

Yelp Inc. (YELP)

\$36.23 (As of 01/13/20)

Price Target (6-12 Months): **\$39.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 04/18/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: C

Growth: B

Momentum: F

Summary

Yelp is benefiting from strong advertising revenue growth. Increasing Paying advertising locations is a key driver. Moreover, the company's focus on expanding its product portfolio with the launch of Verified License, Business Highlights and Yelp Portfolios is a key driver. The collaboration with GrubHub is also a tailwind as it provides users with access to a significant number of restaurants available for food ordering on the platform. Besides, the company is witnessing acceleration in consumer traffic across app unique devices. Significant improvement in cumulative reviews is encouraging too. However, competition from search giants like Google and Bing is a concern. Lack of revenue diversification is also a key threat for Yelp.

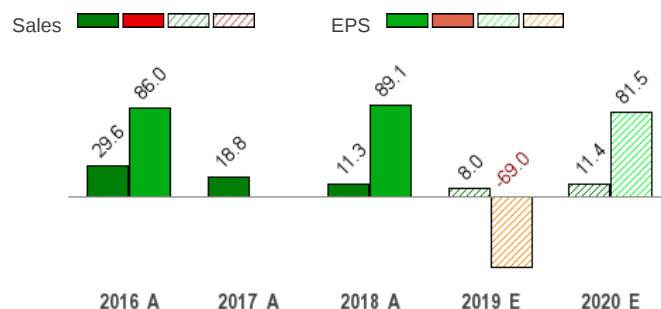
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.99 - \$30.12
20 Day Average Volume (sh)	602,906
Market Cap	\$2.5 B
YTD Price Change	4.0%
Beta	1.00
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Content
Zacks Industry Rank	Bottom 35% (164 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-26.3%
Last Sales Surprise	-0.0%
EPS F1 Est- 4 week change	-2.7%
Expected Report Date	02/12/2020
Earnings ESP	0.0%
P/E TTM	42.6
P/E F1	37.0
PEG F1	1.5
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	268 E	279 E	291 E	299 E	1,134 E
2019	236 A	247 A	262 A	272 E	1,018 E
2018	223 A	235 A	241 A	244 A	943 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.11 E	\$0.23 E	\$0.27 E	\$0.31 E	\$0.98 E
2019	\$0.02 A	\$0.16 A	\$0.14 A	\$0.26 E	\$0.54 E
2018	\$0.30 A	\$0.38 A	\$0.43 A	\$0.53 A	\$1.74 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 01/13/2020. The reports text is as of 01/14/2020.

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 2018, the company generated net revenue of \$942.8 million, representing 11% growth over 2017, net income of \$55.4 million and adjusted EBITDA of \$183.1 million.

The company recognizes revenues from business listing and advertising products including advertising sold by partners as advertising revenues (97% in 2018). Paying advertiser accounts were 191,000 as of Dec 31, 2018, up 17% year over year.

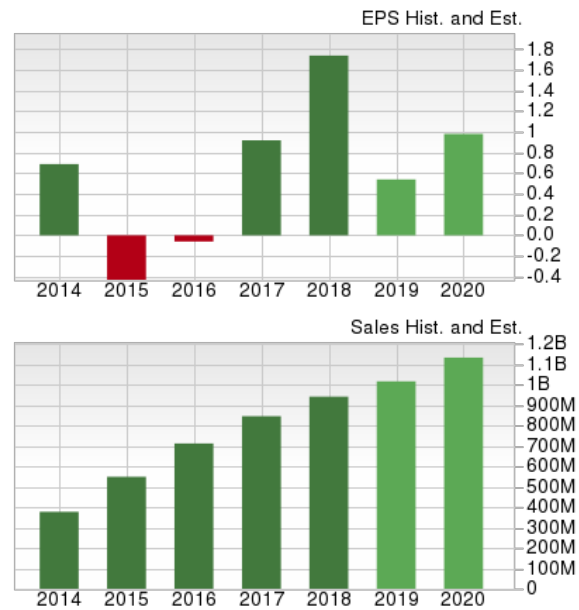
Yelp recognizes revenues from Yelp Platform, Eat24 and the Grubhub Partnership plus Yelp Deals and Gift Certificates on a net basis as transactions revenues (1.5% in 2018).

Other Services revenues (1.5% in 2018) 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, 2018, Yelp's sales force consisted of 4,029 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'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 healthy balance sheet with about \$417 million in cash and cash equivalents (and marketable securities) and no long-term debt as of Sep 30. Net cash flow from operating activities in the third quarter of 2019 was \$51 million. During the third quarter, the company repurchased nearly 2.3 million shares for \$77 million.

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 65.79, which compares unfavorably with what the Zacks industry saw over the last year. Hence, 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 Reports Q3 Results

Yelp third-quarter 2019 earnings of 14 cents per share missed the Zacks Consensus Estimate by 26.3% and fell 22.2% year over year.

Revenues of \$262 million also lagged the Zacks Consensus Estimate of \$263 million. However, the figure increased 8.9% year over year driven by higher advertising revenues.

Quarterly Details

Advertising revenues (96% of total revenues) increased 9% year over year to \$253 million. Paying advertising locations grew 7% year over year to 563K sites.

Self-serve revenues grew roughly 40% in the reported quarter.

The company benefited from rapid adoption of its products by local advertisers. At the end of the reported quarter, subscribing locations for Verified License and Business Highlights more than doubled on a sequential basis.

Revenues from multi-location advertisers grew 21% year over year, backed by growth across mid-market and particularly national advertisers.

Yelp is more and more benefiting from its Home & Local services. Revenues grew at mid-teens rate in the reported quarter. Home & Local category was mainly boosted by revenues from 'Request-A-Quote', which surged 30% year over year.

Transaction revenues were \$3 million in the third quarter of 2019, a slight increase from the year ago quarter.

Other services revenues improved 14% to \$6 million, banking on growth of Yelp Reservations and Yelp Waitlist.

Cumulative reviews rose 17% year over year to 199 million. App unique devices also climbed 11% year over year to 38 million on monthly average basis.

The company delivered 42% more paid ad clicks to advertisers while reducing their average cost-per-click (CPC) by 22%.

Yelp reported adjusted EBITDA of \$58 million, up 16% year over year. Moreover, adjusted EBITDA margin expanded 140 basis points (bps) on a year-over-year basis to 22%, driven by controlled operating expenses.

Balance Sheet & Cash Flow

As of Sep 30, 2019, Yelp's cash, cash equivalents & marketable securities were \$417 million, down from \$450 million as of Jun 30.

Net cash flow from operating activities was \$51 million compared with \$14 million in the previous quarter.

During the reported quarter, Yelp repurchased nearly 2.3 million shares for \$77 million.

Guidance

For the fourth quarter, Yelp expects revenues to increase in the 11-13% range year over year. Moreover, adjusted EBITDA margin is expected to increase 2-3 percentage points on a year-over-year basis.

The company reiterated its 8% revenue growth projection for 2019.

Adjusted EBITDA margin is projected to improve 2-3 percentage points for the full year.

Yelp remains on track to achieve the \$25 million in annualized savings it sated at the beginning of the year. This is expected to boost adjusted EBITDA margin.

Quarter Ending **09/2019**

Report Date	Nov 07, 2019
Sales Surprise	-0.03%
EPS Surprise	-26.32%
Quarterly EPS	0.14
Annual EPS (TTM)	0.85

Recent News

On Sep 12, 2019, Yelp upgraded its restaurant-related product offerings by adding Yelp Connect and advanced Waitlist features.

Valuation

Shares of Yelp have gained 1.5% in the past six months and 3.3% over the trailing 12-month period. Stocks in the Zacks sub-industry increased 1.3% and the Zacks Technology sector are up 13% in the past six months. Over the past year, the Zacks sub-industry and sector have gained 16.6% and 32.1%, respectively.

The S&P 500 Index has risen 9% in the past six months and 24.8% in the past year.

The stock is currently trading at 2.23X forward 12-month sales, which compares to 8.45X for the Zacks sub-industry, 3.59X for the Zacks sector and 3.5X for the S&P 500 index.

Over the past five years, the stock has traded as high as 7.7X and as low as 1.64X with a 5-year median of 3.03X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$39 price target reflects 2.34X 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 F 12M	Current	2.23	8.45	3.59	3.5
	5-Year High	7.7	15.07	3.59	3.5
	5-Year Low	1.64	1.79	2.3	2.54
	5-Year Median	3.03	6.55	3.01	3
P/B TTM	Current	3.34	7.9	5.47	4.46
	5-Year High	8.39	21.42	5.48	4.47
	5-Year Low	1.67	4.92	3.13	2.85
	5-Year Median	3.29	10.88	4.22	3.61
EV/Sales TTM	Current	2.35	14.19	4.19	3.23
	5-Year High	12.28	25.15	4.2	3.3
	5-Year Low	2.12	9.71	2.56	2.16
	5-Year Median	2.71	18.18	3.44	2.8

As of 01/13/2020

Industry Analysis Zacks Industry Rank: Bottom 35% (164 out of 254)



Top Peers

ANGI Homeservices Inc. (ANGI)	Neutral
Facebook, Inc. (FB)	Neutral
Alphabet Inc. (GOOGL)	Neutral
Grubhub Inc. (GRUB)	Neutral
Microsoft Corporation (MSFT)	Neutral
Twitter, Inc. (TWTR)	Neutral
Zillow Group, Inc. (ZG)	Neutral
TripAdvisor, Inc. (TRIP)	Underperform

Industry Comparison Industry: Internet - Content				Industry Peers		
	YELP Neutral	X Industry	S&P 500	FB Neutral	GOOGL Neutral	MSFT Neutral
VGM Score	C	-	-	B	C	C
Market Cap	2.54 B	202.97 M	24.31 B	632.83 B	993.17 B	1,245.63 B
# of Analysts	10	2	13	12	13	14
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	1.25%
Value Score	C	-	-	C	C	D
Cash/Price	0.15	0.22	0.04	0.08	0.12	0.11
EV/EBITDA	28.35	4.33	14.12	19.84	20.15	20.36
PEG Ratio	1.50	1.15	2.05	1.18	1.58	2.56
Price/Book (P/B)	3.62	3.12	3.34	6.74	5.10	11.74
Price/Cash Flow (P/CF)	35.87	17.61	13.66	23.97	23.59	25.70
P/E (F1)	37.28	23.05	18.82	24.49	26.30	30.48
Price/Sales (P/S)	2.57	1.51	2.64	9.51	6.41	9.60
Earnings Yield	2.70%	4.27%	5.29%	4.08%	3.80%	3.28%
Debt/Equity	0.26	0.00	0.72	0.09	0.07	0.69
Cash Flow (\$/share)	1.01	0.42	6.94	9.26	61.03	6.35
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	29.06%	16.34%	10.56%	58.03%	23.64%	16.25%
Proj. EPS Growth (F1/F0)	81.48%	18.20%	7.49%	42.20%	17.51%	12.80%
Curr. Cash Flow Growth	73.91%	7.36%	14.83%	24.75%	44.22%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	109.77%	10.64%	9.00%	60.23%	21.13%	11.99%
Current Ratio	3.67	1.19	1.23	4.66	3.78	2.85
Debt/Capital	20.94%	7.52%	42.99%	8.16%	6.59%	40.81%
Net Margin	5.63%	5.65%	11.08%	27.08%	21.04%	31.66%
Return on Equity	4.62%	7.94%	17.16%	20.39%	18.34%	39.14%
Sales/Assets	0.86	0.75	0.55	0.59	0.62	0.48
Proj. Sales Growth (F1/F0)	11.45%	8.94%	4.23%	21.46%	18.10%	11.39%
Momentum Score	F	-	-	F	D	A
Daily Price Chg	2.69%	0.00%	0.73%	1.77%	0.77%	1.20%
1 Week Price Chg	1.61%	0.00%	0.39%	4.50%	4.95%	1.71%
4 Week Price Chg	7.25%	1.76%	1.84%	12.12%	5.83%	4.98%
12 Week Price Chg	8.31%	6.08%	6.48%	16.94%	15.73%	17.95%
52 Week Price Chg	5.08%	-3.33%	23.15%	52.63%	36.95%	60.00%
20 Day Average Volume	602,906	68,481	1,578,594	12,219,519	1,286,013	20,068,832
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.03%	0.12%	0.12%
(F1) EPS Est 4 week change	-2.71%	0.00%	0.00%	-0.10%	0.12%	0.11%
(F1) EPS Est 12 week change	-5.59%	-4.99%	-0.48%	-5.02%	-2.38%	2.80%
(Q1) EPS Est Mthly Chg	-15.74%	0.00%	0.00%	0.00%	0.00%	0.22%

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	F
VGM Score	C

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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