

Yelp Inc. (YELP)

\$34.57 (As of 02/18/20)

Price Target (6-12 Months): **\$37.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 01/27/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:A

Value: C

Growth: A

Momentum: B

Summary

Yelp fourth quarter results benefited from increasing Paying advertising locations. 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.

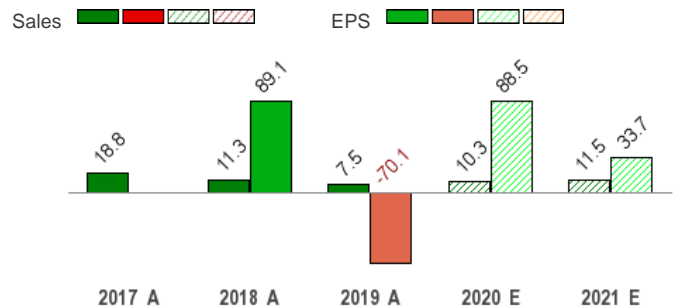
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$40.99 - \$30.12
20 Day Average Volume (sh)	974,703
Market Cap	\$2.4 B
YTD Price Change	-0.8%
Beta	1.01
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Content
Zacks Industry Rank	Bottom 33% (170 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-7.7%
Last Sales Surprise	-1.5%
EPS F1 Est- 4 week change	-2.3%
Expected Report Date	05/14/2020
Earnings ESP	-94.4%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	307 E	322 E	333 E	345 E	1,247 E
2020	258 E	278 E	290 E	299 E	1,118 E
2019	236 A	247 A	262 A	269 A	1,014 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$1.31 E
2020	\$0.09 E	\$0.21 E	\$0.29 E	\$0.34 E	\$0.98 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	61.7
P/E F1	35.3
PEG F1	1.4
P/S TTM	2.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/18/2020. The reports text is as of 02/19/2020.

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.

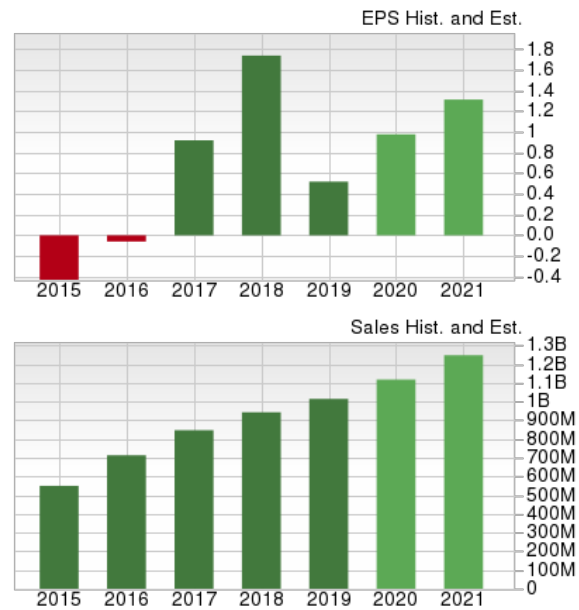
Yelp recognizes revenues from Yelp Platform, Eat24 and the Grubhub Partnership plus Yelp Deals and Gift Certificates on a net basis as transactions revenues.

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, 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 \$466 million in cash and cash equivalents (and marketable securities) and no long-term debt as of Dec 31. Net cash flow from operating activities in the fourth quarter of 2019 was \$56 million. In 2019, the company repurchased a total of nearly 14 million shares for \$481 million, which led to a 12% reduction in diluted shares outstanding by the end of the year.

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 61.73, 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 Q4 Results

Yelp fourth-quarter 2019 earnings of 24 cents per share missed the Zacks Consensus Estimate of 26 cents and declined 35% year over year.

Revenues of \$269 million also lagged the Zacks Consensus Estimate of \$273 million. However, the figure increased 10% year over year, driven by higher advertising revenues. Higher-than-anticipated seasonal reductions by SMB customers resulted in lower-than-guided growth.

Quarter Ending **12/2019**

Report Date	Feb 13, 2020
Sales Surprise	-1.46%
EPS Surprise	-7.69%
Quarterly EPS	0.24
Annual EPS (TTM)	0.56

Quarterly Details

Advertising revenues (95% of total revenues) increased 10% year over year to \$259 million. The increase was driven by growth in the number of Paying advertising locations and higher advertising budgets from Multi-location customers. Paying advertising locations grew 4% year over year to 565K sites.

Yelp continues to benefit from its Home & Local services, boosted by revenues from 'Request-A-Quote,' which surged 70% year over year.

Transaction revenues were \$3 million in the fourth quarter of 2019, down 12% from the year-ago quarter. Reduction in fees earned from Grubhub for processing credit card transactions related to Grubhub orders that originated on the platform has been a dampener.

Other services revenues rose 23% to \$7 million, driven by growth of Yelp Reservations and Yelp Waitlist.

Cumulative reviews rose 16% year over year to 205 million. App unique devices climbed 8% year over year to 36 million on a monthly-average basis.

Yelp reported adjusted EBITDA of \$61 million, up 15% year over year. Moreover, adjusted EBITDA margin expanded 100 basis points (bps) on a year-over-year basis to 23%, driven by controlled operating expenses.

Balance Sheet & Cash Flow

As of Dec 31, 2019, Yelp's cash, cash equivalents & marketable securities were \$466 million, up from \$417 million as of Sep 30, 2019.

Net cash flow from operating activities was \$56 million compared with \$51 million in the previous quarter.

Guidance

For the first quarter, Yelp expects revenues to increase in the 8-10% range year over year. Moreover, adjusted EBITDA margin is expected to drop 2 percentage points on a year-over-year basis.

The company expects to achieve 10-12% revenue growth in 2020.

Adjusted EBITDA margin is projected to improve 1-2 percentage points in 2020 to 22-23%.

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 5% in the past six months and lost 10.8% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Computer & Technology sector are up 8.4% and 22.4% in the past six months, respectively. Over the past year, while the Zacks sub-industry lost 1.6%, while the sector grew 29.3%.

The S&P 500 index is up 16.1% in the past six months and 20.5% in the past year.

The stock is currently trading at 2.11X forward 12-month sales, which compares to 8.42X for the Zacks sub-industry, 3.79X for the Zacks sector and 3.58X for the S&P 500 index.

Over the past five years, the stock has traded as high as 6.03X and as low as 1.64X with a 5-year median of 3X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$37 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	8.42	3.79	3.58
	5-Year High	6.03	15.07	3.79	3.58
	5-Year Low	1.64	1.79	2.3	2.54
	5-Year Median	3	6.59	3.02	3
P/B TTM	Current	3.21	7.63	5.76	4.68
	5-Year High	6.02	21.25	5.76	4.68
	5-Year Low	1.67	4.7	3.13	2.85
	5-Year Median	3.28	9.83	4.24	3.62
EV/Sales TTM	Current	2.16	11.41	4.51	3.32
	5-Year High	8.41	27.9	4.51	3.32
	5-Year Low	1.43	9.75	2.56	2.16
	5-Year Median	3.03	18.32	3.47	2.79

As of 02/18/2020

Industry Analysis Zacks Industry Rank: Bottom 33% (170 out of 255)



Top Peers

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

Industry Comparison Industry: Internet - Content				Industry Peers		
	YELP Neutral	X Industry	S&P 500	FB Neutral	GOOGL Neutral	MSFT Outperform
VGM Score	A	-	-	B	B	D
Market Cap	2.43 B	200.17 M	24.50 B	620.83 B	1,044.29 B	1,424.08 B
# of Analysts	10	2	13	15	14	14
Dividend Yield	0.00%	0.00%	1.78%	0.00%	0.00%	1.09%
Value Score	C	-	-	D	D	D
Cash/Price	0.17	0.21	0.04	0.09	0.11	0.10
EV/EBITDA	26.44	3.58	14.25	18.84	18.27	23.43
PEG Ratio	1.41	1.22	2.08	1.30	1.69	2.51
Price/Book (P/B)	3.21	2.82	3.28	6.15	5.19	12.93
Price/Cash Flow (P/CF)	26.89	15.64	13.68	25.64	21.88	29.47
P/E (F1)	34.95	19.76	19.12	23.39	27.74	33.20
Price/Sales (P/S)	2.39	1.34	2.67	8.78	6.45	10.61
Earnings Yield	2.83%	4.11%	5.23%	4.27%	3.61%	3.01%
Debt/Equity	0.23	0.00	0.70	0.09	0.07	0.64
Cash Flow (\$/share)	1.29	0.46	6.93	8.49	69.45	6.35
Growth Score	A	-	-	B	A	C
Hist. EPS Growth (3-5 yrs)	44.24%	13.84%	10.84%	53.35%	24.24%	17.68%
Proj. EPS Growth (F1/F0)	88.08%	12.74%	7.11%	44.79%	11.44%	18.72%
Curr. Cash Flow Growth	8.96%	10.44%	7.81%	-8.33%	12.62%	19.70%
Hist. Cash Flow Growth (3-5 yrs)	25.79%	10.88%	8.25%	38.21%	19.91%	11.99%
Current Ratio	3.98	1.19	1.24	4.40	3.37	2.80
Debt/Capital	18.80%	7.52%	42.37%	8.61%	6.83%	39.05%
Net Margin	4.03%	5.30%	11.76%	26.15%	21.22%	33.02%
Return on Equity	5.11%	8.19%	16.86%	19.97%	18.66%	40.41%
Sales/Assets	0.90	0.73	0.55	0.58	0.62	0.48
Proj. Sales Growth (F1/F0)	11.60%	8.20%	4.05%	21.23%	17.81%	13.11%
Momentum Score	B	-	-	B	A	D
Daily Price Chg	-1.87%	0.00%	-0.38%	1.69%	0.05%	1.01%
1 Week Price Chg	3.44%	-1.53%	1.65%	0.87%	2.68%	0.79%
4 Week Price Chg	-2.15%	-0.67%	0.39%	-1.64%	2.51%	12.45%
12 Week Price Chg	-1.59%	0.00%	4.84%	9.46%	15.72%	23.15%
52 Week Price Chg	-12.92%	-28.17%	14.99%	34.20%	34.88%	73.09%
20 Day Average Volume	974,703	73,547	1,996,897	16,959,684	1,719,709	31,897,204
(F1) EPS Est 1 week change	-1.51%	0.00%	0.00%	0.32%	0.51%	0.00%
(F1) EPS Est 4 week change	-2.30%	0.00%	-0.01%	1.73%	0.06%	5.25%
(F1) EPS Est 12 week change	-3.09%	0.00%	-0.21%	2.37%	0.19%	5.36%
(Q1) EPS Est Mthly Chg	21.32%	0.00%	-0.26%	-1.08%	-0.75%	7.07%

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	A
Momentum Score	B
VGM Score	A

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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