November 19, 2015

Maynard J. Webb, Chairman
Marissa Mayer, Chief Executive Officer
Yahoo! Inc.
701 First Avenue
Sunnyvale, California 94089

cc: Board of Directors
Kenneth A. Goldman, Chief Financial Officer
Larry Sonsini, Esq., Legal Counsel

Dear Maynard and Marissa,

We are writing to follow up on our recent discussions. We have grown increasingly frustrated with your unwillingness to accept our help and your dismissive approach to our serious concerns about the current situation at Yahoo! Inc. ("Yahoo"). As you, the management team, and your advisors requested from us over a year ago, we have attempted to work with you privately and agreed not to pursue the nomination and election of directors at last year's annual meeting. Despite our numerous conversations and meetings, and notwithstanding your willingness to provide us an audience, you have been reluctant to respond or adapt to the realities of the current environment. The current situation that Yahoo faces is so important that we now feel it is necessary to communicate with management and the Board of Directors ("Board") in a manner such that our message is not only as explicit as possible for you, but also for our fellow Yahoo shareholders. **The proposed spin-off of Aabaco Holdings, Inc. ("Aabaco Holdings") is not Yahoo's best alternative. Instead, you should be exploring a sale of Yahoo's core Search and Display advertising businesses ("Core Business") and leave Yahoo's ownership stakes in Alibaba Group and Yahoo Japan in the existing corporate entity.**

Since the time that we originally made our investment in Yahoo, we have been a vocal proponent of separating Yahoo's Core Business from its non-core interests, including its stakes in Alibaba Group and Yahoo Japan. As we have communicated to you over the past year, we believe separating Yahoo's Alibaba Group and Yahoo Japan stakes from its Core Business would unlock immediate value for shareholders and allow Yahoo's Core Business to better recruit and retain talent. Yahoo is the only Silicon Valley company we know that currently has a stock price almost entirely driven by the value of an entity outside of its control. Yahoo is at a disadvantage in recruiting the best talent because its stock price performance does not reflect the performance of Yahoo employees, but rather the performance of Alibaba Group. Top talent wants to be able to directly contribute to, and be rewarded by, its company's stock price performance. Separating Yahoo's Core Business would allow it to recruit more effectively and retain talented employees whether the Core Business incentive equity is public, private, or part of another merged operating entity.

As you know, in our initial presentation to you we highlighted several different scenarios that we felt could achieve this goal. Our first choice was for Yahoo to spin-off Yahoo's Core Business which would have resulted in the tax-free separation of Yahoo's Core Business while leaving Yahoo's stake in Alibaba Group and Yahoo Japan as part of the remaining public company. We also presented several other options, including the one you chose – a tax-free spin-off of a new entity, now known as Aabaco Holdings, which would hold non-core business assets as well as Yahoo's shares in Alibaba Group.

Despite our continued belief that the proposed spin-off of Aabaco Holdings should be deemed tax free under current law, we believe it is important to note the market's assessment of the current strategy. Irrespective of the impending tax-free spin-off, it is clear the market has a dim view of the Company's current strategy. As shown on the table below, the market either discounts the tax benefits of the proposed spin-off and/or, worse, implies a significantly negative value for the Core Business based on a justifiable fear that the current turnaround efforts will fail and current management will continue to squander the Company's resources. At best, the current stock price implies a meager ~2x consensus 2015 EBITDA multiple on the Core Business.

Implied value for Yahoo's Core Business	
Current YHOO Enterprise Value	$31,230
Less: Alibaba Group stake at 38% discount	($18,622)
Less: Yahoo Japan stake at 38% discount	($5,019)
Less: Net cash	($5,572)
Implied value of Core Business	**$2,017**
2015E EBITDA	$926
Implied 2015E EV/EBITDA multiple	**2.2x**
2016E EBITDA	$838
Implied 2016E EV/EBITDA multiple	**2.4x**

Source: Company filings, Bloomberg, and Starboard Value estimates.
Note: As of November 17, 2015.

Based on our evaluation of the risk-adjusted options currently available to Yahoo, as well as the market's assessment of the current strategy and risks thereof, we believe the Board needs to be open to changing direction. If you stay on the current path, we believe the potential penalty for being wrong is just too great, and the potential reward for being right is not materially better than the other alternative. When compared to a sale of the Core Business, there is minimal reward in relation to the massive potential risk that you could be taking. Therefore, as we privately communicated to you recently on several occasions, instead of continuing to go in the current direction with potential significant risk, we believe Yahoo should hire a financial advisor to sell the Core Business as a taxable asset sale. The sale of the Core Business would leave Yahoo's ownership stakes in Alibaba Group and Yahoo Japan and cash in the remaining company. We believe the current net cash of Yahoo and the cash generated from the Core Business sale can be returned to shareholders in a tax efficient manner in some combination of share buybacks, returns of capital, and dividends.

While we recognize that changing course is never easy, based on the risk-adjusted value creation to shareholders, we believe that selling the Core Business is by far the most prudent path. We believe there would be considerable interest for Yahoo's Core Business given the number of unique users, significant search revenue and income, popularity of many of Yahoo's display properties, and valuable real estate and intellectual property.

In one of our recent conversations, you argued that the Core Business will become more valuable if management is able to turn it around, and, as such, that selling it today would result in potential lost value for shareholders. We discussed in detail our thoughts on the deterioration of the Core Business in the letter we sent to you on August 10, 2015 (starboardvalue.com/publications/Starboard_Value_LP_Letter_to_YHOO_08.10.15.pdf). Thus far, there has been little evidence of a turnaround and, as described above, recent results are actually moving decidedly in the wrong direction. In addition, as we discussed with you again during our most recent conversation, this past quarter and the public guidance for next quarter actually show accelerated degradation in the performance of the Core Business, making your argument to wait for improvement appear to be grounded more in hope than strategy. Nonetheless, even if we assume that – this time – things are different, recent trends will be reversed, EBITDA will actually grow, and shareholders will suddenly apply a higher multiple to the Core Business, the difference in value created between selling the Core Business now, versus after a hopeful improvement in the fundamentals, is minimal compared to the downside potential of continuing down the current path of spinning off Aabaco Holdings.

Moreover, given recent results, we cannot imagine that any prudent individual assigns a high probability that Yahoo is on a path to substantially increase EBITDA in order to significantly improve the current value of the Core Business. We actually believe that without significant change to the culture at Yahoo, the Core Business could just as likely (if not more likely) decline in value going forward, thereby making a near-term sale of the Core Business even more clearly the correct decision.

For over a year now, we have attempted to work privately and constructively with you, management, and the Board. Unfortunately, time is now of the essence and the momentum around the proposed Aabaco Holdings spin-off is pulling our investment down the wrong path. I have now offered four different times over the last four months to join the Board to help you analyze this situation given my successful board experience, our perspective as an owner, and my particular knowledge of this situation. Unfortunately, you have repeatedly refused our respectful requests.

We believe you must make the right choice for Yahoo and its shareholders. What was once complicated and opaque, has now crystallized when analyzed through the lens of reward compared to possible risk. Over the last several months, we have come to realize the situation at Yahoo is one with potential asymmetric outcomes, and therefore, we believe selling the Core Business now is the best outcome for Yahoo shareholders. We urge you to change direction and do the right thing for shareholders. As we have expressed to you, we expect the shareholders' interest to remain of paramount importance and will look to make significant changes to the Board if you continue to make decisions that destroy shareholder value.

Respectfully,

Jeffrey C. Smith
Managing Member
Starboard Value LP