

# In a Sign, Yandex Raises IPO Price

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Yandex, whose Moscow headquarters is pictured above, raised its price guidance due to strong investor demand. **Sergei Karpukhin**

The country's most popular search engine Yandex has increased its price guidance for its New York IPO scheduled for Tuesday, with the possibility to raise up to \$1.4 billion, which would make it the world's largest tech IPO this year.

Success on Wall Street will be a key indicator of foreign investors' infatuation with Russia's tech sector against the backdrop of several canceled IPOs for non-technology companies in recent months.

Yandex, which generates 64 percent of all search traffic in Russia and is currently the largest Russian Internet company by revenue, plans to start public trading of its shares under the symbol YNDX on Tuesday at a new price of \$24 to \$25 per share, compared with an earlier guidance of \$20 to \$22, a source told Reuters on Monday.

The order book was closed Friday, earlier than expected, due to a surge of interest.

Yandex intends to use the net proceeds from the IPO — which the company has estimated at up to \$336.4 million — for investments in technology infrastructure, particularly new servers and data centers.

“We may also use a portion of the net proceeds for the acquisition of, or investments in, technologies, teams or businesses that complement our business, -although we have no present commitments or agreements to enter into any acquisitions or make any such investments,” the company’s profile on NASDAQ says.

The co-owners — which include U.S. investment fund Tiger Global, Baring Vostok, Roth Advisors, the World Bank’s IFC and company founders Arkady Volozh and Ilya Segalovich — could earn \$883 million to \$919.4 million from the sale, Interfax reported.

The listing comes just over six months after an IPO of Russia’s Mail.Ru Group on the London Stock Exchange, which raised \$912 million, and another one less than a week ago by California-based social media company LinkedIn, which raised \$352.8 million.

Expectations from the Yandex IPO are high, buoyed by the success of the Mail.Ru IPO in November and the ongoing Kremlin rhetoric about weaning the economy off its dependence on natural resources.

Russia’s Internet economy — Europe’s second-largest Internet market after Germany — will potentially account for up to 3.7 percent of its gross domestic product by 2015, a recent report by the Boston Consulting Group predicts, up from 1.6 percent of GDP in 2009 when it was valued at \$19 billion.

Domestic Internet companies are seen on par with their international counterparts, and investors are ready to bet on them.

This is not the case with non-technology IPOs that have recently been canceled: Five Russian companies including Russian Helicopters, pipe maker Chelpipe and coal miner SUEK, decided not to go through with planned listings on the London Stock Exchange this year because of weak demand.

“I am not sure I will be able to say why [Russian] companies outside the Internet sector fail expectations. ... But as far as the Internet companies go, here the success is predictable because the Internet is developing really quickly and has far from exhausted its growth opportunities,” Vladimir Dolgov, head of Google Russia, told The Moscow Times.

Troika Dialog analyst Anna Lepetukhina said the interest in Internet companies was reignited about half a year ago with the IPO of Mail.Ru and the beginning of Chinese IPO euphoria, especially that of Qihoo 360 Technology Co., China’s third-most-popular Internet company.

This enthusiasm makes some investors worry that a second Internet bubble may be on its way, while others see significant differences between the current wave and past disappointments.

“We believe that there are no reasons to be afraid of another bubble because today Internet companies go for an IPO with coherent business models, and not [just] potential audiences that one day could be turned into money,” Dolgov said.

Yandex is also showing good fundamental results. Yandex posted a net profit of \$134 million in 2010 and \$28.8 million in the first quarter of 2011, on revenue of \$439.7 million and \$137 million respectively.

After the trading of the new stock begins, all eyes will be on the competition between Mail.Ru Group and Yandex shares.

But analysts believe that the two companies have two different categories of buyers interested in the competitors' stocks. Yandex share buyers are interested in the company itself, Lepetukhina explained, while a certain portion of Mail.Ru Group buyers are in it for the opportunity to become indirect holders of such companies as Facebook and Zynga, in which Mail.Ru Group has a stake — but makes it more prone to volatility.

“As an investment case, Yandex is a good company. Its reliance on Internet advertising already produces good results,” Lepetukhina said.

Online advertising in Russia grew 59 percent per year between 2005 and 2009 to reach \$600 million — 9 percent of the country's total advertising market — according to the BCG report, which was commissioned by Google.

Clearly, foreign investors are not scared off by statements in Yandex's prospectus that potential oligarch takeover and strong government influence are among the risks the company faces.

Yandex was also recently compelled by the FSB to release personal data of people who made donations to whistleblowing anti-corruption blogger Alexei Navalny's Rospil.info project via the company's web money system, but that aspect of “the Russian reality” does not seem to be influencing people ready to invest in the world's No. 9 search engine.

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