

Yelp Inc. (YELP)

\$23.05 (As of 08/10/20)

Price Target (6-12 Months): **\$24.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/05/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:B

Value: B

Growth: C

Momentum: C

Summary

Yelp reported weak second-quarter 2020 results. 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. Additionally, as Yelp is highly dependent on advertising revenues, a decline in advertising budgets by customers, particularly those in the restaurants and nightlife categories, 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.

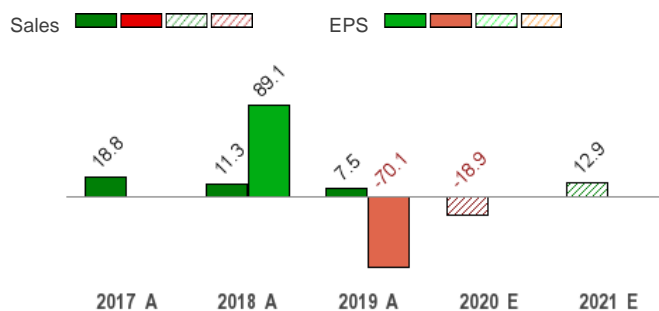
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$38.40 - \$12.89
20 Day Average Volume (sh)	1,245,439
Market Cap	\$1.7 B
YTD Price Change	-33.8%
Beta	1.52
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Content
Zacks Industry Rank	Bottom 15% (215 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	38.9%
Last Sales Surprise	10.7%
EPS F1 Est- 4 week change	-12.2%
Expected Report Date	11/05/2020
Earnings ESP	-45.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	220 E	231 E	241 E	253 E	928 E
2020	250 A	169 A	191 E	228 E	822 E
2019	236 A	247 A	262 A	269 A	1,014 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$0.14 E	-\$0.03 E	-\$0.02 E	\$0.03 E	\$0.02 E
2020	-\$0.22 A	-\$0.33 A	-\$0.20 E	\$0.03 E	-\$0.87 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.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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.

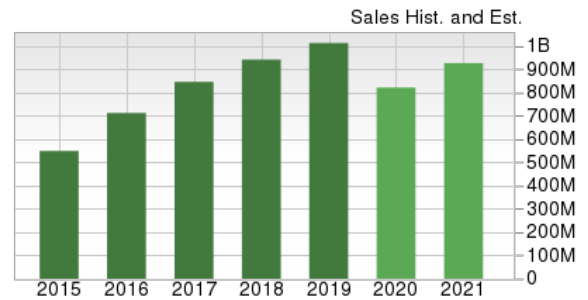
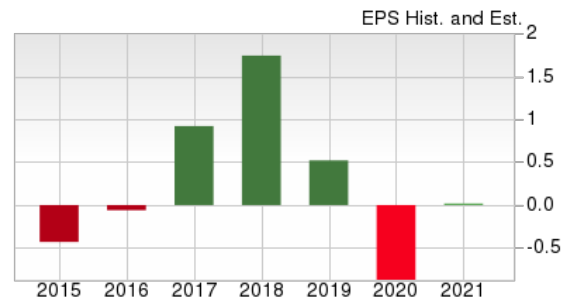
Yelp recognizes revenues from Yelp Platform, Eat24 and the Grubhub Partnership plus Yelp Deals and Gift Certificates on a net basis as transactions revenues.

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 Jun 30, 2020, the company had net cash balance of \$297.6 million, compared with \$250 million as of Mar 31, 2020. 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 \$57.2 million in operating cash flow in the second 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 negative P/E ratio of 135.5, which compares unfavorably with the Zacks industry's 37.9. Hence, the valuation looks slightly stretched from a P/E perspective.

Increasing competition from Google and lack of revenue diversification are major concerns for Yelp.

Last Earnings Report

Yelp's Q2 Earnings and Revenues Surpass Estimates

Yelp Inc. reported second-quarter 2020 loss per share of 33 cents, narrower than the Zacks Consensus Estimate of a loss of 54 cents. In the year-ago quarter, Yelp had reported earnings of 16 cents per share.

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.

Revenues declined 31.6% year over year to \$169 million. The figure surpassed the Zacks Consensus Estimate by 10.5%.

Revenues

Advertising revenues (95.8% of total revenues) decreased 32% year over year to \$162 million. This decrease was due to coronavirus-led reduction in advertising budgets by customers, particularly those in the restaurants and nightlife categories. Paying advertising locations declined 31% year over year to 377K sites in the second quarter.

Other service revenues declined 53% to \$3 million, primarily as a result of approximately \$5 million in relief provided to customers in the second quarter of 2020, mainly in the form of waived fees.

Transaction revenues were \$4 million in the second quarter of 2020, up 26% from the year-ago quarter due to increases in food take-out and delivery orders as a result of the coronavirus pandemic, which forced many restaurants to close for dine-in services and provide take-out and delivery services only.

Cumulative reviews climbed 12% year over year to 214 million. However, app unique devices declined 23% year over year to 28 million on a monthly-average basis.

Profits and Margins

Gross profit decreased 32.2% year over year to \$157.2 million. Gross margin contracted 90 basis points (bps) to 93%, mainly on inflated cost of sales. Costs flared up on higher advertising fulfillment costs and website infrastructure expense.

Total costs and expenses declined 13% year over year to \$204 million. Yelp's second-quarter adjusted EBITDA plunged 80% year over year to \$11 million. Moreover, adjusted EBITDA margin shrunk to 7% from the year-ago quarter's 22%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, Yelp's cash, cash equivalents & marketable securities were \$526 million, up from \$491 million as of Mar 31, 2020.

Net cash flow from operating activities was \$57.2 million compared with the previous quarter's \$41 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.

Quarter Ending **06/2020**

Report Date	Aug 06, 2020
Sales Surprise	10.65%
EPS Surprise	38.89%
Quarterly EPS	-0.33
Annual EPS (TTM)	-0.17

Recent News

On Jun 29, Yelp announced a collaboration with Impossible Foods to bring the all-new Impossible Sausage to 30 of America's top diners.

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 33.8% so far this year and 34% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector have grown 2.1% and 19.9% YTD, respectively. Over the past year, the Zacks sub-industry and the sector increased 6.7% and 36.7%.

The S&P 500 Index has increased 3.9% YTD and 16.4% in the past year.

The stock is currently trading at 1.85X forward 12-month sales, which compares to 8.1X for the Zacks sub-industry, 4.06X for the Zacks sector and 3.66X for the S&P 500 index.

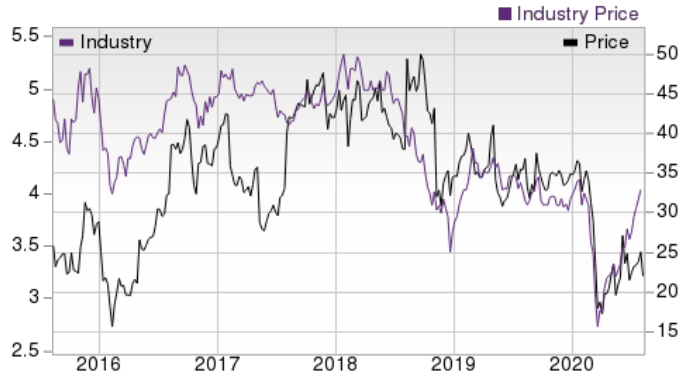
Over the past five years, the stock has traded as high as 4.4X and as low as 0.91X with a 5-year median of 2.82X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$24 price target reflects 1.94X forward 12-month sales.

The table below shows summary valuation data for YELP

Valuation Multiples - YELP					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	1.85	8.10	4.06	3.66
	5-Year High	4.40	15.40	4.06	3.66
	5-Year Low	0.91	1.83	2.32	2.53
	5-Year Median	2.82	7.70	3.14	3.05
P/B TTM	Current	2.12	6.99	6.24	4.67
	5-Year High	4.42	21.97	6.34	4.67
	5-Year Low	1.36	4.82	3.16	2.83
	5-Year Median	3.18	8.84	4.42	3.74
EV/Sales TTM	Current	1.24	10.20	4.66	3.26
	5-Year High	4.49	27.29	4.66	3.46
	5-Year Low	0.78	7.61	2.58	2.14
	5-Year Median	2.78	18.15	3.65	2.86

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 15% (215 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
ANGI Homeservices Inc. (ANGI)	Outperform	1
Facebook, Inc. (FB)	Neutral	3
Alphabet Inc. (GOOGL)	Neutral	3
Grubhub Inc. (GRUB)	Neutral	3
Microsoft Corporation (MSFT)	Neutral	3
TripAdvisor, Inc. (TRIP)	Neutral	4
Twitter, Inc. (TWTR)	Neutral	3
Zillow Group, Inc. (ZG)	Neutral	4

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)	4	-	-	3	3	3
VGM Score	B	-	-	B	B	B
Market Cap	1.66 B	156.35 M	23.56 B	749.24 B	1,018.08 B	1,575.96 B
# of Analysts	7	2	14	12	12	14
Dividend Yield	0.00%	0.00%	1.71%	0.00%	0.00%	0.98%
Value Score	B	-	-	C	C	D
Cash/Price	0.33	0.24	0.07	0.08	0.12	0.08
EV/EBITDA	13.07	6.36	13.39	22.93	17.74	22.02
PEG Ratio	NA	2.03	2.92	1.73	2.05	2.38
Price/Book (P/B)	2.12	2.70	3.18	6.78	4.91	13.32
Price/Cash Flow (P/CF)	18.18	14.97	12.69	30.96	21.55	27.61
P/E (F1)	NA	37.07	22.16	32.65	33.46	32.58
Price/Sales (P/S)	1.74	1.98	2.55	9.97	6.13	11.02
Earnings Yield	-3.77%	2.50%	4.33%	3.06%	2.99%	3.07%
Debt/Equity	0.21	0.08	0.77	0.09	0.07	0.57
Cash Flow (\$/share)	1.27	0.42	6.94	8.49	69.45	7.54
Growth Score	C	-	-	B	B	A
Hist. EPS Growth (3-5 yrs)	110.12%	24.24%	10.41%	42.58%	22.11%	19.44%
Proj. EPS Growth (F1/F0)	-267.31%	-29.78%	-6.51%	25.28%	-9.00%	10.99%
Curr. Cash Flow Growth	8.96%	2.49%	5.26%	-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	5.12	1.28	1.34	6.02	3.41	2.52
Debt/Capital	17.40%	16.88%	44.59%	8.02%	6.63%	36.24%
Net Margin	-1.29%	2.56%	10.13%	31.29%	18.99%	30.96%
Return on Equity	-1.64%	7.51%	14.59%	22.90%	15.62%	39.45%
Sales/Assets	0.89	0.71	0.51	0.56	0.61	0.50
Proj. Sales Growth (F1/F0)	-18.90%	0.00%	-1.54%	13.48%	7.51%	8.57%
Momentum Score	C	-	-	A	B	C
Daily Price Chg	5.16%	0.00%	0.91%	-2.03%	-0.10%	-1.99%
1 Week Price Chg	-12.25%	2.41%	2.30%	5.82%	0.70%	3.64%
4 Week Price Chg	1.36%	0.00%	8.54%	10.04%	-1.02%	0.57%
12 Week Price Chg	8.17%	29.89%	13.68%	23.36%	8.06%	12.62%
52 Week Price Chg	-34.03%	-3.19%	3.71%	41.88%	27.44%	53.36%
20 Day Average Volume	1,245,439	200,050	2,015,804	24,575,860	1,694,008	38,340,412
(F1) EPS Est 1 week change	-7.85%	0.00%	0.00%	0.00%	0.46%	0.00%
(F1) EPS Est 4 week change	-12.16%	0.00%	1.67%	13.27%	7.78%	2.51%
(F1) EPS Est 12 week change	-54.57%	-1.08%	2.27%	13.19%	7.88%	3.00%
(Q1) EPS Est Mthly Chg	-25.98%	0.00%	0.67%	15.21%	9.24%	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	B
Growth Score	C
Momentum Score	C
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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