Stanford eCorner

Going on the Roadshow

Geoff Donaker, *Yelp*

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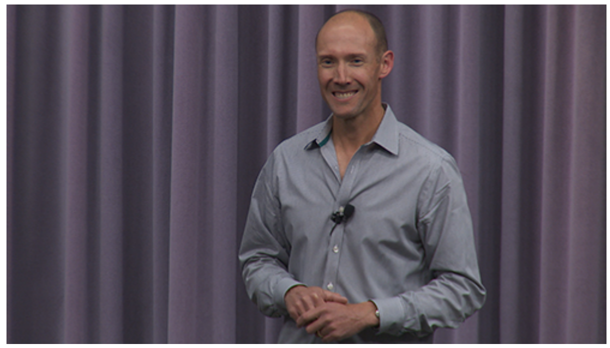
Video URL: http://ecorner.stanford.edu/videos/3342/Going-on-the-Roadshow

Yelp Chief Operating Officer Geoff Donaker recounts traveling around the country with company leaders to meet with institutional investors prior to the IPO. He explains how the amount of shares bought, and at what price, reflects demand.



Transcript

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.