

Yelp Inc. (YELP)

\$25.81 (As of 08/04/20)

Price Target (6-12 Months): **\$27.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:B

Value: C

Growth: B

Momentum: D

Summary

Coronavirus-led restrictions on public life are hurting restaurants and retail businesses, which pay Yelp to provide their information online. This, in turn, is affecting Yelp's top line. This is expected to hurt the company's results in the near-term. Moreover, competition from search giants like Google and Bing is a concern. Also, as Yelp is highly dependent on advertising revenues, a decline in user growth does not bode well. Shares of the company have underperformed the industry over the past year. However, sustained focus on expanding its product portfolio with the launch of Verified License, Business Highlights and Yelp Portfolios is a key growth driver. Besides, it is witnessing acceleration in consumer traffic across app unique devices. Significant improvement in cumulative reviews is encouraging too.

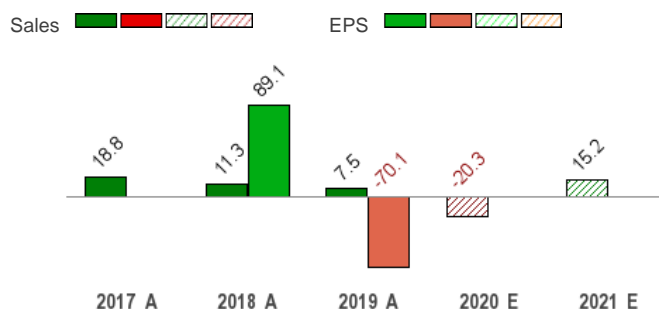
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$39.37 - \$12.89
20 Day Average Volume (sh)	834,937
Market Cap	\$1.9 B
YTD Price Change	-25.9%
Beta	1.52
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Content
Zacks Industry Rank	Top 50% (127 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-144.4%
Last Sales Surprise	5.8%
EPS F1 Est- 4 week change	-4.0%
Expected Report Date	08/06/2020
Earnings ESP	0.0%
P/E TTM	80.7
P/E F1	NA
PEG F1	NA
P/S TTM	1.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	217 E	230 E	240 E	253 E	931 E
2020	250 A	153 E	193 E	231 E	808 E
2019	236 A	247 A	262 A	269 A	1,014 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.13 E	-\$0.03 E	-\$0.02 E	\$0.04 E	\$0.16 E
2020	-\$0.22 A	-\$0.56 E	-\$0.15 E	\$0.12 E	-\$0.81 E
2019	\$0.02 A	\$0.16 A	\$0.14 A	\$0.24 A	\$0.52 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/04/2020. The reports text is as of 08/05/2020.

Overview

San Francisco, CA-based Yelp, founded in 2004, is a website engaged in providing information through online community offering social networking. It covers restaurants, shopping, nightlife, financial services, health and a variety of services.

The company helps businesses connect with consumers through ad products, messaging features like Request-A Quote, the Yelp transaction platform and retention tools, among others.

During fiscal 2019, the company generated net revenue of \$1 billion, representing 8% growth over 2018, net income of \$41 million and adjusted EBITDA of 21%.

The company recognizes revenues from business listing and advertising products including advertising sold by partners as advertising revenues. Paying advertiser accounts were 565,000 as of Dec 31, 2019, up 4% year over year.

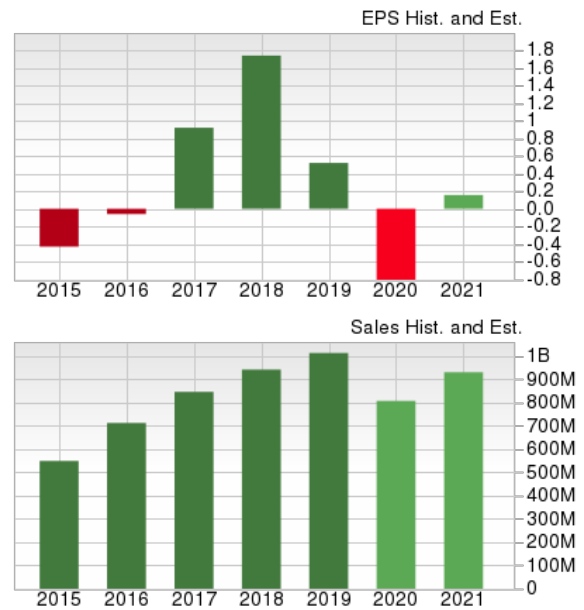
Yelp recognizes revenues from Yelp Platform, Eat24 and the Grubhub Partnership plus Yelp Deals and Gift Certificates on a net basis as transactions revenues.

Other Services revenues include revenues from Yelp Reservations, Yelp Waitlist, Yelp WiFi Marketing, Yelp Knowledge and Other Partnerships.

In 2018, the company embarked on a significant business transformation by transitioning from selling advertising products pursuant to fixed-term contracts to selling under non-term contracts. The company sells its products directly through sales force, indirectly through partners and online through website.

As of Dec 31, 2019, Yelp's sales force consisted of 3,844 employees, posted across offices in San Francisco, CA; Scottsdale, AZ; New York, NY; Chicago, IL; Washington, DC; and Toronto, Ontario.

Yelp faces competition from Internet search giants like Google and Microsoft's Bing, social media platforms like Facebook as well as offline companies such as print media, television or radios.



Reasons To Buy:

- ▲ Yelp is benefiting from increasing Advertising revenues driven by an increase in local salesforce and transition to non-term advertising. The company's shift toward selling advertising plans without any fixed duration is resulting in a solid increase in paying advertiser accounts. Notably, at the end of the last reported quarter, subscribing locations for Verified License and Business Highlights more than doubled on a sequential basis. Moreover, these products boosted the number of paying advertising starts in the Self Serve channel. The launch of Yelp Portfolios in June is also making the management optimistic. Further, it is witnessing strong retention rates and an improving overall retention for the cost-per-click (CPC) advertisers. The company's strategy to provide products across a range of price points will give users more ways to grow with it.
- ▲ Yelp is benefiting from its partnership with GrubHub, which provides users with access to a significant number of restaurants available for food ordering on the platform. Revenues earned from GrubHub for transactions originating on Yelp platform is a positive. Moreover, management expects the partnership to improve Yelp's per-order profitability. Further, the acquisition of Eat24 business by GrubHub provides the company with a better return on investment. The company also entered into new partnerships with industry leaders including Visa, GoDaddy and Google, among others, which will help it explore additional opportunities and expand.
- ▲ Yelp is focusing on reducing costs in an effort to stay afloat amid coronavirus crisis. As part of its cost-reduction plan, Yelp fired 1,000 workers and furloughed more than 1,100 staff. The company projects its cost-saving initiatives to reduce operating expenses by \$70 million in the second quarter.
- ▲ Yelp's acquisitions of Nowait (February 2017) and Turnstyle (April 2017) are boosting its connection with business owners. We note that consumer-friendly services like reservations, waitlist and Wi-Fi marketing along with Yelp transaction platform, cash back, and Request a Quote drive subscriptions from businesses. Notably, the company's Other services revenues increased substantially in the last reported quarter, driven by growth in Yelp Reservations and Yelp Waitlist.
- ▲ Yelp has a strong balance sheet with ample liquidity position and less debt obligations. As of Mar 31, 2020, the company had net cash balance of \$250 million, compared with \$237 million at the end of December 2019. Also, its total debt-to-capital ratio of 0.24 is much lower than the industry average of 0.97. Since it has net cash available on its balance sheet, the existing cash can be used for pursuing strategic acquisitions, investment in growth initiatives and distribution to shareholders. Moreover, the company generates strong cash flows. The company generated \$41 million in operating cash flow in the first quarter of 2020. Additionally, to further improve its liquidity and preserve cash, the company has decided to temporarily suspend its share repurchase program.

Yelp is benefiting from a growing total addressable market, expanding mobile reach, high quality content and improving user engagement.

Reasons To Sell:

- ▼ Yelp faces significant competition from Internet giants like Google, Microsoft's Bing and Facebook. The amount of resources these companies have is a major threat for Yelp. Moreover, Yelp depends mostly on Google to drive traffic to its website. The company is apprehensive about the fact that reduced traffic, owing to Google's practice of intentionally pushing other sites down in the search rankings on both its website and app can hamper its long-term growth prospects.
 - ▼ As Yelp is highly dependent on advertising revenues, a decline in user growth does not bode well. This is because a decline in number of unique visitors will eventually translate into a slowdown in the number of advertisers on the platform. The company's transition to non-term advertising, which is expected to drive customer acquisition in the long run, is likely to remain an overhang in the short run. Besides, Google, Facebook and Instagram are more preferred advertising platforms compared to Yelp, thereby posing significant threat to the company.
 - ▼ We note that Yelp currently has a trailing 12 month P/E ratio of 84.6, which compares unfavorably with what the Zacks industry saw over the last year. Hence, valuation looks slightly stretched from a P/E perspective.
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Increasing competition from Google and lack of revenue diversification are major concerns for Yelp.

Last Earnings Report

Yelp Reports Q1 Results

Yelp reported wider-than-expected loss for first-quarter 2020. For the quarter, the company reported a loss per share of 22 cents, wider than the Zacks Consensus Estimate of a loss of 9 cents. It compares unfavorably on a year-over-year basis as well, wherein Yelp had reported earnings of 2 cents in the year-ago quarter.

Yelp provides information through online communities on restaurants, shopping, nightlife, financial, health and other services. However, the coronavirus-led lockdowns and restrictions on public life are hurting these businesses, in turn, affecting Yelp.

Despite the coronavirus crisis, Yelp managed to register a 6% year-over-year increase in first-quarter revenues, primarily on growth in the number of paying advertising locations. The company's quarterly revenues of \$249.9 million also surpassed the Zacks Consensus Estimate of \$236 million.

Quarter Ending **03/2020**

Report Date	May 07, 2020
Sales Surprise	5.80%
EPS Surprise	-144.44%
Quarterly EPS	-0.22
Annual EPS (TTM)	0.32

Revenues

Advertising revenues (96% of total revenues) increased 6% year over year to \$240 million. This increase was driven by growth in the number of paying advertising locations.

Paying advertising locations grew 6% year over year to 562K sites in the first quarter, mainly on continued improvements in Local customer retention through the end of February. An increase in revenues generated from the existing national customers also aided paying advertising locations growth.

However, these positives were partially offset by the relief provided by Yelp to the coronavirus-affected local businesses in the form of waived advertising fees, and free advertising products and services.

Transaction revenues were \$3 million in the first quarter of 2020, down 20% from the year-ago quarter mainly due to decline in volume.

Other service revenues rose 28% to \$7 million on growth of Yelp Waitlist and Yelp Reservations subscription revenues.

Cumulative reviews climbed 14.3% year over year to 210.8 million. However, app unique devices edged down 1% year over year to 34.7 million on a monthly-average basis.

Profits and Margins

Gross profit increased 5% year over year to \$233 million. However, gross margin contracted 100 basis points (bps) to 93% mainly on inflated cost of sales. Costs flared up on higher advertising fulfillment costs and elevated website infrastructure expense.

Total costs and expenses rose 16% year over year to \$277 million. Elevated employee costs, higher commissions, and an increase in provision for doubtful accounts mainly escalated costs and expenses.

As a result of higher costs and expenses, Yelp's first-quarter adjusted EBITDA plunged 57% year over year to \$17 million. Moreover, adjusted EBITDA margin shrunk 10 percentage points to 7% from the year-ago quarter's 17%.

Balance Sheet & Cash Flow

As of Mar 31, 2020, Yelp's cash, cash equivalents & marketable securities were \$491 million, up from \$466 million as of Dec 31, 2019.

Net cash flow from operating activities was \$41 million compared with the previous quarter's \$56 million.

Outlook

Yelp had already withdrawn the full-year 2020 outlook citing uncertainties related to the coronavirus pandemic, which is impacting global business and consumer activities.

Furthermore, the company is focusing on reducing costs in an effort to stay afloat in these difficult times. As part of its cost-reduction plan, Yelp has laid off 1,000 workers and furloughed more than 1,100 staff.

The company projects its cost-saving initiatives to reduce operating expenses by \$70 million in the second quarter.

Recent News

On Apr 10, Yelp announced that it is reducing its employee strength in an effort to survive amid the coronavirus pandemic. In a letter to employees on Apr 9, Yelp co-founder and CEO Jeremy Stoppelman revealed that the company has decided to lay off 1,000 workers and furlough more than 1,100 staff, representing about 17% of its total workforce.

On Mar 19, Yelp withdraws its first-quarter and full-year 2020 business outlook due to heightened uncertainty caused by the coronavirus outbreak.

Valuation

Shares of Yelp have plunged 25.9% so far this year and 24.7% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have grown 1.5% and 20.1% YTD, respectively. Over the past year, the Zacks sub-industry and the sector increased 7.8% and 37.2%.

The S&P 500 Index has increased 2.3% YTD and 14.7% in the past year.

The stock is currently trading at 2.11X forward 12-month sales, which compares to 8.08X for the Zacks sub-industry, 4.07X for the Zacks sector and 3.6X for the S&P 500 index.

Over the past five years, the stock has traded as high as 4.4X and as low as 0.91X with a 5-year median of 2.83X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$27 price target reflects 2.22X forward 12-month sales.

The table below shows summary valuation data for YELP

Valuation Multiples - YELP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	2.11	8.08	4.07	3.60
	5-Year High	4.40	15.43	4.07	3.60
	5-Year Low	0.91	1.86	2.32	2.53
	5-Year Median	2.83	7.66	3.14	3.04
P/B TTM	Current	2.43	6.95	6.26	4.50
	5-Year High	4.42	22.03	6.26	4.56
	5-Year Low	1.36	4.92	3.16	2.83
	5-Year Median	3.18	8.87	4.41	3.72
EV/Sales TTM	Current	1.50	9.91	4.60	3.17
	5-Year High	4.49	26.61	4.60	3.45
	5-Year Low	0.78	7.44	2.59	2.14
	5-Year Median	2.80	17.81	3.65	2.84

As of 08/04/2020

Industry Analysis Zacks Industry Rank: Top 50% (127 out of 254)



Top Peers

Company (Ticker)	Rec	Rank
ANGI Homeservices Inc. (ANGI)	Neutral	2
Facebook, Inc. (FB)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
Grubhub Inc. (GRUB)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
TripAdvisor, Inc. (TRIP)	Neutral	3
Twitter, Inc. (TWTR)	Neutral	3
Zillow Group, Inc. (ZG)	Neutral	2

Industry Comparison Industry: Internet - Content				Industry Peers		
	YELP	X Industry	S&P 500	FB	GOOGL	MSFT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	B	-	-	A	A	A
Market Cap	1.86 B	230.36 M	22.75 B	711.79 B	1,005.70 B	1,614.10 B
# of Analysts	6	2	14	12	12	14
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.96%
Value Score	C	-	-	B	B	C
Cash/Price	0.27	0.22	0.07	0.08	0.12	0.09
EV/EBITDA	15.57	7.85	13.09	21.71	17.50	26.61
PEG Ratio	NA	2.04	2.95	1.66	2.03	2.43
Price/Book (P/B)	2.43	2.93	3.16	6.44	4.85	13.64
Price/Cash Flow (P/CF)	20.36	13.92	12.32	29.41	21.21	28.28
P/E (F1)	NA	36.14	21.81	31.41	33.08	33.36
Price/Sales (P/S)	1.80	1.80	2.46	9.47	6.06	11.29
Earnings Yield	-3.14%	2.64%	4.40%	3.18%	3.02%	3.00%
Debt/Equity	0.23	0.04	0.76	0.09	0.07	0.57
Cash Flow (\$/share)	1.27	0.43	6.94	8.49	69.45	7.54
Growth Score	B	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	64.33%	24.24%	10.46%	42.58%	22.11%	19.44%
Proj. EPS Growth (F1/F0)	-255.13%	-14.92%	-7.16%	23.69%	-9.41%	10.99%
Curr. Cash Flow Growth	8.96%	5.26%	5.47%	-8.33%	12.62%	17.66%
Hist. Cash Flow Growth (3-5 yrs)	25.79%	11.11%	8.55%	38.21%	19.91%	10.19%
Current Ratio	4.23	1.31	1.32	6.02	3.41	2.52
Debt/Capital	18.67%	17.52%	44.36%	8.02%	6.63%	36.24%
Net Margin	2.34%	2.96%	10.25%	31.29%	18.99%	30.96%
Return on Equity	3.24%	8.26%	14.67%	22.90%	15.62%	39.45%
Sales/Assets	0.96	0.63	0.51	0.56	0.61	0.50
Proj. Sales Growth (F1/F0)	-20.32%	0.00%	-1.71%	13.48%	7.25%	8.57%
Momentum Score	D	-	-	A	A	A
Daily Price Chg	4.49%	0.00%	0.42%	-0.85%	-0.64%	-1.50%
1 Week Price Chg	5.09%	0.82%	0.14%	9.95%	-1.34%	1.84%
4 Week Price Chg	11.20%	4.07%	4.97%	3.72%	-1.12%	2.42%
12 Week Price Chg	15.27%	30.61%	15.30%	18.91%	7.14%	16.86%
52 Week Price Chg	-24.69%	0.00%	2.34%	35.40%	25.81%	58.36%
20 Day Average Volume	834,937	132,803	2,082,836	21,492,688	1,798,429	38,592,256
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	10.22%	5.86%	0.00%
(F1) EPS Est 4 week change	-3.99%	0.00%	0.93%	12.83%	8.00%	2.51%
(F1) EPS Est 12 week change	-2,055.55%	-1.28%	0.78%	11.88%	7.38%	3.00%
(Q1) EPS Est Mthly Chg	7.61%	0.00%	0.17%	16.08%	10.31%	3.89%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	C
Growth Score	B
Momentum Score	D
VGM Score	B

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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