The background features a light gray illustration of several fishing boats with long poles and nets, surrounded by numerous small fish swimming in the water.

HEDGEYE

BEST IDEA UPDATE: SHORT YELP

INTERNET & MEDIA

JUNE 2014

DISCLAIMER

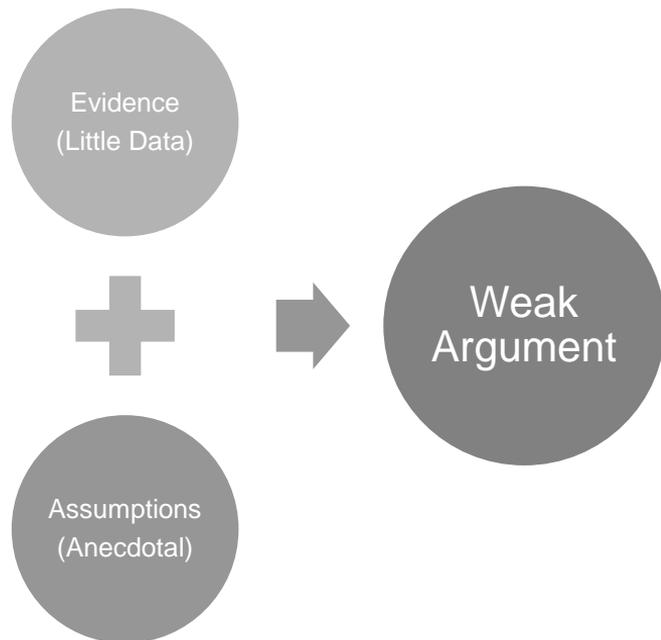
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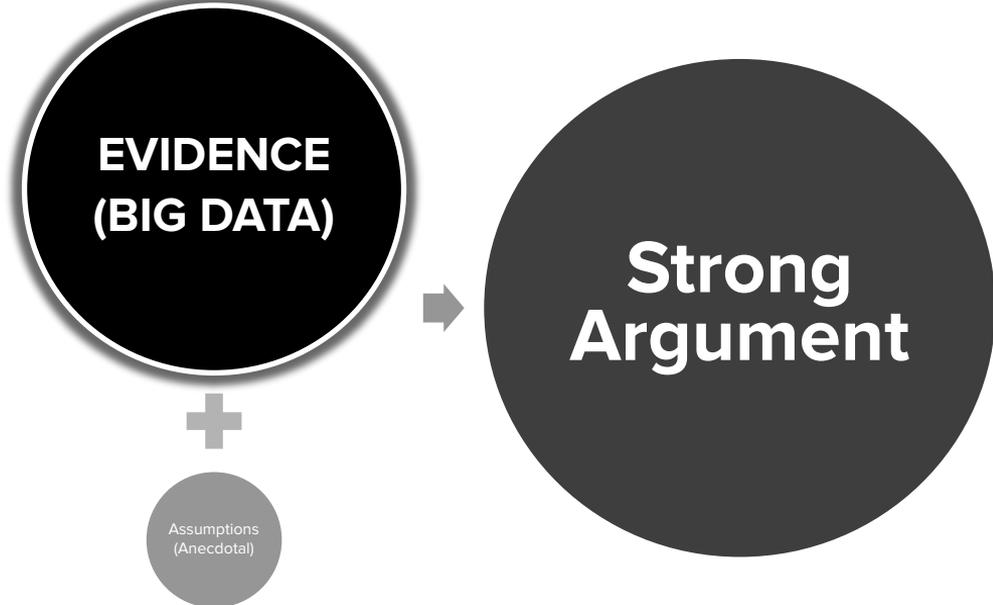
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BIGGER DATA = DEEPER DIVE

TRADITIONAL SELL-SIDE



HEDGEYE INTERNET & MEDIA



STRONGER EVIDENCE = STRONGER ARGUMENT

We aggregate far more data from a broader array of sources, and break it down into far more detail than our competitors. In turn, we see things that our competitors don't since they are working with inferior information.

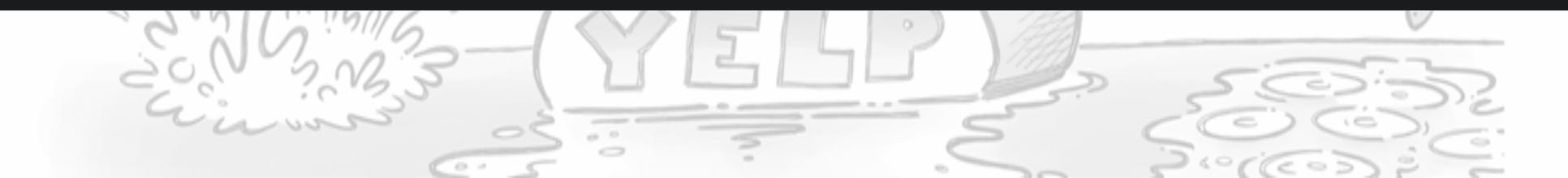
YELP SHORT BEST IDEA UPDATE

OUTLINE OF THE CALL

- 1. Short Thesis & Update**
- 2. Refuting the Pushback**
- 3. Acquisition Target?**
- 4. Anonymous Q&A section**



YELP THESIS SUMMARY



YELP BUSINESS OVERVIEW

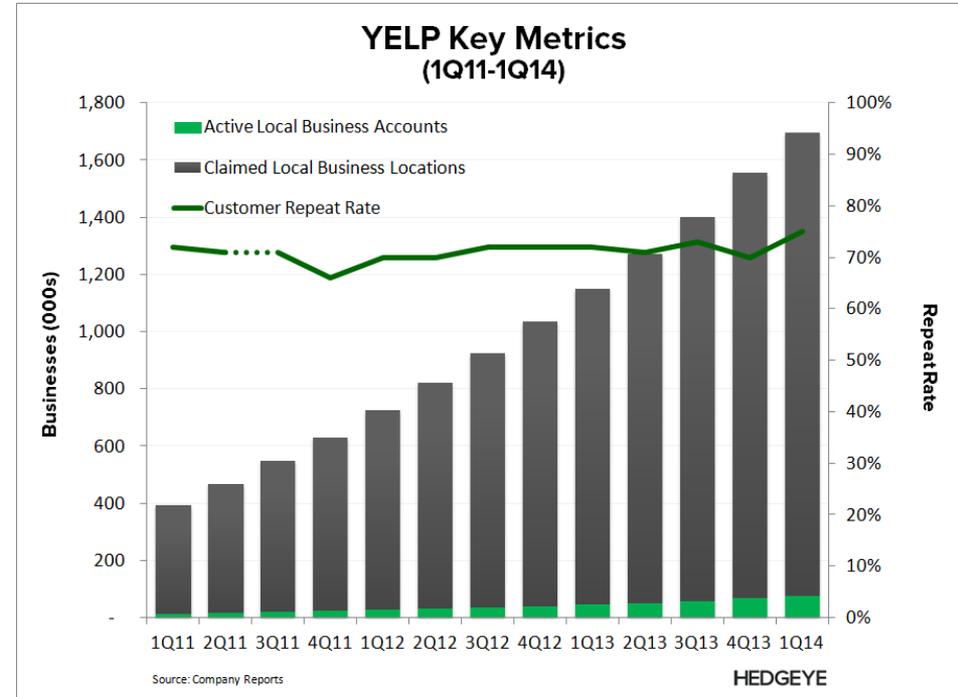
- **Local Advertising (83% of 2013 Revenue)**
 - **Product:** highlighted native ads within search results
 - **Revenue Source:** mostly local businesses
- **Brand Advertising (12% of 2013 Revenue)**
 - Product: Display ads on YELP's site
 - Revenue Source: Primarily regional and national players
- **Other Services (5% of 2013 Revenue)**
 - Product: Tools to facilitate transactions, Deals & Gift Certificates
 - Revenue Source: Partnership Agreements, Local Businesses

LOCAL ADVERTISING IS THE MAIN DRIVER

The largest source of both revenues and revenue growth. This will be the focus of this presentation.

YELP KEY TERMS: LOCAL ADVERTISING

- 1. Claimed Businesses:** Businesses that verified with YELP that they own a listed business on its site
- 2. Active Businesses:** Essentially all paying businesses except Brand Advertising and Partnerships
- 3. Customer Repeat Rate:** Percentage of *current* customers that have advertised/paid YELP in the LTM



THESE ARE THE MOST IMPORTANT METRICS

Sell-side Analysts often key in on the **Cumulative Reviews** and **Unique Visitors** to YELP's site, but neither metric is directly tied to YELP revenues.

YELP SHORT: THESIS SUMMARY

1

ABSURD ATTRITION RATE TO GET WORSE

We estimate that YELP is losing the majority of its local advertising customers on an annual basis. Macroeconomic headwinds will exacerbate the issue, but more importantly, the risk will increase each year regardless

2

TAM IS A FRACTION OF WHAT'S ADVERTISED

Estimates vary for YELP's total addressable US market, YELP has estimated as high as 27M...In reality, it's closer to 170K

3

2014 CONSENSUS LOFTY/2015 UNATTAINABLE

Consensus revenues imply an acceleration in new account growth/penetration rates and/or improving attrition rates through 2015, we're expecting the opposite

YELP SHORT: THESIS SUMMARY

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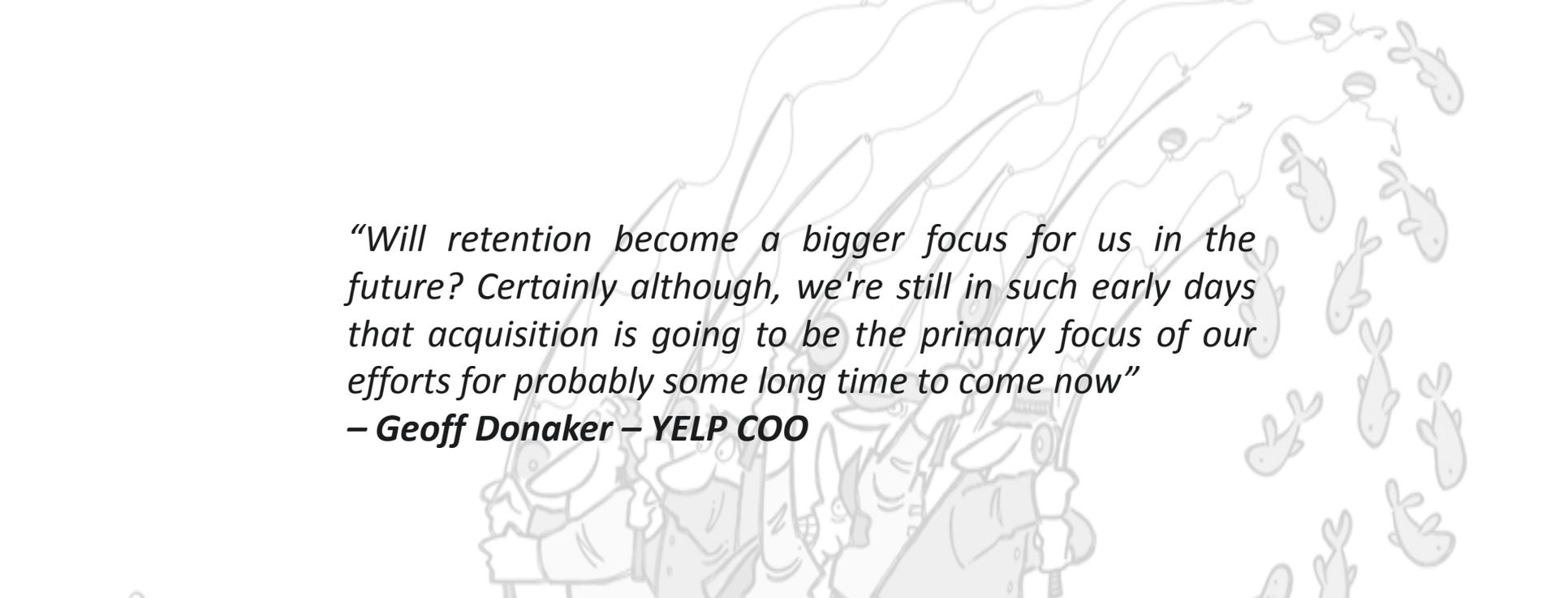
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A light gray background illustration featuring several fishermen in a boat, each holding a fishing rod with a fish on the line. To the right, a group of fish is swimming. The style is simple and cartoonish.

“Will retention become a bigger focus for us in the future? Certainly although, we’re still in such early days that acquisition is going to be the primary focus of our efforts for probably some long time to come now”

– Geoff Donaker – YELP COO

ATTRITION EXPLAINED

A light gray background illustration showing a boat on water. The word 'YELP' is written in large, block letters on the side of the boat. There are ripples in the water and a splash on the left side.

YELP

CUSTOMER REPEAT RATE EXPLAINED

“Our **customer repeat rate**, defined as a **percentage of current customers** who advertised with us in the past twelve months”

Prior Quarter:
9 accounts

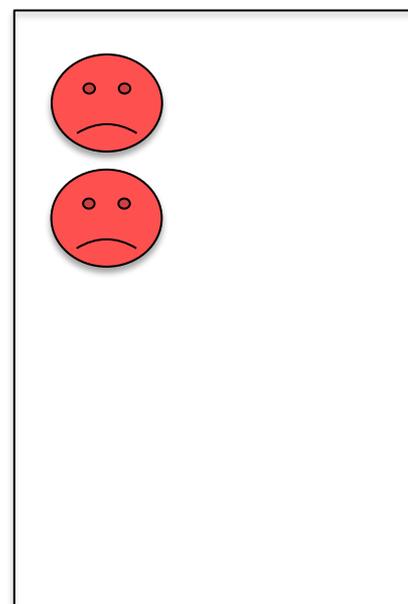
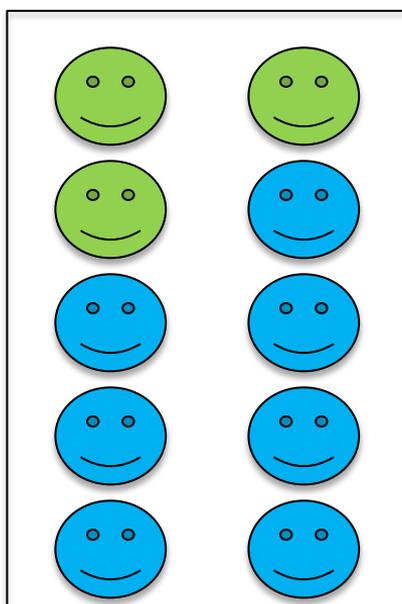
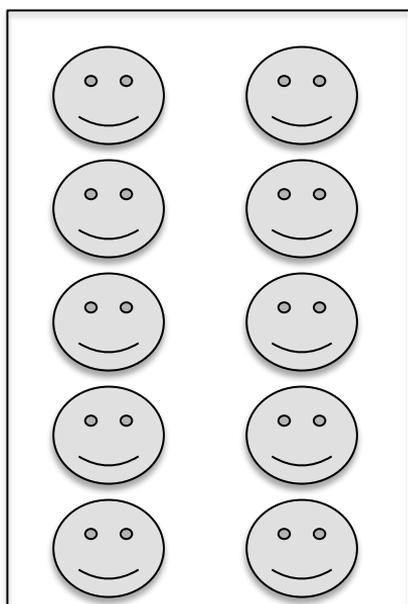
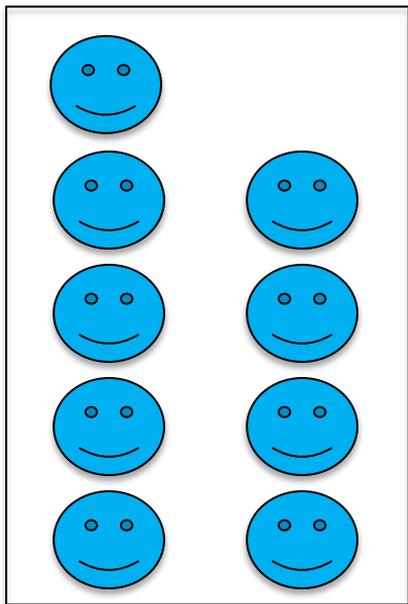
Current Quarter:
10 accounts

Repeat Rate: 70%
7 repeating
+ 3 new

10 accounts

Attrition:
7 repeating
- 9 prior

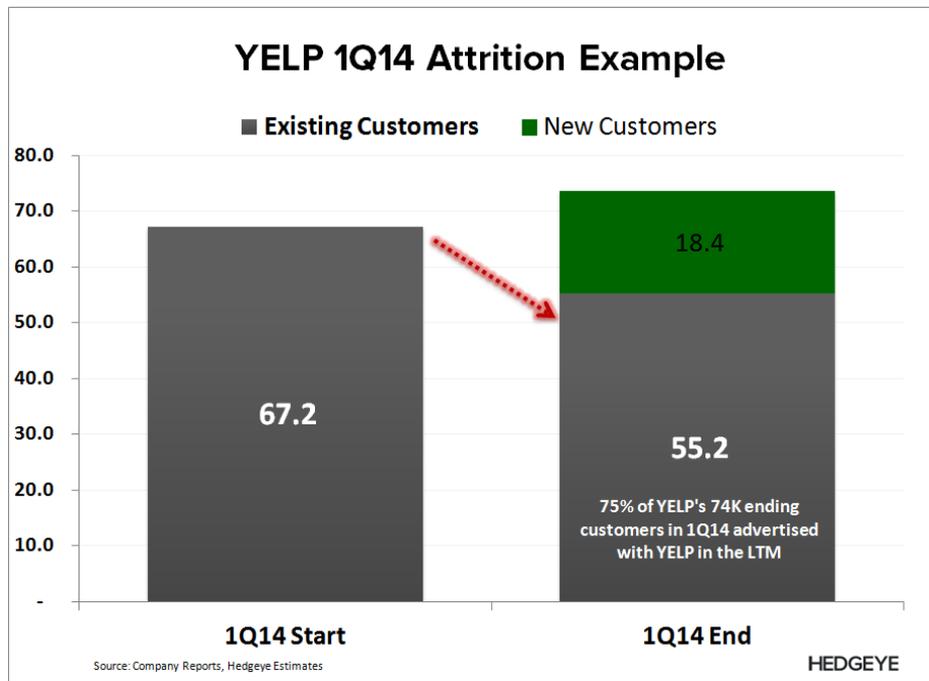
-2 accounts



ATTRITION EXAMPLE

1Q14 EXAMPLE (unadjusted)

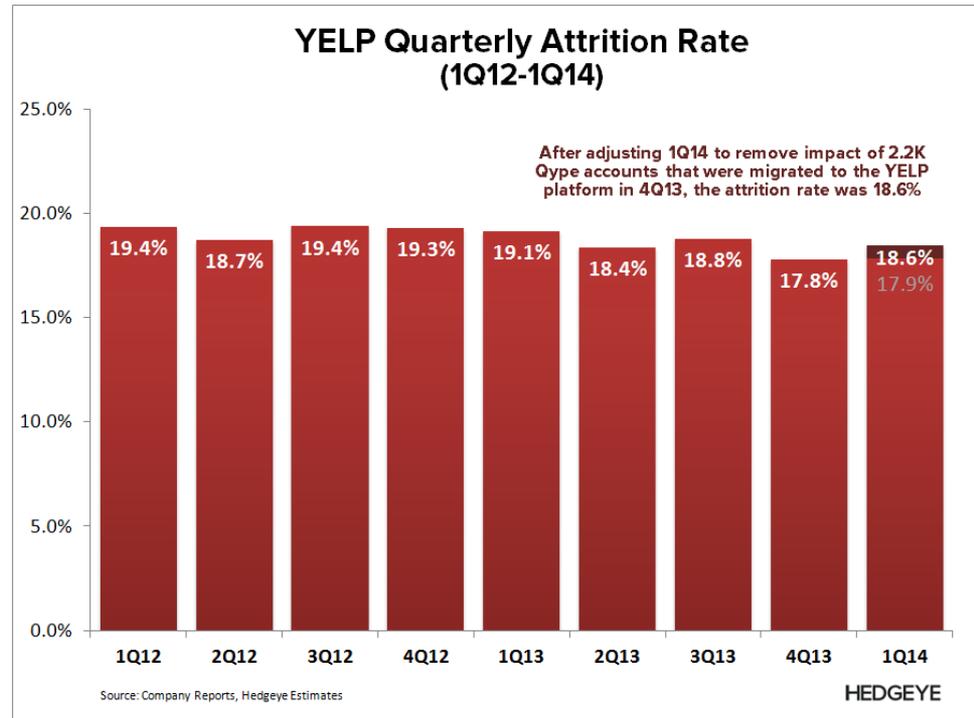
1. YELP had **67K customers** in 4Q13,
2. YELP had **74K customers** in 1Q14
3. 1Q14 **Customer Repeat Rate** was **75%**
4. 1Q14 Repeating Customers: **55K** ($74K \times 75\%$)
5. YELP had 67K customers in 4Q13, but only 55K repeating customers in 1Q14, so it **lost 12K (55K-67K)** customers, or **17.9%** of its customers from 4Q13.



THE MATH IS SIMPLE

Any time YELP's Repeating Customers (calculated using its stated Repeat Rate) are less than its Active Customers from the prior quarter, it lost customers.

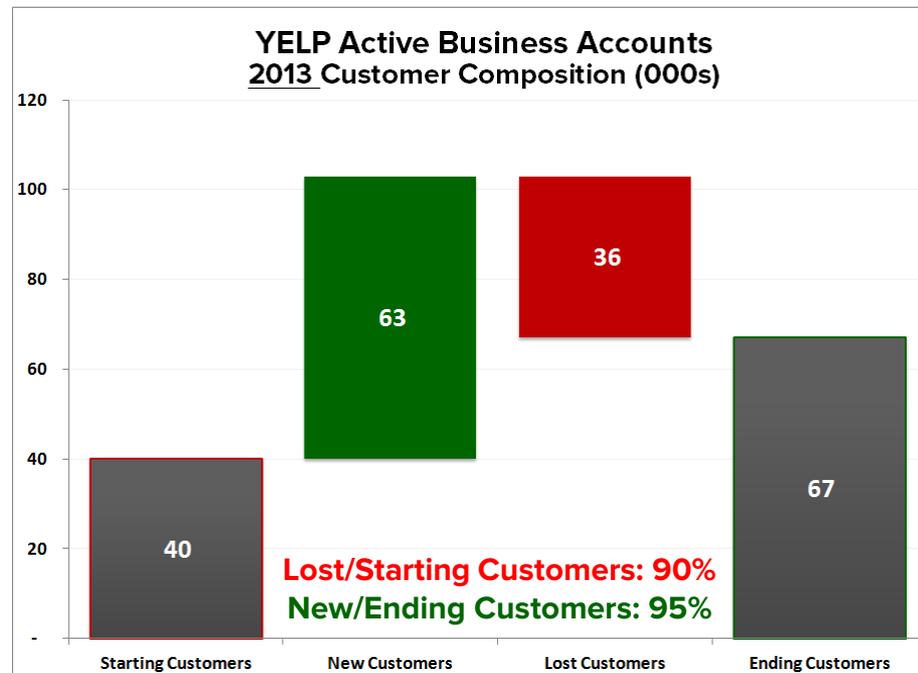
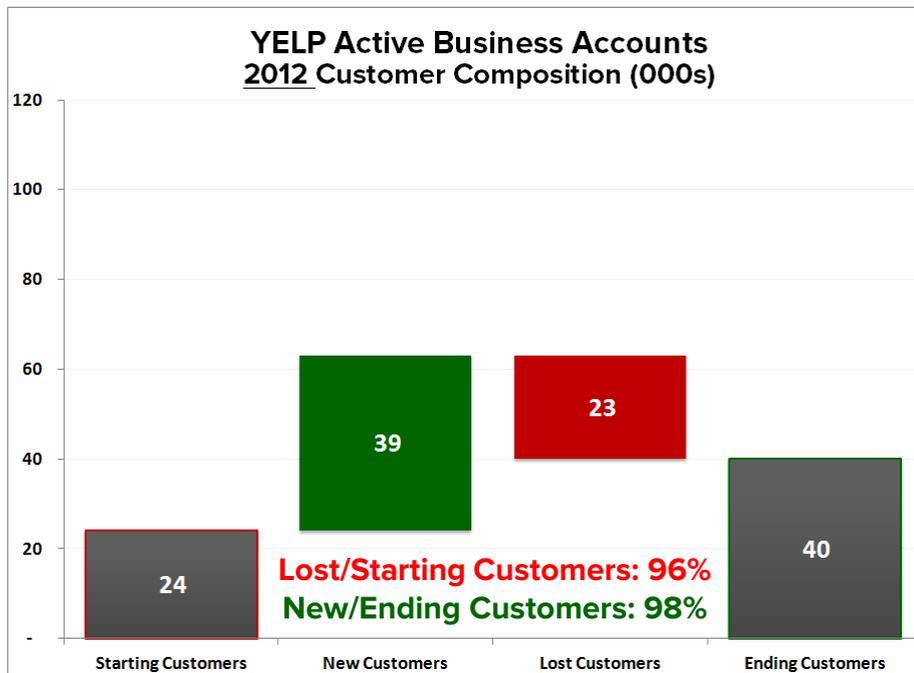
ATTRITION IS A RECURRING THEME



LOSES A SIGNIFICANT PORTION EACH QUARTER

Every quarter since the company has gone public, it has lost a significant portion of its members on quarterly basis. YELP's is losing almost 20% of its total customers every quarter since 1Q12.

ANNUAL ATTRITION IS ABSURD



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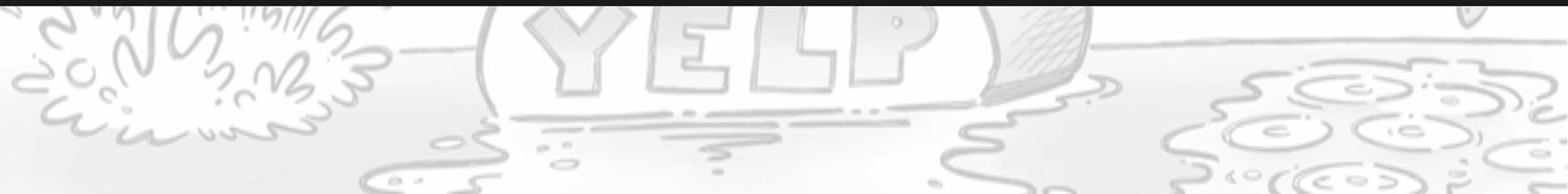
YELP LOSING ALMOST ALL ITS CUSTOMERS ANNUALLY?

Since most of YELP's contracts are on annual terms, it is losing the majority of its customers annually, while its ending customer base is comprised almost entirely of new accounts signed during the course of the year.



WHY IS ATTRITION SO HIGH?

YELP



NOT GETTING ENOUGH BUSINESS?

YELP: Local Advertising Conversions (500 impressions)										
Scenario Analysis: Transactions Based on Lead vs. Conversion Rates										
Lead Rate	Conversion Rate									
	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
5%	1	3	4	5	6	8	9	10	11	13
10%	3	5	8	10	13	15	18	20	23	25
15%	4	8	11	15	19	23	26	30	34	38
20%	5	10	15	20	25	30	35	40	45	50
25%	6	13	19	25	31	38	44	50	56	63
30%	8	15	23	30	38	45	53	60	68	75
35%	9	18	26	35	44	53	61	70	79	88
40%	10	20	30	40	50	60	70	80	90	100
45%	11	23	34	45	56	68	79	90	101	113
50%	13	25	38	50	63	75	88	100	113	125

Notes

- 1 We believe Yelp's cheapest ad package charges \$300 for 500 impressions
- 2 Leads: Impressions that drive users to investigate/research business
- 3 Conversions: Leads resulting in sales to Business

Digital Advertising Industry Notes

1. **Leads Rates:** only 25% of leads are legitimate
2. **Conversion Rates:** 79% of marketing leads never convert to sales

Sources: Gleanster Research, MarketingSherpa

ADS MAY NOT YIELD ENOUGH TRANSACTIONS...

This table is a scenario analysis of the number of YELP-driven sales transactions, based on varying lead and conversion rates. The data output suggests a wide range of transactions on 500 impressions.

COST OF CONVERSION TOO HIGH?

YELP: Local Advertising Cost Per Conversion (Transaction) Scenario Analysis: Lead vs. Conversion Rates										
Lead Rate	Conversion Rate									
	5%	10%	15%	20%	25%	30%	35%	40%	45%	50%
5%	\$240.00	\$120.00	\$80.00	\$60.00	\$48.00	\$40.00	\$34.29	\$30.00	\$26.67	\$24.00
10%	\$120.00	\$60.00	\$40.00	\$30.00	\$24.00	\$20.00	\$17.14	\$15.00	\$13.33	\$12.00
15%	\$80.00	\$40.00	\$26.67	\$20.00	\$16.00	\$13.33	\$11.43	\$10.00	\$8.89	\$8.00
20%	\$60.00	\$30.00	\$20.00	\$15.00	\$12.00	\$10.00	\$8.57	\$7.50	\$6.67	\$6.00
25%	\$48.00	\$24.00	\$16.00	\$12.00	\$9.60	\$8.00	\$6.86	\$6.00	\$5.33	\$4.80
30%	\$40.00	\$20.00	\$13.33	\$10.00	\$8.00	\$6.67	\$5.71	\$5.00	\$4.44	\$4.00
35%	\$34.29	\$17.14	\$11.43	\$8.57	\$6.86	\$5.71	\$4.90	\$4.29	\$3.81	\$3.43
40%	\$30.00	\$15.00	\$10.00	\$7.50	\$6.00	\$5.00	\$4.29	\$3.75	\$3.33	\$3.00
45%	\$26.67	\$13.33	\$8.89	\$6.67	\$5.33	\$4.44	\$3.81	\$3.33	\$2.96	\$2.67
50%	\$24.00	\$12.00	\$8.00	\$6.00	\$4.80	\$4.00	\$3.43	\$3.00	\$2.67	\$2.40

Notes

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- 2 Leads: Impressions that drive users to investigate/research business
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Digital Advertising Industry Notes

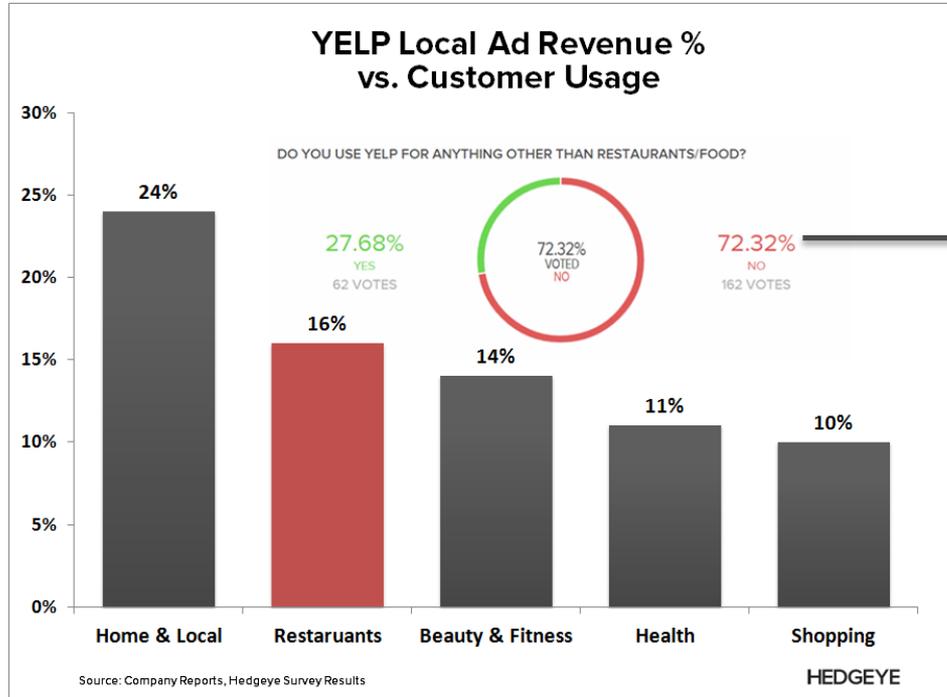
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2. **Conversion Rates:** 79% of marketing leads never convert to sales

Sources: Gleanster Research, MarketingSherpa

ADS DON'T MAKE SENSE FOR ALL BUSINESSES

This is the same table, but measuring the advertising cost to acquire those transactions. YELP ads do not make sense unless the business has an **Average Gross Profit/Transaction > Cost Per Conversion**.

MISMATCH BETWEEN USE & REVENUE



YELP 1Q14 VISITOR AND BUSINESS ESTIMATED METRICS

YELP Reported Metrics	Total
Unique Visitors (Monthly Avg, 000s)	132,460
Claimed Business (000s)	1,623

Estimated Metrics by Business Type	Restaurants	Other
Unique Visitors (%)*	72%	28%
Unique Visitors (000s)	95,371	37,089
Reviewed Business %	20%	80%
Reviewed Businesses (000s)**	325	1,298
Unique Visitors/Reviewed Business	294	29

* Estimated using Hedgeye Survey Results
 ** Using Reported 2013 Reviewed Business Composition (%) as proxy for composition of Claimed Business on YELP

Source: Hedgeye Survey, Company Reports

HEDGEYE

USE PRIMARILY RESTAURANTS, REVENUES MIXED

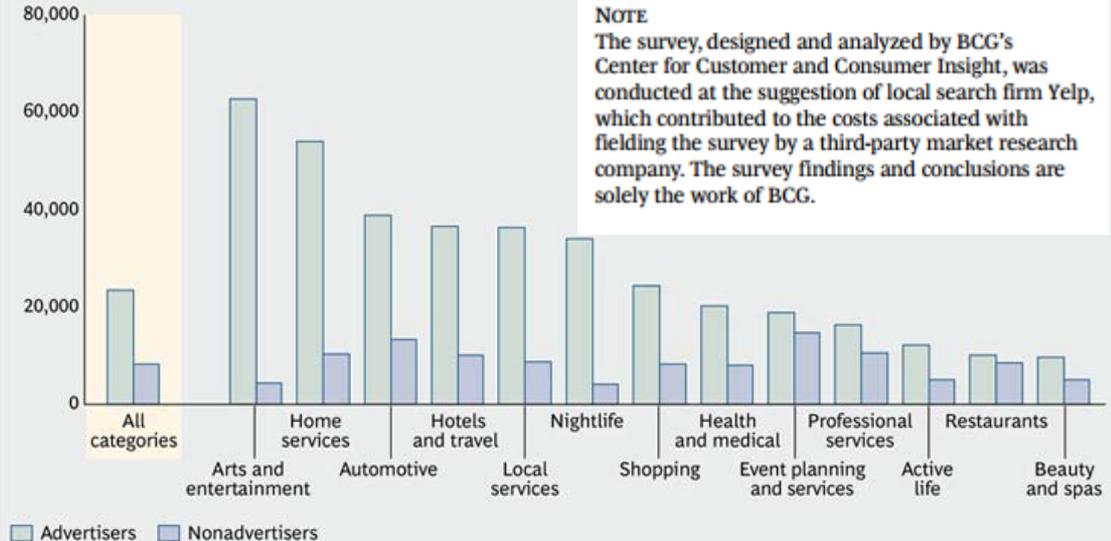
Our proprietary poll suggests most use YELP exclusively for food/restaurants (~72%) , while revenues are less concentrated. In turn, restaurants already see the material traffic, the rest don't get enough.

BCG STUDY SHOWS VARYING YIELD...

Note: BCG's Incremental Revenue Analysis for YELP businesses compares Advertising Businesses (green bars) and Businesses with Claimed Pages (blue bars) vs. businesses that do not have a YELP presence

EXHIBIT 2 | Online Advertising Already Delivers Significant Returns on Investment

Average annual incremental revenue from Yelp (\$)



Source: BCG analysis.

Note: Figures are based on a November 2012 BCG survey of 4,769 small businesses with a Yelp presence. After excluding data points where information was incomplete, the survey yielded 3,967 valid responses from 1,255 small businesses that advertise on Yelp and 2,712 that do not advertise on Yelp.

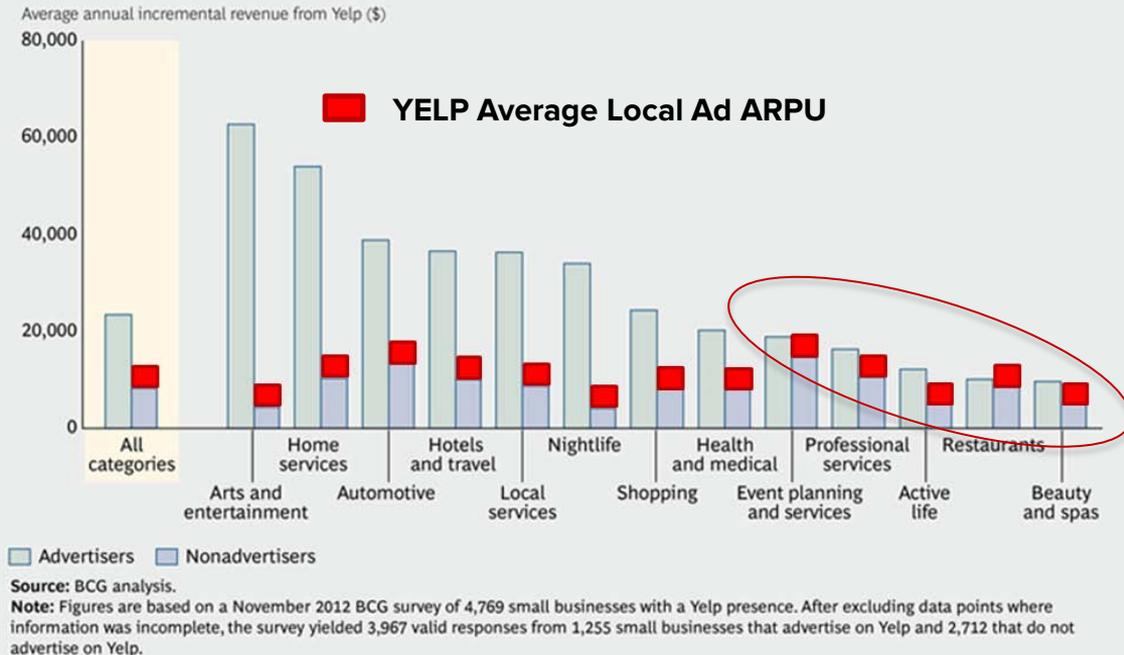
REVENUE BENEFITS VARY BY BUSINESS TYPES

These metrics compare incremental revenues for businesses that either advertise or have claimed pages vs. those without a YELP presence at all. Note that YELP helped finance the study.

INCREMENTAL IS WHAT MATTERS

Note: What the study should have compared is the advertiser ROI vs. a business that has claimed a page, **not** vs. a business that doesn't have a YELP presence

EXHIBIT 2 | Online Advertising Already Delivers Significant Returns on Investment



INCREMENTAL SALES BETWEEN CLAIMED & ACTIVE

What matters is the incremental revenue yield an Advertising Business gets over a Claimed Business. After considering advertising costs, the yield for some is limited and/or negative.

INCREMENTAL SALES MIXED, BUT...

Hedgeye Analysis of BCG YELP Advertiser Study					
BCG Estimated Incremental Revenues from YELP Presence by Business Type					YELP Ad
Business	Advertisers	Claimed Page	Incremental	Net Revenue*	Revenue %
Home & Local	\$45,000	\$10,400	\$34,600	\$30,400	24%
Restaurants	\$10,000	\$8,300	\$1,700	(\$2,500)	16%
Beauty & Fitness	\$10,100	\$5,100	\$5,000	\$800	14%
Health	\$20,000	\$8,300	\$11,700	\$7,500	11%
Shopping	\$24,000	\$9,100	\$14,900	\$10,700	10%

* Yelp: "Typical local ad spend is \$350/month or \$4,200/year"

HEDGEYE

Source: Boston Consulting Group, Yelp Official Blog, Hedgeye Estimates

INCREMENTAL SALES BETWEEN CLAIMED & ACTIVE

We aggregated the BCG data and sorted the results based on YELP's revenue concentration. Outside of Restaurants and Beauty & Fitness, the results look favorable, but **these are revenues, not profits....**

...PROFITS TELL A DIFFERENT STORY

Hedgeye Analysis of BCG YELP Advertiser Study

BCG Estimated Incremental Revenues from YELP Presence by Business Type					Estimated Gross Profit Assumption				YELP Ad
Business	Advertisers	Claimed Page	Incremental	Net Revenue*	20%	40%	60%	80%	Revenue %
Home & Local	\$45,000	\$10,400	\$34,600	\$30,400	\$2,720	\$9,640	\$16,560	\$23,480	24%
Restaurants	\$10,000	\$8,300	\$1,700	(\$2,500)	(\$3,860)	(\$3,520)	(\$3,180)	(\$2,840)	16%
Beauty & Fitness	\$10,100	\$5,100	\$5,000	\$800	(\$3,200)	(\$2,200)	(\$1,200)	(\$200)	14%
Health	\$20,000	\$8,300	\$11,700	\$7,500	(\$1,860)	\$480	\$2,820	\$5,160	11%
Shopping	\$24,000	\$9,100	\$14,900	\$10,700	(\$1,220)	\$1,760	\$4,740	\$7,720	10%

*Yelp: "Typical local ad spend is \$350/month or \$4,200/year"

HEDGEYE

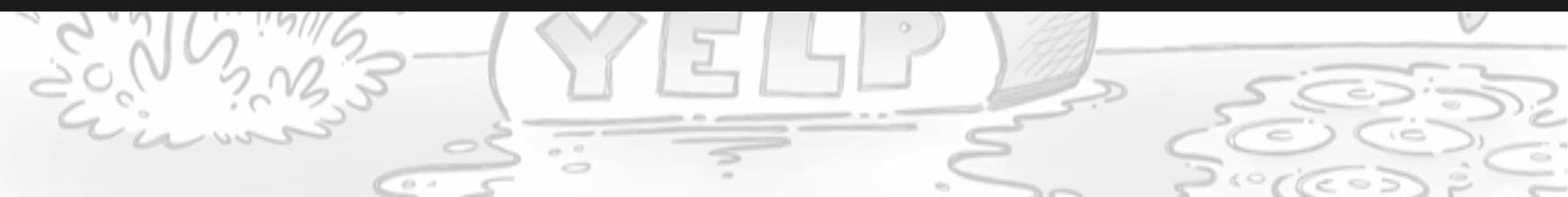
Source: Boston Consulting Group, Yelp Official Blog, Hedgeye Estimates

INCREMENTAL GROSS PROFIT MAY NOT JUSTIFY COST

YELP's core market is local businesses; many lack economies of scale and have lower profit margins. The BCG study suggests the ROI from YELP Local Advertising would be negative in many cases.



WHY ATTRITION WILL GET WORSE



WHY ATTRITION WILL GET WORSE

1

REVENUE TOOL: SHOOTING ITSELF IN THE FOOT

Two risks, the tool could emphasize the limited advertising ROI that we have highlighted earlier or it could grossly overestimate the benefit YELP provides. Either could push businesses away.

2

MACROECONOMIC HEADWINDS

We've experienced a sharp YTD acceleration in commodity costs. Rising input costs/pressured profits make advertising more discretionary. YELP's history suggests as much.

3

BECAUSE YELP HAS MORE CUSTOMERS

Unless the attrition rate improves dramatically (considerably below its historical lows), it will only lose more customers since its customer base is larger. That's just the math.

REVENUE TOOL DETERS BUSINESSES

December 2012 - December 2013

Period: 30 days 12 months 24 months



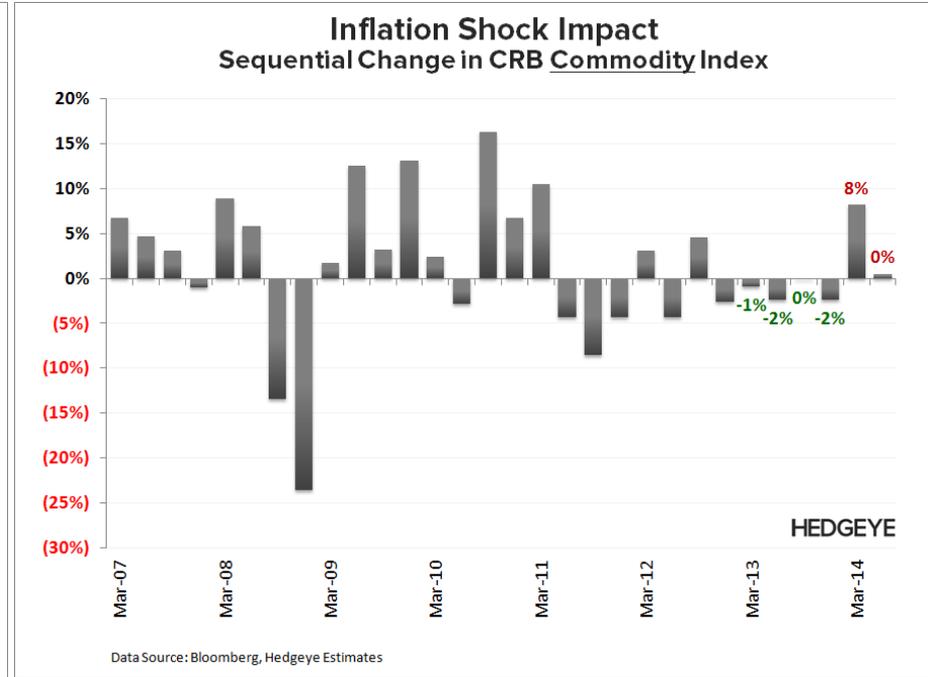
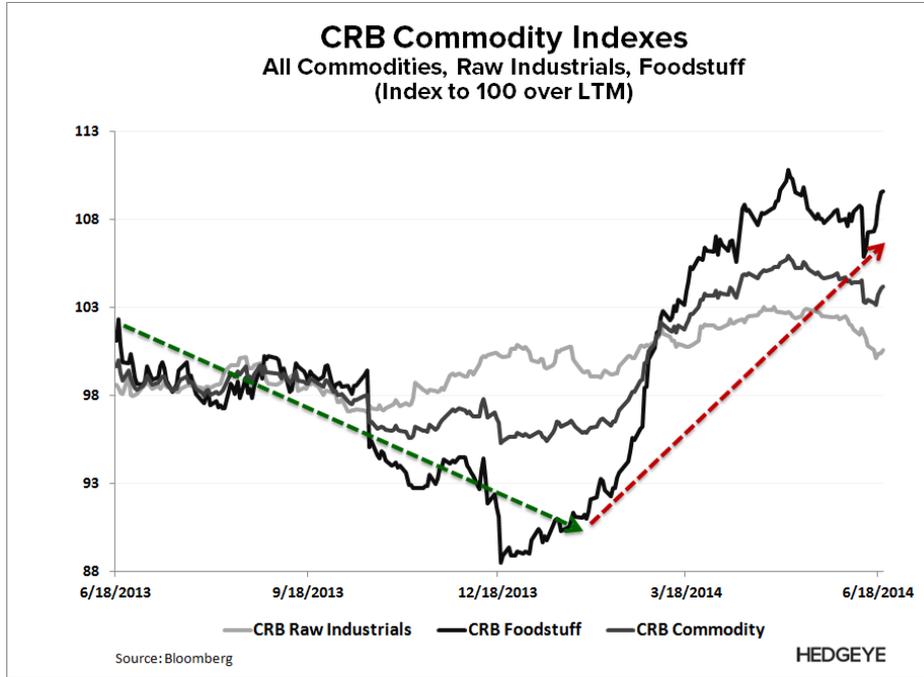
Yelp Customer Leads *	6,928
Average Revenue per Customer Lead **	× \$ 51
Estimated Revenue from Yelp Customer Leads	\$353,328
December 2012 - December 2013	
* Each Customer Lead is assumed to be a unique customer	
** According to a survey of business owners in your category by The Boston Consulting Group, the average revenue per customer in the "Massage" category is \$83.	

Not Mutually Exclusive Events

LIMITED ROI OR GROSS EXAGGERATION

The Tool is designed to exaggerate revenues because it is not calculated off of conversions, but leads that are **NOT** mutually exclusive events.

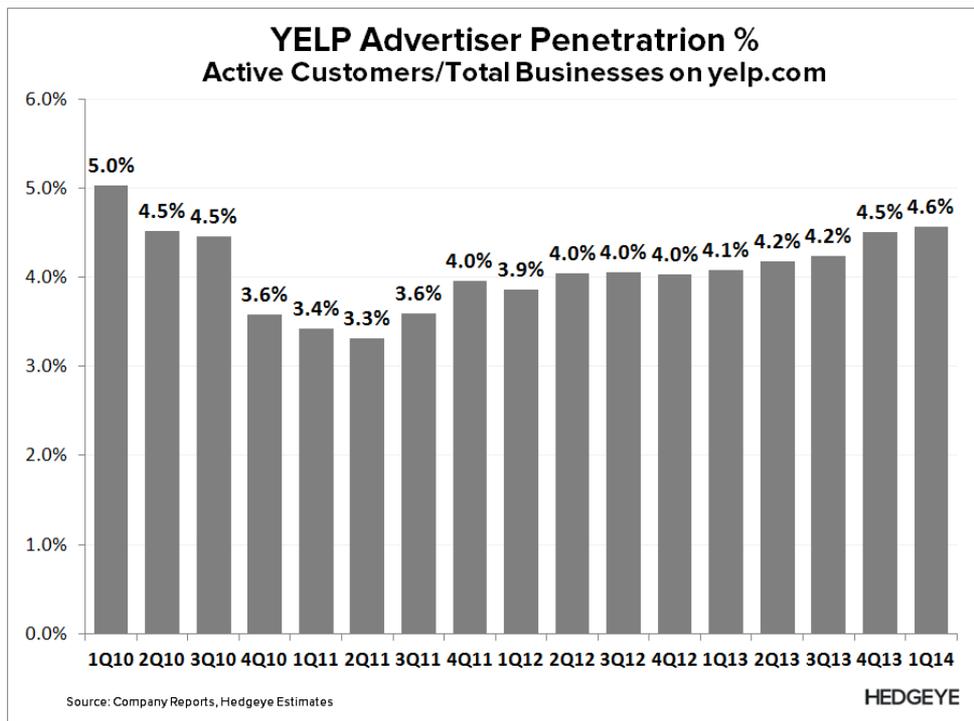
COMMODITIES SHOCK IMPACT



INPUT PRICES ACCELERATING

Sometimes inflation creeps up on you; sometimes, it smacks you in the face. This is the latter. Local businesses will definitely notice the impact because the increase is so sudden, will need to preserve margins.

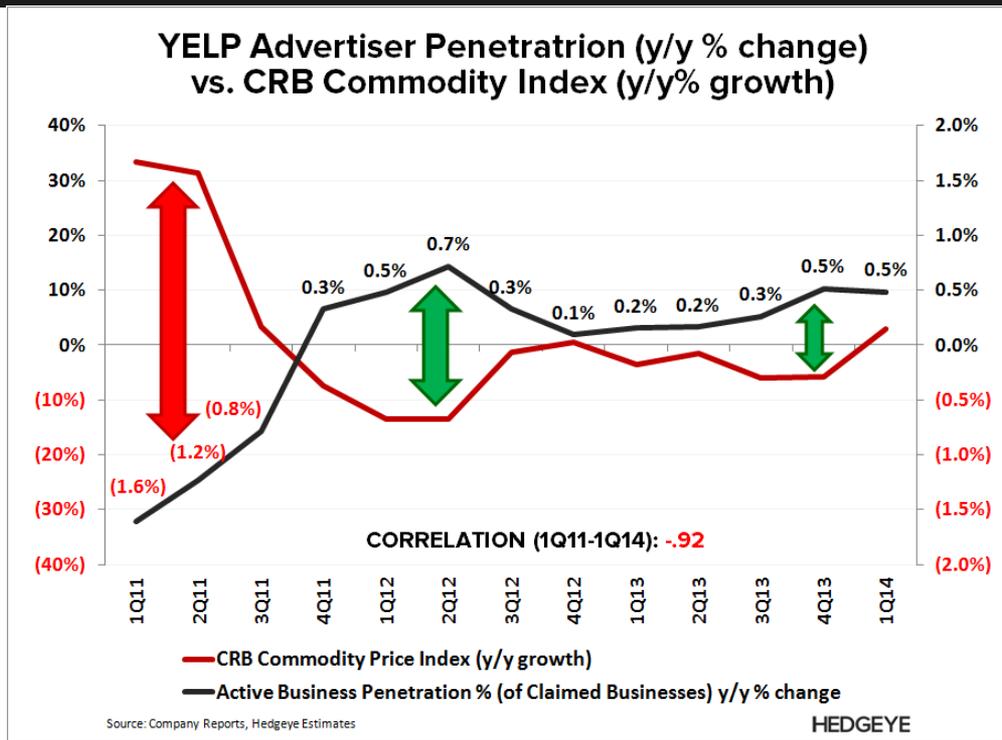
ADVERTISER PENETRATION WAVERS



HISTORY OF ADVERTISERS VS. CLAIMED BUSINESSES

This is just background info. The percentage of advertising businesses to total claimed businesses has wavered in the past. Particularly in 4Q10-3Q11, which saw a material decline. **What happened?**

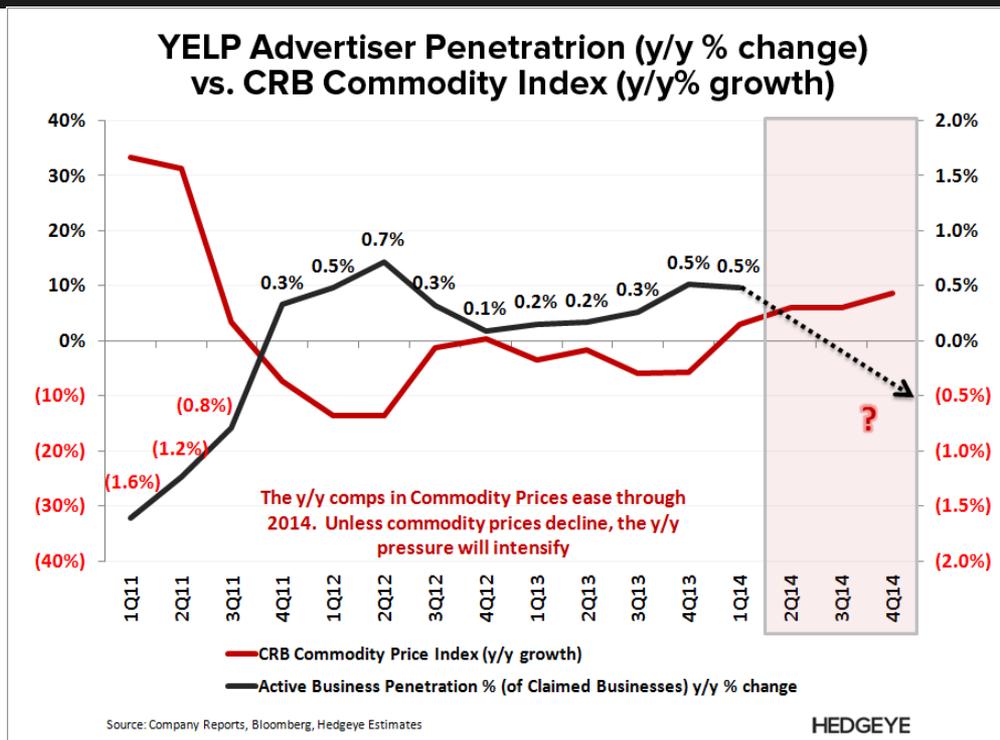
INPUT COSTS UP, ADVERTISING DOWN



ADVERTISING GETS THE AXE WHEN THE IS P/L PRESSURED

We're overlaying the y/y growth in commodity prices vs. the y/y change in advertiser penetration. As commodity prices increase, advertising penetration declines as local business attempt to preserve margins/profitability.

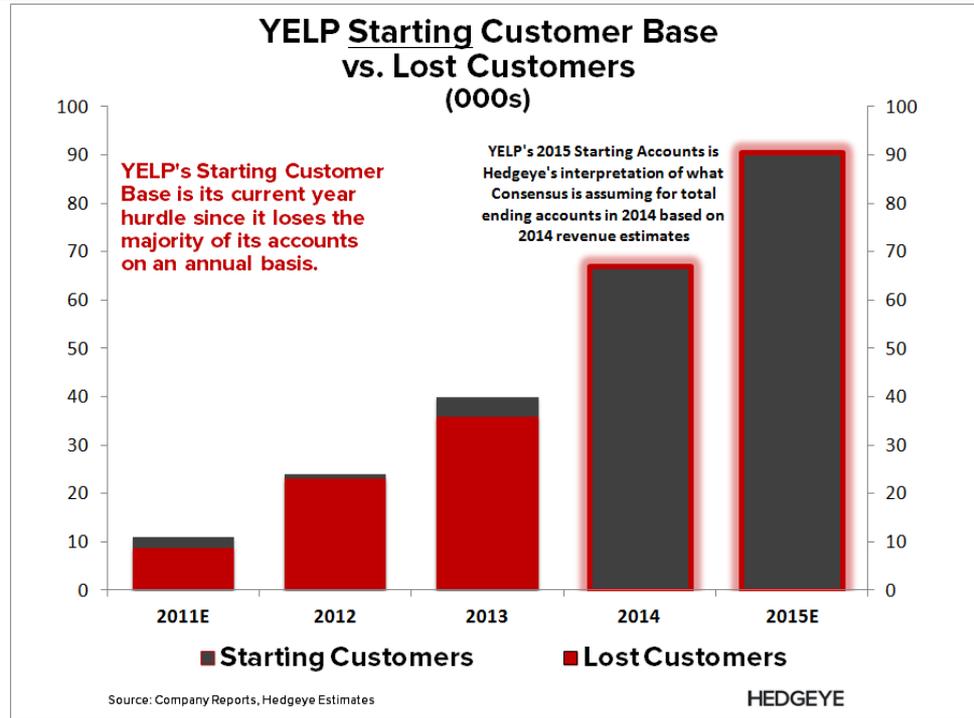
IF COMMODITIES DON'T DECLINE...



IT WILL ONLY GET WORSE

Commodity comps ease as we move through 2014, so the headwind will intensify on a y/y basis if commodities do not decline. Hedgeye Macro expects commodity inflation to continue through at least 3Q14.

LONGER-TERM ONLY GETS WORSE



CURRENT YEAR'S GROWTH = NEW YEAR'S HEADWIND

If YELP is losing the majority of its customer annually, then it will only lose more customers each year as it grows more accounts. YELP would need to drive attrition rates well below historical lows to reverse this trend.

YELP SHORT: THESIS SUMMARY

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We estimate that YELP is losing the majority of its local advertising customers on an annual basis. Macroeconomic headwinds will exacerbate the issue, but more importantly, the risk will increase each year regardless

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2014 CONSENSUS LOFTY/2015 UNATTAINABLE

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YELP'S ADDRESSABLE US MARKET...

Criteria for Advertising with YELP

1. **Affordability:** Minimum cost \$3,600 annually
2. **Retail:** vs. B2B

Composition of US Market (27M Total Businesses)

1. **Affordability:** 75% earn < \$100K annually
2. **Retail:** 47% are primarily B2B companies

YELP Estimate for US Local Business Opportunity



NOT ALL BUSINESSES ARE APPLICABLE

YELP's audience is primarily retail (our survey suggests 70% use exclusively for restaurants); B2B companies aren't likely to advertise. Most earn less than 100K, so YELP's smallest ad program would be prohibitive.

TAM MUCH SMALLER THAN IMPLIED

YELP TOTAL ADDRESSABLE MARKET ANALYSIS												
CROSS SECTION OF BUSINESSES WITH AVAILABLE INCOME & APPLICABLE INDUSTRIES												
YELP Market	Industry	Firms with Annual Sales Of..										
		All Firms	+ 100K	< 5K	5K - 10K	10-25K	25-50K	50-99K	100-250K	250-500K	500K-1M	> 1M
	Agriculture, forestry, fishing and hunting	258,779	44,382	59,856	38,316	54,106	34,177	27,942	23,847	9,002	5,908	5,625
	Mining, quarrying, and oil & gas extraction	122,352	37,190	24,813	14,665	19,705	12,491	13,488	14,455	7,567	5,256	9,912
	Utilities	24,050	6,492	6,053	2,983	4,003	2,608	1,911	2,083	1,212	822	2,375
	Construction	3,413,632	1,012,982	502,782	361,705	639,959	490,589	405,615	408,238	223,891	164,691	216,162
	Manufacturing	614,631	296,102	91,254	55,847	72,394	50,854	48,180	68,011	52,599	46,986	128,506
	Wholesale trade	732,222	386,636	86,722	53,873	77,317	62,036	65,638	83,198	60,573	59,053	183,812
YELP	Retail trade	2,671,836	809,107	694,526	348,795	391,792	228,053	199,563	249,560	175,031	142,044	242,472
	Transportation and warehousing	1,253,095	339,817	142,551	125,635	237,192	216,174	191,726	215,068	49,447	31,139	44,163
	Information	380,486	80,157	102,611	56,703	67,731	39,567	33,717	29,909	15,634	12,249	22,365
YELP	Finance and insurance	1,017,680	311,690	181,279	114,716	161,614	125,917	122,464	139,298	76,033	43,967	52,392
YELP	Real estate and rental and leasing	2,615,937	693,396	303,790	290,036	513,537	426,286	388,892	368,463	173,694	101,380	49,859
	Professional, scientific, and technical svcs	3,789,002	869,350	842,257	514,457	665,377	471,532	426,029	424,242	187,785	117,295	140,028
	Admin & support, waste, remediation svcs	2,122,906	296,679	585,822	418,031	484,303	202,914	135,157	121,590	67,146	46,052	61,891
YELP	Educational services	600,778	59,378	274,418	106,412	92,526	41,568	26,476	22,571	12,298	8,720	15,789
YELP	Health care and social assistance	2,368,801	602,506	475,426	389,519	474,650	249,246	177,454	183,107	147,500	131,760	140,139
YELP	Arts, entertainment, and recreation	1,235,766	125,419	482,636	216,969	222,710	114,698	73,334	55,911	27,198	19,225	23,085
YELP	Accommodation and food services	776,722	410,303	79,235	57,711	80,391	64,157	84,925	140,140	106,275	81,793	82,095
YELP	Other services (except public admin)	3,120,566	396,310	641,158	543,124	835,014	437,483	267,477	207,599	94,617	55,698	38,396
	Uncharacterized	7,581	2,189	-	844	1,161	1,245	2,142	1,333	441	258	157
	Totals	27,126,822	6,780,085	5,577,189	3,710,341	5,095,482	3,271,595	2,692,130	2,758,623	1,487,943	1,074,296	1,459,223
	YELP Markets (Total Firms)	14,408,086	3,408,109	3,132,468	2,067,282	2,772,234	1,687,408	1,340,585	1,366,649	812,646	584,587	644,227

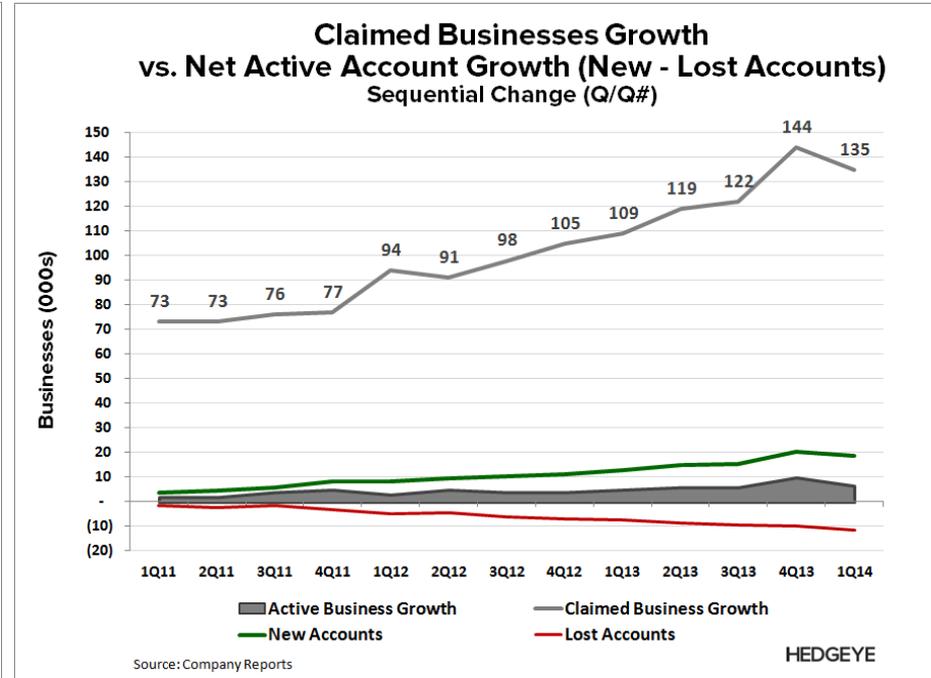
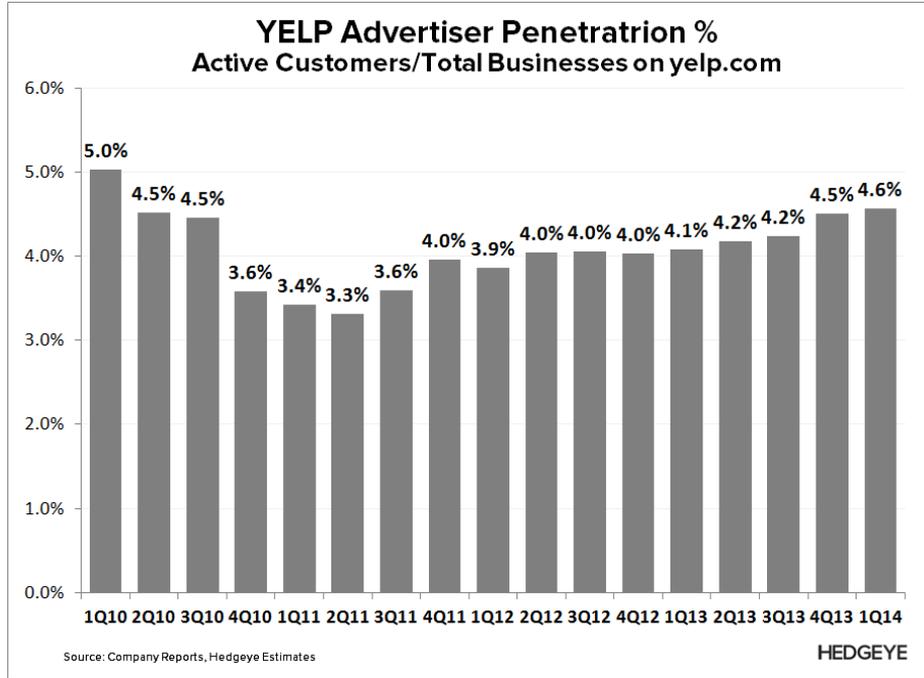
Data Source: Census.gov

← ? → HEDGEYE

27 MILLION...OR 3 MILLION

We pulled the Census data where YELP is getting its TAM estimate, and we filtered it by companies with more than 100K in revenue and those that cater to YELP's audience. **3.4 million is still optimistic.**

BUT HOW MUCH CAN IT PENETRATE?



ATTRITION WILL ALWAYS DRAG ON GROWTH

Given YELP's attrition problems, which will only intensify as its business grows, **we can't see how it could ever penetrate more than its peak historical rate of 5%**. Attrition will always limit account penetration.

REALISTIC TAM EVEN SMALLER

YELP US ADDRESSABLE MARKET & PENETRATION %

YELP Potential Addressable US Market	3,408
YELP Claimed Businesses (1Q14)	1,561
YELP Claimed Business Penetration %*	46%
YELP Peak Advertiser % of Claimed Businesses	5%
YELP Realistic Addressable US Market	170
Yelp US Active Accounts (1Q14)	71
Current US Account Penetration %*	42%

*Int'l: we estimate YELP has 3K active accounts, 60K claimed businesses

Source: Census, Company Reports, Hedgeye Estimates

HEDGEYE

PENETRATION ALREADY AT HIGH LEVELS

Penetration is approaching 50% when we compare YELP claimed businesses to its TAM. Realistic penetration is comparable given the 5% peak. **Yes, we know that YP.com (the largest US local ad platform) has 575K.**

BUT YELP ISN'T YP.COM, OR DXM

SMALL BUSINESS ADVERTISING COMPANIES

Customers vs. Service Offering Comparison

	YELP	YP	DXM
CUSTOMERS	74K	575K	580K

ADVERTISING/MARKETING SERVICES

Local Search Ads	X	X	X
Videos	X	X	X
Deals/Gift Certificates	X		
Website Design/Hosting		X	X
Listings & Reputation Mangement		X	X
Direct Mailing		X	X
Search Engine Marketing		X	X
Search Engine Optimization			X
Yellow Pages Ads		X	X

Source: YELP filings, company websites

HEDGEYE

YELP

Packages to Fit Your Budget

Yelp Local business advertising packages typically range from \$300 to \$2,200 per month, depending on how aggressively you want to attract customers. Each package includes a dashboard to track your results in the program.

YP.com

Mobile Premier Ad



A Mobile Premier Ad gives you the opportunity to connect with consumers when they are using the highly rated YP® app on a smart phone to look for local businesses like yours.

FROM \$60 Per Month

Request Information 1-800-577-7126

Local Search Ads



Spend your time where you're needed most: operating your business. Let YP do the work of marketing your business online. The YP® Local Search Network includes YP.com, Yahoo Local, City Search, and over 300 local search sites and mobile search apps, receiving more than 2 billion searches annually and providing information about your small business to 60M+ unique visitors.

FROM \$59 Per Month

Request Information 1-800-577-7126

Search Engine Marketing



Full-service, budget-friendly, performance-based: our search engine marketing solutions ensure your business is seen on all major search engines by consumers searching for what you have to offer.

FROM \$90 Per Month

Request Information 1-800-577-7126

DXM

Priority Placement



Get your ad out in front of your competitors' online directory listings.

- A top-of-page position helps consumers find you faster.
- You could potentially reach thousands more consumers every day with a priority placement spot.
- Priority placement ads promote your business as an industry leader and can increase shoppers' trust in you.

Starting at \$40 per month

Price only by market and product and is subject to change.

Get Started

Websites



Create a powerful online presence.

- Establish credibility and create a professional online appearance for your business that can be viewed on any device.
- Stay open to the world and accessible to your customers 24/7/365.
- Promote your products and services, and provide customers with the information they need.

Starting at \$60-75 per month

Price only by market and product and is subject to change.

Get Started

YELP: FEWER PRODUCTS + HIGHER PRICE = SMALLER TAM

YELP has implied that YP.com accounts are a low-hanging fruit. However the breadth of YELP's offering is far **more limited**, and in many cases **more expensive**; meaning its TAM is considerably smaller

YELP SHORT: THESIS SUMMARY

1

ABSURD ATTRITION RATE TO GET WORSE

We estimate that YELP is losing the majority of its local advertising customers on an annual basis. Macroeconomic headwinds will exasperate the issue, but more importantly, the risk will increase each year regardless.

2

TAM IS A FRACTION OF WHAT'S ADVERTISED

Estimates vary for YELP's total addressable US market, YELP has estimated as high as 27M...In reality, it's closer to 170K.

3

2014 CONSENSUS LOFTY/2015 UNATTAINABLE

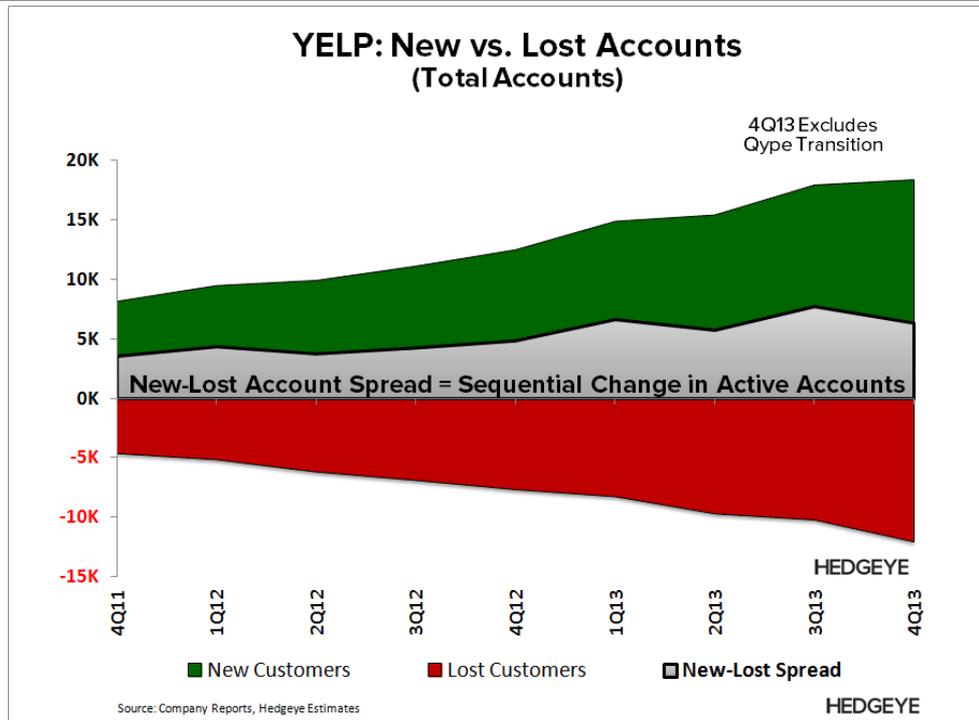
Consensus revenues imply an acceleration in new account growth/penetration rates and/or improving attrition rates through 2015, we're expecting the opposite

YELP'S KEY FUNDAMENTAL DRIVERS

Key Drivers

1. **New Accounts**
2. **Lost Accounts**

The spread between the two =
YELP's Q/Q Account Growth

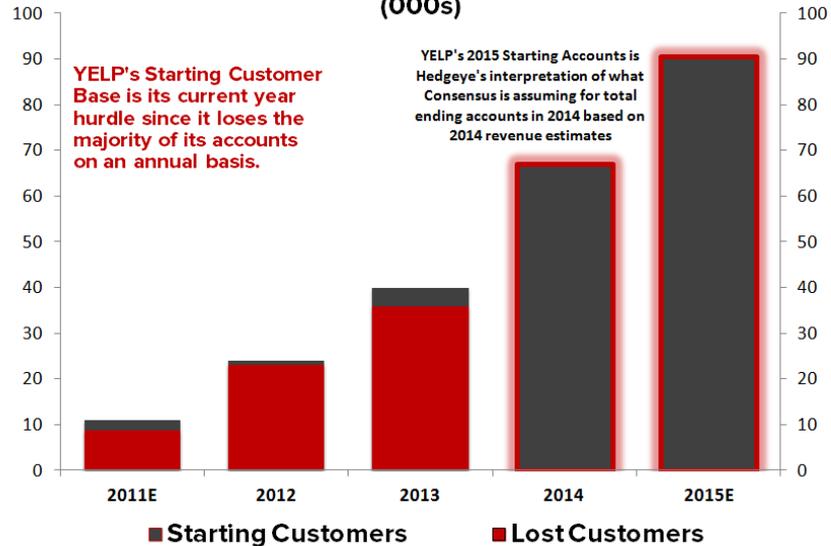


EVERYTHING ELSE IS JUST NOISE

YELP's attrition issues have gone unnoticed because new account growth has been exceeding losses. But with increasing base of advertising accounts to lose, and highly penetrated TAM, things are going to get ugly.

THE RISK GROWS EACH YEAR

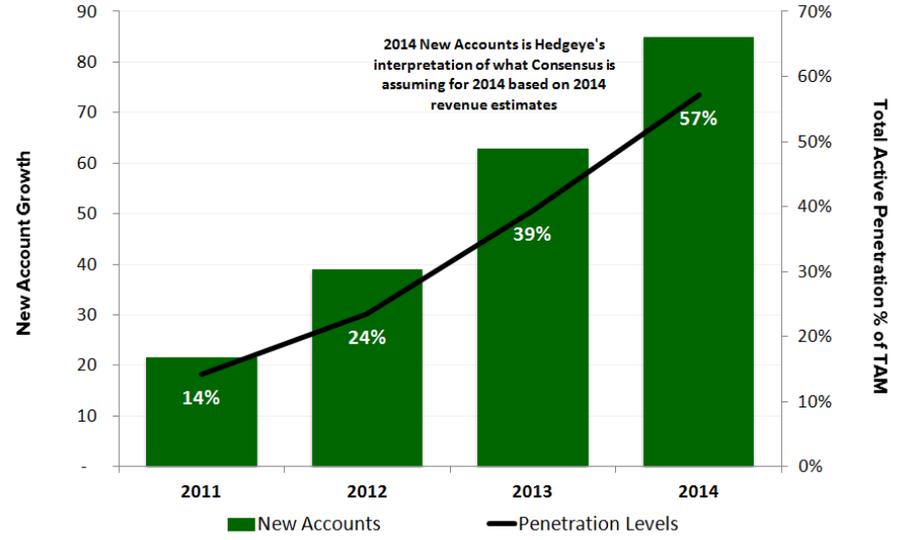
YELP Starting Customer Base vs. Lost Customers (000s)



Source: Company Reports, Hedgeye Estimates

HEDGEYE

YELP New Account Growth & Total Active Penetration % of TAM



Source: Company Reports, Census, Hedgeye Estimates

HEDGEYE

WITH AN INCREASING CUSTOMER (ATTRITION) BASE

As the starting customer base grows, the attrition risk grows with it. To compensate, new account growth needs to accelerate each year, which means **penetration levels would need to accelerate too.**

2014 ESTIMATES ARE LOFTY

YELP 2014 Revenue Growth Scenario Analysis					
Per-Market Growth %	Quarterly Attrition Rate				
	16%	17%	18%	19%	20%
15.0%	360,776	354,310	347,964	341,738	335,629
17.5%	363,643	357,142	350,761	344,500	338,356
20.0%	366,511	359,974	353,558	347,262	341,083
22.5%	369,379	362,806	356,355	350,024	343,810
25.0%	372,247	365,638	359,152	352,785	346,538
30.0%	377,982	371,302	364,745	358,309	351,992

Consensus 364,350

HEDGEYE

Source: Bloomberg, Hedgeye Estimates

2013 Averages

- Account Growth/Market: **31.7%***
- Quarterly Attrition Rate: **18.5%**

* Excludes 2.2K accounts migrated from Qype in 4Q13

1Q14

- Account Growth/Market: **22.5%**
- Quarterly Attrition Rate: **18.6%***

* Excludes 2.2K accounts migrated from Qype in 4Q13

IMPLIES IMPROVEMENTS OVER 2013

Either Attrition Rates need to improve from 2013 levels, or New Account Growth on a per-market basis needs to maintain 2013 levels. Neither is likely; especially with macroeconomic headwinds we highlighted earlier.

2015 ESTIMATES ARE INSANE

YELP 2015 Revenue Growth Scenario Analysis					
Per-Market Growth %	Quarterly Attrition Rate				
	16%	17%	18%	19%	20%
15.0%	520,021	510,256	500,674	491,274	482,051
17.5%	524,083	514,267	504,636	495,186	485,915
20.0%	528,144	518,278	508,597	499,098	489,778
22.5%	532,206	522,290	512,559	503,010	493,642
25.0%	536,268	526,301	516,520	506,922	497,505
30.0%	544,391	534,324	524,443	514,747	505,232

Consensus 524,935

HEDGEYE

Source: Bloomberg, Hedgeye Estimates

Notes

- 2015 Scenario Analysis is using Consensus 2014 Estimates as Base Revenue
- Consensus Implied Ending Accounts of **131K** would imply **70%-77% US penetration** of YELP's realistic TAM (depends on int'l mix)

NO OTHER WAY TO PUT IT

YELP would need to produce historically low Attrition Rates and sustain its +30% growth rate in new account growth/market to hit 2015 estimates, and this is based on Consensus 2014 Estimates, not Hedgeye's.

HEDGEYE BULL/BEAR CASE

Hedgeye (Bull Case) vs. Consensus			
	2013	2014E	2015E
Hedgeye Revenue	233	356	466
y/y growth %	69%	53%	31%
Consensus Revenue	233	364	525
y/y growth %	69%	56%	44%
Hedgeye Model Drivers			
New Accounts/Market (y/y growth%)	31.7%	16.9%	12.5%
Attrition Rate (Quarterly)	18.5%	18.3%	19.0%
Hedgeye Model Output			
Total New Accounts (000s)	63K	82K	104K
New Accounts/Market (Qtr Avg)	140	163	184
Total Lost Accounts (000s)	(36K)	(56K)	(78K)
Lost Accounts/Market (Qtr Avg)	(82)	(111)	(137)
Annual Attrition Rate	90%	84%	83%
Ending Accounts	67K	93K	120K
Ending US Accounts	65K	89K	114K
US Penetration	38%	53%	67%
Source: Bloomberg (Consensus)	HEDGEYE		

Hedgeye (Bear Case) vs. Consensus			
	2013	2014E	2015E
Hedgeye Revenue	233	350	431
y/y growth %	69%	50%	23%
Consensus Revenue	233	364	525
y/y growth %	69%	56%	44%
Hedgeye Model Drivers			
New Accounts/Market (y/y growth%)	31.7%	13.1%	0.0%
Attrition Rate (Quarterly)	18.5%	18.7%	19.5%
Hedgeye Model Output			
Total New Accounts (000s)	63K	80K	90K
New Accounts/Market (Qtr Avg)	140	158	158
Total Lost Accounts (000s)	(36K)	(57K)	(74K)
Lost Accounts/Market (Qtr Avg)	(82)	(112)	(130)
Annual Attrition Rate	90%	85%	82%
Ending Accounts	67K	90K	106K
Ending US Accounts	65K	86K	100K
US Penetration	38%	51%	59%
Source: Bloomberg (Consensus)	HEDGEYE		

Note: Both cases assume 16 new markets per year

BULL CASE = BEST CASE

BEAR CASE ≠ WORST CASE

The Model Drivers are in **BLUE** text. Both cases assume new account growth continues to accelerate in absolute terms. Both cases assume annual attrition rates improve.

VALUATION: HEDGEYE VS. CONSENSUS

YELP CONSENSUS ESTIMATES

SOCIAL MEDIA VALUATIONS & GROWTH EXPECTATIONS FB, LNKD, TWTR, & YELP				
P/S RATIOS	FB	LNKD	TWTR	YELP
2014	14.2x	9.5x	18.0x	14.8x
2015	10.8x	7.2x	11.1x	10.3x
2016	8.5x	5.5x	7.6x	7.6x

CONSENSUS GROWTH	FB	LNKD	TWTR	YELP
2014	51%	39%	91%	57%
2015	32%	32%	62%	43%
2016	27%	31%	46%	36%

P/S/CONSENSUS GROWTH	FB	LNKD	TWTR	YELP
2014	28.1x	24.3x	19.8x	26.0x
2015	34.0x	22.1x	17.9x	23.8x
2016	32.1x	17.6x	16.3x	20.9x

Source: Bloomberg, Hedgeye estimates

HEDGEYE

YELP HEDGEYE BULL CASE

SOCIAL MEDIA VALUATIONS & GROWTH EXPECTATIONS FB, LNKD, TWTR, & YELP				
P/S RATIOS	FB	LNKD	TWTR	YELP
2014	14.2x	9.5x	18.0x	14.8x
2015	10.8x	7.2x	11.1x	10.3x
2016	8.5x	5.5x	7.6x	7.6x

CONSENSUS GROWTH	FB	LNKD	TWTR	YELP
2014	51%	39%	91%	52%
2015	32%	32%	62%	31%
2016	27%	31%	46%	16%

P/S/CONSENSUS GROWTH	FB	LNKD	TWTR	YELP
2014	28.1x	24.3x	19.8x	28.5x
2015	34.0x	22.1x	17.9x	33.3x
2016	32.1x	17.6x	16.3x	46.2x

Source: Bloomberg, Hedgeye estimates

HEDGEYE

EXPECTATIONS DRIVES THE STOCK

Growth expectations can explain the P/S multiples across the group. If growth expectations collapse, the multiple will collapse with it. Given the growth profiles, YELP should trade closer to LNKD.

YELP: SUMMARY TAKEAWAYS

1

YELP'S ATTRITION ISSUES WILL ONLY GET WORSE

YELP's prior year growth creates its current year headwind moving forward since it can't retain the bulk of its customers. As its customer base grows, its attrition risk grows with it.

2

YELP'S TAM CAN'T SUPPORT ITS BUSINESS MODEL

Its addressable market is much smaller than it believes it to be. It's model of driving new account growth in excess of its absurd attrition rates can't continue indefinitely. This will become more evident in 2H14/2015.

3

STOCK IS GOING TO COLLAPSE

YELP trades on growth expectations, which we expect will collapse by this time next year. We believe a 7x 2015 multiple is more appropriate given a comparable growth profile to LNKD, **That means YELP isn't worth more than \$45...on our bull case.**

DON'T GET BAITED

1

RISING CUSTOMER REPEAT RATE IS NOT GOOD

We expect this number to rise, but that's because we expect new account growth to slow. Remember, this a measure of **customer mix**, not retention. If the repeat rate grows, then its new account contribution is declining, which means growth will become more challenging.

2

THIS YEAR'S STRENGTH = NEXT YEAR'S WEAKNESS

Near-term upside is a sign of future headwinds, not tailwinds. YELP's customer base is its attrition risk. The more accounts it enters 2015 with, the more it has to lose, and the more it must drive accelerating new account growth to compensate.

3

CAREFUL WITH MANAGEMENT COMMENTARY

Management is now on the defensive, and its response to date has been vague at best. The only question that matters is ***"What percentage of your current customers have been advertising and/or generating revenue for YELP for more than a year?"*** Everything else is just noise.



REFUTING THE PUSHBACK

A black and white cartoon illustration of a boat floating on water. The word "YELP" is written in large, bold, block letters on the side of the boat. There are ripples in the water around the boat, and a splash of water is visible on the left side. The style is simple and sketchy.

YELP

PUSHBACK: WHAT WE'VE HEARD

1. Can't Calculate Attrition Rate
2. Salesforce Couldn't Compensate for Attrition
3. Cohort Growth is Too Strong
4. Business Failures Driving Attrition
5. Deal Churn Driving Attrition
6. Seasonality Driving Attrition

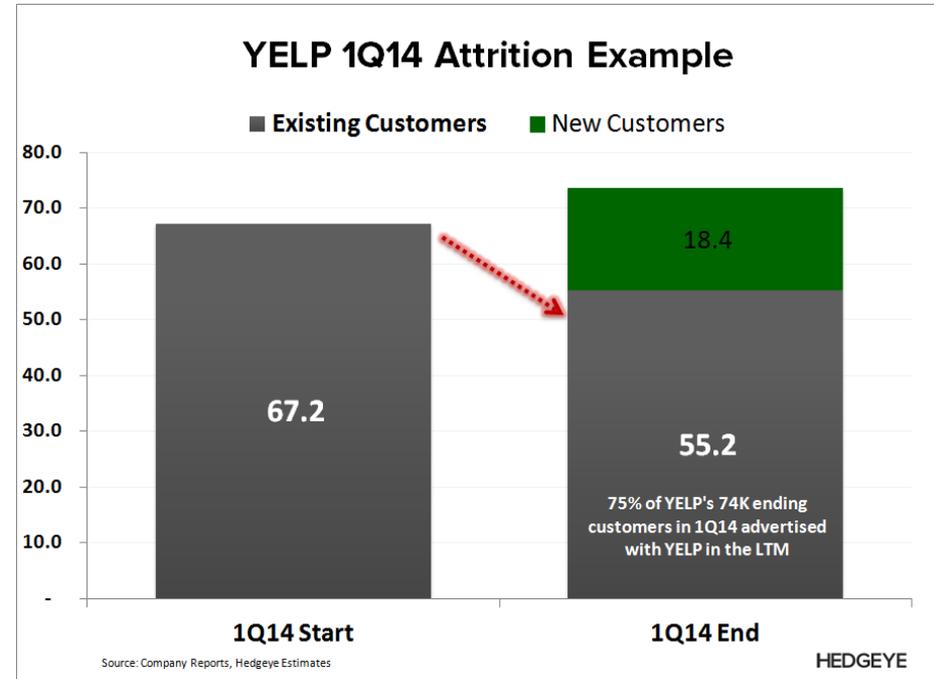
THESE ARE SMOKESCREENS

But we are going to entertain each point as if it is plausible, then we'll refute it. But more importantly, despite all the pushback, YELP has never explicitly refuted anything we've said.

CAN'T CALCULATE ATTRITION RATE?

1Q14 EXAMPLE (unadjusted)

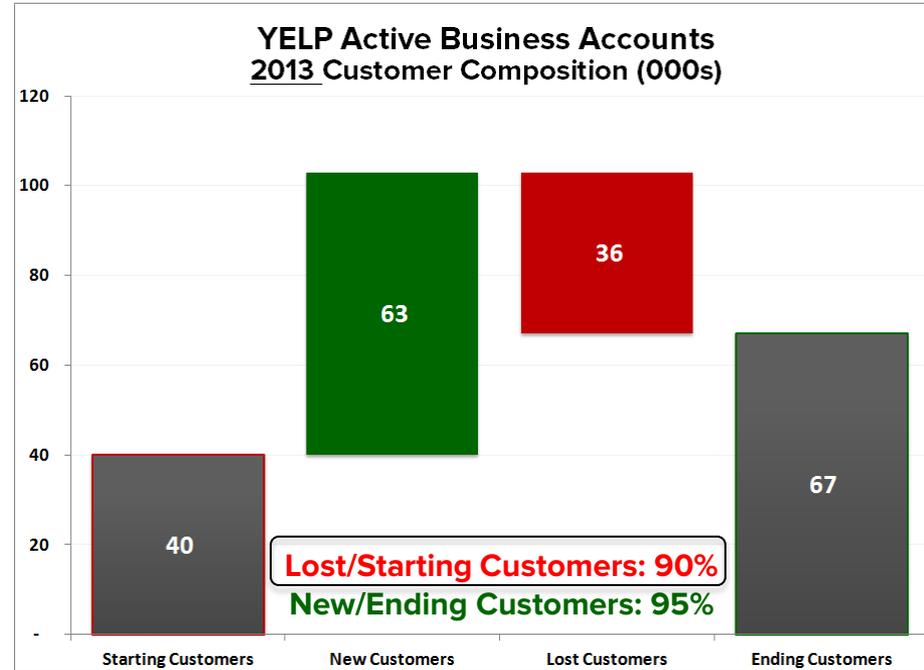
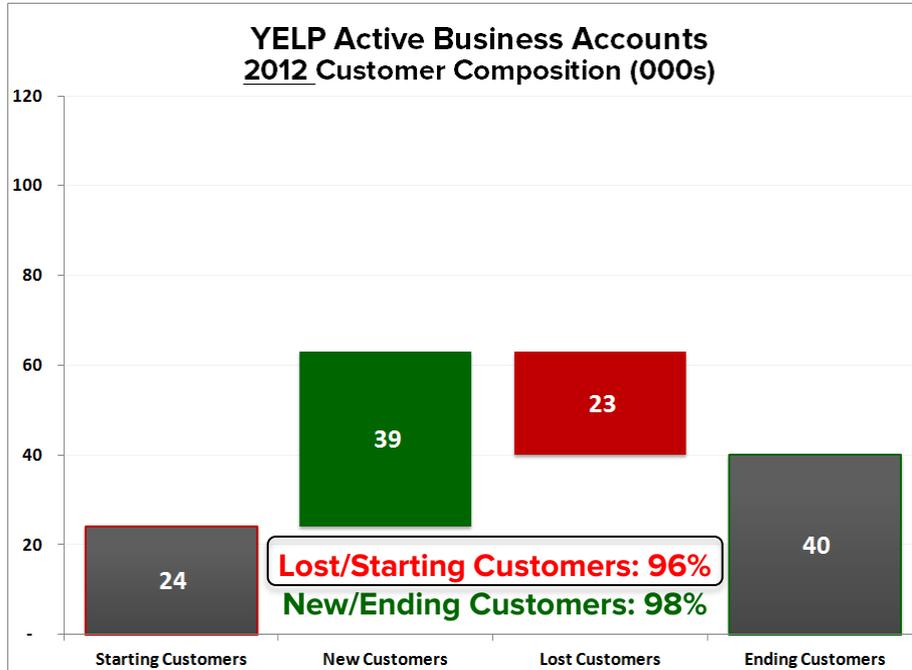
1. YELP had **67K customers** in 4Q13
2. YELP had **74K customers** in 1Q14
3. 1Q14 **Customer Repeat Rate** was **75%**
4. 1Q14 Repeating Customers: **55K** ($74K \times 75\%$)
5. YELP had 67K customers in 4Q13, but only 55K repeating customers in 1Q14, so it **lost 12K (55K-67K)** customers, or **17.9%** of its customers from 4Q13.



REALITY: THERE'S NO DENYING THE QUARTERLY RATE

Management is being very selective with its language. YELP isn't refuting our attrition thesis, it's just saying that that we can't calculate the rate...the math above on the quarterly rate is explicit.

CAN'T CALCULATE ATTRITION RATE?



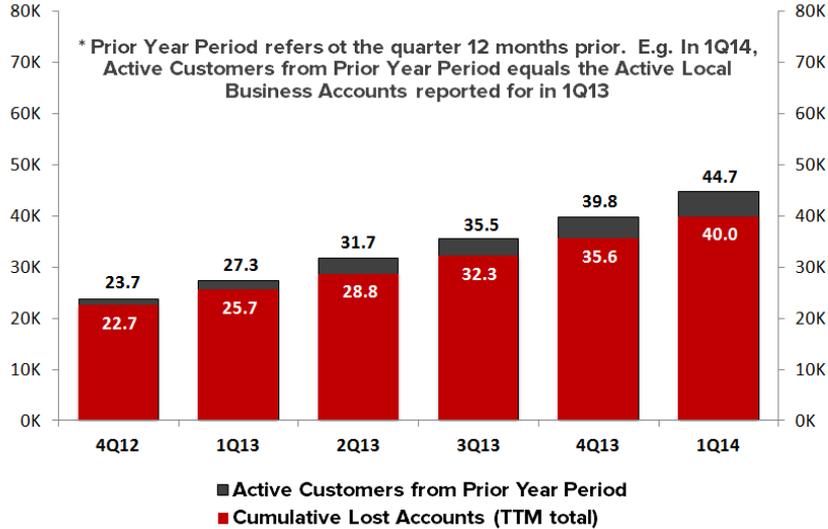
HEDGEYE

REALITY: RATE IN QUESTION, YELP NOT DENYING ATTRITION

Management is referring to the annual rate, and that is only because we can't prove where its lost accounts are coming from (starting vs. new customers). **But, YELP is not saying that this isn't happening.**

CAN'T CALCULATE ATTRITION RATE?

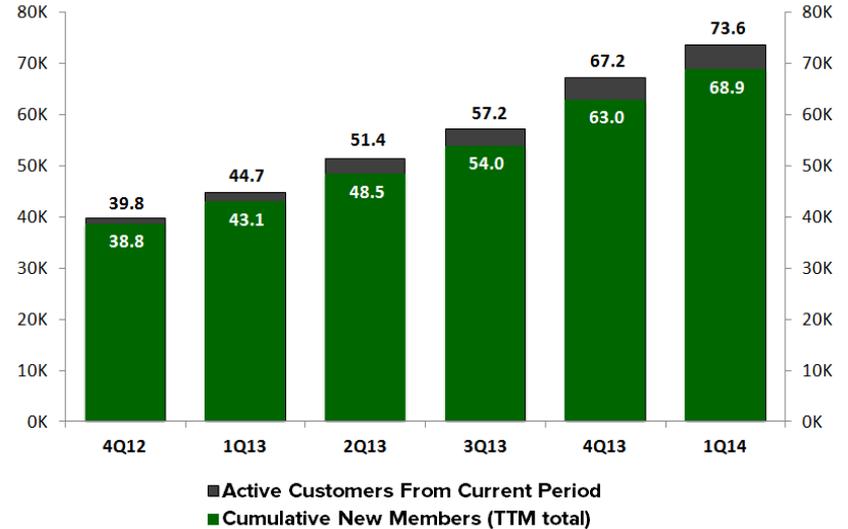
YELP Cumulative Lost Customers (TTM Total) vs. Active Customers from Prior Year Period*



Source: Company Reports, Hedgeye Estimates

HEDGEYE

YELP Cumulative New Customers (TTM Total) vs. Active Customers from Current Year Period



Source: Company Reports, Hedgeye Estimates

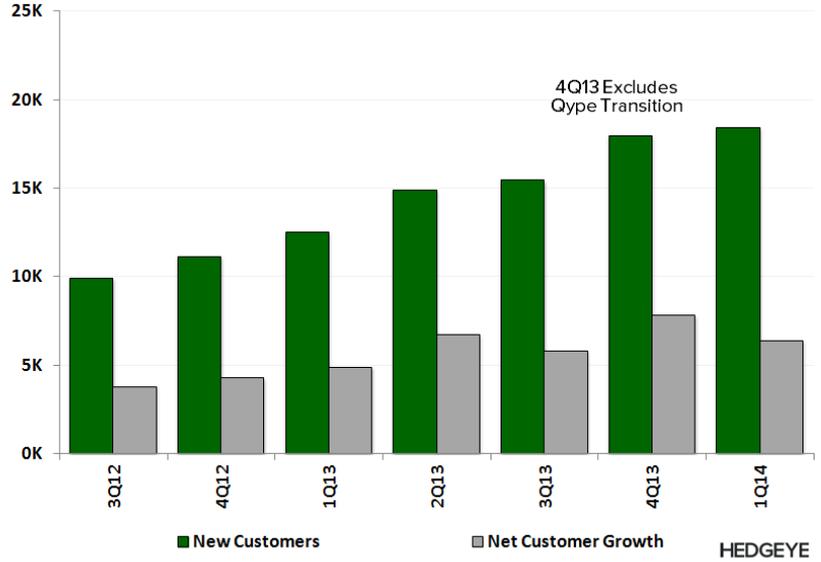
HEDGEYE

REALITY: THIS IS WHAT'S HAPPENING

Why is the TTM sum of new customers comparable to its total active customers? Why is the TTM sum of lost customers comparable to what YELP started the prior-year period with?

SALESFORCE ISN'T THIS EFFECTIVE?

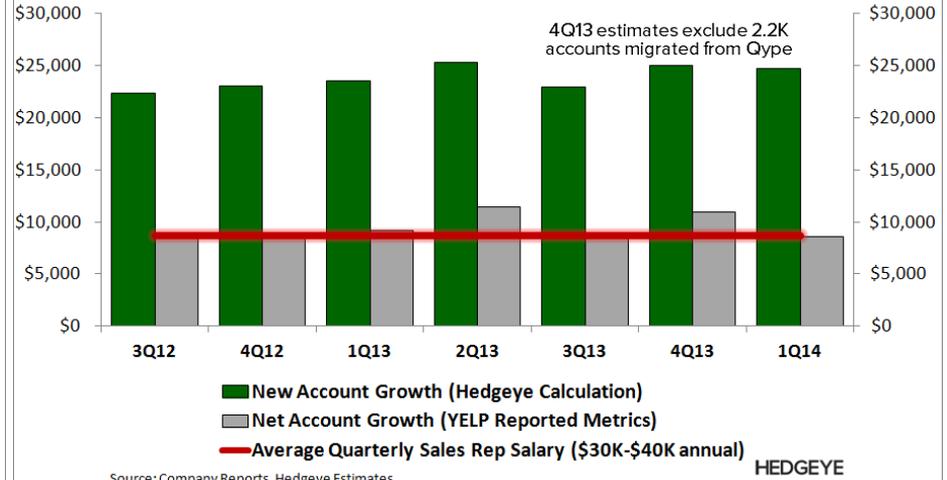
**YELP Quarterly Customer Growth
New vs. Net Growth**



**YELP Salesforce Productivity Scenario Analysis:
New Quarterly Revenue/Sales Rep**

(Calculated using New Account vs. Reported Account Growth)

Note: We are lagging Total Sales Rep Count in the denominator to the period 9-months prior (E.g. 1Q14 calculation is based on total reps in 2Q13, not 1Q14).



REALITY: IT WOULD BE THE EXACT OPPOSITE

The pushback is that YELP's salesforce couldn't compensate for its attrition issues we highlighted. Truth is that if it wasn't, then it's salesforce would be wildly unproductive (i.e. unprofitable).

EARLY COHORTS TOO STRONG?

YELP COHORT COMPOSITION (2005-2013)									
UNITED STATES									
2005	2006	2007	2008	2009	2010	2011	2012	2013	
San Francisco	Boston	San Diego	Philadelphia	Sacramento	Raleigh-Durham	Milwaukee	Richmond	Charleston	
Chicago	DC	Honolulu	Denver	Honolulu	Pittsburgh	Kansas City	Oklahoma City	Baton Rouge	
LA	Austin	Minneapolis	St. Louis	Las Vegas	Tampa Bay	Hampton Road	Tulsa		
NYC	Atlanta	Dallas	Orlando	San Antonio	Louisville	Birmingham	Reno		
Seattle	Portland	Miami		Columbus	Baltimore	Madison	Omaha		
	Houston	Detroit		Indianapolis	Memphis	Albuquerque	Portland (M)		
	Phoenix			Charlotte	Hartford	Jacksonville	Rochester		
	San Jose			Cincinnati	Buffalo		Des Moines		
				Tucson					
				Nashville					
				New Orleans					
				Cleveland					
				Salt Lake City					
				Providence					

Source: Company Filings

INTERNATIONAL									
2005	2006	2007	2008	2009	2010	2011	2012	2013	
				London	Dublin	Amsterdam	Antwerp	Istanbul	
				Toronto	Leeds	Halifax	Brussels	Krakow	
				Vancouver	Paris	Edinburgh	Brisbane	Auckland	
					Berlin	Vienna	Florence	Rotterdam	
					Glasgow	Hamburg	Lille	Toulouse	
					Manchester	Lyon	Perth	Naples	
					Calgary	Madrid	Seville	Bordeaux	
					Edmonton	Munich	Sydney	São Paulo	
						Marseille	Adelaide	Prague	
						Montreal	Copenhagen	Rio de Janeiro	
						Rome	Oslo	Frankfurt	
						Barcelona	Ottawa	Düsseldorf	
						Milan	Stockholm		
						Melbourne	Valencia		
							Helsinki		
							Birmingham		
							Singapore		
							Zurich		

Source: Company Filings

YELP COHORT COMPOSITION

Number of US Employer Businesses by MSA (000s)

US Total Employer Businesses	6,994
Early Cohorts	US Businesses
2005-2006	1,474
2007-2008	1,450
2009-2010	671
Total	3,595
	% of Total
	21%
	21%
	10%
	51%

***US Retail Business % 53%**
 US Retail Businesses in Early Cohorts **1,905**

****YELP Claimed Businesses in 4Q10 307**
****YELP Claimed Businesses in 1Q14 1,561**

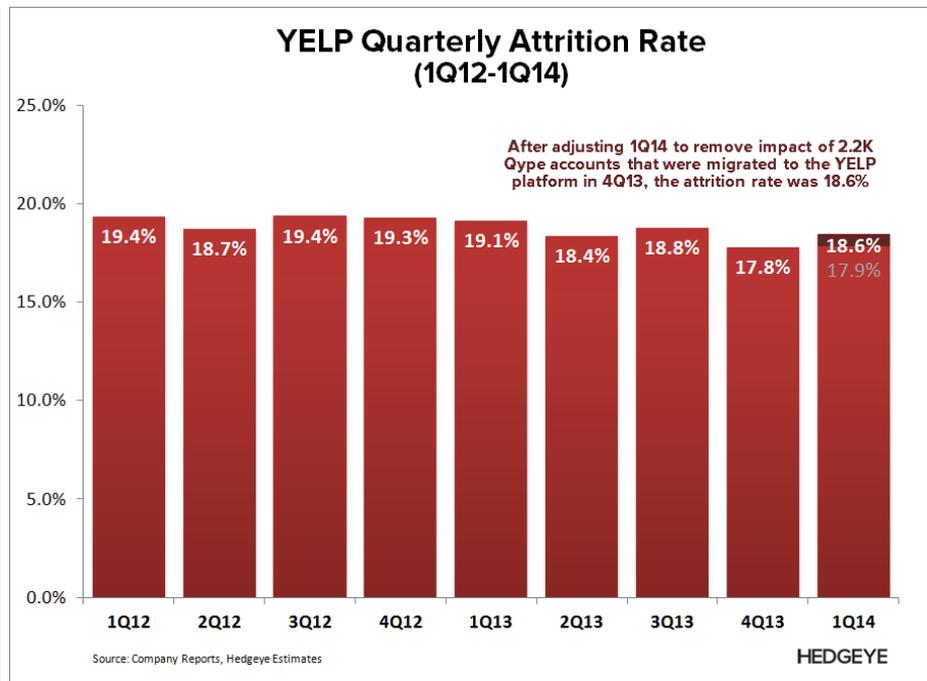
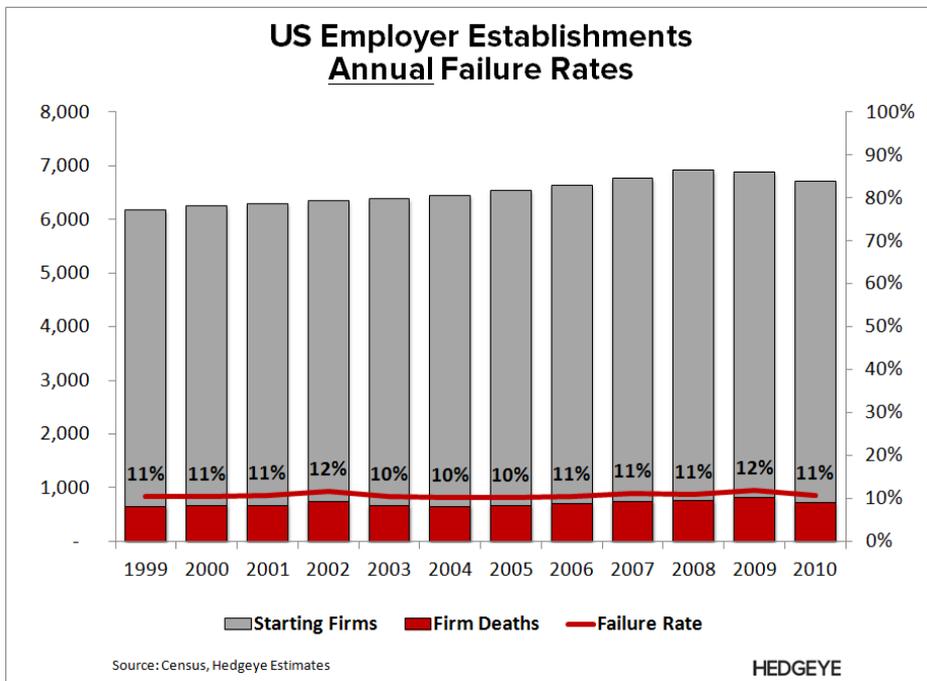
* Hedgeye Estimate from our YELP US TAM analysis
 ** Includes International

Source: Census, Company Reports **HEDGEYE**

REALITY: YELP HAS BEEN SLOW TO PENETRATE

Roughly half of YELP's TAM resides in the early cohorts, which YELP was slow to penetrate. By 4Q10, YELP only had ~300K **claimed** businesses out 1.9M potential **employer** businesses (16% penetration).

BUSINESS FAILURES TO BLAME



REALITY: NOT HIGH ENOUGH TO EXPLAIN ATTRITION

It's plausible that US failure rates are 15%-20% annually, but that is ~4%-5% quarterly; well below YELP's quarterly attrition rate. Regardless, are businesses on the brink of failure advertising with YELP to begin with?

DEAL CHURN DRIVING ATTRITION?

YELP: CUSTOMER MIX SCHEDULE											
METRIC	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Customer Repeat Rate		66%	70%	70%	72%	72%	72%	71%	73%	70%	75%
Active Local Business Accounts	19.4	23.7	27.3	31.7	35.5	39.8	44.7	51.4	57.2	67.2	73.6
Repeating Customers		15.6	19.1	22.2	25.6	28.7	32.2	36.5	41.8	47.0	55.2
New Customers		8.1	8.2	9.5	9.9	11.1	12.5	14.9	15.4	20.2	18.4
Lost Customers		(3.8)	(4.6)	(5.1)	(6.1)	(6.8)	(7.6)	(8.2)	(9.6)	(10.2)	(12.0)
Spread (Q/Q Account Growth)		4.3	3.6	4.4	3.8	4.3	4.9	6.7	5.8	10.0	6.4
Annualized Totals											
Starting Accounts (prior year quarter)					19.4	23.7	27.3	31.7	35.5	39.8	44.7
New Customers (TTM total)					35.7	38.8	43.1	48.5	54.0	63.0	68.9
Lost Customers (TTM total)					(19.6)	(22.7)	(25.7)	(28.8)	(32.3)	(35.6)	(40.0)
Current Quarter Accounts					35.5	39.8	44.7	51.4	57.2	67.2	73.6
Variance					-	-	-	-	-	-	-
Cumulative History											
Starting Accounts (3Q11)	19.4										
New Customers (4Q11-1Q14)	128.3										
Lost Customers (4Q11-1Q14)	(74.1)										
Ending Accounts (1Q14)	73.6										

Note: Account Metrics in 000s

REALITY: WE WOULD HAVE SEEN IT IN YELP'S METRICS

First, that assumes no overlap with any of its local advertising customers. Second, if that was the case, we would be double-counting lost accounts somewhere, and the numbers wouldn't tie out. That's not the case.

SEASONALITY DRIVING ATTRITION?

YELP: CUSTOMER MIX SCHEDULE											
METRIC	3Q11	4Q11	1Q12	2Q12	3Q12	4Q12	1Q13	2Q13	3Q13	4Q13	1Q14
Customer Repeat Rate		66%	70%	70%	72%	72%	72%	71%	73%	70%	75%
Active Local Business Accounts	19.4	23.7	27.3	31.7	35.5	39.8	44.7	51.4	57.2	67.2	73.6
Repeating Customers		15.6	19.1	22.2	25.6	28.7	32.2	36.5	41.8	47.0	55.2
New Customers		8.1	8.2	9.5	9.9	11.1	12.5	14.9	15.4	20.2	18.4
Lost Customers		(3.8)	(4.6)	(5.1)	(6.1)	(6.8)	(7.6)	(8.2)	(9.6)	(10.2)	(12.0)
Spread (Q/Q Account Growth)		4.3	3.6	4.4	3.8	4.3	4.9	6.7	5.8	10.0	6.4

Seasonality Schedule											
Repeating Customers					25.6	28.7	32.2	36.5	41.8	47.0	55.2
Customer Recoup from Seasonality					3.8	4.6	5.1	6.1	6.8	7.6	8.2
Repeating Customers from Prior Quarter					21.8	24.1	27.1	30.4	34.9	39.4	47.0
Prior Quarter Customers					31.7	35.5	39.8	44.7	51.4	57.2	67.2
Lost Customers from Prior Quarter					(9.9)	(11.4)	(12.7)	(14.3)	(16.5)	(17.8)	(20.2)
Attrition Rate Assuming Seasonality					31.2%	32.2%	32.0%	32.1%	32.1%	31.1%	30.1%
Attrition Rate (Original Calculation)					19.4%	19.3%	19.1%	18.4%	18.8%	17.8%	17.9%

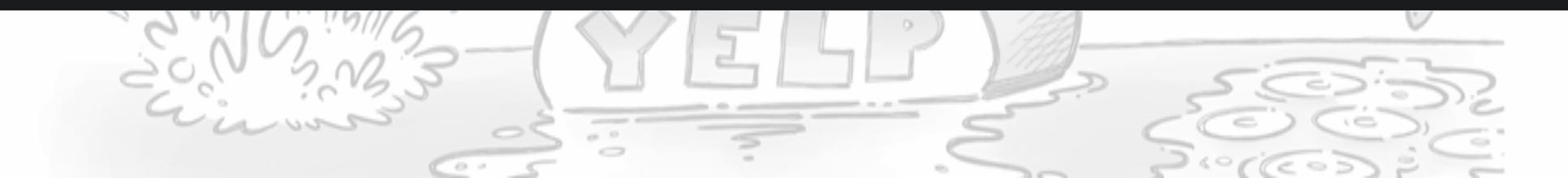
Note: Account Metrics in 000s

REALITY: THEN YELP'S ATTRITION IS ACTUALLY WORSE

First, most contracts are on annual terms. Second, the repeat rate covers 5 quarters (current & LTM), so if a customer comes back, it would be inflating the repeating customers, and quarterly attrition would be worse.



ACQUISITION TARGET?



YELP TO BE ACQUIRED?

1

WHO'S THE BUYER?

YELP has an EV value of roughly \$5 billion. There are only a handful of companies that can afford to pay that without leverage or considerably diluting their stock. Even if there is a buyer, **the opportunity cost would be enormous if YELP doesn't live up to expectations.**

2

WHERE ARE THE SYNERGIES?

YELP must continually invest in its salesforce to drive account growth in excess of its attrition. Meaning the acquirer would need to do the same, or risk a collapse in YELP's model. **One way or another, the ROI would prove negative.**

3

IS IT WORTH THE RISK?

First, If YELP is acquired, than the acquirer/advisors would need to turn a blind eye to all its issues. **If YELP is acquired, it will be a disaster that we will be talking about for years.** There are only a couple of acquiring companies that we wouldn't short on the news.

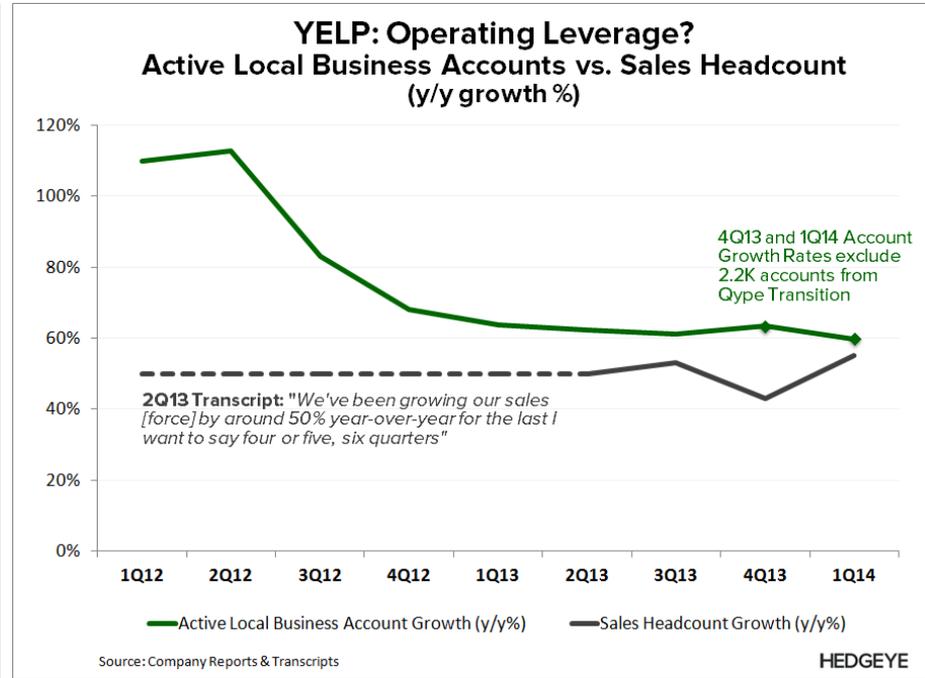
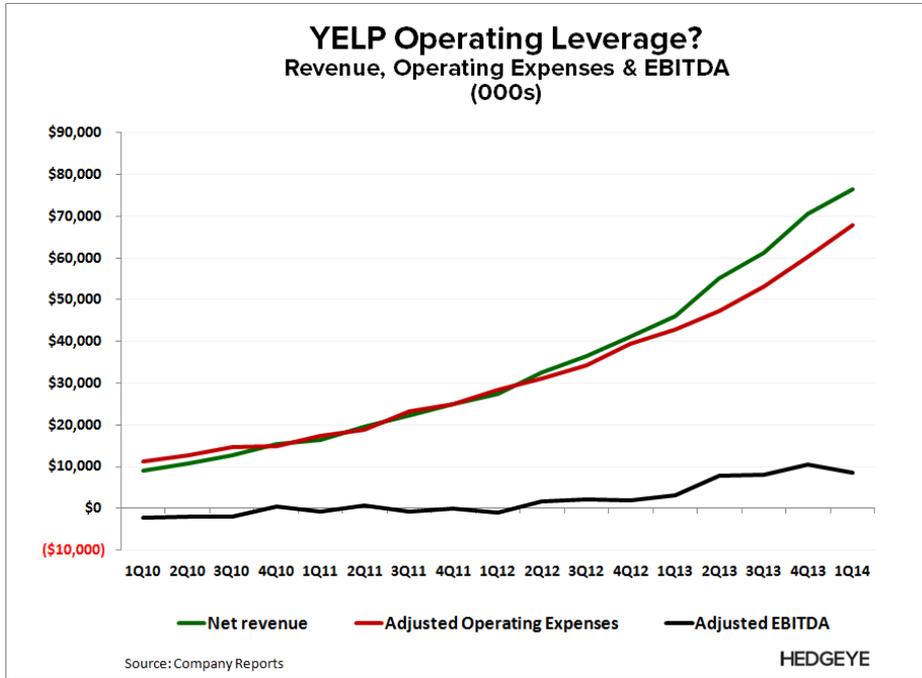
WHO'S THE BUYER

YELP: POTENTIAL ACQUIRER SCREEN									
Ticker	Industry	Cash & Securities↓	Total Debt	Net Cash	Market Cap	Enterprise Value	Revenue (TTM)	Consensus Revenue (NTM)*	YELP NTM Revenue vs. Acquirer
YELP	Internet Content-Info/Ne	\$399	-	\$399	\$5,425	\$5,026	\$263	\$442	
GOOGL	Web Portals/ISP	\$61,502	\$6,243	\$55,259	\$383,284	\$328,025	\$61,276	\$57,025	1%
FB	Internet Content-Entmnt	\$12,629	\$392	\$12,237	\$168,660	\$156,423	\$8,916	\$13,666	3%
DISH	Cable/Satellite TV	\$9,433	\$13,600	(\$4,168)	\$28,546	\$32,714	\$13,944	\$15,066	3%
AMZN	E-Commerce/Products	\$8,666	\$3,147	\$5,519	\$149,168	\$143,649	\$78,124	\$99,542	0%
EBAY	E-Commerce/Products	\$7,844	\$4,128	\$3,716	\$61,910	\$58,194	\$16,561	\$19,486	2%
PCLN	E-Commerce/Services	\$6,711	\$1,851	\$4,860	\$63,167	\$58,307	\$7,133	\$9,331	5%
FOXA	Multimedia	\$6,681	\$17,473	(\$10,792)	\$77,382	\$88,174	\$30,655	\$33,715	1%
TMUS	Cellular Telecom	\$5,471	\$14,482	(\$9,011)	\$26,312	\$35,323	\$26,618	\$29,634	1%
CMCSA	Cable/Satellite TV	\$5,443	\$47,400	(\$41,957)	\$136,706	\$178,663	\$66,755	\$70,538	1%
YHOO	Web Portals/ISP	\$4,571	\$1,177	\$3,394	\$33,705	\$30,311	\$4,673	\$4,564	10%
DIS	Multimedia	\$4,397	\$15,401	(\$11,004)	\$143,189	\$154,193	\$47,104	\$50,495	1%
T	Telephone-Integrated	\$3,611	\$79,876	(\$76,265)	\$183,155	\$259,420	\$129,872	\$135,356	0%
TWX	Multimedia	\$3,546	\$20,291	(\$16,745)	\$60,194	\$76,939	\$30,401	\$28,617	2%
VZ	Telephone-Integrated	\$3,544	\$109,769	(\$106,225)	\$204,076	\$310,301	\$121,948	\$126,862	0%
DTV	Cable/Satellite TV	\$3,014	\$20,798	(\$17,784)	\$42,593	\$60,377	\$32,029	\$34,050	1%
NWWSA	Publishing-Newspapers	\$2,688	-	\$2,688	\$10,029	\$7,341	\$8,891	\$8,561	5%
LNKD	Internet Content-Info/Ne	\$2,306	-	\$2,306	\$20,235	\$17,929	\$1,677	\$2,457	18%
TWTR	Internet Content-Entmnt	\$2,177	\$193	\$1,984	\$22,795	\$20,811	\$801	\$1,645	27%
EXPE	E-Commerce/Services	\$2,171	\$1,249	\$922	\$9,941	\$9,019	\$4,959	\$6,009	7%
OMC	Advertising Agencies	\$2,089	\$4,752	(\$2,663)	18,442	\$21,105	14,688	\$15,561	3%
VRSN	Internet Security	\$1,717	\$1,371	\$346	6,716	\$6,370	977	\$1,038	43%
SATS	Satellite Telecom	\$1,708	\$2,407	(\$698)	4,752	\$5,450	3,313	\$3,567	12%
NIHD	Cellular Telecom	\$1,605	\$5,853	(\$4,248)	121	\$4,369	4,412	\$3,978	11%
TWC	Cable/Satellite TV	\$1,557	\$25,854	(\$24,297)	39,925	\$64,222	22,227	\$23,551	2%
AKAM	Computer Software	\$1,419	\$591	\$829	10,967	\$10,138	1,663	\$2,087	21%
VIAB	Multimedia	\$1,417	\$11,886	(\$10,469)	\$36,598	\$47,067	\$13,716	\$14,514	3%
CVC	Cable/Satellite TV	\$1,169	\$9,766	(\$8,597)	4,669	\$13,266	6,297	\$6,447	7%
ZNGA	Internet Applic Sftwr	\$1,137	-	\$1,137	2,706	\$1,569	778	\$833	53%
IACI	E-Commerce/Services	\$1,043	\$1,080	(\$37)	5,751	\$5,788	3,021	\$3,345	13%
GRPN	E-Commerce/Services	\$1,039	-	\$1,039	4,625	\$3,586	2,730	\$3,424	13%

THERE AREN'T MANY THAT COULD AFFORD YELP

There are only a handful of companies that can afford YELP without leverage and/or equity dilution; most of which operate in unrelated industries. The wildcard is YHOO (post Alibaba IPO).

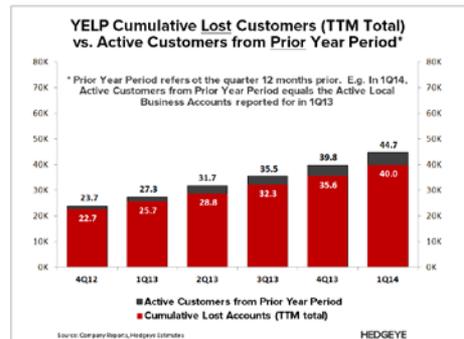
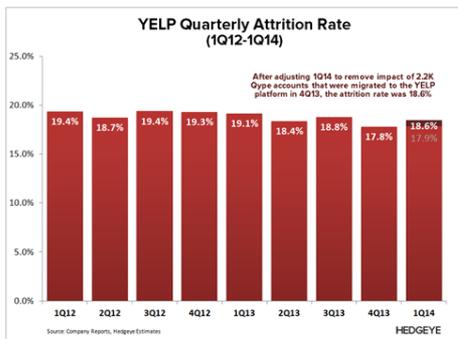
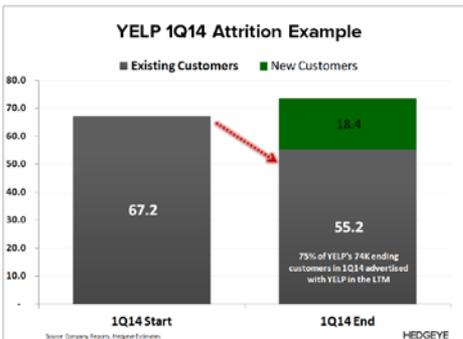
WHERE ARE THE SYNERGIES?



THERE IS NO OPERATING LEVERAGE

YELP is barely producing account growth above its sales rep hire rate, which means growth is dependent on salesforce expansion. YELP's TAM can't support this indefinitely, but worse, what happens if hiring slows?

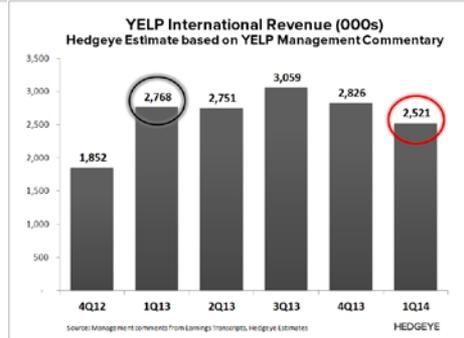
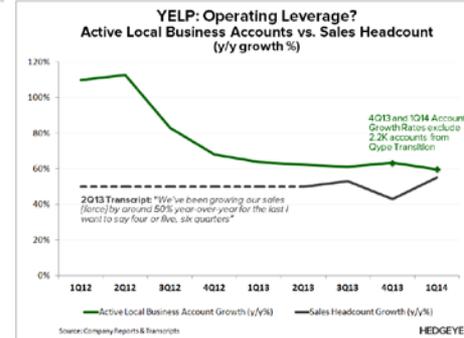
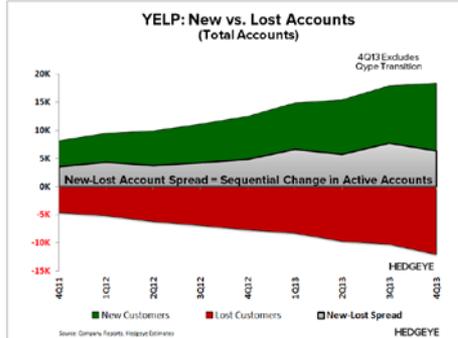
IS IT WORTH THE RISK?



YELP US ADDRESSABLE MARKET & PENETRATION %

YELP Potential Addressable US Market	3,408
YELP Claimed Businesses (1Q14)	1,561
YELP Claimed Business Penetration %*	46%
YELP Peak Advertiser % of Claimed Businesses	5%
YELP Realistic Addressable US Market	170
Yelp US Active Accounts (1Q14)	71
Current US Account Penetration %*	42%

*Int'l: we estimate YELP has 3K active accounts, 60K claimed businesses



+\$5 BILLION IS A HARD MISTAKE TO RECOVER FROM

For YELP to be acquired, the acquirer must look past all of its issues. If that happens, there are only a few companies we wouldn't be shorting on the news.

FOR MORE INFORMATION CONTACT:

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APPENDIX



YELP 1Q14 RECAP



YELP 1Q14 TAKEAWAYS

1

1Q14 APPEARED STRONG AT FACE VALUE...

YELP beat estimates, and raised guidance. Growth across cohorts remained strong, and its stated “customer repeat rate” of 75% was a reported all-time high.

2

BUT DEEPER DIVE SUGGESTS OTHERWISE

The top-line beat was relatively small, and largely aided by Branding revenues, which management low-balled on initial guidance. YELP’s attrition rate accelerated, and new account growth slowed; and international revenues may have declined.

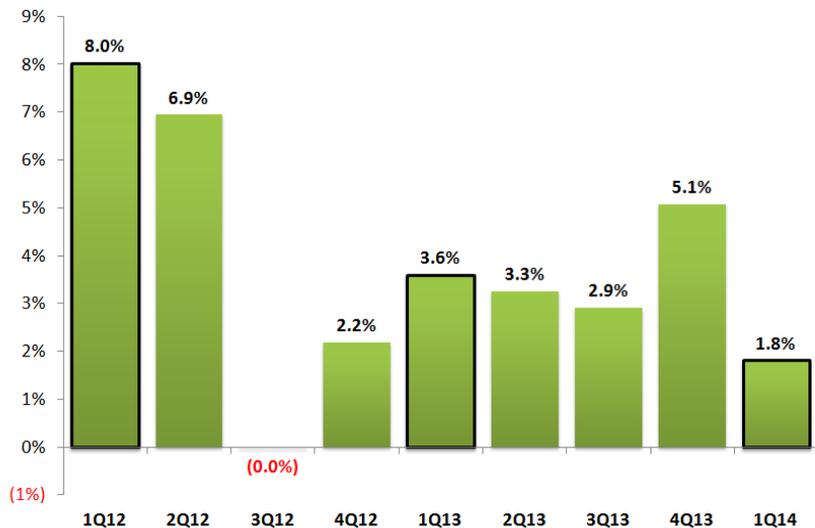
3

NOW WE'RE MORE BEARISH

We published a note stating that the stronger YELP’s 1Q results, the more bearish we’d become. 1Q14 wasn’t that strong, but consensus thought it was. In turn, raising the bar (estimates), and making it tougher to continue delivering top-line beats/guidance raises; especially in 2015.

MILD OUTPERFORMANCE

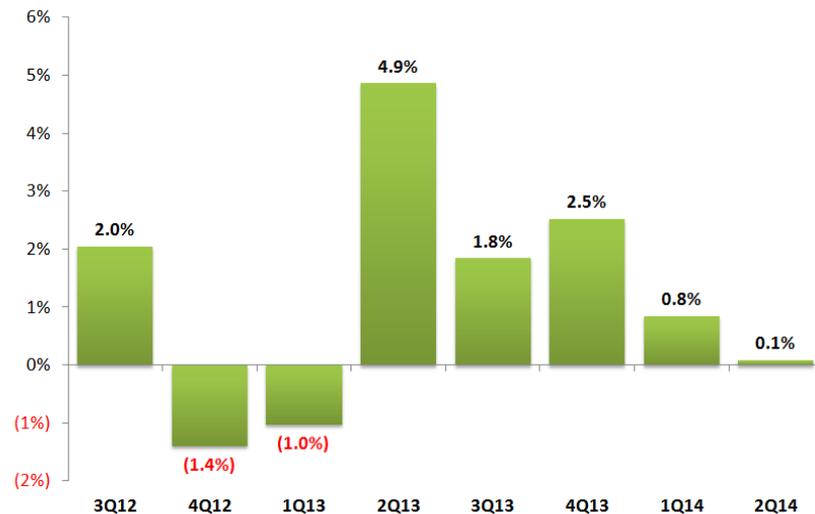
YELP: Revenue Beat %
(1Q12-1Q14)



Source: Bloomberg

HEDGEYE

YELP: Guidance Beat % (At time of release)
(1Q12-1Q14)



Source: Bloomberg

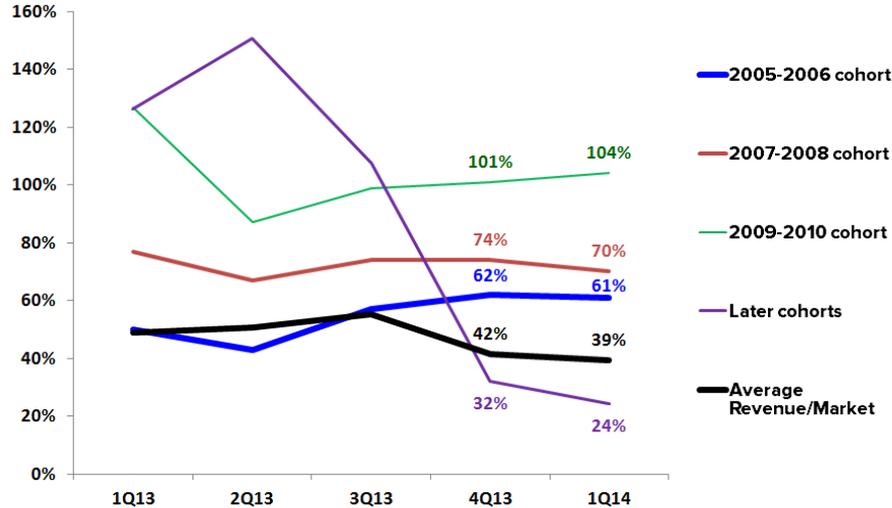
HEDGEYE

SMALL BEATS ON BOTH FRONTS

Branding revenues was the likely source of upside (1Q14 up 58%, 2014 guidance of 10%). More importantly, YELP appears to be having more difficulty producing upside to consensus expectations, which are rising.

EARLY COHORTS STILL STRONG...

YELP Cohort Growth Analysis (y/y%)



Source: Company Filings, Hedgeye Estimates

HEDGEYE

YELP MARKET EXPANSION (2005-2006)

UNITED STATES									
2005	2006	2007	2008	2009	2010	2011	2012	2013	
San Francisco	Boston	San Diego	Philadelphia	Sacramento	Raleigh-Durham	Milwaukee	Richmond	Charleston	
	Chicago	DC	Denver	Honolulu	Kansas City	Pittsburgh	Oklahoma City	Baton Rouge	
	LA	Austin	Minneapolis	Las Vegas	Tampa Bay	Evansville	Hampton Road	Tulsa	
	NYC	Atlanta	Dallas	St. Louis	San Antonio	Louisville	Birmingham	Reno	
	Seattle	Portland	Miami	Orlando	Columbus	Baltimore	Madison	Omaha	
		Houston	Detroit		Indianapolis	Memphis	Albuquerque	Portland (M)	
		Phoenix			Charlotte	Hartford	Jacksonville	Rochester	
		San Jose			Cincinnati	Buffalo		Des Moines	
					Tucson				
					Nashville				
					New Orleans				
					Cleveland				
					Salt Lake City				
					Providence				

INTERNATIONAL

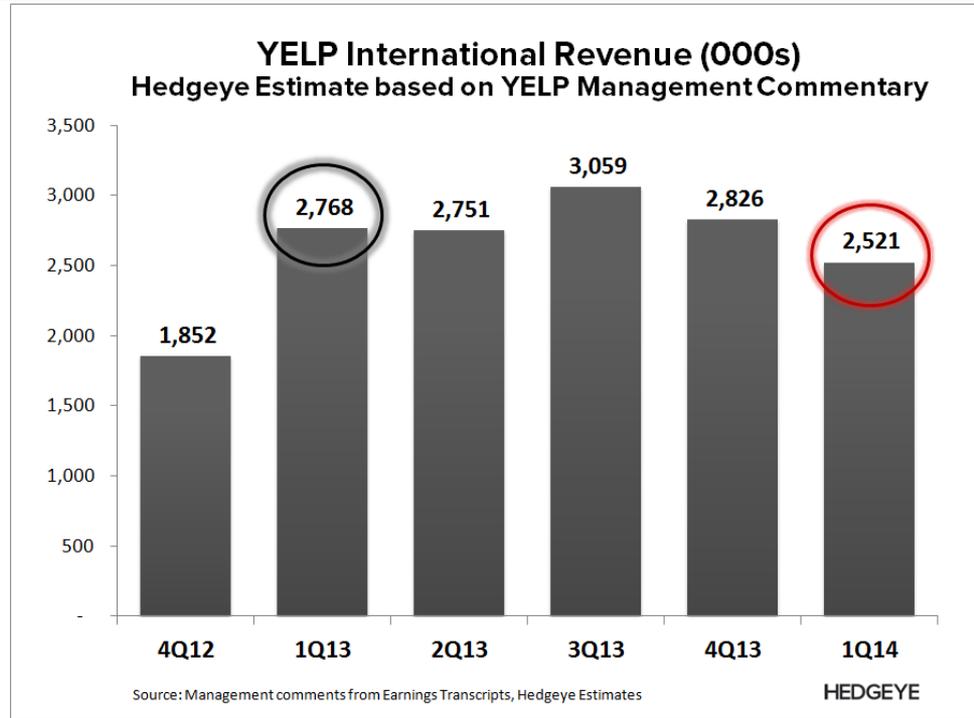
2005	2006	2007	2008	2009	2010	2011	2012	2013
				London	Dublin	Amsterdam	Antwerp	Istanbul
				Toronto	Leeds	Halifax	Brussels	Krakow
				Vancouver	Paris	Edinburgh	Brisbane	Auckland
					Berlin	Vienna	Florence	Rotterdam
					Glasgow	Hamburg	Lille	Toulouse
					Manchester	Lyon	Perth	Naples
					Calgary	Madrid	Seville	Bordeaux
					Edmonton	Munich	Sydney	São Paulo
						Marseille	Adelaide	Prague
						Montreal	Copenhagen	Rio de Janeiro
						Rome	Oslo	Frankfurt
						Barcelona	Ottawa	Dusseldorf
						Milan	Stockholm	
						Melbourne	Valencia	
							Helsinki	
							Birmingham	
							Singapore	
							Zurich	

Source: Company Filings

THEY BETTER BE

The size of the markets in the early cohorts suggests YELP's TAM is concentrated there. What's concerning is the **marked slowdown in growth in the later cohorts**, which suggests market expansion has limited runway.

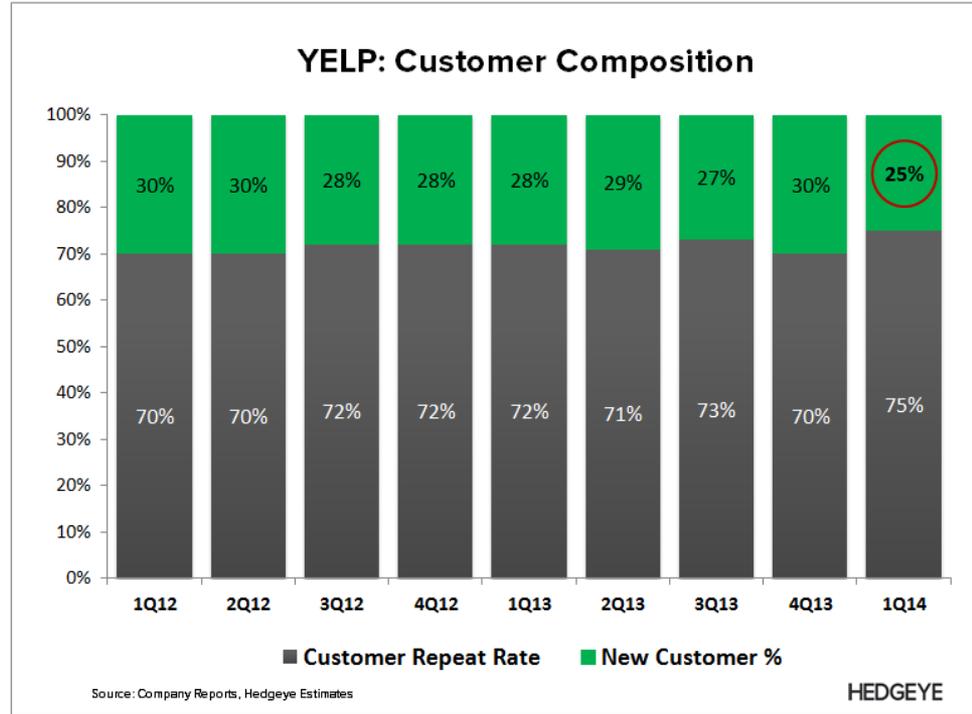
INTERNATIONAL GROWTH?



MANAGEMENT COMMENTS IMPLY 1Q14 DECLINE

If true, this is very alarming. We can't say for sure since we are basing these metrics on management's stated international revenue %. But we can say that Int'l doesn't look like much of a growth driver.

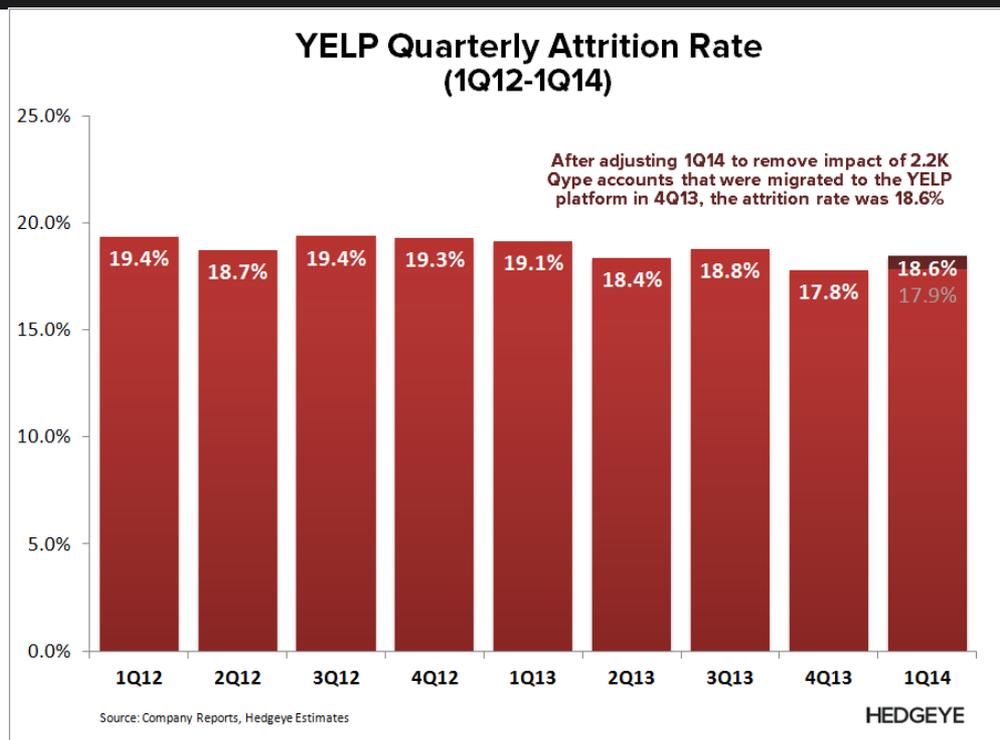
1Q14: LOWEST % OF NEW ACCOUNTS



CUSTOMER REPEAT RATE TELLING TWO STORIES

Customer Repeat Rate is a measure of mix, not retention. The reported 75% is an all-time reported high, which also means the new account contribution was an all-time reported low.

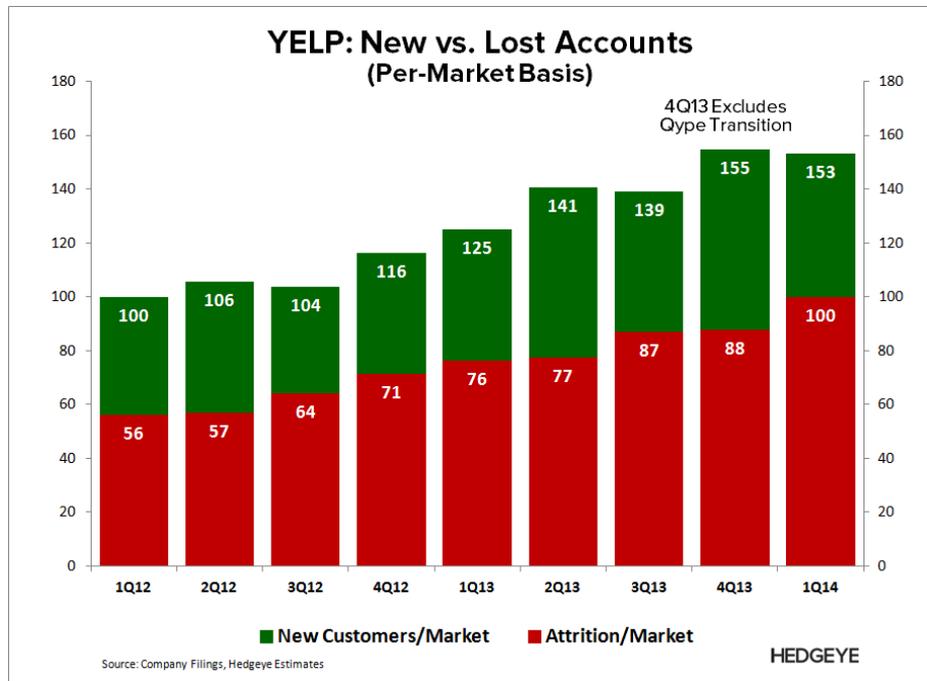
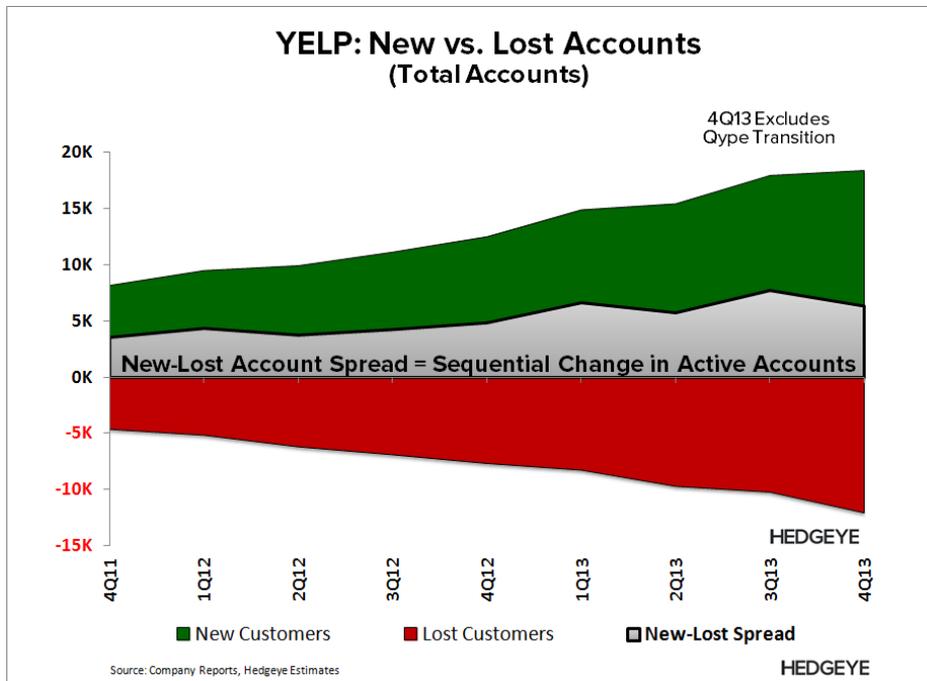
ATTRITION RATE ACCELERATED



QYPE TRANSITION SKEWED RESULTS

YELP migrated 2.2K Qype accounts in 4Q13, which essentially are acquired vs. organic growth; hence deflating the metric. After backing out, 1Q14 attrition rate remained accelerated to 18.6%.

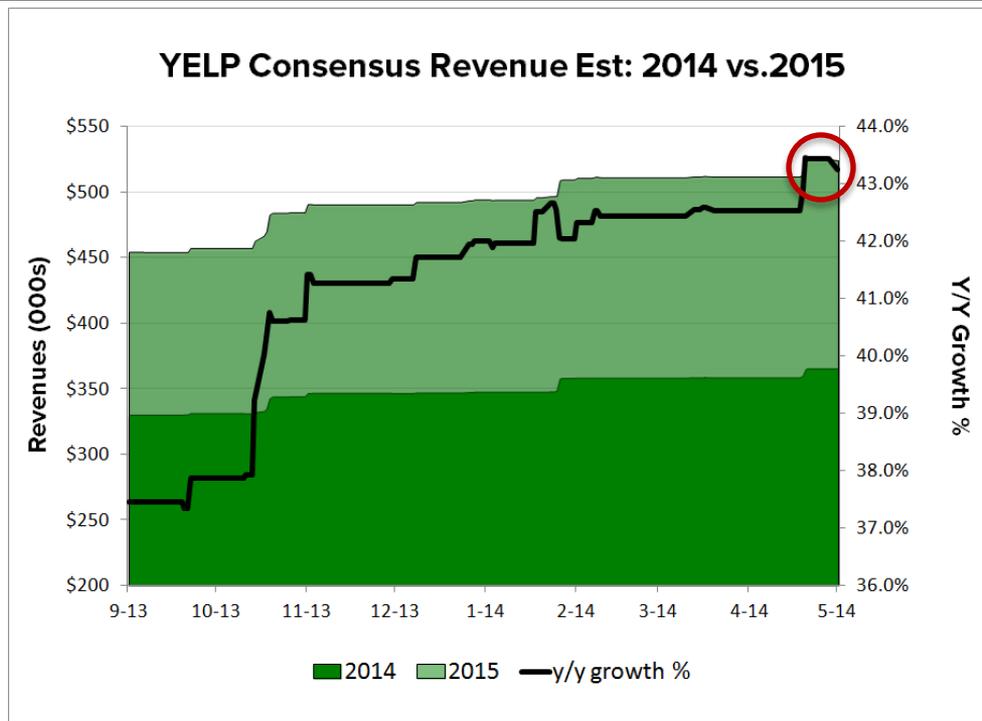
OMINOUS SIGNS?



SPREAD COMPRESSED (NET ACCOUNT GROWTH)

YELP's Account growth is the spread between New & Lost Customers. Looking at this data on a per-market basis paints a worse picture, and is a glimpse into the future as the yield from market expansion wanes.

WE'RE NOW MORE BEARISH



CONSENSUS RAISING THE BAR

After the 1Q14 release, consensus revenues are up for both 2014 & 2015. But more importantly, the **2015 growth rate** is also up following an earnings release that reinforced our view the YELP running out of track.

FOR MORE INFORMATION CONTACT:

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