Stanford eCorner

The Road to IPO [Entire Talk]

Geoff Donaker, *Yelp*

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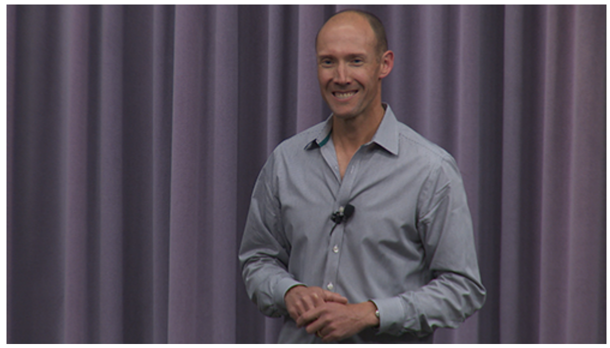
Yelp COO Geoff Donaker steps through the big questions and challenges faced in taking a company public. Donaker discusses working with bankers, developing a road show for investors, and many of the issues of pricing and timing faced by Yelp in the run up to their public offering in 2012.



Transcript

Thank you very much, professor and thanks everybody for coming here. It's fun to be back on campus. I was asked a couple of times how often I'm here on campus and the answer is actually I never left. I was a student here and I was thinking as I drove down today and it's quite hot out there. I was thinking about a time when I lived at school back when we had to walk barefoot both ways in the snow and I did live in a house with no air-conditioning. I don't know how common that still is. But it was really, really hot a couple of days and so they had the claw turned on which I think they may not this year, because of the drought. So a couple of friends and I took beach chairs and sort of set up with a 12 pack in the claw and just sort of hung out there for the afternoon. We did this for a couple of days in a row and no one seemed to mind, so just sort of sat there reading their reading. I no longer do that unfortunately, but I'm still on campus because I come here for sporting events and a variety of things.

I actually take meetings all the time at the Arrillaga Alumni Center, which is an awesome facility. Let's say quick things. We've got some Yelp users in here, hopefully? Okay, yes, that's good to hear. Thank you for that. So Yelp was founded in 2004. We went public a couple of years ago in 2012. A little about me other than going to Stanford, I did a couple of years of consulting after school, management consulting and then joined a couple of start ups after that. One was called Classifieds 2000 and another one called Voter.com in sort of middle and aftermath of kind of Web 1.0 bubble. One of those worked out pretty well, the other one not so well. I then went and spent five years at eBay in a variety of roles.

And then joined Yelp as the 10th employee and have gotten to participate in a fabulous ride over those years. One of the questions that I'm most often asked is what was it like to go public? And as I thought about what to chat with you'll about today, I thought this might be a perfect topic because this is a question that I'd little bit like being asked what's it like to be a father? Cannot easily be answered in 10 seconds of an elevator or the cafe or something like that. So when I'm asked that question in elevator, I often find myself saying something like it's pretty good or just sort of not having anything worthy to say. So what I thought I'd today in the question of what's it like to go public, is actually try to break that down a little bit into its component parts. And I think the starting question is maybe best asked is why would you go public, why would a company want to go public, private company funded and what not and you go public. And I guess the place to start there is how many of you are familiar with the concept of venture funding and how it works and its - okay, looks like half of the room. So I'm going to do the super version, the lay person version of this, but it's - if you wanted to start a pizzeria, the typical way to get financing if you didn't have parents with deep pockets, would be you probably go to a bank. Right? You got to a bank, bank lends you money and you pay that off, just like you would, a car loan or a house loan over a period of time. Typically if you want to start a startup company, technology company and hire potentially expensive employees, that kind of financing, bank financing loans are not really accessible to you. Bank is not going to give you millions of dollars, because you have not collateral, you have nothing to pay them back with and you have no cash flow to pay them back.

So typically what companies around here do and the reason we all talk about venture capital and whatnot is you take an equity investment, standard rule of thumb on this would be you go to a venture capitalist, he or she makes you a deal, you negotiate that and you end up giving them effectively 20% of your company, obviously it can be much more or much less, but that's got to be a nice round number to stick with and in exchange they give you a pile of cash. Hopefully that's a fair trade for everybody. What the venture capitalist is betting on, right, when he or she makes 10 of those investments is that couple of them are going to belly up and money is going to be gone. Right. Some of them, they'll get their money back and they're hoping that at least one out of those 10 investments is a home run for which million dollars in, returns $10 million, $20 million or $50 million. It's kind of the simple rule of the game. They tend to have - most of these funds have a 10-year time horizon. And so what does that mean, it means that when they give you the money, the idea is they're going to get it back sometime in the next 10 years. So when we raise money, which we did from the beginning of Yelp and before my time, we took money as equity investments in this form. We were really lucky to have great investors.

Our first three investors were Max Levchin, who is the co-founder of PayPal, gave us our first million dollars. Then we raised money from Bessemer Venture Partners about a year or so later. Raised another $5 million and then about another year after that we raised money from Benchmark Partners, and raised about $10 million there. Alright, then, sort of, it we went on from there. But those were the first three and kind of key Board members which is also part of the deal, right. Typically when the company or the investor gets that 20% of your company, they also sort of get a vote, right. So they get to be a member of your Board and as a result have a voice in key decisions in your company going forward. So now that you've taken that money, your deal is pretty much at some point in time you're going to have to pay your investors back, right. And your choices for that are pretty simple; either you're going to sell your company, assuming it become worth something, right. If it's worth nothing then no one cares.

But assuming it's worth something, you're going to have to pay your investors back. You have two choices, you can sell, classic acquisition or you can go public. There are other alternatives, I'm sure there are people in the room going yeah, there is this other scenario. Realistically though, those are the two that are most common. So, that's it. The next question that comes in, okay so why didn't you sell early, right? We are really lucky at Yelp, from a relatively early time in the first year or so there started to be signs of life. We started to have hundreds of thousands of people and then millions of people come into the site, it looked really interesting, we got started in a second city, and then a third city and a fourth city and then started to spread. And we thought, hey, we might have something going here. And so, not only we were able to attract venture investment, right, which allowed us to raise more money to pay the bills and keep going and expand in new cities and whatnot. But we also attracted acquisition interest.

So we did have interest and we would often maintain these dialogues with larger companies who had larger war chests and we got close to selling a couple times. Once when we were about two years in, we got close to selling for about a $100 million. Another time when we were about five years in, we got close to selling for about $600 million, and we didn't sell either time. The short version of why we didn't is that the founding team and the investors and Board of Directors actually thought the company was best served by staying independent and seeing it through. There's pros and cons. There's oftentimes you're making an expected value calculation at that point in time from a purely financial perspective. The short version at both of those exit points was if we had taken the money and sold out, that would have been best at that time anyway, it would have been a good outcome for the founders and the early investors, they would have done really well, right. The rest of the employee base and the entire Yelp community and the site we've built it wasn't really clear that, that was going to be better for Yelp, the product, and the company and the community. And so opportune is a little bit of bind if you're on the Board or in a position to help make that decision, is this is actually in everybody's best interest? In many situations what happens to companies when they're so lucky to have that inbound acquisition opportunity is they end up selling. And there's really two ingredients that it would take to enable you to not sell in that situation and to keep going.

And those two ingredients are one; your Investors and Board have to have deep enough pockets that they don't actually need the money right now. And two they have to see enough in the story to believe it's actually going to be worth more one, two, five years from now than that payout is worth today, right. Both of those ingredients are really critical to kind of get through that acquisition point and kind of keep moving on. At the end of the day, I guess what I would tell you is what really motivated us and what kept us going is that in some ways - a lot of ways an acquisition is kind of the end of the company. Whereas the IPO is really just the end of the beginning of a company. And good, bad or otherwise those of us involved, have pretty big eyes and think that what we're working on has the potential to change the world for the better and be a lot bigger five and 10 and 20 years from now than it is today. And that keeps us motivated and coming to work every day. We were really lucky back to our investors. We happened to have great investors. People sometimes talk about the brand names associated with investors and that can be a good indicator.

A lot of it in my experience has to do with, who is the individual who is sitting on your board, who is making that investment. What is making him or her tick, and what is their realistic time horizon associated with that investment. As it turns out in retrospect, we didn't really know any of that going in. We got really lucky that the three individuals that I was talking about earlier who represented Benchmark and Bessemer and then also Max himself from PayPal, didn't actually need the money. They certainly were interested in the money, when it came around at those acquisition gateways, but they didn't need it then, right. And I think we all understand the difference between needing the money now versus kind of wanting it and it's interesting, but I could wait another year or two for delayed gratification for a better payout. And we are really lucky that in those cases they were willing to wait. The other thing was everybody sort of saw what we had going and was able to say hey if things go well, I think there's a chance this thing could be worth a lot more 2 years, 5 years, 10 years from now than it is today. And what were the ingredients, I'm often asked that like how did you guys see things that allowed you to keep going? There are a couple of ingredients that we had that made it interesting to keep going at those gateway times. One was, we were in an industry that was already really lucrative and it was transitioning online.

So the yellow pages, yellow pages have been around for decades, really lucrative industry, still shockingly big industry even in the U.S. and it was really clear and had been clear by the time we're talking 2006 and 2009 that it was going to find its way online, meaning the advertisers, the users therefore the money was going to find its way online. And we thought, we were really well positioned in this marketplace and such that even if we didn't win, even if we were second or third in this market, it was big enough to support a really big interesting business. And we thought we had the ingredients of a well-built company and product and sort of playbook, go to market playbook that would enable us to sort of continue to scale that for years to come. And so when the investor group and the founders looked at that, they said like, hey, we feel reasonably confident that we can keep going, which raises I'm going to go to sort of the next part of the question now, right. Which is, okay, so now we're two years in, later we're five years in, so we've got a bunch of employees now as well as some early smaller investors who came in with those big investors who are actually now five years into an adventure and they've been - the case of the employees, making relatively lower salaries, myself included at the time, and getting paid in options which have that theoretical paper value, but you can't eat them. So how do you solve, as Andrew Mason once put it, the money problem? So we had what you might call this money problem which is: okay, we decided to stay independent, we didn't sell, we continue to not sell and we kept saying we're going to go for the long-term, but these options are still just paper. How can you turn those options into money? And this is something that's changed a lot in the last five years or so. There was and we were really lucky to basically find another investor in this case, the firm is called Elevation Partners. It's actually Bono's investment firm from U2.

And we were able to come up with a deal with them that enabled us to bring some more money into the company, that's what we call primary capital, but also to enable early employees and investors who wanted to sell some of their shares to Elevation. This turned out to be pretty interesting time for the company because again and especially the second time that we didn't sell, it got really public. So you can imagine you're an early employee, you've been making this not very high salary for a number of years and you've got these options, you can't eat over here and you're calculating hey those would be worth X, Y and Z, if you guys had sold. Well that would be kind of nice to be able to get a little access to that, how you're going to solve that problem for me. So what we decided to do and the deal we were able to work out with Elevation was every employee who is vested, meaning they have been at the company at least a year could sell up to half of their options to Elevation if they wanted to, at a market established price. That turned out to be a great thing. Its distracting for about a month and it was a little bit complicated, but what it enabled all those early employees who wanted to do is take a little bit of money off the table, derisk a bit and then get back to work and keep building the great company. So that turned out to actually be a pretty important milestone that enabled us to ignore the problem of either selling or going public for another couple of years. So now - so that was in late 2009, early 2010. So now we get into 2011, the next question of course becomes so when and what did cause you to go public? How did you decide its time? And then there's a couple of answers to that question.

The longer kind of slow evolutionary answer is we always had this number in our head, probably a couple of CFOs and CEOs we had talked to earlier had put it their that was when you're at $100 million in revenue and you have some positive cash flow, you're probably ready to go public, right. If you have a sustainable $100 million in revenue and we were eking up on that at this point in time. So we kind of knew at this point this is I guess probably spring of 2011, we had a sense that we were going to do mid $80 millions in revenue that year, business models actually looking pretty consistent and growing still fast based on previous year. We could sort of see it. So it sound like okay maybe we're getting into that territory where we should be thinking about it. So that's kind of going on in the back of your mind all the time. And then funny enough, the straw that broke the camel's back was our then CFO, Vlado Herman who had been an early employee and critical guy resigned. He came to me one day and without going at gory personal detail, funny side story, his wife was also running finance at Facebook at the time and they had two young kids and they both have these crazy commutes and high class problems clearly, but they're living this nutty lifestyle where they're both just working all the time, have these brutal jobs and so he decides to be the guy to put his hand up and say hey I'm going to go, deal with the family for a little while. He gave us lots of notice. But that became the time when Vlado decided to leave, Jeremy and I kind of looked at each other and said, alright well guess we got to find a new CFO.

Who are we looking for? And that quickly led itself to, maybe that's time, maybe we should go public. Funny enough how these things happen, right? But as you ask yourself these questions like okay who should we be hiring and what's the profile we're looking for? There are people who have been private company CFO's, there are people who have been public company CFO's. There is actually a relatively small pool of people who have taken a private company public. And the going public process itself is actually kind of a complicated tactical thing and we thought it would be really advantageous if we were going to do it, we may as well use this opportunity when we're hiring to hire someone who has been through it once before. And so we did. We effectively drew up a spec that said all right, here is what we're looking for, somebody who preferably has worked in an Internet company and been a CFO of a public Internet company, who preferably has actually taken one of those companies public him or herself, right. And last but not least, who has a shared sense of mission and value and purpose with those of us who actually work here so that we all pass the O'Hare Airport test - everybody know what that is? That's if you get stuck in the O'Hare Airport for six hours, can you actually hang out with this person and not want to cut your arm off. So it's kind of an important test to pass if you're going to hang out with somebody for most your waking hours. So that actually turns out to shrink the universe of candidates pretty fast, right. It's like, okay you got have somebody who meets all those criteria and we were really lucky to find one.

So Rob Krolik who is our CFO now, was the guy we found in 2011, but the way that we attracted him and candidates like him were with profiles like his was by saying it's time everybody - all you candidates know what Yelp is and you kind of know what our story is, we're going to go public and we're trying to find the person who is going to take us public. It enabled us to meet some fantastic candidates including Rob who we then brought on board. So then the next question is like all right, so now you've decided you've got your CFO, so what's that whole like you're ready, but then actually going public, what does that involve? And I guess, the short of it is, from the time we said go to ringing the bell at the New York Stock Exchange was about six months. And some of the milestones that might be interesting to you in there were one of the first ones, once you sort of got your act together, you decide in general what you're trying to do and of course your financial house already had been in order to get this far; you pick your backs. So this is kind of funny how simple it is because sometimes these things take on a life of their own in storytelling, but the reality is you put the word out to a bunch of the big banks, investment banks and you say hey we've decided we want to go public and we're trying to pick a team to do it, we're going to pick a Friday a and everybody has got an hour to come in and pitch and we literally had I think eight banks come through on a Friday and pitch us as well as couple of our Board members what makes their services special and who from their team is going to participate in the process and what are they going to do differently than the other guys. As you can imagine as with most RFPs or those kinds of things in life, 90% of what they're saying is the same and you end up choosing on the margin of a couple of things they say that are a little different as well as the chemistry of the people who are selling. We were really lucky again in this situation. The banking team we chose was Goldman Sachs to lead the process and then there were several other banks that participated and interestingly, and sort of timely because yesterday there was news that the guy who led our process Anthony Noto just left Goldman to take a new big job, and so he was in the news yesterday and then the guy who co-led the deal with him Nick Giovanni, got promoted to kind of take Anthony's job. So that's kind of exciting to see both of those guys in the news just yesterday. But in fairness they did a great job on our deal and good to see good things happen to good people.

So back to like we've now picked our banks, so now what? So the next two months basically in the process, now that we picked our banks, it is what's called writing the S1, who has heard of an S1? Right. So S1 is filing document. It's basically a document, it's like this thick. Really small font, you will never read it, but it is a kind of thing you get in the mail if you're an investor and its supposedly your opportunity as a company, it actually is, but I say supposedly because in my experience not too many people read it, your opportunity to tell the world everything they're suppose to know about you to decide if they're going to invest in your company or not. And the way this works is because you been a private company and you're now going public, you're not allowed to talk individually to investors anymore, because you don't want any one investor to have unfair information advantage over another, okay. So you're real quiet and you're spending days at a time in conference rooms full of highly paid bankers and lawyers arguing about the syntax of sentences that are on page 75 of this document. I'm really fortunate that I personally only had to spend a few days in that room, but I will tell you that there are many other people spending many more days on this. So it's a little bit funny, side note to think about that but process goes on at every public company with some regularity, that's what we get for being involved in that. So anyways S1 document gets crafted. Spend all this time making sure that the document is perfect, everybody agrees on all the language throughout this very thick document and then you come to a period of time where you file that document.

What does that mean to file the document? Basically it just means now it's available on our website and every investor or mom or dad or anybody in between who is interested in reading it, can read all of the gory details of the financials of your company, what you think you're going to do with the money that you raise, how much money you're trying to raise, what do you see as the prospective future, interesting things about your company and whatnot. Next thing that is coming is was called the road show. The road show, anybody familiar with the road show already? Yes, heard of the road show. So road show, it's a two or three week marketing period. This is the time where you as a management team get the honor of going into flying around the country to meet groups of investors, sometimes in large settings of groups this size or larger, and sometimes individually with two or three or four investors who tend to be large pension funds and control a lot of money. And so you basically have this two or three week period where you're going around meeting with investors and the really funny thing about this that's not so fun in the moment, but funny to talk about is you have to say exactly the same thing in everyone of those meetings. So you might ask yourself in the day of video why is it a good idea to travel all around the company meeting with people individually saying exactly the same thing? I don't have an answer to that question, but it's just how the process works and so we did it and we played along and there were certainly some entertaining parts of that such as flying around on a private jet for the first time in my life. So that was kind of cool for at least the first day and then that got old quickly just like everything else. And there was a couple of memorable moments where like the CNBC crew is camped out trying to take footage of us outside of a hotel in New York so we got to go in a secret elevator through like a department store and there was a secret elevator we went through a kitchen in order to like appear on stage at this event. So that was kind of memorable.

Mostly I would tell you it's all a blur because I was in a bunch of different cities giving exactly the same answers to exactly the same questions over and over. And then what's happening all through during this process - and okay so maybe we should take a step back, anybody have an idea of why are we doing all these investor meetings? Anyone? Go, sorry. To sell the shares. To sell the shares, right. Because basically we want - the whole idea about this process, right is we're creating new shares, and in our case I think it was 7 million shares we're creating and we're trying to sell them to these large investors who then give us money. And that's the price that then gets out on your share, so that anybody else who holds your shares, your investors and whatnot can buy and sell those freely in the public market. So the reason that you're traveling the country is to get these big investors interested in buying your shares and effectively setting a good price for your deal, okay. So as this is going on, the banks who also control large sales forces are calling in to their clients right after you've met them and saying hey, what do you think about those Yelp guys? You just talk to those Yelp guys, obviously you control in many cases billions of dollars, are you interested in getting on this deal and if so, at what price would you want to buy and how many shares would you like to buy? So it's a really important thing it's all rather manual, it's kind of shockingly manual, but that's actually what's going on beyond the scenes, as hundreds of investors are individually talking to their sales person at each one of the banks, telling them how much Yelp shares do they want to buy and at what price would they do the deal. So then the day before we're scheduled to go public, so we're scheduled to go public on a Friday, we all meet up in Goldman's offices on a Thursday night, we're done talking of investors and now the key question is do we have enough demand? Again, we're trying to sell some number of shares I probably get that number wrong now. We are trying to sell some number of shares and the question is do we have the demand to actually sell that number of shares at the price we wanted to sell it at.

I think we had just gone out saying, we're seeking to sell shares at about $13 a share, that was kind of a made up number, but we put it out there and so then the question is what does the market want to buy? So what the market told our sales forces was they wanted to buy something like 150 million shares compared to the 7 million we wanted to offer, at prices ranging from the $13 we said all the way up to $18, $19, $20. So now you have a really funny exercise which again is basically a bunch of people sitting around the conference table and some people participating on a phone, mostly bankers, but also our board members and us on the management team and the question goes okay, it seems like we have enough demand to go forward tomorrow, because 180 is more than seven. But what price should we actually sell those shares at? Now common supply and demand logic would suggest you should sell them at as higher prices you can get? Not necessarily. Anybody on why not necessarily? The prices can go up later on. The prices can go up later on, yes. You also give away a lot of your company. Actually, yes, that's just true. If we sold more shares, we'd give away more of the company, that is true. Quality of the investor who is going to hold longer. Yes, quality of the investor who is going to hold longer, these are all true.

And one last one, yes. If your price is too high, the market could collapse which happened to many tech companies and there'll be horrible press. This is the real issue. Yes, he totally nailed it. Yes, if you pick a price that's too high, what could happen the next day is that the price could collapse. And so if for instance, we had picked a price that we knew - remember we have theoretically 180 million shares that people want to buy and we will have 7 million to sell, what if we pick 25 or 30? And people tell us they're going to do that deal, if the next day the price collapses; we could have effectively a broken deal. So we have a bunch of investors now who in that theory would have bought all these shares at a really high price and they sell them immediately in the marketplace, which then could tank the price of the of the stock on its opening day and we'd have a bunch of investors who got burned because they lost a bunch of money their first day in. That will be bad; you don't want to do that. So what you're trying to do is you are trying to find kind of the sweet spot and again it's all very manual, as it's kind of funny in this day and age, but you're basically trying to choose a sweet spot where your investors have a chance to make money and feel good about some gain, but were you raise as much money for your company as you can as well, right. Because you don't want to just give away money.

In our case, we basically - at the advice of our bankers and kind of going back and forth and trying to think that through and also watching some of the other tech deals that hadn't worked shortly before our time, we ended up picking the price of $15. This is little bit of this, but you're doing your best to be scientific about it as well. And then the next fun part of the equation becomes who gets them? So remember investors told us they wanted to buy 180 million shares as it turns out when we kind of ask the question like does this always work that way? It kind of always works this way. And the reason it kind of always works this way is the investors have figured this game out too, right. The hot deals are always going to be oversubscribed, means that even if they really only want to buy 100,000 shares, they're going to tell you they want to buy a million shares, because they know the way to get 100,000 is to ask for way more. And then it's a little bit of a game for who is going to get what. And then it kind of comes down to a negotiation between mostly the banks who are involved on the sell side, trying to give their clients these various investors allocations, which is a piece of the deal. We are going to give this firm 100,000 shares - sell, this firm

100,000 shares, that firm 100,000 shares, this firm 50,000 shares, and then us on the founding management team chiming in as well. Hey, we would really like to give extra to that particular firm, because they seem to really get the story. We think they're going to be long-term holders.

We'd love to have a relationship with investors who are going to participate in Yelp for many years to come. We'd rather - you don't give an allocation to that firm because frankly those guys were really jerks in our meeting and they were rude and they were tough on us, and again kind of funny, but a manual part of the process. So that continues late into the night, the basically allocation until all of those 7 million shares are accounted for, the deal then gets done by the sales people who then go out and sell the shares, in the next morning we go out and we have the opportunity to ring the bell, which turns out funny enough the bell is a button at the New York Stock Exchange and they - guy who is the CEO of the NYSE tells Jeremy before he hands Jeremy as our CEO who is going to ring the bell. He is like yes, so you have to push the button at exactly 9.30 and Jeremy says what happens if I'm like couple of seconds late? He said, we'll help you. So you know it's not entirely clear to me if you actually are ringing the bell or not, but it doesn't matter it feels good to push the button and then hear the noise and everybody claps for a really strangely long amount of time because it's all captured on video and so they tell you actually beforehand you should clap for at least three minutes, we'll tell you when to stop clapping. Have you ever tried clapping for three minutes? It's really -- this is really long time; especially if you're clapping for yourself it's a bit odd. But anyway, really cool thing to be part of. And then we went down the floor which again is kind of entertaining because there is no longer a lot of people on the floor, it's most likely a server farm with few dozen people and then we watch sort of the market open. And that's actually kind of interesting because there is a manual process again there, because the first time the market opens and starts trading in your stock, the market maker is basically choosing the price at which the stocks are going to open. And he or she is trying to pick up a price at which the stock is not too crazy volatile because it almost definitionally it's going to be when it first opens up, because you're getting orders of all kinds of different prices, buying and selling and the electronic exchange is doing what they do.

So anyways, it does we actually end up finishing our first day at something higher than 15, which was a happy result and kind of that was that. So then one of the next questions I end up getting is kind of the resulting questions like okay so what's it like being a public company and how does that compare to being a private company and is it different? And mostly the answer is it's not that different and it's mostly not that different and that's by design. We did that whole thing as you recall because we didn't want it to be the end of the company, we just wanted it to be the end of the beginning. And mostly that's been true. There are certainly some regulatory things and things that are a little bit different about being in a public company than being in a private company. A funny example of that is about a week after I got back from the stock exchange and the road show; one of our senior guys the guy who runs our worldwide sales team, who is going to be moving to London. So we had adjust his compensation, he was going to get like a housing allowance. And of course when we are a private company, you could imagine how that goes. It's a conversation between Jeremy and me and Jed who is the guy in question, we have that conversation and we sort of approved his compensation package and you move on. Well, it turns out that needs to be a little different now, because he is a named officer and so what that means is any change to his compensation even housing allowance, anything, it actually has to be filed into the public markets as a statement and it's effectively equivalent of a press release.

And so we're like four days into being a public company. So I type off this e-mail to a couple of our folks on our board saying, hey, I'd like to recommend that we make this change to Jed's comp because he's going to be moving to London and, Rob, our CFO, fortunately was on the floor at the time comes running over to me and he's like can you please call them and tell them that not approve that yet. I was like, what are you talking about? It's like, because the moment they approve it, we actually have to file or release and I'd really love to avoid the fourth day of being public, like filing a statement saying we're paying our executives more. So it was an interesting learning experience and, in fact, that didn't get approved and so we waited a few weeks and got dealt with and it was what it was. No different result, but it was just kind of a funny learning for like, oh, okay I guess we really are into the microscope now and all the little things that we used to do are now subject to a little more scrutiny than they were before. The other thing that's, of course, tends to be on people's minds is, like, the stock price. What's it like to have a stock price that's just always out there and ever-present? It can be distracting. I look at it, I know that most of my fellow employees look at it and talk about it and ask about it. On the one hand, I'd say, I feel very grounded about it. So I worked at a bunch of other tech companies beforehand and stock prices tend to be highly, highly volatile.

So the way I think about especially in our sector, so I tend to think about it as, hey, if you're in it for a five-year time horizon, right, you don't really care, because over time the stock price will reflect the success of the business. If you care about the stock price in a day to day or week to week timeframe, boy, you're going to be terrified, because this can to be a rollercoaster, and so you'll be doing this and you have no idea - Putin does something nutty in Crimea, the next thing you know your stock price has gone north or south and very quickly. So I equate it a little bit to, if you were in high school and you could know every good and bad thing, everybody else in high school said about you at every moment of the day. That's what's it's like having a stock price. It's like somebody said something good about you, the stock's up $3, it was like what is that, and I'll turn it if it's obviously true too, so that's a little bit distracting. But the big picture, of course, is we did it for it to be the end of the beginning and the beginning of the middle. And so far that's been true. We take a lot of inspiration from some of the companies that have kind of gone before us and done, what I would consider, kind of great things in one form or another and look to them for inspiration. One of the companies I always have fun with, because I've got young kids, is Disney. And Disney has done some really interesting things over the years.

And you kind of look back to, like, what was Disney when they went public? They hadn't done much that you've heard of Disney about today. Right? And so, I think if I recall correctly, at seven years in, which is around seven or eight years in when we went public is when Disney first put out their first full feature animation movie, which is Snow White. Mickey Mouse been barely known by anybody and Disneyland was still another 25 years away or something like that. You can look up all these facts on here, if I'm being wrong. But those are the kind of things that keep us motivated. And without giving too much of Yelp show, I'd just say that what keeps me motivated when I think about kind of the - hey, where could Yelp be? Hopefully, you'll have used it to find food and other things of that nature. I like to think about the use case of hey I'm driving a car in Nairobi. My car breaks down. I could pull out Yelp - and I'm assuming I can get a connection - I can find a mechanic, who's open now and available to come fix my car, pay him or her through the Yelp app, the end-to-end experience helping me find local businesses and transact with them anywhere in the world. Now, you might imagine from finding sushi today in Palo Alto to the use case I just described in Nairobi, it's going to take a lot of things happening over a long period of time to get that right, but it's enough of a vision to keep us coming back every day.

So that's what I had on the packaged stuff. I'm happy to answer any questions or talk about whatever you guys want to. I think I saw a hand there. Yes, sir. Was your total public issue sold before you actually went public with all your investors? Yes. Yeah, so the question is, I guess, I should probably repeat the question. Is that the right format? Yes, we get the thumbs up. Okay, so the question is was the total public issue sold before we actually went public? Yeah, I'm not actually the finance guy, so I can't tell you technically what the timeframe is, but what I can tell you is that total number of shares that we were intending to sell to bring the money directly into the company for all intents and purposes, that got done in the night before we went public. And then I don't know when the money changes hands that I couldn't tell you either, but effectively that whole deal is done, and then going public is just the process by which they can now sell their shares if they want to and trade. So yeah, sure thing.

Yes? Yeah, so I read that your background is in mechanical engineer with everything that you have talked today is more about MBAs. So how do you transition from being a mechanical engineer and highly technical to the other side? Not so technical. Yeah, so the question was I did go to - I was a ME, mechanical engineering, student here at Stanford and how did I end up being the businessy guy? Actually I started with the summer internship. I did the Krupp internship program, which actually still exists today. I was at - I spend a year in Berlin, when I was at Stanford and I got a six month internship at BMW in mechanical engineering when I was there, which was an awesome experience by the way for those who might still be undergrads interested in German. I spent probably the first couple of months of that internship doing true junior ME tasks, which in my case was not a whole lot more advanced than data entry and I got the experience of - it might have not been a positive experience, but I got a vision into, hey, what do that career look like for the first 5 or 10 years as a mechanical engineer. And don't get me wrong, mechanical engineers at BMW do really, really awesome things. It's just that the career path at that company at that time was really slow and so it was kind of like, you're going to have to put in your time for 10 years doing super groundwork in order to get to work on the cool stuff. And then I got lucky, there was a guy in a group next to me who was sort of a recovering mechanical engineer, but who was also an MBA who had gone to McKinsey and it was McKinsey Consultant, and he was working on what's the next car BMW is going to build? And basically doing market research and analysis and everything else kind of doing the strategy-ish stuff on what's the next car we build and he needed some help on his market research and presentation stuff. And sort of saw me over here doing the data entry-ish thing and he pulled me into to his group to get to work on that.

So actually I've got to work on the first presentation to the board of the BMW SUV which is now the X5 line or the X line, this was back in I guess 1993 or something. And so I got a little bit of a taste of that. And I realize that like I was just much more interested in the sort of strategy part of the business that, what are we going to build as opposed to the details of how does that work? And I know that makes me lame for all the engineers in the room, so sorry about that. It's good to know what you like and what you're good at, it turned out I had a passion for that piece of the equation. And as a result, he had been in consulting - the guy who was working for BMW, had been in consulting, so I thought like, oh, maybe that's an interesting thing to go do after college and that's how I ended up kind of down that path. But I will say for all those who are maybe like half-baked on an engineering degree and might, anything I just said resonated, the quant skills I got through engineering and developed throughout the course of that program have been super important to me in the rest of my career, and enabled me I think to be good at what you might think of as a strategy and analytical parts of business. Those people I see in business who don't have some sort of serious quant grounding, just have a much harder time keeping up when things get complex or at least arthemtically complex. Yes. Does Yelp have an acquisition strategy? And related to that, what do you see as some of the most interesting spaces in the ecosystem to adjacent businesses and what's happening now in social business? So the question is does Yelp have an acquisition strategy and kind of related what are other companies that I think are interesting? I will totally separate those questions, so it's not to get into anything non-public. Let me just say, I think two companies that I think are really cool and that are both San Francisco-based and very interesting to watch right now are Airbnb and Uber.

I know I'm not the first person to say that so, but they are cool, I use them as a consumer and I'm very interested in that kind of business both because of my eBay background in Marketplaces and then obviously the local aspect of what we do at Yelp. And so it's being fascinating to watch how they both sort of tackled kind of their related spaces or industries as you might call them. We're clear they're not going to be buying either of these companies. At the same time, in the foreseeable future, as to whether we have an acquisition strategy or not, yeah sort of. We bought two companies at this point in time. One was effectively a Yelp clone in Europe, that was called Qype, so it was Yelp local reviews type of site in Germany and France and the U.K., and we bought that and have integrated that fully with Yelp now. That was about a year and a half ago. We also bought a restaurant reservation service called SeatMe that we've now kind of rebranded as Yelp SeatMe and are offering as a SaaS version of again restaurant reservation solution. And that was just last summer. That's been going really well so far.

So those kind of models or acquisition are both interesting to us. We're pretty big believers in sort of the focus of organic growth on like what we do, so I think we'll continue to look opportunistically at if there are things out there that can kind of naturally fold into the Yelp story, we'll certainly be interested in that. I don't think we're big enough or have enough resources at this point to like be trying to bolt-on things that aren't kind of naturally part of what we already do there. Yeah? I have a question on profitability. So even though Yelp as a whole is not profitable, are there pockets, let's say San Francisco, Yelp in San Francisco, is that - are there pockets of profitability in Yelp and is the costs are when Yelp expands in new markets? And then second to that is how long do you think it's strategic to stay in the red? So a question around profitability, I'm going to quickly get myself into trouble here, so I'm going to give the short version of the answer. There is total - you're absolutely right that on a GAAP profitability basis, we've been in the red since we've gone public, no question about it. You guys can go read all the financial statements. We tend to focus on adjusted EBITDA and what that does is it takes out stock-based compensation expenses. The price of admission in companies like ours has been stock-based compensation. Stock-based compensation when you think about GAAP, which is public accounting standards, does try to put a value on stock-based compensation.

The reality is, it's really hard to put a price on stock-based compensation that actually makes a lot of sense, especially stock options. Right? So anyway, we kind of get down a rat-hole with that, but we take that out when we look at adjusted EBITDA and it has turned out for our time period that our cash flow as a company has actually been pretty positive. So if I recall correctly, and again, consult the real financial statements, I think we did $10 million in free cash flow this past quarter and so - or cash from operations this past quarter, which is pretty good. So in that sense, in the sort of standard way that most of us might think about our family finances, cash flow is kind of a decent proxy for it. Do we measure the business and at what point should we measure the business on kind of GAAP profitability and measure to that? Like, maybe we will at some point, hasn't really been a focus yet. Look at a company like Salesforce.com that's much, much bigger than ours, and they're still not measuring themselves to GAAP profitability at this point. Obviously, you always calculate that, but it hasn't been our focus. To your sub question about are there parts of the market that might have higher adjusted EBITDA than other parts? There definitely are. For example, the U.S. business is already looks like a pretty attractive business from an adjusted EBITDA standpoint.

And you could, as you imagine, kind of go down at individual market basis and try to do that calculation. It gets a little funky, because you end up very quickly trying to allocate costs of like, well, this engineer that works on 10 different markets, how do we take his time into account and what about real estate, and so it gets a little funky, but yes you can imagine that the later stage markets are a lot more adjusted EBITDA or contribution margin positive than the earlier stage markets, so. Yeah, you said before that when you guys were a private company, you got lower pay for your employees, but to compensate for that, you gave them, like, more options? Yeah So you also allow that every employee with a year plus of experience at that company could sell half of their shares. Do you know in general how many shares each employee with a year or more experience sold? That's a very specific question. So the - what I - I said a couple of things earlier. One was that we had lower than market salaries at that time early in the company's history, which is true. I mean I think they were probably market in terms of other startup companies, but they weren't certainly what you could get, or for instance, I made less in cash at Yelp than I did at eBay. Right? It's kind of common that if you go to an earlier stage company, you're going to get lower cash salary than you would had at a bigger company. And in exchange for that you get options and so hopefully a slice of the future. We did that secondary offering where employees had the opportunity to sell some of their shares to Elevation Partners back in 2010 and what was the average that people sold, I honestly don't know.

I remember looking at the spreadsheet at one point, and it seemed like probably a little more than half of people who could sell, sold something and then how much they sold really ranged quite a bit. Bunch of people sold the half that they were - they could sell and then a bunch of people just took a little, sold small amounts, and it really kind of came back to individual situation sort of back to - in a lot of ways it was a small version or microcosm of that stock point I made earlier. Right? If you got a five-year time horizon, you can afford to wait. Most people chose to wait and then others of us had near-term cash needs, you need to pay off your mortgage or pay part of your mortgage or buy a car, whatever it was your kind of cost of doing business, but right now, those people took more money off the table. Yes, sir. Can you tell us a little bit how did you grow from the beginning in terms of sign-ups and so vendors and users and how it is now different from when the company started? Is your question how did we do it or like what are the numbers? How did you do it in terms of the strategy, the tactics? Okay. That sounds like a whole another talk. But so the question is like how did we kind of grow from beginning and how did we originally attract both users and then advertisers or paying customers into the fold? The simple version of the question is on the user side, the way that Yelp works is and what we believe makes Yelp special is that the vast majority of reviews you will read on Yelp are written from regular reviewers. That probably makes sense, but I'm going to just sort of clarify that for a moment because if you were to use other review sites of all different kinds of products. If you go to Amazon, for instance, you'll see a lot of reviews for products and you look at that person's profile and they have written one product review.

There is nothing wrong with that, but it's a very different model than our model when you look at the profile of the users who write on Yelp, you'll tend to find people who have written dozens or hundreds of reviews. And they are effectively using Yelp as a kind of lifestyle blog. So how do we find those people? It actually sort of starts one person at a time. We hire in every city that we're in somebody that we call the Community Manager for Yelp and they're effectively an ambassador for Yelp in their market, they become the face and voice of Yelp and they start by trying to recruit their mom and their friend and their kid sister to join the community and try Yelping. Right? What does that mean to Yelp? Well, it means go explore all the different neighborhoods in your city and try out different businesses and go into different shops and restaurants and parks and then blog about it, tell people what you think. And as it turns out, when they start that, your mom may not like it, but your kid sister does, and so on as you sort of reach out to more people on your contentious circles and then they bring in their friends and so on. And it really becomes a grassroots on the street, people meeting each other and trying Yelping kind of a thing. Now as you can imagine in time what that does is that content then brings in lots of traffic on the user side. How many people in the room - we saw hands and it was almost everybody here has used Yelp probably to find a business. How many people actually wrote reviews? That's a lot more than I would have thought, but that's great.

Thank you very much. So still a pretty small percentage of this room. Right? As a general statement, what I would tell you, is that it's low-single-digits percentages of all Yelp users are actually those who create content. Right? Pretty common, but the good news is for everybody who writes reviews, you're going to bring in lots, like dozens or hundreds of people who read the review. And for every one of those people who comes and reads the reviews, some small percentage of them are going to like, hey, that was cool, I try writing just like the people who just raise their hands. And they then become Yelpers and begin to feed itself, but that offline piece of the equation has always been really important to us. So as people start writing reviews - did any of the people who put up their hands for writing reviews, have you guys - any of you are Elite Members have been to a Yelp event? Awesome. Thank you. Thank you, thank you. All right, so we've actually got some.

So some of those people who actually try contributing actually get into the sub community of people who are ongoing Yelp participants. And the sort of the pinnacle of that is being a Yelp Elite Member. And that's basically being invited into the fold of this community who then meets in, puts faces to names. And among other things, it tends to actually keep everybody honest, because it's real people writing real reviews with real faces and all that kind of thing. So that's the short version of the answer on the kind of consumer and community and writer side. On the advertiser side or the customer side, that's different. We have a sales force that we've built up over the years and it's mostly a phone-based sales force where we call in to local businesses and say something along the line of, hey, 100 people looked at your business on Yelp last month, would you like even more of them to look at your business? Right? We've got a suite of ad products that we could sell you and show you what they are and, if you're interested, we can help you get started. And that's more or less what that conversation looks like and we have tried offline sales and some other approaches as well, we've found at this point that the phone-based sales force is most effective, but we continue to experiment with other things. Sure. Yes, ma'am.

what your day at the office is like ? Yeah, thank you. This is a question that I do get a lot and I really don't - have never developed a great answer to it, and that is what my day at the office like? Let's see, when I tell you about today, because that's the easiest for me to remember. It's hard to remember past today. So this morning - today was actually an investor heavy day. It's interesting. I don't usually talk to that many investors in the same day, but so today I had an early meeting with a group of Fidelity portfolio managers that were in town on with a kind of a bus tour going around seeing different tech companies. And what does that look like, that looks like a group of probably 15 portfolio managers from Fidelity who are - some of them are investors in Yelp, some of them are interested in investing in Yelp and I answered a bunch of their questions with Rob, our CFO. Then I had a couple of one-on-ones. So one-on-one is kind of the recurring weekly meeting that we tend to do with each of us does with our manager and those people who directly report to us. It's a great format.

It's pretty common in tech companies, I think, these days, but it's sort of that parking lot opportunity to go through all the things that are hot in a given week and thrash through any issues that are going on. So I had a phone-based one-on-one conversation with Jed, the guy I mentioned, who actually runs our worldwide sales force, he lives in London. So I talked on the phone with him for about 45 minutes. We went through a slew of different things that he's working on and I had some questions and things to go through with him. Then I did the same for about 45 minutes with the guy who is the head of our biz dev team, we talked about somebody knew he wants to hire as well as a couple of deals that he's working on and whatnot, and so we did that. And then I had a call with a group of people, remember the community management team I was just talking about, and so it was a group of probably about 15 of them who has a sort of recurring phone-based conversation because they're spread all over the country. And they wanted to ask me a bunch of questions, it was exactly a format a little like this except I know them all, so they were asking me a range of goofy questions like who's your favorite community director? And it's always good to pick your favorite children, it turns out. And then there was a fire drill in our building, so that was awesome. So we wasted a good half an hour on like evacuating the building and having to stay outside of the building, but I got to chat with some colleagues I don't normally chat with during the fire drill and had a sandwich. And then what did I do, then there was actually another investor meeting, couple more investors in from Wellington, so I sat with them and then I worked on some presentations for a management training series we're doing tomorrow.

We're bringing - actually it's a kind of a new thing that I've been focused on right now that's - we have - we're growing rather fast and so it turns out that in the last two months I believe we've promoted 30 people into people management positions for the first time in their lives, so that tend to be a bunch of younger people who come to Yelp and they maybe an individual who has been here for a few years, now we promote some of them into people management. So it turns out we're promoting people so fast, that's actually really important to give them some like, hey, what does it mean to be a people manager and here are some stuff you need to know. So we're bringing them all into San Francisco tomorrow and Friday and I'm hoping to lead that, so I've worked on my presentations for that a little bit. And there was one other thing that I did that I can't remember, it's escaping me now. Well, then I came down here, I drove down here. The rest is history. It's a very long answer to your questions, it's probably not what you're looking for I think. Hi. Hi. So you talked about being ? Can you talk about maybe the top three risks to executing on a great idea, whether for example it might be not picking up funding on time, whether it's not ? By the way, are we going to - what's our timeline, is somebody going to cut me off? Is this the last question? Okay.

The last question is a good one. So this is the - of all the common problems that startups face, what were the big strategic ones to us that would have been disaster and how we most had to keep our keys on? It's probably most of the same things you always hear, funding and financing especially in their earlier days is really important. It's really important to get it right. It's obviously you need money in order to kind of keep the lights on and do those things, and so money is important, but as I described in kind of the early talk about when and how did we get to being public and everything else, who you get the money from and under what terms, it turns out to be really important too. There have been a lot of good ideas that end up getting sold early or killed early, because the investors' ideas of outcomes were different from the founding teams' different ideas of outcomes. So that part of the chemistry is really important. The other obvious one is the people stuff. I mean the people stuff is so important and it's often squishy for the reason that it's human, but it's everything from that Chicago Airport rule that I was talking about earlier to why are we here, and I mean that less in an existential sense than, like, what is that motivates everybody to go to the office everyday? Because inevitably even the most senior longtime members of the team will have a slightly different versions of what they want your company to be. And those slight deviations over a period of time just like swimming or running or anything else can start to become massive in the future. And so really that classic thing about like making sure that you have the right people on the bus and that you're all care about the same things.

It turns out to be really important and I guess it's the reason that it becomes obvious. And then distribution is critical. I mean especially I think it's most obvious for an Internet company, because it's so tangible like how are you going to get users to your site, it doesn't really just work that you can build something people will show up. Right? That question you asked earlier is like how do you actually get people to engage with your product and then sell it, depending on what it is, I think that's true for any product, but having a distribution strategy that's actually going to be a cost effective in a unit economic basis and can scale. It turns out to be harder than it looks and I think that shows up in all kinds of different businesses. So I guess those are the three - those really three that come to mind for me. So, thank you all very much for all the questions and the time again.