

Yelp shares surge 63 percent in stock market debut

March 2 2012, By BARBARA ORTUTAY , AP Technology Writer



In this Oct. 26, 2011 file photo, the logo of the online reviews website Yelp is shown in neon on a wall at the company's new Manhattan offices in New York. Online reviews site Yelp is expected to price its initial public offering of stock on Thursday , March 1, 2012, and become the latest in a long line of social websites going public. (AP Photo/Kathy Willens, File)

(AP) -- Yelp's stock opened to five-star reviews from investors on Friday, soaring 63 percent even though the company has yet to prove it can make money from its online recommendations.

After Yelp's [initial public offering](#) priced at \$15, the shares gained \$9.52 to close at \$24.52 in their trading debut. In an indication of the strong investor interest in the 8-year-old reviews site, the IPO sold above its targeted range of \$12 to \$14 per share.

It's the biggest first-day gain for an Internet IPO since online real estate service [Zillow](#) Inc. surged 79 percent in its stock market debut last July. Yelp's gain wasn't the biggest for an IPO so far this year, though. Those bragging rights still belong to Proto Labs Inc., a Maple Plain, Minn.-based provider of customized parts. Proto Labs' shares soared 81 percent in their first day of trading a week ago.

Yelp's IPO is the latest in a series of Internet stock offerings that are serving as a prelude to Facebook's coming out party on Wall Street this spring. Facebook's IPO is expected to raise at least \$5 billion and anoint the owner of the Internet's largest social network with a market value ranging from \$75 billion to \$100 billion.

After expenses, [Yelp](#) Inc. estimates it will get about \$96 million from its IPO. The company sold 7.1 million shares and its charitable foundation another 50,000. Investment bankers also have an option sell an additional 1.07 million shares, depending on investor demand. If those shares are sold, Yelp expects net proceeds of \$111.2 million.

With Friday's [stock price](#) jump, the San Francisco company has a market value of \$1.47 billion. Such a big first-day jump is common, especially for high-profile Internet companies such as Yelp. LinkedIn Corp., the [professional networking](#) service, saw its stock nearly triple on its first trading day last May, reaching \$122.70 after pricing at \$45.

The biggest individual winners in Yelp's IPO are its chairman, Max Levchin, and its CEO and co-founder, Jeremy Stoppelman. Levchin, 36, owns 7.1 million shares now worth \$175 million and Stoppelman, 34, owns 5.9 million shares now worth \$145 million. Both Levchin and Stoppelman made \$15 million by selling some of their stock before the IPO.

The IPO also will enrich many of Yelp's 900 employees who received

[stock](#) incentives as part of their compensation packages.

Though it's best known for restaurant reviews, Yelp's users have reviewed churches, strip clubs, hospitals, hotels and high schools. The company makes money from advertising. Most of the ads come from the local businesses that its users review. In 2011, it booked revenue of \$83.3 million, up 74 percent from 2010. It had a net income loss of \$16.7 million last year and \$9.6 million the year before. Yelp's losses since its inception total \$41 million.

"Yelp's active community of users writing reviews of local businesses is difficult to replicate," said Morningstar analyst Rick Summer.

"Unfortunately, the company faces challenges translating the small advertising budgets of [local businesses](#) into profitability, as about 70 percent of ad revenues are eaten up by sales and marketing expenses."

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Citation: Yelp shares surge 63 percent in stock market debut (2012, March 2) retrieved 9 April 2024 from <https://phys.org/news/2012-03-yelp-surge-percent-stock-debut.html>

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