Stanford eCorner - "The Road to IPO" Discussion 5/14/14

date notes taken: 3/12/15

◎ GEOFF DONAKER, COO @ YELP

- management consultant following Stanford education (he was a Mechanical Engineering student)
- Classified 2000, Voters.com
  this career path was too slow for him
- the 5 years at eBay
- 10th employee at Yelp (Yelp founded in 2004, IPO in 2012)
- hard to describe going public – it's like becoming a father
- bank financing is not substantial enough for startups... that's why you go to VC's
- most VC's have a 10 yr time horizon
- most VC's get a spot on the board when they give the money – vote in key decisions
- to pay back your investory you probably only have 2 options... sell the company (classic acquisition) or go public
- almost sold the company 2yrs in for ~$100M, and again 5yrs in for $600M
- didn't sell because leaders of company thought the best route for the company was to remain independtly operating
- selling early was great for founders & early investors ... but would not have been so for all the employees and, more importantly, the users
- acquisition = end of a company ; IPO = end of the beginning of a company
- when taking capital from a VC, it's often the person who comes on your board that is most critical – it's best if they don't need the money. Company precedence over payout.
- "even if we didn't win, the industry was big enough to support a really large, interesting business"
- "the money problem" – when options remain paper despite acquisition opportunities passed up (coined by Andrew Mason)
- Elevation Partners (Bono's firm) gave the option to every vested employee to sell up to 50% of their shares at a determined market value... to remove some of the risk → a little more than half of employess sold everything
- we we going off of ..."if you've got $100M in rev and you have some positive cash flow... you're probably ready to go public" – so going public started going off in the back of our minds
- "the exit of our CFO led us to the search for one that could take us public... so we began (unexpectedly) looking for somebody who has taken a private internet company public once before. A RARE THING!"
- took 6 months from making the decision to ringing the bell
- first step: pick your banks (Yelp chose Goldman)
- second step: writing an S-1, which is your opportunity to tell the world everything they're supposed to know about your company so they can decide if they want to invest (no more individual discussions with investors)... VERY LABORIOUS PROCESS

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- ~~third step~~: file the S1 and make all the company details and financial goals public
- fourth step: ROAD SHOW! 2-3 week marketing period where the management flies around the company to meet potential investors. You have to say the same thing in every meeting. "a blur". process is to sell the shares to large investors so they give you money and a good price is set. The banks you select with large sales forces then call in to speak with the investors, figure out what they thought, and close the deal. "what price do you want to buy? And how many shares?"
- then the management has to decide if there is enough demand? (Yelp's target was $13 / share; the market told the banks they wanted to buy up to 150M shares – the original plan was to offer $7M – at offers ranging from $13 to $18 & $20. So you're sitting around the day before the offering trying to figure what the right price is. If you choose a number too high, the stock could collapse and you end up with a "broken deal"
- you have to find a sweet spot where your investors make money and feel good about gains but you also make money as a company
- $15 was the prize chosen, and then you have to decide: "who gets them?" (Investors deliberately over-express demand so they're considered as the primary option for higher share numbers)
- fifth step: ring the bell (followed by 3 min clap)

- WHAT THEN? HOW DOES BEING PUBLIC DIFFER?

- mostly the same besides regulatory differences (i.e. any named officer compensation change is made public in a press release) ... everything is subject to more scrutiny
- stock price can be distracting (best to just think long term)
- so far it's just signaled the "beginning of the middle" (Disney didn't release first full length feature, Snow White, until 7 years in of being public)
- the final Yelp goal is to build the end-to-end experience with local businesses all over the world ... "it will take time to get it right"

- Q&A NOTES

- in an IPO, the total public issue is already sold the night before through the banks to the investors — that deal is done. The opening day just signals the opportunity to do with the shares what they will ... the company has already raised the money in full.
- acquisitions so far have been a European Yelp clone and reservation app SeatMe
- they focus on "adjusted EBITDA" which removes stock based compensation
- options = "a slice of the future"
- loyal reviewers / ambassadors have been critical to user growth
- important things to get right as a startup → funding & financing (and definitely the terms involved); getting the people thing right, personality & vision; distribution of product