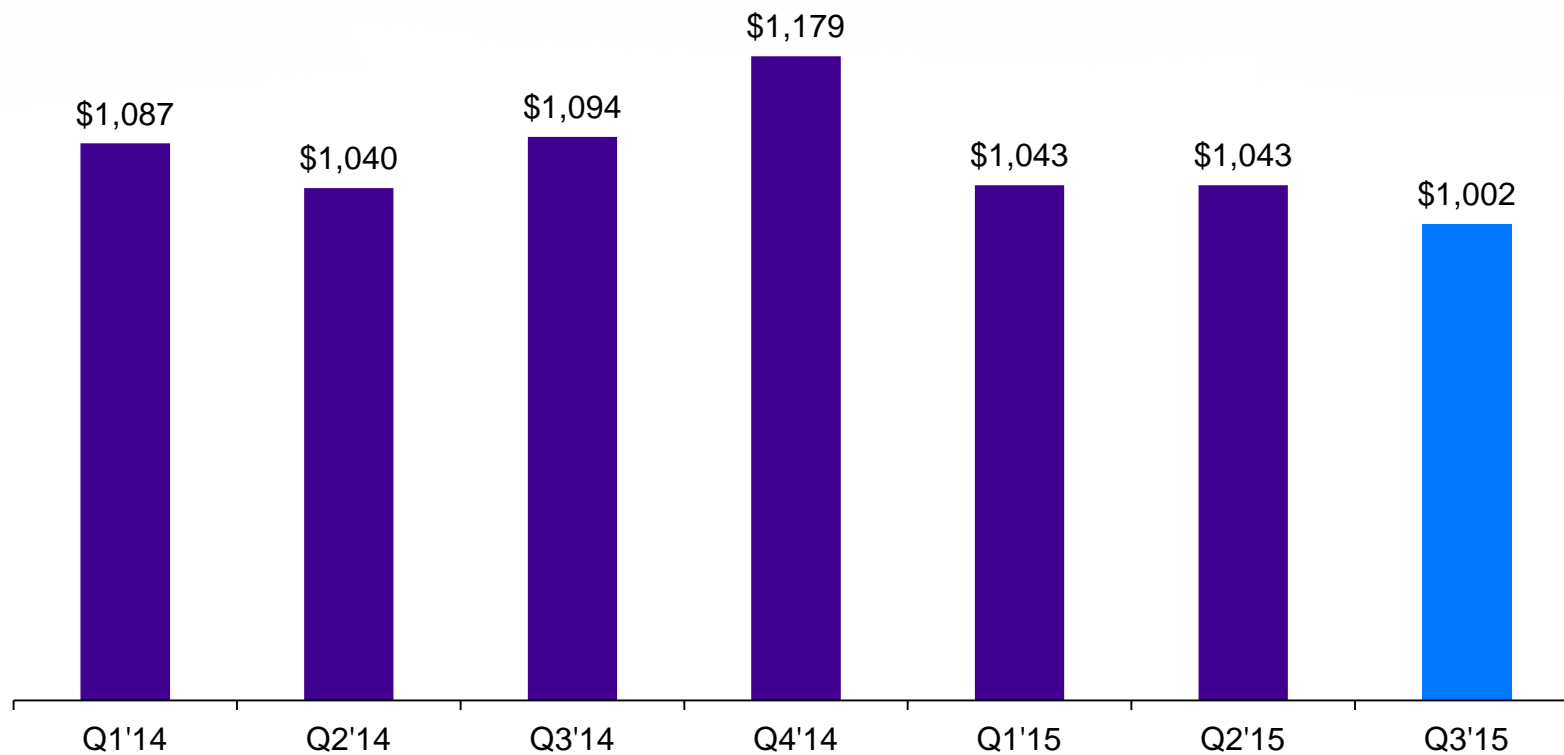


## Cost of Revenue - TAC Trends (*\$ in millions*)



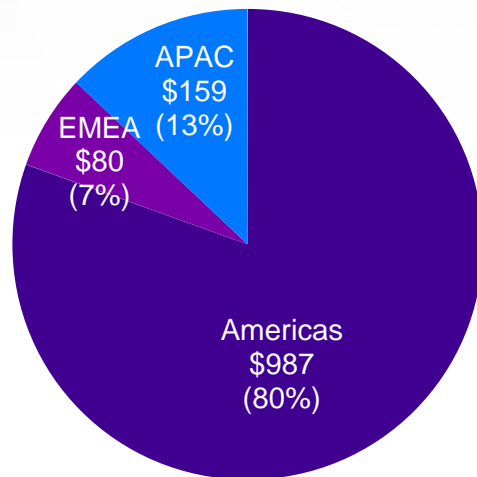


## Revenue ex-TAC Trends (*\$ in millions*)



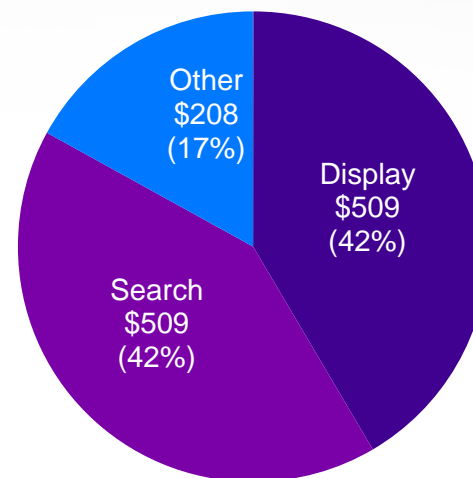
# GAAP Revenue by Geography & Source (\$ in millions)

## Geography

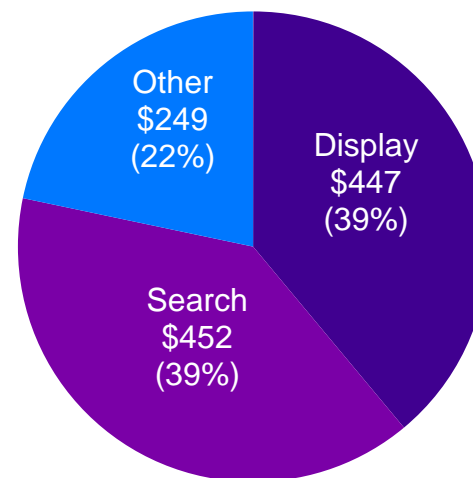
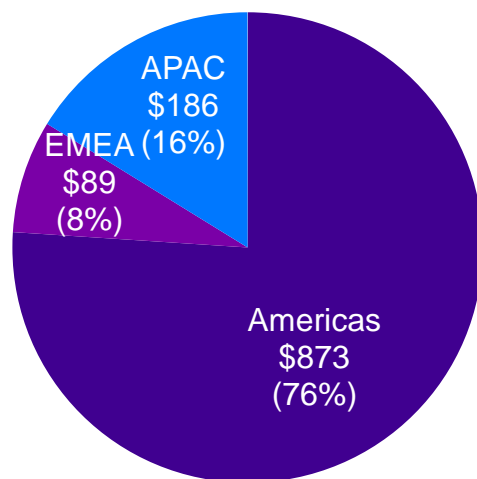


**Q3'15 = \$1,226**

## Source



**Q3'14 = \$1,148**



# Revenue by Source

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
GAAP Search revenue	\$445	\$428	\$452	\$467	\$532	\$521	\$509
Search revenue ex-TAC	\$444	\$428	\$450	\$462	\$432	\$415	\$390
GAAP Display revenue	\$453	\$436	\$447	\$532	\$464	\$500	\$509
Display Revenue ex-TAC	\$409	\$394	\$396	\$464	\$381	\$407	\$405
GAAP Other revenue	\$235	\$220	\$249	\$254	\$231	\$222	\$208
Other revenue ex-TAC	\$234	\$219	\$248	\$253	\$230	\$221	\$207
GAAP Total revenue	\$1,133	\$1,084	\$1,148	\$1,253	\$1,226	\$1,243	\$1,226
Total revenue ex-TAC	\$1,087	\$1,040	\$1,094	\$1,179	\$1,043	\$1,043	\$1,002

YOY % Growth	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
GAAP Search revenue	5%	2%	4%	1%	20%	22%	13%
Search revenue ex-TAC	9%	6%	6%	0%	(3%)	(3%)	(13%)
GAAP Display revenue	0%	(8%)	(5%)	(4%)	2%	15%	14%
Display revenue ex-TAC	2%	(7%)	(6%)	(5%)	(7%)	3%	2%
GAAP Other revenue	(10%)	(10%)	6%	2%	(2%)	1%	(17%)
Other revenue ex-TAC	(11%)	(10%)	6%	2%	(2%)	1%	(16%)
GAAP Total revenue	(1%)	(4%)	1%	(1%)	8%	15%	7%
Total revenue ex-TAC	1%	(3%)	1%	(2%)	(4%)	0%	(8%)

# Geographic Segment Data *(\$ in millions)*

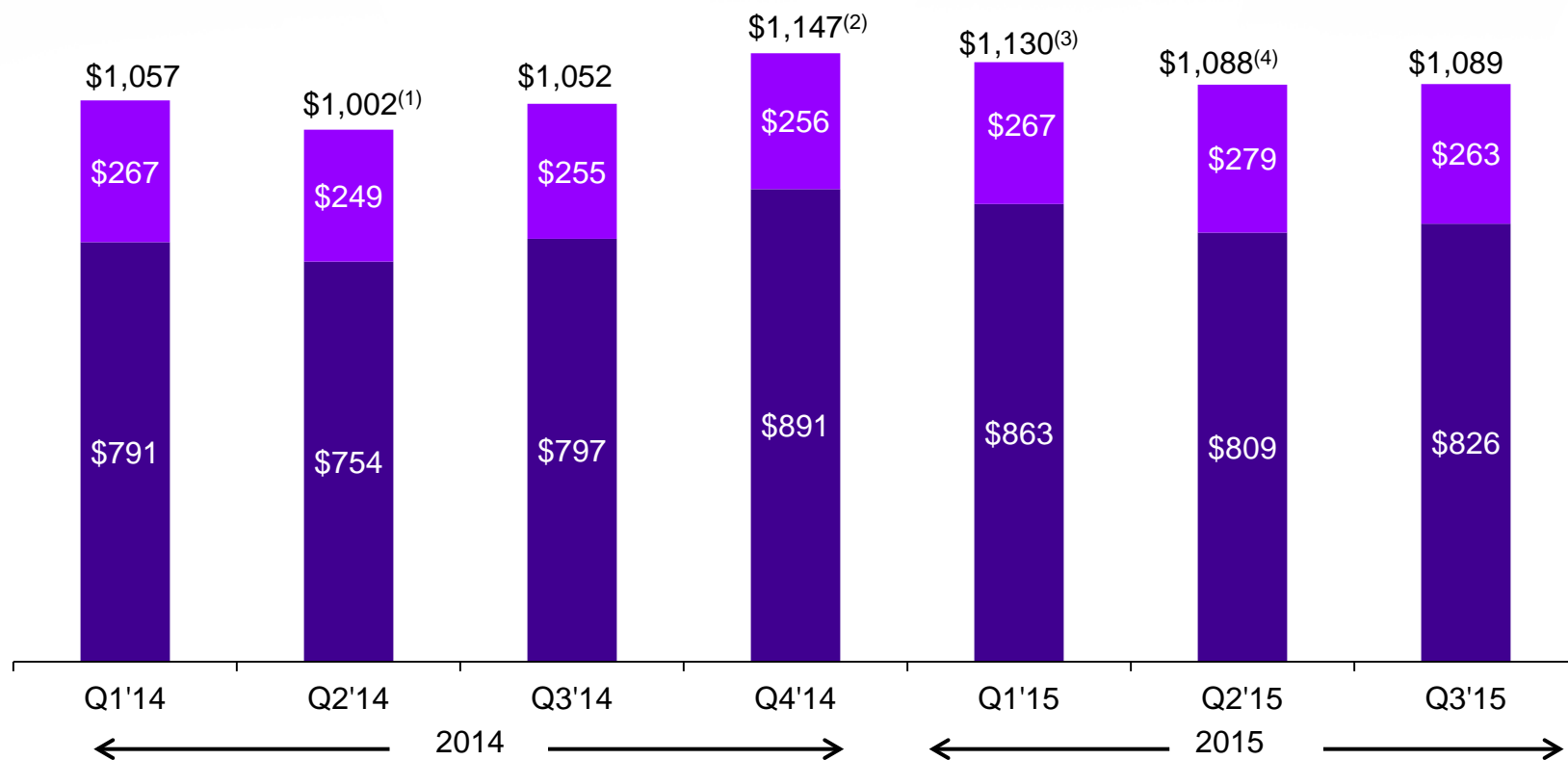
	Q3'14	Q3'15	YOY
<b>Americas</b>			
GAAP Revenue	\$873	\$987	13%
Revenue ex-TAC	\$831	\$786	(5%)
Direct costs <sup>(1)</sup>	<u>\$67</u>	<u>\$85</u>	27%
<b>Contribution</b>	<b>\$764</b>	<b>\$701</b>	<b>(8%)</b>
Americas contribution margin <sup>(2)</sup>	92%	89%	(300 bps)
<b>EMEA (Europe, Middle East, and Africa)</b>			
GAAP Revenue	\$89	\$80	(11%)
Revenue ex-TAC	\$81	\$67	(18%)
Direct costs <sup>(1)</sup>	<u>\$23</u>	<u>\$23</u>	0%
<b>Contribution</b>	<b>\$58</b>	<b>\$44</b>	<b>(25%)</b>
EMEA contribution margin <sup>(2)</sup>	71%	65%	(600 bps)
<b>Asia Pacific (APAC)</b>			
GAAP Revenue	\$186	\$159	(15%)
Revenue ex-TAC	\$182	\$150	(18%)
Direct costs <sup>(1)</sup>	<u>\$54</u>	<u>\$47</u>	(12%)
<b>Contribution</b>	<b>\$128</b>	<b>\$103</b>	<b>(20%)</b>
Asia Pacific contribution margin <sup>(2)</sup>	70%	69%	(100 bps)

(1) Direct costs for each segment include certain cost of revenue-other and costs associated with the local sales teams. Prior to Q4'14, marketing, media, costs associated with Yahoo Properties and ad operation costs were managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation

(2) Contribution margin is calculated as contribution divided by revenue ex-TAC for each segment.

# Total Operating Expenses less TAC (*\$ in millions*)

■ Depreciation, Amortization, and Stock-based compensation expense



(1) Excluding a \$62 million benefit from patent sales, Q2'14 would have been \$1,064 million.

(2) Excluding a \$35 million benefit from patent sales, Q4'14 would have been \$1,182 million.

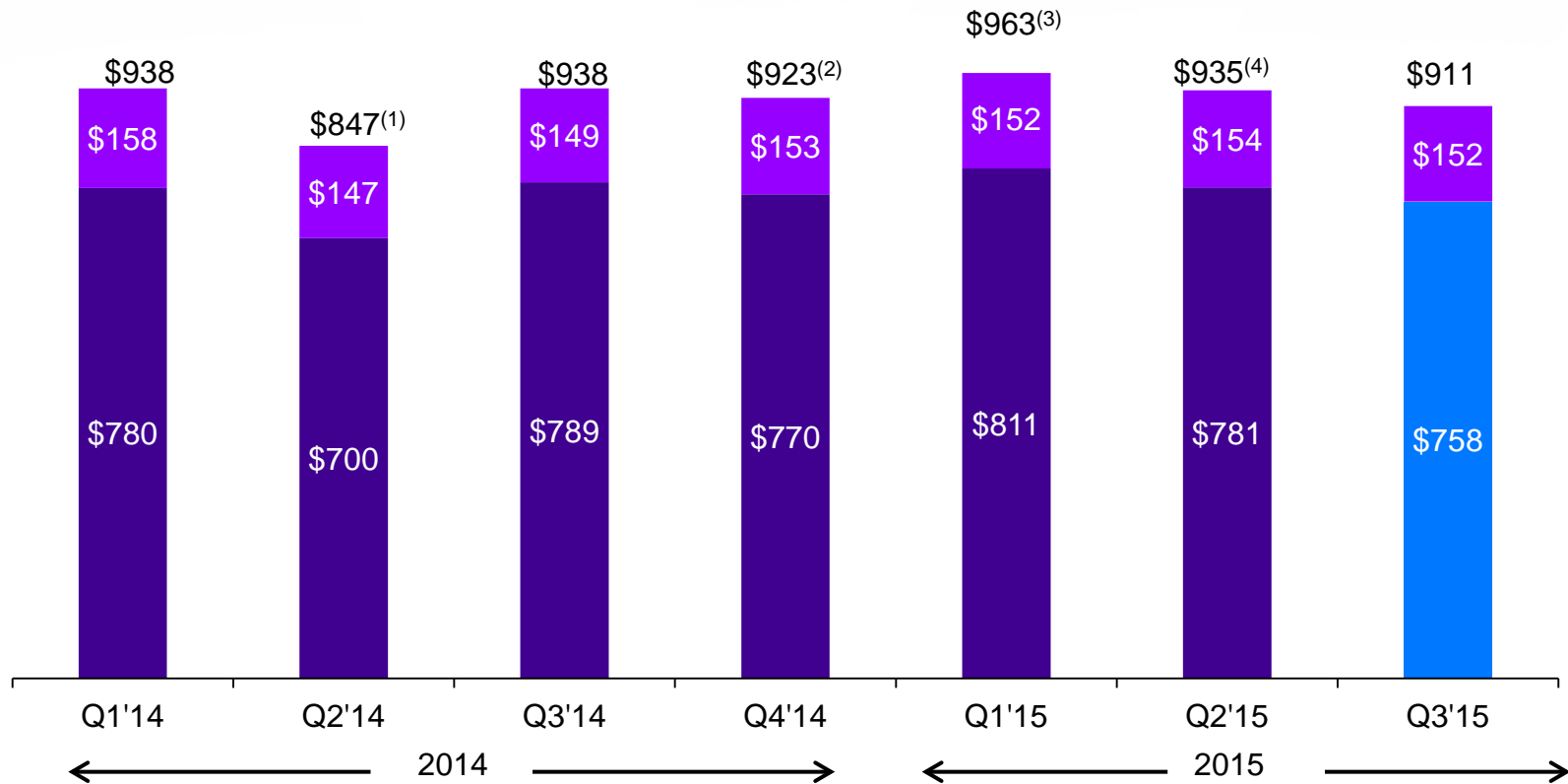
(3) Excluding a \$2 million benefit from patent sales, Q1'15 would have been \$1,132 million.

(4) Excluding a \$9 million benefit from patent sales, Q2'15 would have been \$1,097 million.

Please see Appendix Table 4 for certain other items impacting total operating expenses.

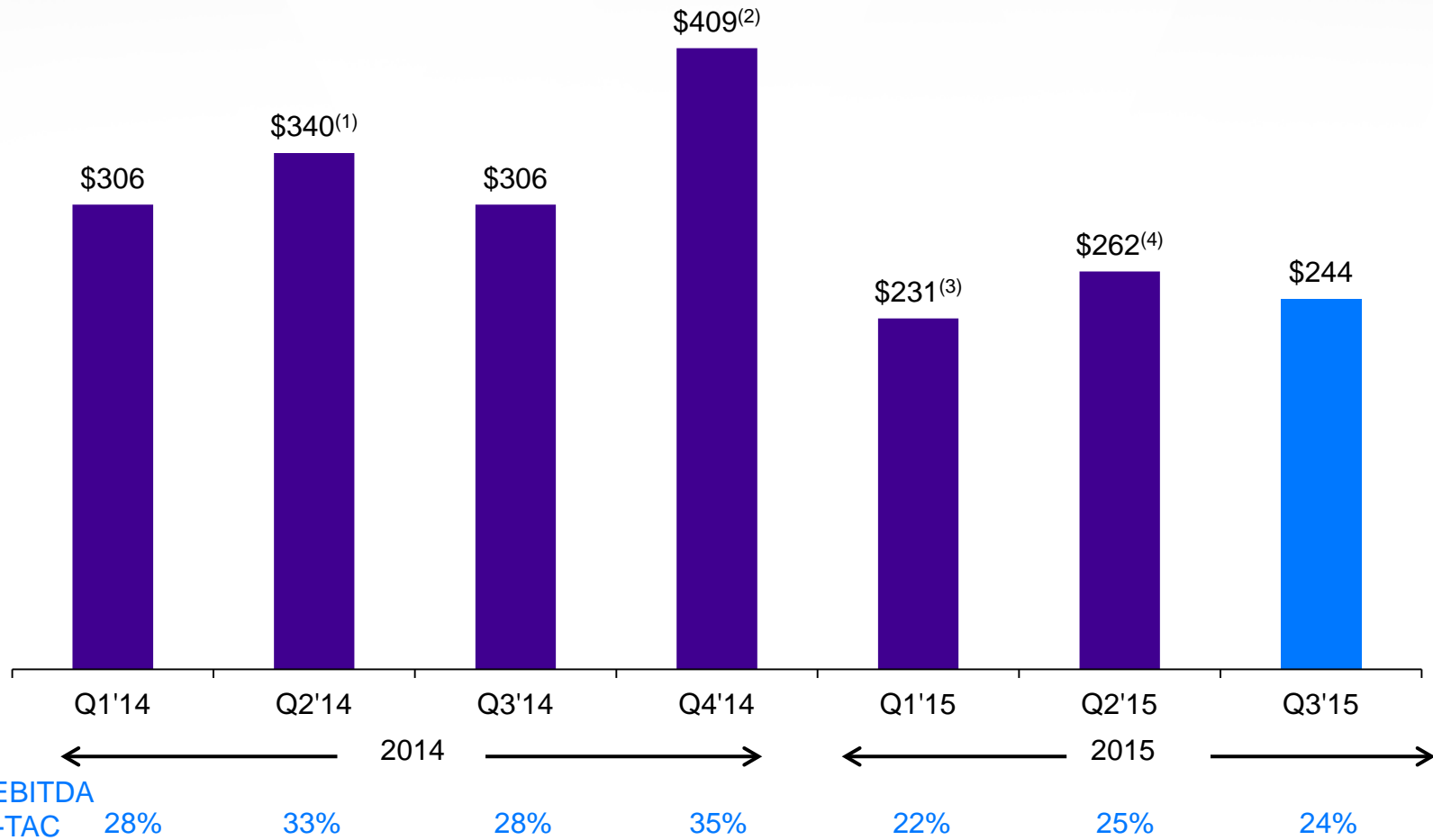
# Non-GAAP Total Operating Expenses (*\$ in millions*)

■ Non-GAAP Cash Expenses    ■ Depreciation and Amortization



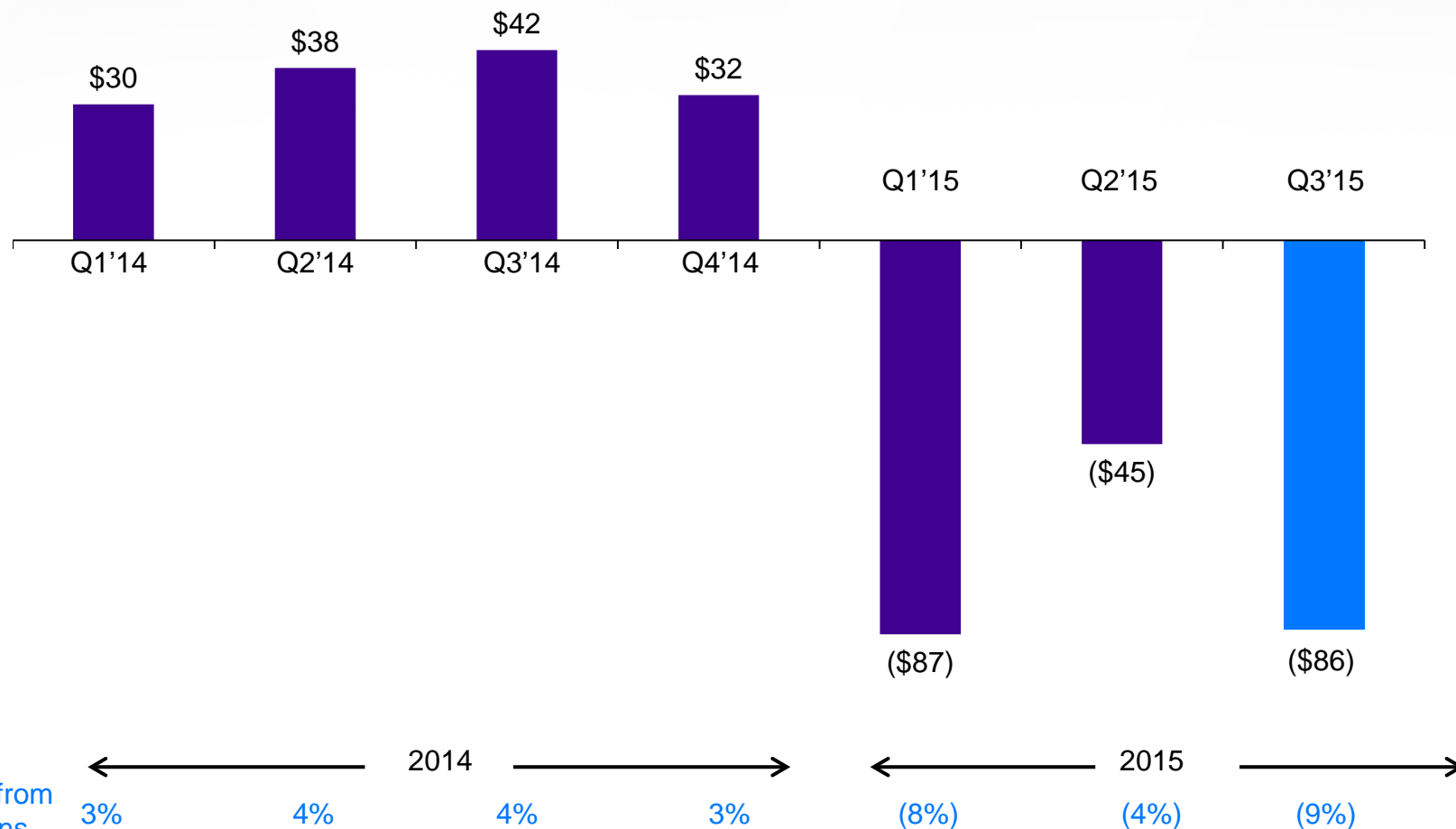
- (1) Excluding a \$62 million benefit from patent sales, Q2'14 would have been \$909 million.
- (2) Excluding a \$35 million benefit from patent sales, Q4'14 would have been \$958 million.
- (3) Excluding a \$2 million benefit from patent sales, Q1'15 would have been \$965 million.
- (4) Excluding a \$9 million benefit from patent sales, Q2'15 would have been \$944 million.

# Adjusted EBITDA (\$ in millions)



- (1) Excluding a \$62 million benefit from patent sales, Q2'14 would have been \$278 million.
- (2) Excluding a \$35 million benefit from patent sales, Q4'14 would have been \$374 million.
- (3) Excluding a \$2 million benefit from patent sales, Q1'15 would have been \$229 million.
- (4) Excluding a \$9 million benefit from patent sales, Q2'15 would have been \$253 million.

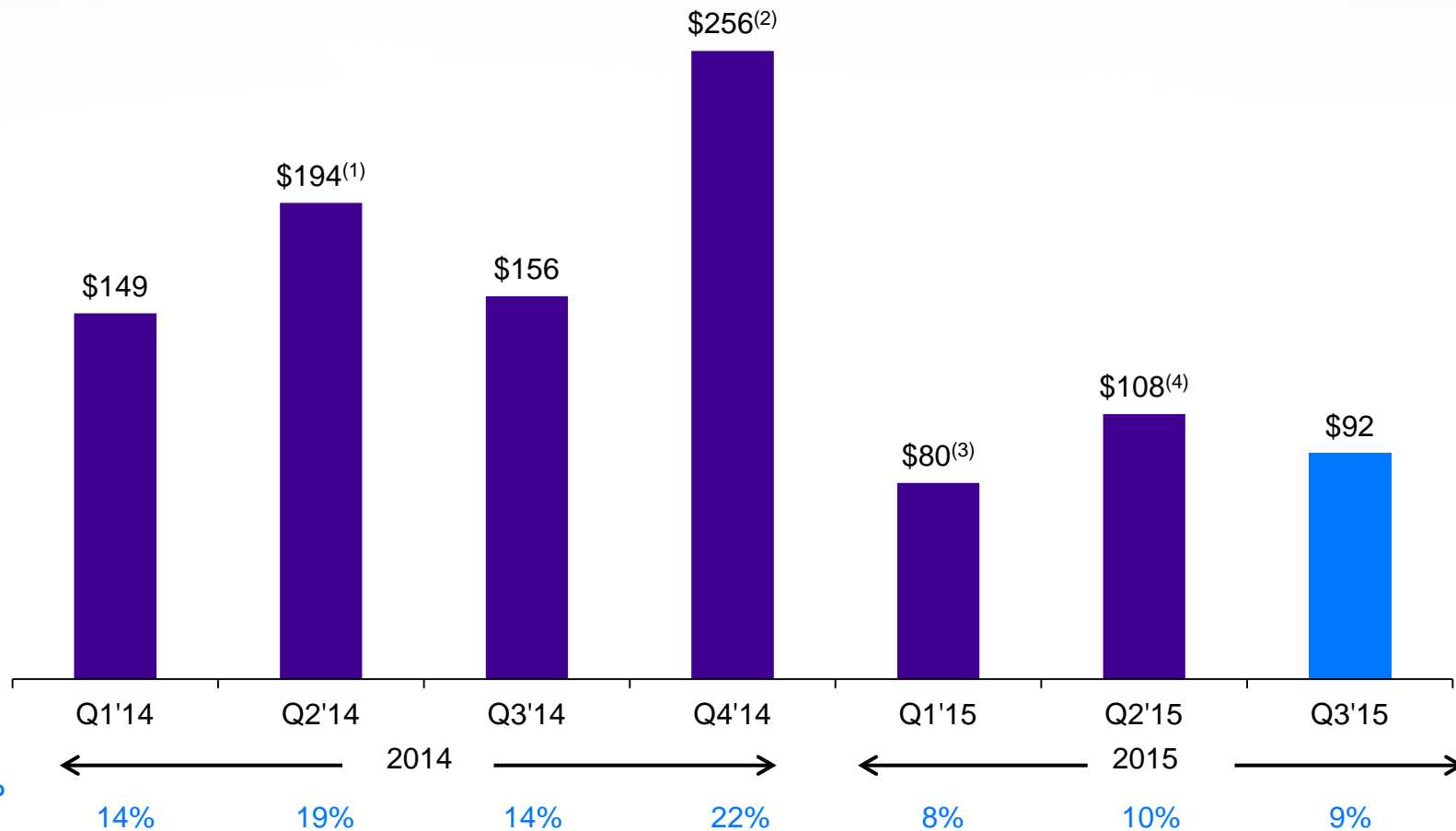
# GAAP Income (Loss) from Operations (*\$ in millions*)



Income from operations margin ex-TAC



# Non-GAAP Operating Income (*\$ in millions*)



- (1) Excluding a \$62 million benefit from patent sales, Q2'14 would have been \$132 million.
- (2) Excluding a \$35 million benefit from patent sales, Q4'14 would have been \$221 million.
- (3) Excluding a \$2 million benefit from patent sales, Q1'15 would have been \$78 million.
- (4) Excluding a \$9 million benefit from patent sales, Q2'15 would have been \$117 million.

Non-GAAP  
operating  
income margin  
ex-TAC

## Key Balance Sheet Metrics *(\$ in millions)*

	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>Assets</b>							
Cash and marketable securities <sup>(1)</sup>	\$4,571	\$4,311	\$12,251 <sup>(2)</sup>	\$10,222	\$6,907 <sup>(3)</sup>	\$6,994	\$6,822
Accounts receivable, net	\$880	\$824	\$831	\$1,033	\$924	\$1,000	\$980
Property and equipment, net	\$1,479	\$1,470	\$1,484	\$1,488	\$1,484	\$1,525	\$1,590
Investment in Alibaba Group <sup>(1)</sup>	–	–	\$34,080	\$39,868	\$31,928	\$31,556	\$22,619
Total assets	\$16,593	\$16,457	\$57,298	\$61,952	\$50,492	\$50,192	\$41,135
<b>Liabilities and Equity</b>							
Current deferred revenue	\$291	\$288	\$415	\$337	\$271	\$202	\$140
Taxes payable related to sale of Alibaba Group ADSs	–	–	\$3,282	\$3,282	–	–	–
Total current liabilities	\$1,195	\$1,194	\$4,378 <sup>(4)</sup>	\$4,523 <sup>(4)</sup>	\$1,398	\$1,407	\$1,349
Total equity	\$12,963	\$12,731	\$36,754	\$38,786	\$33,704	\$33,564	\$28,279
Total liabilities and equity	\$16,593	\$16,457	\$57,298	\$61,952	\$50,492	\$50,192	\$41,135

(1) For presentation purposes, our remaining investment in Alibaba Group is presented separately from other marketable securities. Prior to the Alibaba Group IPO in Q3'14, our investment in Alibaba Group was classified within investments in equity interests. As a result of the IPO, our remaining interests (comprising approximately 15% of Alibaba Group's outstanding ordinary shares) were reclassified as available-for-sale marketable securities (subject to a lock-up agreement for one year from the IPO) and are marked to market each quarter.

(2) In Q3'14, cash and marketable securities (a) increased as a result of our receipt of \$9.4 billion in cash, pre-tax, from our sale of Alibaba Group ADSs in the IPO, and (b) decreased as a result of our pre-payment of \$1.1 billion under an accelerated share repurchase agreement, among other factors.

(3) In Q1'15, cash and marketable securities decreased primarily because we satisfied the \$3.3 billion income tax liability related to the sale of Alibaba Group ADSs in the IPO.

(4) In Q3'14 and Q4'14, current liabilities included a \$3.3 billion income tax liability, which we satisfied in Q1'15, related to our sale of Alibaba Group ADSs in 2014.

## Key Cash Flow Highlights (*\$ in millions*)

	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
Net cash provided by (used in) operating activities	\$139	\$357	\$289	\$111	(\$2,937)	\$308	\$137
Acquisition of property and equipment, net	(\$85)	(\$107)	(\$112)	(\$68)	(\$135)	(\$155)	(\$150)
Dividends received from equity investee	–	(\$84)	–	–	–	(\$142)	–
Excess tax benefits from stock-based awards	\$60	\$20	\$35	\$35	\$37	(\$36)	\$32
Free cash flow	\$114	\$186	\$212	\$78	(\$3,035) <sup>(1)</sup>	(\$25)	\$18
Acquisitions, net of cash acquired	\$22	–	\$292	\$545	\$23	(\$2)	\$153
Repurchases of common stock	\$450	\$719	\$1,382 <sup>(2)</sup>	\$1,613 <sup>(3)</sup>	\$204	–	–

(1) In Q1'15 we satisfied the \$3.3 billion income tax liability related to the sale of Alibaba Group ADSs in 2014.

(2) The Company repurchased approximately 8 million shares of its common stock in Q3'14 at an average price of \$36.76 per share for \$282 million. In addition, in Q3'14 the Company entered into an accelerated share repurchase ("ASR") agreement under which it prepaid \$1.1 billion and received an initial delivery of approximately 15 million shares on September 30, 2014. Final settlement occurred on October 17, 2014, resulting in a total of approximately 23.5 million shares repurchased for \$933 million. The Company received a return of cash for the remaining amount not settled in shares of \$167 million.

(3) In Q4'14 the Company entered into a second ASR agreement (which settled in Q4'14) under which the Company repurchased approximately 16 million shares at an average price of \$48.89 for \$800 million. Excluding ASR transactions, during Q4'14 the Company repurchased approximately 22 million shares at an average price of \$45.26 per share for \$980 million. The Q4'14 amount shown in the table reflects these transactions, net of the return of cash from the Q3'14 ASR agreement described in note (2).

## Business Outlook (*\$ in millions*)

	Q4'15 Current Outlook
GAAP revenue	\$1,160 - \$1,200
Cost of revenue - TAC	\$240
Revenue ex-TAC	\$920– \$960
Adjusted EBITDA	\$160 – \$200
Non-GAAP operating income	\$10 – \$50

Note: The above business outlook is based on information and expectations as of October 20, 2015. Yahoo does not intend, and undertakes no duty, to update this business outlook to reflect subsequent events or circumstances; however, Yahoo may update this business outlook or any portion thereof at any time at its discretion.

# Appendix

# Table 1 – Revenue ex-TAC by Segment

## Reconciliations of GAAP Revenue to Revenue ex-TAC

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>Americas</b>							
GAAP revenue	\$867	\$806	\$873	\$972	\$985	\$992	\$987
TAC	<u>(34)</u>	<u>(30)</u>	<u>(43)</u>	<u>(60)</u>	<u>(167)</u>	<u>(181)</u>	<u>(202)</u>
<b>Revenue ex-TAC</b>	<b>\$833</b>	<b>\$775</b>	<b>\$831</b>	<b>\$913</b>	<b>\$818</b>	<b>\$811</b>	<b>\$786</b>
<b>EMEA</b>							
GAAP revenue	\$92	\$98	\$89	\$96	\$81	\$86	\$80
TAC	<u>(9)</u>	<u>(10)</u>	<u>(8)</u>	<u>(9)</u>	<u>(12)</u>	<u>(13)</u>	<u>(13)</u>
<b>Revenue ex-TAC</b>	<b>\$82</b>	<b>\$88</b>	<b>\$81</b>	<b>\$87</b>	<b>\$69</b>	<b>\$73</b>	<b>\$67</b>
<b>Asia Pacific</b>							
GAAP revenue	\$174	\$181	\$186	\$185	\$160	\$165	\$159
TAC	<u>(3)</u>	<u>(3)</u>	<u>(4)</u>	<u>(5)</u>	<u>(5)</u>	<u>(6)</u>	<u>(9)</u>
<b>Revenue ex-TAC</b>	<b>\$172</b>	<b>\$177</b>	<b>\$182</b>	<b>\$180</b>	<b>\$155</b>	<b>\$159</b>	<b>\$150</b>
<b>Worldwide</b>							
GAAP revenue	\$1,133	\$1,084	\$1,148	\$1,253	\$1,226	\$1,243	\$1,226
TAC	<u>(46)</u>	<u>(44)</u>	<u>(54)</u>	<u>(74)</u>	<u>(183)</u>	<u>(200)</u>	<u>(223)</u>
<b>Revenue ex-TAC</b>	<b>\$1,087</b>	<b>\$1,040</b>	<b>\$1,094</b>	<b>\$1,179</b>	<b>\$1,043</b>	<b>\$1,043</b>	<b>\$1,002</b>

# Table 2 – Revenue Details

## Reconciliations of GAAP Revenue to Revenue ex-TAC by Source

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>Search</b>							
GAAP search revenue	\$445	\$428	\$452	\$467	\$532	\$521	\$509
YOY growth	5%	2%	4%	1%	20%	22%	13%
Search TAC	<u>1</u>	<u>(1)</u>	<u>(3)</u>	<u>(5)</u>	<u>(100)</u>	<u>(106)</u>	<u>(119)</u>
<b>Search revenue ex-TAC</b>	<b>\$444</b>	<b>\$428</b>	<b>\$450</b>	<b>\$462</b>	<b>\$432</b>	<b>\$415</b>	<b>\$390</b>
<b>Display</b>							
GAAP display revenue	\$453	\$436	\$447	\$532	\$464	\$500	\$509
YOY growth	0%	(8%)	(5%)	(4%)	2%	15%	14%
Display TAC	<u>(44)</u>	<u>(42)</u>	<u>(51)</u>	<u>(68)</u>	<u>(82)</u>	<u>(94)</u>	<u>(104)</u>
<b>Display revenue ex-TAC</b>	<b>\$409</b>	<b>\$394</b>	<b>\$396</b>	<b>\$464</b>	<b>\$381</b>	<b>\$407</b>	<b>\$405</b>
<b>Other</b>							
GAAP other revenue	\$235	\$220	\$249	\$254	\$231	\$222	\$208
YOY growth	(10%)	(10%)	6%	2%	(2%)	1%	(17%)
Other TAC	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>	<u>(1)</u>
<b>Other revenue ex-TAC</b>	<b>\$234</b>	<b>\$219</b>	<b>\$248</b>	<b>\$253</b>	<b>\$230</b>	<b>\$221</b>	<b>\$207</b>
<b>Total</b>							
GAAP revenue	\$1,133	\$1,084	\$1,148	\$1,253	\$1,226	\$1,243	\$1,226
YOY growth	(1%)	(4%)	1%	(1%)	8%	15%	7%
TAC	<u>(46)</u>	<u>(44)</u>	<u>(54)</u>	<u>(74)</u>	<u>(183)</u>	<u>(200)</u>	<u>(223)</u>
<b>Revenue ex-TAC</b>	<b>\$1,087</b>	<b>\$1,040</b>	<b>\$1,094</b>	<b>\$1,179</b>	<b>\$1,043</b>	<b>\$1,043</b>	<b>\$1,002</b>

## Table 3 – Revenue and Direct Costs by Segment

\$ in millions	Q3'14	Q3'15
<b>Revenue by segment:</b>		
Americas	\$873	\$987
EMEA	89	80
Asia Pacific	<u>186</u>	<u>159</u>
<b>Total revenue</b>	<b>\$1,148</b>	<b>\$1,226</b>
TAC	<u>(54)</u>	<u>(223)</u>
<b>Total revenue ex-TAC</b>	<b>\$1,094</b>	<b>\$1,002</b>
<b>Direct costs by segment<sup>(1)</sup>:</b>		
Americas	\$67	\$85
EMEA	23	23
Asia Pacific	54	47
Global operating costs <sup>(2)</sup>	646	603
Asset impairment charge	-	42
Restructuring charges, net	8	26
Depreciation and amortization	149	152
Gain on sale of patents	(1)	-
Stock-based compensation expense	<u>106</u>	<u>110</u>
<b>Income (loss) from operations</b>	<b>\$42</b>	<b>(\$86)</b>

(1) Direct costs for each segment include certain cost of revenue-other and costs associated with the local sales teams. Prior to Q4'14, marketing, media, costs associated with Yahoo Properties and ad operation costs were managed locally and included as direct costs for each segment. Prior period amounts have been revised to conform to the current presentation.

(2) Global operating costs include product development, marketing, real estate workplace, general and administrative, and other corporate expenses that are managed on a global basis and that are not directly attributable to any particular segment. Beginning in Q4'14, marketing, media, costs associated with Yahoo Properties and other ad operation costs are managed globally and included as global costs. Prior period amounts have been revised to conform to the current presentation.

**YAHOO!**



## Table 4 – Total Operating Expenses

Reconciliations of GAAP Total Operating Expenses to Total Operating Expenses less TAC, Non-GAAP Total Operating Expenses, and Non-GAAP Cash Expenses

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>GAAP total operating expenses</b>	<b>\$1,103</b>	<b>1,046</b>	<b>\$1,106</b>	<b>\$1,221</b>	<b>\$1,313</b>	<b>\$1,288</b>	<b>\$1,312</b>
Less: Traffic acquisition costs	<u>(46)</u>	<u>(44)</u>	<u>(54)</u>	<u>(74)</u>	<u>(183)</u>	<u>(200)</u>	<u>(223)</u>
<b>Total operating expenses less TAC</b>	<b>\$1,057</b>	<b>\$1,002</b>	<b>\$1,052</b>	<b>\$1,147</b>	<b>\$1,130</b>	<b>\$1,088</b>	<b>\$1,089</b>
Less: Restructuring charges, net	9	53	8	33	51	20	26
Less: Stock-based compensation expense	109	102	106	103	116	125	110
Less: Asset impairment charge	–	–	–	–	–	–	42
Less: Advisory fees	–	–	–	–	–	8	–
Less: Goodwill impairment charge	=	=	=	<u>88</u>	=	=	=
<b>Non-GAAP total operating expenses</b>	<b>\$938</b>	<b>\$847<sup>(1)</sup></b>	<b>\$938</b>	<b>\$923<sup>(2)</sup></b>	<b>\$963<sup>(3)</sup></b>	<b>\$935<sup>(4)</sup></b>	<b>\$911</b>
Less: Depreciation and Amortization	158	147	149	153	152	154	152
<b>Non-GAAP cash expenses</b>	<b>\$780</b>	<b>\$700</b>	<b>\$789</b>	<b>\$770</b>	<b>\$811</b>	<b>\$781</b>	<b>\$758</b>

(1) Excluding a \$62 million benefit from patent sales, Q2'14 would have been \$909 million.

(2) Excluding a \$35 million benefit from patent sales, Q4'14 would have been \$958 million.

(3) Excluding a \$2 million benefit from patent sales, Q1'15 would have been \$965 million.

(4) Excluding a \$9 million benefit from patent sales, Q2'15 would have been \$944 million.

# Table 5 – Adjusted EBITDA

## Reconciliation of GAAP Net Earnings (Loss) to Adjusted EBITDA

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>GAAP net earnings (loss)</b>	<b>\$312</b>	<b>\$270</b>	<b>\$6,774</b>	<b>\$166</b>	<b>\$21</b>	<b>(\$22)</b>	<b>\$76</b>
(a) Advisory fees	-	-	-	-	-	8	-
(b) Depreciation and amortization	158	147	149	153	152	154	152
(c) Stock-based compensation expense	109	102	106	103	116	125	110
(d) Asset impairment charge	-	-	-	-	-	-	42
(e) Restructuring charges, net	9	53	8	33	51	20	26
(f) Other expense (income), net	13	14	(\$10,309) <sup>(1)</sup>	(88)	31	12	24
(g) (Provision) benefit for income taxes	4	8	3,973 <sup>(2)</sup>	52	(41)	59	(93)
(h) Earnings in equity interests	(301)	(256)	(399)	(102)	(100)	(96)	(95)
(i) Net income attributable to noncontrolling interests	2	3	2	3	1	2	2
(j) Goodwill impairment charge	-	-	-	88	-	-	-
<b>Adjusted EBITDA</b>	<b>\$306</b>	<b>\$340</b>	<b>\$306</b>	<b>\$409</b>	<b>\$231</b>	<b>\$262</b>	<b>\$244</b>
Adjusted EBITDA margin ex-TAC	28%	33%	28%	35%	22%	25%	24%
GAAP net margin <sup>(3)</sup>	28%	25%	N/M	13%	2%	(2%)	6%

(1) For Q3'14, other income, net includes a \$10.3 billion pre-tax gain related to the Alibaba Group IPO.

(2) For Q3'14, provision for income taxes includes \$3.3 billion related to the Company's sale of Alibaba Group ADSs.

(3) GAAP net margin is calculated as GAAP net earnings (loss) divided by GAAP revenue.

# Table 6 – Non-GAAP Operating Income

## Reconciliation of GAAP Income (Loss) from Operations to Non-GAAP Operating Income

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>GAAP income (loss) from operations</b>	<b>\$30</b>	<b>\$38</b>	<b>\$42</b>	<b>\$32</b>	<b>(\$87)</b>	<b>(\$45)</b>	<b>(\$86)</b>
(a) Restructuring charges, net	9	53	8	33	51	20	26
(b) Stock-based compensation expense	109	102	106	103	116	125	110
(c) Asset impairment charge	–	–	–	–	–	–	42
(d) Advisory fees	–	–	–	–	–	8	–
(e) Goodwill impairment charge	=	=	=	<u>88</u>	=	=	=
<b>Non-GAAP operating income</b>	<b>\$149</b>	<b>\$194</b>	<b>\$156</b>	<b>\$256</b>	<b>\$80</b>	<b>\$108</b>	<b>\$92</b>
GAAP operating income margin	3%	4%	4%	3%	(7%)	(4%)	(7%)
Non-GAAP operating income margin <sup>(1)</sup>	13%	18%	14%	20%	7%	9%	7%
Non-GAAP operating income margin ex-TAC	14%	19%	14%	22%	8%	10%	9%

(1) Non-GAAP operating income margin is calculated as Non-GAAP operating income divided by GAAP revenue.

## Table 7 – Free Cash Flow

### Reconciliation of GAAP Net Cash Provided by (Used in) Operating Activities to Free Cash Flow

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>GAAP net cash provided by (used in) operating activities</b>	<b>\$139</b>	<b>\$357</b>	<b>\$289</b>	<b>\$111</b>	<b>(\$2,937)</b>	<b>\$308</b>	<b>\$137</b>
Excess tax benefits from stock-based awards	60	20	35	35	37	(36)	32
Acquisition of property and equipment, net	(85)	(107)	(112)	(68)	(135)	(155)	(150)
Dividends received from equity investee	=	<u>(84)</u>	=	=	=	<u>(142)</u>	=
<b>Free cash flow</b>	<b>\$114</b>	<b>\$186</b>	<b>\$212</b>	<b>\$78</b>	<b>(\$3,035)<sup>(1)</sup></b>	<b>(\$25)</b>	<b>\$18</b>

(1) In Q1'15, we satisfied the \$3.3 billion income tax liability related to the sale of Alibaba Group ADSs in 2014.

# Table 8 – Non-GAAP Net Earnings Per Share

## Reconciliation of GAAP Net Earnings (Loss) and GAAP Net Earnings (Loss) Per Share – Diluted to Non-GAAP Net Earnings and Non-GAAP Net Earnings Per Share – Diluted

\$ in millions; except per share amounts	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>GAAP net earnings (loss)</b>	<b>\$312</b>	<b>\$270</b>	<b>\$6,774</b>	<b>\$166</b>	<b>\$21</b>	<b>(\$22)</b>	<b>\$76</b>
Adjustments	<u>90</u>	<u>112</u>	<u>6,231</u>	<u>127</u>	<u>124</u>	<u>174</u>	<u>69</u>
<b>Non-GAAP net earnings</b>	<b>\$402</b>	<b>\$382</b>	<b>\$543</b>	<b>\$293</b>	<b>\$145</b>	<b>\$153</b>	<b>\$146</b>
GAAP revenue	\$1,133	\$1,084	\$1,148	\$1,253	\$1,226	\$1,243	\$1,226
GAAP net margin <sup>(1)</sup>	28%	25%	N/M	13%	2%	(1%)	6%
Non-GAAP net margin <sup>(2)</sup>	35%	35%	47%	23%	12%	12%	12%
GAAP net earnings (loss) per share – diluted <sup>(3)</sup>	\$0.29	\$0.26	\$6.70	\$0.17	\$0.02	(\$0.02)	\$0.08
<b>Non-GAAP net earnings per share – diluted<sup>(4)</sup></b>	<b>\$0.38</b>	<b>\$0.37</b>	<b>\$0.52</b>	<b>\$0.30</b>	<b>\$0.15</b>	<b>\$0.16</b>	<b>\$0.15</b>
GAAP diluted shares outstanding	1,031	1,015	1,008	963	948	938 <sup>(5)</sup>	947
Non-GAAP diluted shares outstanding	1,031	1,015	1,008	963	948	948	947

(1) GAAP net margin is calculated as GAAP net earnings (loss) divided by GAAP revenue.

(2) Non-GAAP net margin is calculated as non-GAAP net earnings divided by GAAP revenue.

(3) The impact of outstanding stock awards of entities in which the Company holds equity interests that are accounted for using the equity method reduced the Company's diluted earnings per share by \$0.01 for Q1'14, \$0.01 for Q2'14, and \$0.02 for Q3'14.

(4) The impact of outstanding stock awards of entities in which the Company holds equity interests that are accounted for using the equity method reduced the Company's non-GAAP diluted earnings per share by \$0.01 for Q1'14, \$0.01 for Q2'14, and \$0.02 for Q3'14.

(5) For Q2'15, under GAAP the earnings per diluted share calculation is based on basic shares, because the Company recorded a net loss.

Note: All per share amounts are based on fully diluted share counts (except as described in Note (5)). Please refer to Appendix Table 9 for details on adjustments.

## Table 9 – Non-GAAP Net Earnings

### Reconciliation of GAAP Net Earnings (Loss) to Non-GAAP Net Earnings, with Details on Adjustments

\$ in millions	Q1'14	Q2'14	Q3'14	Q4'14	Q1'15	Q2'15	Q3'15
<b>GAAP net earnings (loss)</b>	<b>\$312</b>	<b>\$270</b>	<b>\$6,774</b>	<b>\$166</b>	<b>\$21</b>	<b>(\$22)</b>	<b>\$76</b>
(a) Restructuring charges, net	9	53	8	33	51	20	26
(b) Stock-based compensation expense	109	102	106	103	116	125	110
(c) Asset impairment charge	–	–	–	–	–	–	42
(d) Advisory fees	–	–	–	–	–	8	–
(e) Goodwill impairment charge	–	–	–	88	–	–	–
(f) Gain related to sale of Alibaba Group ADSs	–	–	(10,319)	–	–	–	–
(g) (Gain) loss on Hortonworks warrants	–	–	–	(98)	12	(5)	13
(h) To adjust the provision for income taxes to exclude the tax impact of items (a) – (g) for 2014 periods and to reflect an effective tax rate of 35% for 2015 periods	(29)	(43)	3,974	1	(62)	27	(121)
<b>Non-GAAP net earnings</b>	<b>\$402</b>	<b>\$382</b>	<b>\$543</b>	<b>\$293</b>	<b>\$138</b>	<b>\$153</b>	<b>\$146</b>

## Table 10 – Business Outlook Reconciliations

\$ in millions	Q4'15 Current Outlook
<b>Revenue ex-TAC:</b>	
GAAP revenue	\$1,160 - \$1,200
Less: TAC	<u>\$240</u>
Revenue ex-TAC	\$920 - \$960
<b>Adjusted EBITDA<sup>(1)</sup>:</b>	
Depreciation and amortization	\$150
Stock-based compensation	\$110
<b>Non-GAAP operating income:</b>	
GAAP income (loss) from operations	(\$100) – (\$60)
Excluding: Stock-based compensation	<u>\$110</u>
Non-GAAP operating income	<b>\$10 - \$50</b>

(1) Yahoo has not reconciled its adjusted EBITDA outlook to the comparable forward-looking GAAP financial measure, net earnings, because it is unable to provide a forward-looking estimate of certain reconciling items between net earnings and adjusted EBITDA, including: other income, net; provision for income taxes; earnings in equity interests; and net income attributable to noncontrolling interests. Certain factors that are materially significant to Yahoo's ability to estimate these items are out of the Company's control and/or cannot be reasonably predicted. Accordingly, a reconciliation to net earnings is not available without unreasonable effort.

Note: The above business outlook is based on information and expectations as of October 20, 2015. Yahoo does not intend, and undertakes no duty, to update the business outlook to reflect subsequent events or circumstances; however, Yahoo may update the business outlook or any portion thereof at any time at its discretion.

## Table 11 –Reconciliations of GAAP Mobile Revenue and GAAP Search Revenue to Gross Mobile Revenue and Gross Search Revenue

\$ in millions	Quarterly Data	
	Q3'14	Q3'15
<b>Reconciliation of GAAP mobile revenue to gross mobile revenue:</b>		
GAAP mobile revenue	\$207	\$271
Revenue share with third parties	<u>139</u>	<u>153</u>
<b>Gross mobile revenue</b>	<b>\$345</b>	<b>\$424</b>
<b>Reconciliation of GAAP search revenue to gross search revenue:</b>		
GAAP search revenue	\$452	\$509
Revenue share with third parties	<u>401</u>	<u>360</u>
<b>Gross search revenue</b>	<b>\$853</b>	<b>\$870</b>

Note: "Gross mobile revenue" is GAAP mobile revenue plus the related revenue share with third parties.

"Gross search revenue" is GAAP search revenue plus the related revenue share with third parties.

Please refer to the Company's earnings release for more information regarding these non-GAAP financial measures.