PHYS.ORG

Yelp may put out 'for sale' sign after first quarter letdown

May 7 2015, byMichael Liedtke

Yelp may be heading for the auction block amid concerns about the online business review service's ability to compete against larger Internet companies for digital advertising.

Investment bankers working with Yelp are courting potential suitors, according to a report Thursday in The Wall Street Journal, raising investors' hope that the San Francisco company will be sold. The Journal cited people it did not identify who are familiar with the matter and cautioned that Yelp Inc. still might not pursue a sale.

Yelp declined to comment under its policy against responding to rumor or speculation.

If Yelp solicits bids, Jefferies analyst Brian Pitz believes Google Inc. would be the most logical buyer. Other leading candidates include Yahoo Inc., Facebook Inc. and Priceline Group Inc., which could use Yelp to complement its recently acquired OpenTable service that books restaurant reservations.

The prospect of a sale emerged a week after Yelp disappointed investors with a first-quarter report and a revenue forecast that lagged analysts' estimates. The letdown triggered a sell-off that hammered Yelp's already slumping stock, which lost more than half its value in eight months.

Yelp's stock bounced back Thursday, surging $8.79, or 23 percent, to close at $47.01. Despite the rally, the shares still remain below where they stood before last week's first-quarter dud and well off their 52-week high of $86.88 reached in September.

A sale of Yelp might fetch around $4 billion, based on the company's current market value.

Yelp would be an attractive takeover candidate because its review service is a popular destination among consumers looking for restaurant recommendations and suggestions about other neighborhood merchants. Like most free online services, Yelp depends on advertising to make most of its money. Although its revenue has grown steadily, Yelp isn't keeping up with formidable rivals such as Google and Facebook, which attract far more visitors and have been expanding their efforts to sell digital ads to small businesses.

Before Yelp went public in 2012, Google tried to buy the company for about $500 million. In an interview last year, Yelp CEO Jeremy Stoppelman told The Associated Press that he ended the 2009 negotiations with Google because he decided a sale wouldn't be in his company's best interests. Stoppelman also said that Steve Jobs, Apple's late CEO, called him to urge him against selling because Yelp "wouldn't be a great company if it fell in the hands of Google."

After the flirtation with Google, Stoppelman became an adversary of the Internet search leader. Yelp and several other companies complained to regulators in the U.S. and Europe that Google had been abusing its dominance in Internet search to highlight its own services even when rivals had more relevant information. U.S. regulators ended their investigation into Google's practices in 2013 without finding any wrongdoing, but European regulators believe Google has been manipulating its shopping comparison service to illegally thwart competition.

The lingering acrimony from those antitrust probes could make it difficult for Yelp and Google to join forces, though Google could easily afford the likely asking price. Google currently has about $65 billion in cash.

Yahoo CEO Marissa Mayer also might be interested in snapping up Yelp as she strives to boost her company's advertising sales. Mayer was a Google executive during the 2009 negotiations with Yelp. Before he started Yelp in 2004, Stoppelman worked at PayPal, which was co-founded by Yahoo board member Max Levchin.