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AABA - Altaba Inc to Hold Strategic and Financial Update Conference Call

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PRESENTATION

Operator

Good day, and welcome to the Altaba Strategic and Financial Update Conference Call. (Operator Instructions) Please note, this event is being recorded. I would now like to turn the conference over to Alan Oshiki, Investor Relations. Please go ahead.

Alan Oshiki

Thanks, Andrew, and good morning, everyone. And welcome to the Altaba financial and strategy update. Joining us this morning from Altaba are CEO Tom McInerney, CFO Alexi Wellman, Chief Compliance Officer DeAnn Work, and General Counsel Art Chong. Before we begin, I want to remind everyone that this conference call and webcast may contain forward-looking statements concerning our policies or financial or business performance, strategies or expectations. Risks and uncertainties may cause actual results to differ materially from the results predicted. Information about potential factors that could affect Altaba's business and financial results are contained in its filings with the U.S. Securities and Exchange Commission. All information set forth in this call is as of Tuesday, February 27, 2018. Altaba does not intend and undertakes no duty to update this information to reflect subsequent events or circumstances.

With that, I'd like to now introduce Tom McInerney. Tom?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Thank you, Alan. Good morning, everybody. And thanks for joining us today. In our letter to shareholders in June of last year, we said that our share price discount to adjusted net asset value was the critical issue that we would focus on. And one of the most important things we can do for Altaba shareholders is to reduce that discount. Today, we're going to give you updates on the impact of tax reform, share repurchase activity and one of the significant contingent liabilities we were facing. Then, and most importantly, we are going to talk about the specific actions we are taking to continue our efforts to reduce the discount at which we trade. After that, we'll take questions.

We want to start this morning by walking you through our preliminary estimate of the financial effects of the Tax Cuts and Jobs Act. The net impact of tax reform is expected to be very positive, and we estimate that it has reduced our deferred tax liability on unrealized appreciation by $11.6 billion.

Per the accounting rules, these estimates are determined based on best available information at the current time, and will be subject to future revision based on additional information as it becomes available. This will be true for any company, but it's particularly true given our lack of visibility into Alibaba's tax structure and related financial details. More specifically, as outlined in our financial filing last night, we have booked a combined tax liability and tax reserve for the estimated transition tax on our Alibaba and Yahoo Japan holdings of $673 million. This amount relates principally to Alibaba Holdings and is based primarily on public information. The figure includes a substantial reserve as a result of the fact that we don't currently have the appropriate information to make a more precise calculation, especially as it pertains to the availability of foreign tax credits from Alibaba. Going forward, this estimate could change as we seek to get additional information and/or as a result of guidance and clarifications on implementation from the U.S. Treasury or IRS. On the good news side, we've also reflected our deferred tax liability and unrealized appreciation, an increase in the basis of our Yahoo Japan shares, from $875 million to $3.8 billion and an increase in the basis of our Alibaba shares from $220 million to $4.2 billion.

Like with the transition tax provision, these are estimates based on best available information and subject to future revision. Going forward and beyond these items, the principal potential impact on us of the new law beyond the obvious reduction in the corporate rate to 21% will be that any dividends paid by Alibaba or Yahoo Japan as long as we own an excess of 10% of their respective company will be tax-free. And yes, because I get asked this question frequently, this removes the only substantive potential hook stock issue that we or our tax advisers are aware of if Alibaba were ever to own Altaba.

Moving beyond taxes and second in terms of an update, we completed the $5 billion share buyback program announced in August of 2017. From August 1 to December 13, we've repurchased 74 million shares at an average price of $67.65. Combined with the Dutch auction self-tender completed last June, we have returned $8.4 billion of cash to our shareholders since we completed the Verizon transaction and became Altaba, making substantial progress against our commitment to return all -- or substantially all -- of our cash to shareholders. And importantly, we estimate the weighted average discount to adjusted net asset value, excluding net cash that we repurchased stock at in 2017, combining the tender and the open market program, was 34.5% or approximately 7.3 percentage points higher than we are trading at today.

Finally, relating to the federal securities class action case against us, we have agreed in principle on a settlement with 2 of the 3 main plaintiffs. In connection with this, we've recorded a $43 million liability. This agreement is preliminary and subject to court approval that I encourage you to read the disclosure about it in our annual report. As you know, we've thought about the contingent liabilities broadly in 3 buckets: Shareholder claims, consumer claims and regulatory investigations. And we're pleased that this preliminary agreement puts us in a position to resolve 1 of the 3.

Let me turn now to the future, and I will start with valuation, which is really the backdrop for the strategic actions we are announcing today. Based on the year-end financial information we filed last night, at yesterday's close, we are trading at a 26.3% discount to adjusted net asset value or a 27.3% discount to adjusted net asset value, excluding net cash. While our share repurchase and other activities have been somewhat successful in closing the initial discount as well as delivering shareholder value, we find this discount too high in the context of the new tax law and are announcing further actions today designed to reduce this discount and increase shareholder value.

As a first priority, the actions are designed to continue the process of reducing the discount towards something that will be more in line with fully taxed net asset value of the company. Obviously, what that number would be exactly depends on a variety of factors that are dynamic, including assets and/or liabilities, which may end up being worth more or less than their current carrying value, contingent liabilities that are not currently carried on the balance sheet and tax outcomes at both the federal and state level, which encompass a range of values, but whatever that number, the point is that we believe it is materially lower than the discount at which we currently trade. The second priority is to seek to position us over time to achieve even lower trading discounts, below the rate implied by our fully taxed net asset value. These 2 priorities are inherently consistent, at least for the current time and can be pursued in parallel. Obviously, the extent to which we may be able to attain or get close to any reduced discount is subject to a long list of risk factors delineated in our disclosure and there are inherent uncertainties in achieving any valuation outcome. Our assets and liabilities growth may be worth more or less than the figures we published, but based on the values, we currently report for our assets and liabilities and under the current tax law and market conditions, it's simple math, that over some period of time, the net value of the fund ought to converge to that fully taxed range, assuming we are in a position to arbitrage away the difference or otherwise deliver that value to shareholders.

By example, and this is just one example, if you can sell assets at a 20% to 22% discount to pretax value and buy shares back at a 27% discount, ultimately, the gap should narrow. Whether it does or doesn't, returns to ongoing shareholders should be positively impacted to the extent that any value creation gets spread over reduced number of shares.

So what specifically are we going to do? First, we're going to continue to discuss our goals and objectives as openly as we can, even the realities of being a public company and all that that entails. While circumstances in the future may from time to time limit our ability to communicate new developments with you, at least for now and at least for today, our views and intent should be clear. Second, we're moving to an active monetization mode on our Yahoo Japan stake. The stake is worth $10.2 billion or $5.04 per share today on a pretax basis, and at that value and our new estimated basis, we estimate that we'd have an effective tax rate of approximately 14% on that position.

Our current expectation is that in the second quarter, we will commence with open market sales, which is the only option immediately available to us. We have and will continue to explore all opportunities for the cash monetization of our stake. But at the moment, I can't predict their likelihood. But certainly, I would personally be disappointed if we didn't find a more efficient path. That said, I think beginning the process is a big first step. On timing, under the new tax law, we cannot sell any shares and get the benefit of the basis step up until after the completion of Yahoo Japan's current fiscal year, which is March 31. So that's what drives the aforementioned intent to begin in the second quarter.

Third, we are announcing a new share repurchase authorization of $5 billion. We intend to buy back stock under this authorization as long as we think it's attractively priced and in making that determination, we look principally at the discount level to adjusted NAV. There is no magic to this particular size of authorization. We could buy back less than the authorization if circumstances change or our board could increase the authorization. So try not to read too much into this number. On share repurchase, we're moving immediately into execution mode.

Fourth, we'll fund the repurchase initially through cash on hand. We have $4.3 billion of gross cash on hand as we speak, and that translates to approximately $2.6 billion net of the convertible and related call spread at today's prices. Because we want to use that net cash, but need to have some base level of liquidity beyond covering the convertible, we're borrowing $3 billion in the form of margin load against a portion of our Alibaba shares. The details of the loan are in our annual report filed last night. But let me state clearly, it is not currently our intent to start levering up the fund or grow this borrowing. The loan has an accordion feature to allow for future borrowings, but this feature is not committed funding, cost us nothing, and is really just an administrative convenience should something change. Our intent in borrowing the money was to be in a position to buy our own shares immediately and to do so without worrying about how much cash we need to prudently set aside for liabilities beyond the convert. If, for example, we initially deploy $3 billion in buyback over the coming few months and leave the rest of the cash on the balance sheet, we will still be at -- we will be at a net debt level of approximately 0. Depending on the valuation of the stock and other factors, we might consider going a bit beyond that. But in any event, net debt would be very small against $90 billion of total assets.

I'll also note that the loan is pre-payable at any time at a very modest cost initially, and then, if prepaid from asset sale proceeds with 0 penalty after the first 12 months. In some ways you can think of this as bridge financing. It allows us to move right now on buybacks at what we believe is a favorable share price, while waiting until we can begin generating proceeds from Yahoo Japan share sales and also evaluating further strategies for our Alibaba shares, which I will turn to in a moment.

Obviously, the authorization size is larger than the existing net cash position, but as I stated earlier, we're not trying to be overly precise about this. There is a number of cash related items moving up and down, and we will adjust accordingly.

Finally, I want to address our Alibaba position and the plan beyond the immediate period. As most of you know, we, and I know many of you, have long been of the view that ultimately as our assets and liabilities are simplified, we could trade at a discount rate to our underlying pretax net asset value that is lower than that implied by the deferred tax liability embedded in our NAV.

We believe this because we can imagine a world where our only real asset was Alibaba shares. And in such an instance, the fundamental nature of Altaba shares would feel very different than it does today. We'd have the ability to receive distributions from Alibaba and pass them along without corporate level tax consequence. And against that backdrop, we think the fact pattern is arguably stronger and supports a better trading valuation than many other single asset holding company situations.

Unlike in many of those situations, there should be no obvious legal, tax or transactional risks that could reduce value relative to the underlying asset. The bottom line is that even with our more complicated story today, we trade with a 0.99 correlation to Alibaba. If simplified further and if the entity were structurally designed to track only Alibaba and to protect investors from any modifications in the strategy, it ought to be an even closer proxy and this ought to further mitigate the trading discount.

And while there are no guarantees, but we believe that should happen over time, we have at the same time begun a detailed and rigorous review of strategies to monetize our Alibaba shares, including with taxable transactions. Everything is on the table. There are a number of very significant considerations involved in deciding whether or not to pursue transactions with the Alibaba shares. And if so, which transactions and at what size, pace and sequence. There are serious legal, governance, contractual, federal, state and shareholder level taxation and capital markets considerations amongst others. And we and our board are going to consider these carefully with our advisers. While we are highly mindful of our shareholders' return objectives and the opportunities afforded us by the new tax paradigm, our unique circumstances require us that we be especially thoughtful about next steps. This thoughtfulness will, by necessity, weigh expected shareholder returns, time to achieve those returns and risks and opportunities against the plan as well as other considerations.

As you all know, with liabilities that will continue on in some cases for years, including new liabilities that will be created by entering into taxable transactions, any transaction or plan we announced would only be a first step and its ultimate value will only be determined as events unfold. But do not mistake thoughtfulness for inaction. By virtue of the actions announced earlier, we will be taking clear action right now over the coming couple/few months to enhance shareholder value, while contemplating and determining next steps beyond those immediate actions. We'll continue to mark our time and progress in weeks and months, not years. I'll just conclude by saying that, it's been a little over 8 months since we began life as Altaba. 57 days since the effectiveness of the new tax law. And today, while some of the underlying facts and contexts have changed, we remain committed to the principles we articulated on June 19 of last year, most importantly, integrity above all, clear communication and transparency wherever possible, and the relentless pursuit of shareholders' interests.

We thank you for your support and ask for your continuing input and on occasion your patience as we go forward. And with that, we'll open it up to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) The first question comes from Jason Helfstein of Oppenheimer.

Jason Stuart Helfstein - *Oppenheimer & Co. Inc., Research Division - MD and Senior Internet Analyst*

So one and then a follow-up. In the past, you had said it did not make sense to begin a dialogue with Alibaba until you had visibility on Yahoo Japan. And obviously, you just said you're moving to active monetization of Yahoo Japan. So does that mean subsequently that you will begin some dialogue with Alibaba? And then secondly, on the legal liabilities, I guess, what would be remaining? Is there any additional amount of cash that you could park to effectively take any additional legal financial risk off the table?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Good morning, Jason. I will start and Art may want to chime in on the second one after I start. I'd kind of characterize what we've said historically a bit different, it may be semantics. But look, we have a good dialogue with Alibaba, with all our partners. We talk to them reasonably frequently about different matters. And so I don't think we have ever ruled out and said, it doesn't make sense or we wouldn't speak to them about any transaction, in fact, quite the contrary. I think there has been some speculation, if you will, on behalf of market participants based on different inputs that their interests may be different before or after that monetization. But I've said all along and I will continue to say, I think it's a mistake, as much as it's tempting, as much as anybody that's an investor or a follower of the situation wants to try and handicap and prognosticate exactly what their thinking is at any given moment in time about any of this. I understand the temptation, but I think it's quite difficult and perhaps not particularly fruitful.

And so if we get to the essence of your question, if you said that the commencement of the monetization on those shares change anything at Alibaba, I'd say it doesn't change our stance at all. We're always open to that conversation. Whether it changes anything in their intent, I can't speak to. On the legal liabilities question, that's a really complicated question that's got kind of multiple levels and multiple layers, and I'll attempt to start the conversation, but probably there is a limit to how far we can go. I think the first question would be, what are you doing, what's the transaction or action you're pursuing? There are different things one could do if one were considering taxable transactions at Alibaba from periodic sales to more kind of absolute unwind type arrangements. And I don't think there is a blanket answer to could you just park the liabilities in a separate thing. I think you have to -- no matter what you're doing as you contemplate these actions and the reason I kind of said it's complicated and there's a lot of things to think through is you have also -- not a long list, but you have a handful of potentially meaningful liabilities from federal tax, state tax. Obviously, we have some contingent liabilities still from the data breach that run both in the form of litigation and regulatory investigation. And what you could do to resolve each of those under whatever path you're taking might be different. Certainly, in some cases, you can go to taxing authorities in advance of transactions and try and get some guidance. Certainly, sometimes you can do transactions and try and get an advanced ruling and there's things you can do, but there is no quick and easy answer to that. I think that the essence of that question is that the biggest piece of our work as we study these alternatives, which is figuring out exactly that question and what that path might look at under different transactional or actions. Anything you'd want to add to that Art? Did I miss anything?

Arthur Chong - *Altaba Inc. - General Counsel & Secretary*

No. I think you've captured that. So far as the investigations and lawsuits, obviously, each of those is proceeding at its own pace. Tom has already talked about how we have reached agreement in principle on the securities class action. And to give you a further sense, in the consumer class, the court has ordered mediation by September of this year. If we're successful, the case will be over. And if we're unsuccessful, there is a trial date set for late next year, 2019. So that will give you a sense of the overall timing of these various matters.

Operator

(Operator Instructions) The next question comes from Eric Sheridan of UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

On Yahoo Japan, maybe just walk through a little bit of the thought process around now starting to sell down in the market starting in Q2 post Yahoo Japan's results. And whether you think either Softbank or Yahoo Japan might want to either be involved in that sell-down activity or whether there is still a tax-efficient path forward on Yahoo Japan?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Yes. I think the -- let me address the tax efficiencies. We always said that was a long putt. And when the rates dropped from 35% to 21%, then in a sense, the bar -- there is no quick and easy tax-efficient path on the YJ shares. And there were a few things that we had identified, one of which was, in fact, taken away by the tax reform, so that crossed off the list. There were still one or two things that we could theoretically do, but because they weren't quick and easy, they have, in a sense, some hair on them and some risk. Then when the tax rates dropped and importantly, the basis stepped up with an effective tax rate now of 14%, it arguably is -- I'm being glib. It's not tax-free, but that's a very low level of taxation. So I really don't think tax-efficient structures on the YJ shares are likely. Something could always come out of the woodwork, but I don't think that's likely. The first part of your question was, will they participate? What I will say is, obviously, since we are intending to begin in the open market, and you can assume from that, that there is no current transaction available to them -- with them as principal, i.e., them buying the shares, which is something that's obviously people have thought about, including ourselves.

I think, as we go forward into the market, because of the trading liquidity and everything else, if you simply dribble out into the market, I think we would make good progress, but I think it would take a while, and I made reference to looking at other alternatives. The Japanese capital markets and the equity market, specifically, are quite liquid. They function in many similar ways to the U.S. equity capital markets in terms of marketed offerings and accelerated book building offerings and overnight block trades and things like that. And we have looked and will continue to look at all of those methods, and we'll do it with them because I think that's the best way to do it. And we would -- obviously, we're the principal in the process, if you will, in that scenario, and -- but as I said in the script, I'd be personally disappointed. I can't guarantee it, but I'd be personally disappointed if we didn't find via the capital markets or potentially something changes on the private transaction side to the principals or even a third-party, although, as I said, there is no current indication of that. So I think as of now, if I were handicapping, I think via the capital markets is the more likely route. And I would be personally disappointed if we didn't find a way to do it that was faster than simply selling in the open market. But I have also long thought and continue to think that once we begin, this has been a bit of wait, wait. And it was wait because of the tax reform. We couldn't do anything or it would have been foolish to do anything until the tax law changed, that got us to January 1. And now we can't do anything until second quarter because we won't get the benefit of the basis. So the tax reform effects were a little bit longer than when you parsed the rules than even we all originally thought because we originally thought it would be a one-to-one effectiveness. And so, there has been a bit of kind of wait on this buildup, if you will. And I personally believe, once we start, I think, that will be good for the security, and I think it will also -- even though by math it will take a while, I think it -- our market tends to be forward-looking. People tend to kind of move on to what's next. Okay. I get it. You're going to do that. And I think the focus will be on what's next, and I think that's good and appropriate.

Operator

The next question comes from Andy Baker of Barclays.

Andrew Baker

Two questions. First is you mentioned state tax a couple of minutes ago. I was wondering if you can talk to us about how we should be thinking about state taxes with respect to monetizing with Yahoo Japan and BABA depending on where those assets are held, et cetera? And then second, just on the $670 million you talked about before, does that include all the foreign tax credit offsets? I know you said you are going to conservative accrual, but how big was this sort of haircut, can you sort of tell what that will be?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Yes. I will do the second one first and then come back to the first because the second one is probably shorter. We have -- without being too detailed on this call, which I don't think serves any of our purposes, we have a significant part, not all or substantially all, but a significant part of that figure includes a reserve for essentially a question mark as to what our availability to use Alibaba FTCs would be. If you look at the public information and you see they've been a taxpayer, then you can make the estimate that they have generated FTCs. Without getting into the weeds on this rule, the combination of both existing rule and the new rule provides some, what I'd call, tiering issues, which is you can -- when you are in a 10/50 company, which is what we are, we own between 10% to 50%, you can only use foreign tax credits of down 5 levels in the organization.

And without the visibility on where all the E and P is and the foreign tax credits in their structure, we have a significant reserve for the lack of being able to use, if I said it awkwardly, of those foreign tax credits. So I think it is a conservative assumption on that basis. I caveat it only by, you don't know exactly what you don't know and things could change and by starting with public information to begin with, we can't rule out the fact that there would be other surprises. We are working with them, and we'll attempt to get the detailed information we need. It's not a simple exercise, because you're talking about a large corporation obviously, and it may be work that they haven't done or needed to do on their own for their own account, if you will. So I don't think this is going to be in 30 days or in 60 days or 90 days we know. I think this is going to be a longer process. But we certainly hope that the provision is conservative. It's meant to be based on what we know.

To the first part of your question, yes, this has looked -- this is a -- it's a somewhat complicated topic. So let me try it this way. This is an issue we've been very focused on since the beginning, back before Altaba was even officially Altaba. As a Board member of Yahoo, this was something we spent a fair amount of time on because we knew small percentages on big dollars equal big dollars. And when we did the planning for the company, we spent a bunch of time on it, in terms of asking was there a big difference or benefit to being in one place or the other when we formed the company. I think, as you know, in our financials, we have assumed effectively a 1.8% effective combined state rate. That's roughly a 2.5% gross rate and net of -- and then there is a federal benefit from that, which gets you down to a 1.8%. If you look at the 2 principal states that are relevant to us, California and New York, then we think there is upside certainly in that rate. I know there has been a lot written and a lot speculated on the types of income in both of those states. We do think there is upside. We have attempted to make a conservative provision. And a lot of it would depend on exactly what the ultimate transaction would be. So if you're monetizing Yahoo Japan shares, how did you monetize them, to whom did you monetize them, where did you sell them assuming it was a sale. On the BABA shares, if you are doing a transaction, what is the form of that transaction that triggers the tax event, is it a sale, is it something else. If it's a sale, to whom is the buyer. And in both of those states, there are complicated rules. I won't attempt to try and parse through them right now. We've made a best guess, I think like all the accounting estimates, it's got an element of conservatism in it. There is no question we think we have positions and filing positions depending on what we do that could lead to upside to that. But until those plans are fleshed out, it's hard to say what that is, and candidly even after they're fleshed out, it will be hard to say that as in both instances, particularly California, when you parse through the specifics of the rules with advisers -- and I should say, we multisource, no pun intended, all essential views. We've talked to multiple advisers on all of these issues. And you get gray areas, you get unknowns, you get uncertainties. And so, I think there is upside. I think it would depend on what exactly happens. It's not exactly clear how much and it's not exactly clear when you would even know. If you started down a transactional path, you might know a little bit more. But in some cases, you might not know until you got to a filing or an audit. There is also the possibility in both states that I won't -- there are different forms of this, but there are ways to in a sense seek advance rulings. In some cases, they are binding, in some cases, they are not, in some cases, they will opine on certain things and not if you liken it to kind of the IRS processes. And whether that gets factored into our plans and plotting as we think through the alternatives is one of the big topics. Can you bring some certainty to this, crystallize some of that upside or can you not? So I know that's a lot of words and not a specific conclusion, but hopefully gives you a little color for it.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

I appreciate you trying to take us through that. Just one more question. I mean, there were some modifications to the registration rights agreement. Can you talk about why those were made and what effect they might have, if any?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Yes. Sure. That's a very old agreement. I think it dates back to before they went public. And not something that received a lot of attention because I think the presumption was that we were not on any path to enter into taxable transactions on the Alibaba shares. The agreement was recently amended at their request, it has nothing to do with what I announced earlier. And it was amended to accommodate some of their principals, announced plans to sell a portion of their Alibaba shares through 10b5 programs. I think it was last fall they announced that. And they wanted to tweak the agreement, and we discussed it with them and a few provisions were exchanged. And so I don't think the change is of particular consequence. I will let you read the agreement, and if there are questions, we can answer them. But the essence of it is, within a 90-day period, we can sell an unlimited amount of stock in the market if we went down that path. But if we exceeded a big number, then there would be, I call it, a cooling-off period but I don't think agreement does. But that was in the old agreement, it's in the new agreement. There was nothing in the amendment that has anything to do with our intent. It was an accommodation at their request.

Operator

The next question comes from Doug Anmuth of JP Morgan.

Cory Alan Carpenter - *JP Morgan Chase & Co, Research Division - Analyst*

This is Cory Carpenter on for Doug. As we think about a future where Altaba maybe only consists of Alibaba shares, what do you view as a fair trading discount at this point? Are there any proxies you look at to help inform your view here? And then as a quick follow-up, any update on your progress and potential timeline monetizing your patent portfolio in remaining minority interests would be helpful.

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Sure. The $64 million or billion-dollar question, I guess, it would be. We have thought about this issue for a long time. I have personally talked to dozens of bankers, advisers, capital markets professionals and investors, including, I'm sure, many of the people on this call. I think as we -- and I have looked at every comparable I can find, I have asked every adviser we have, to produce those case studies. The bottom line is there really is nothing good. There is a host of companies in Europe. I guess, this has been more of the custom over there because of family-owned situations where you have a single asset publicly traded company. In certain cases, they trade at very low discounts, low single-digit discounts. However, in some cases, those are for a control position. So the question is, is the market valuing that under the theory that someday there is a control premium from the holding company being taken out? Or is the market assuming the family -- there is usually a family situation, it's never going to be sold. And the reason it trades at a low discount and I would argue this is -- if this were true, this argues in our favor is that there is no particular risk of bankruptcy, change in strategy, any of the things that one might worry about, if you own holding company X and they own shares of Y and you really just wanted a proxy for Y at a discount, you'd want to make sure that nothing changes.

And I think in some of those cases, but I can't prove it, because often control is involved and you can be talking about single-digit discounts. In the U.S., I've always looked at high-vote, low-vote structures, that is apple and a banana, although I think substantively quite similar, because substantively you still own the same economic interest as you would in our situation. But in that case, it's a class of stock of a corporation. As you know, high vote, low votes typically trade very close to each other. There are other situations that trade much wider usually for a reason. There is a credit risk or there is a transaction risk.

And so if you look, there is nothing that's kind of perfect, spot on. But if you look at a dozen or so things you can look at in the U.S. and a dozen or so or more in Europe and you say why does one thing trade better and you kind of triangulate. I do believe and I've always believed, and I think many people I talk to believe, that you would get there and it ought to be materially, materially lower. I don't want to hazard a guess than where we are today. And we still believe that, and we were in a sense marching down that path at the same time as I said, and I want to make sure I'm being very clear on this. Everything is on the table, and we are going to very closely look at transactions, taxable transactions involving the Alibaba shares. Depending on what form of transaction one would do, those 2 positions can be inconsistent or consistent with each other, right? If you did a taxable transaction that was essentially a liquidation or something akin to that, then by definition, you're not living long enough to go see the benefit of that pure play discount that I envision.

And that may be okay. There is a time versus return trade-off there, potentially, but the devil is in the details. The flip side is, you can sell stock down over time, buy back shares, and you're entering into taxable transactions, but you get -- if we're right, you get the benefit of that lower discount on the remaining piece.

So 2 paths, consistent with each other at least for now, both very viable, and we're mindful only of our shareholders' objectives, which is return, return quickly and kind of risks and opportunities because no matter what we did, there is nothing we could do today that I would say, it will deliver X to shareholders with certainty in Y period of time. There is no process, there is no transaction that one could do.

So we need to map out what the risk-return, time profile and all that stuff is from these different paths and make some decisions. On Excalibur, Art, you want to jump on that one?

Arthur Chong - *Altaba Inc. - General Counsel & Secretary*

Yes. We are making progress towards monetization of the Excalibur portfolio. We've recently brought on some new team members. And they are focused on a couple of different work streams. First, they are conducting a bottoms-up assessment of the portfolio strength. Among other things, we are looking at whether the value maximizing strategy is to market the portfolio as a whole as opposed to market it in tranches. In parallel, we've initiated a series of checks with market participants to gauge interest in the portfolio. To echo Tom, everything is on the table. We expect these 2 work streams to begin converging about the second half of the year.

Operator

The next question comes from Rob Sanderson of MKM Partners.

Robert Jason Sanderson - *MKM Partners LLC, Research Division - MD & Senior Internet Analyst*

So the effective tax rate on YJ with the higher basis of about 14% today, very helpful to disclose and helps us sort of peg what comes here, but sounds like you don't have a comparable estimate for your effective rate on Alibaba, and I presume this is largely because of the lack of visibility on the foreign tax credit. So my question is really in benchmarking a range of outcomes here, should we think of the ceiling as the 21% less the $4.2 billion basis? Yes or no. And then could you give us some framework for evaluating a floor, for instance, what if the interpretations of all the tax credits were favorable, what impact would that have on the basis and the effective tax rate on the BABA stake if you could?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Sure, Rob. No I didn't mention the estimate is just the YJ transactions were more proximate. But if you use the $4.2 billion, the basis estimate because of the sum of it -- we've been booking -- benefiting from foreign tax credits from YJ because as they passed us dividends through the years, then we've had the benefit of foreign tax credits against that. And so we've accumulated information, which is why the information is better, if you will, than what we have on the Alibaba side. But that said, based on the public info and the estimates we made, the basis on Alibaba we are estimating is $4.2 billion. So if you start at the book accounting tax rate of 22.8% and if you use the 22.8% and the $4 billion, then you're essentially down to an effective tax rate of 21.5%. So it would be if there were no basis, 22.8%. You pick up 130 basis points by virtue of that $4.2 billion of basis. It would go lower to the extent we are able to save on the state side. So at the other end of the spectrum, just to take it to the extreme, just so you kind of know the boundary, if you had federal only and the benefit of basis at yesterday's value, this moves around obviously as the value moves around because the basis is fixed and the value isn't, you'd be at 19.8%.

So that would be the -- depending on what you want to assume on kind of transactions and state taxes and things like that, that would be the range in the kind of high -- very high-teens to 21.5% at yesterday's prices.

Robert Jason Sanderson - *MKM Partners LLC, Research Division - MD & Senior Internet Analyst*

But the discussion of the lack of visibility on the FTCs, how much swing could that have? Is there any way to estimate, benchmark, get some sort of framework on thinking about that?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

I don't think because -- look, I don't think it's going to be a huge swing because we have reserved in the transition tax for this issue. And so the FTCs is largely a transition tax issue. It's not largely a basis issue. So I -- now that said, the basis is determined, the estimate we've made is based on public info. So it is possible that as we get E and P info from them, that basis estimate could change. But I think that the transition tax is more sensitive to that issue on a percentage basis. Obviously, it's a smaller number, the $670 million number versus the $4.2 billion basis. Does that make sense?

Operator

The next question comes from David Gibson of Macquarie.

David Gibson - *Macquarie Research - Head of Japan Equity Research and Senior Analyst*

Just on Yahoo Japan. I just want to clarify, you said you had discussions already with them regarding the sell down. Just first needs to clarify that. The second is, I gathered from your commentary that they're not interested in purchasing currently. Could you elaborate on why that is the case, please?

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

No, I wouldn't speak for them on that. It's not appropriate, it's not for me to say. I have said that since we're indicating we intend to sell in the market in the second quarter, obviously -- it's been obvious since day 1 that one transaction possibility was a sale to the company, and we're not currently pursuing that. And you should assume they are not interested in doing that. I won't speak to their -- to their reasons or the details of those conversations. We have a good and active dialogue with them on multiple levels, at the YJ level, at the Softbank level, bankers, lawyers, myself, my colleagues. And so it's all good from a relationship perspective. There's just not a transaction there to do at the moment. And -- but like I said, we're continuing to talk to them because I think we're on the same team here, if you will, that if we're not going to do that, at least for the moment, again, something could change. But if we're not going to do that at least for the moment, then I think we all have an interest in and they have an interest in, the company has an interest in and our partner has an interest in, making sure our monetization is non-disruptive as possible and seamless, and I think we are aligned there. And I think that's great.

Operator

The next question comes from Jeff Altman of Owl Creek.

Jeffrey Alan Altman - *Owl Creek Asset Management, L.P. - Founder, Managing Partner, and Portfolio Manager*

My question was asked and answered.

Operator

(Operator Instructions) As I see we have no further questions, I understand we'll be closing out the call.

Thomas J. McInerney - *Altaba Inc. - CEO & Director*

Great. Thank you very much, and thank you all for joining. It sounds like we are at a good time to stop as the market approaches opening. Really appreciate you joining this morning, appreciate your interest, your questions, and we look forward to talking to you further. Have a great morning. Thank you.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.
