LinkedIn Q1 2015 Quarterly Results Transcript

LinkedIn Participants:
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[Matt Sonefeldt, Investor Education, LinkedIn]

Good afternoon. Welcome to LinkedIn's first quarter of 2015 earnings call. Joining me today to discuss our results are CEO Jeff Weiner, and CFO Steve Sordello.

Before we begin, I would like to remind you that during the course of this conference call, management will make forward-looking statements which are subject to various risks and uncertainties. These include statements relating to expected member growth and engagement, our product offerings including mobile and our product deployment process, the results of our R&D efforts, revenue including revenue growth rates of our three product lines Talent Solutions, Marketing Solutions, and Premium Subscriptions, adjusted EBITDA, depreciation and amortization, stock based compensation, share dilution, taxes, the product mix between online and field sales, churn rate and expenses. Actual results may differ materially from the results predicted and reported results should not be considered as an indication of future performance. A discussion of risks and uncertainties related to our business is contained in our filings with the Securities and Exchange Commission, in particular the section entitled "Risk Factors" in our quarterly and annual reports, and we refer you to these filings.

Also, I would like to remind you that during the course of this conference call, we may discuss some non-GAAP measures in talking about the company's performance. Reconciliations to the most directly comparable GAAP financial measures are provided in the tables in our earnings release.

This conference call is also being broadcast on the Internet and is available through the investor relations section of the LinkedIn website.

With that, I will turn the call over to our CEO Jeff Weiner.

[Jeff Weiner, CEO, LinkedIn]

Thank you, Matt, and welcome to today's conference call.

I'll start by summarizing the operating results for the first quarter of 2015, and I'll recap some of the key milestones that demonstrate the execution of our strategy.

I'll then turn it over to Steve for a more detailed look at the numbers and outlook.

Q1 was a solid quarter, one in which we made meaningful progress against our multi-year strategic roadmap. During the quarter, we maintained steady growth across all member ecosystem metrics while delivering strong financial results.

For Q1, overall revenues grew 35 percent to $638 million. We delivered adjusted EBITDA of $160 million, and non-GAAP EPS of $0.57 cents.

In Q1, our platform continued to show strong engagement, powered by ongoing investments in mobile, global expansion, content and jobs. During Q1, cumulative members grew 23 percent to 364 million, unique visiting members grew 18 percent to an average of 97 million per month, and member pageviews grew 30 percent, well ahead of unique member growth. We continue to see a healthy increase in member pageviews per unique visiting member, demonstrating growing organic engagement. In addition, mobile continues to grow at double the rate of overall member activity, and now represents more than half of all traffic to LinkedIn.

LinkedIn's value proposition is simple -- connect to opportunity. For our members, we do this in three ways: first, connect them to their professional world; second, keep them informed through professional news and knowledge; and third, help them get hired and build their careers. Our long term investments in these areas are designed with one goal in mind: transform the member experience to increase the value delivered to each professional on LinkedIn. Here are a few highlights of the progress we've made on delivering these value propositions since the last call.

Connecting members to their professional world is all about building, nurturing, and ultimately driving value from their professional networks. To that end, in Q1 we rolled out our new desktop homepage to our entire membership. The new layout simplifies content creation and engagement, leading to richer conversations. While still early, we've seen a greater than 50 percent increase in the number of first-time long-form posters on LinkedIn, and a 35 percent lift in social gestures.

We also continued to prioritize the global expansion of LinkedIn. In Q1, more than 75 percent of new members came to LinkedIn from outside the US. China, with roughly one in five of the world's professionals, remains a top priority. We received our ICP license in February, and we have built out our team in China, including local tech talent. We are now beginning to invest in a local, mobile-focused product for the Chinese market. We also launched in Arabic in February, bringing LinkedIn's availability to 24 languages across the world.

Connecting our members to relevant news, knowledge, and skills is another strategic priority integral to transforming the member experience. It is our goal to have all of the world's professionally relevant news and knowledge accessible through LinkedIn. We saw continued strong adoption of our long-form posting capabilities in Q1. Thanks in part to the redesign of the homepage I mentioned earlier, this month we experienced our first week with more than 100,000 member-generated long-form posts.

Our Influencer platform continues to see strong usage by business luminaries. In January, GM CEO Mary Barra joined as a LinkedIn Influencer. And in early April, as part of our Influencer Interviews video series hosted by Dan Roth, Starbucks CEO Howard Schultz announced his decision to offer free college educations to all Starbucks employees via video.

Our pending acquisition of lynda.com, announced in April, represents one of LinkedIn's most transformational opportunities. lynda.com offers a high quality library of hundreds of thousands of professional training videos and full courses. Millions of people have used lynda.com to easily and effectively acquire a skill needed to advance their careers.

The ability to easily acquire skills through LinkedIn has implications across everything we do. When matched with our data about jobs and skills, we believe we can take a major step towards building the Economic Graph.

Eventually, lynda.com training videos will be integrated into our platform and premium offerings where appropriate; for example, when viewing profiles, seeking a job, or reading content on the site. We also see a significant opportunity to leverage our other rich media service, SlideShare. Slideshare now hosts more than 18 million presentations and videos, making it one of the largest digital repositories of professional knowledge on the Net. SlideShare users could be prompted to subscribe to a course on lynda.com that is related to the subject they are learning more about on SlideShare.

Lastly, to help our members get hired, we continue to increase the scale and relevance of jobs on LinkedIn. We recently surpassed 3.5 million active job listings on LinkedIn, and will continue to rapidly increase jobs scale through the year. We also continue to increase access to finding opportunities on LinkedIn. In Q1 we launched Job Search for Android, and recently, we surpassed one million total downloads for that app. In addition, we have begun to experience increases in Jobs-related member activity; job applications through LinkedIn exited the quarter up more than 50 percent year over year. Improved relevancy efforts, and to a lesser extent international SEO investments, were drivers of this engagement, resulting in new highs in the percentage of unique visitors applying for work on LinkedIn.

Creating value for our members enables us to transform the way our customers Hire, Market, and Sell on a global basis through our three diverse product lines. In Q1, Talent Solutions grew 36 percent to $396 million; Marketing Solutions was up 38 percent to $119 million; and Premium Subscriptions increased 28 percent to $122 million.

We continue to take a multi-year approach to evolving our monetization lines. Through sustained investment in our core technology and through targeted acquisitions, we have expanded our long-term market opportunity to more than $115 billion, compared to approximately $50 billion at the IPO four years ago. This total addressable market is composed of $27 billion for Talent Solutions, $45 billion for Marketing Solutions, $15 billion for Sales Solutions, and $30 billion in the Learning & Development market.

To take full advantage of these market opportunities, we have aggressively grown our sales force over the past few quarters, and we are accelerating R&D headcount hired to work on our monetized products. In Q1, these investments required operational transitions that will be impacting our results through the middle of this year, but that we anticipate will position us well for 2016 and beyond.

For Talent Solutions, Q1 saw the rollout of new search enhancements in Recruiter. These include more detailed search insights about candidates; better search personalization; and new search relevance algorithms that help recruiters find the right candidate faster. While these are still being deployed to our Recruiter customers, early results show meaningful increases in profile views per search and in InMail response rates.

We are also adding additional R&D talent through focused hiring and acquisitions including Careerify, a team which built a product designed to help recruiters leverage existing employee referrals to find the best candidates for open positions. Longer-term, product themes for LTS include helping companies further leverage their existing human capital through referrals, expanding our services from passive to active recruiting, and simplifying our products to add value to a larger audience of hiring managers and SMBs.

For Marketing Solutions, in Q1 we took a significant step forward on our long-term strategic roadmap. In February, we launched our expanded portfolio, led by LinkedIn Lead Accelerator, our first offering focused on lead-generation and relationship nurturing.

We also added to our content marketing offerings with the revamp of Sponsored InMail in March. In pilot testing, our customers saw a 2-3x lift in performance over the previous product. Our primary content marketing product, Sponsored Updates, saw dramatic growth during the quarter and now accounts for more than 40 percent of overall Marketing Solutions revenue.

For Sales Solutions, in Q1 we focused on rapid iteration of our flagship Sales Navigator product. We made several product enhancements, including expansion to six new languages; refined search capability; and increased network visibility. These changes feed into the powerful ROI LinkedIn creates through social selling.

Within Premium Subscriptions, we continue to focus on simplifying our member-facing offerings and making it easier and more intuitive for them to find the right package for their needs. We have now reduced the number of existing subscription packages from more than 15 to four while we currently test potential additional offerings.

Last quarter, we shared our intention to enter a new category with products allowing companies to utilize LinkedIn in the enterprise. In early April, we unveiled Elevate, a new app in our mobile portfolio. Elevate helps companies and employees curate high-quality content, share easily with their networks, and measure the impact.

Finally, a word about our Talent, which is our number one operating priority as a company. In Q1, we significantly exceeded our internal goals for engineering and operations hires, more than doubling our number of hires compared to Q1 last year, while simultaneously improving our offer acceptance rates. Tech talent is integral to our ability to scale at a rapid pace and to ultimately achieve our vision of creating economic opportunity for every member of the global workforce.

And now, I'll turn it over to Steve for a deeper dive into our operating metrics and financials.

[Steve Sordello, CFO, LinkedIn]

Thanks Jeff,

Today I will discuss growth rates on a year-over-year basis unless indicated otherwise, and non-GAAP financial measures exclude items such as stock-based compensation expenses, amortization of intangibles, and the tax impacts of these adjustments.

LinkedIn demonstrated continued solid growth during the first quarter. This performance comes against the backdrop of several important strategic investments to better position the business to execute on our long-term roadmap.

With respect to members, the shift to mobile, growing content usage, and relevancy improvements all continue to drive increased value to members. Unique visiting members grew 18 percent, outpaced by member pageview growth of 30 percent, resulting in an 11 percent year-over-year increase in pageviews-per-unique visitor.

With regard to monetization, we continue to aggressively pursue our long-term strategy. As Jeff mentioned, our $115 billion TAM reflects the evolution of our multi-year roadmap. We continue to build towards our strategy primarily through investment in our core business, and complemented by R&D-focused acquisitions like Bright, Bizo, and the pending acquisition of lynda.com.

Against that roadmap, Q1 was a solid quarter producing $638 million in revenue, an increase of 35 percent year-over-year.

Similar to other global companies, this quarter's growth was impacted by changes in foreign exchange rates, especially in EMEA. On a constant currency basis versus last year, revenue growth year-over-year would have been 3 points higher on an F/X Adjusted basis.

Talent Solutions showed steady performance, growing 36 percent year-over-year to $396 million, and representing 62 percent of sales, consistent with last year.

Our Talent Solutions mission is to power the world's hiring for companies of all sizes. Key investment areas include last year's acceleration of salesforce hiring and increased R&D spend to innovate on our product portfolio.

In the first quarter, field sales generated 77 percent of Talent Solutions revenue. We showed strong growth in new customers, reflecting particular strength in North America and with SMBs. Overall, we ended the quarter with nearly 35,000 accounts, growth of 35 percent year over year. Existing customers increased spending per account, but a larger than normal sales rep transition led to an increase in churn and lower upsells during the quarter.

We typically transition a portion of accounts early in the year as we onboard new reps. This trend was especially pronounced in Q1 as we re-segmented the customer base in order to driver deeper relationships. As a result, we increased the number of account transitions across the global salesforce by over 50 percent versus the prior year.

While this was a planned adjustment, we underestimated the impact from this large initiative with respect to short-term churn and 2015 revenue more broadly. However, continued growth in existing customer spend underscores healthy business fundamentals, and we believe our focus on long-term customer success will benefit the business.

In the online channel, two themes played out this quarter. Self-serve subscriptions grew in excess of Talent Solutions revenue, benefitting from the simplified sub platform. This was offset by slower growth in online jobs where we have had success migrating online customers to field sales given larger spend opportunity.

Marketing Solutions grew 38 percent to $119 million, representing 19 percent of total sales vs. 18 percent last year. Growth was primarily driven by strength in Sponsored Updates with a small contribution from our new Lead Accelerator and off-network ad products. This strength was somewhat offset by the secular shift away from display and our salesforce transition to the new product suite.

Over the past two years, we've focused on building an end-to-end platform towards becoming the most effective marketing solution for reaching professionals. That investment began with Sponsored Updates, a native marketing product that leverages the growing content consumption on LinkedIn. The acquisition and integration of Bizo over the past two quarters has positioned us to achieve our goal.

During the quarter, Sponsored Updates performed well, representing more than 40 percent of Marketing Solutions sales versus 23 percent last year. Strength in the quarter was driven by continued homepage traffic growth and increased inventory. The auction is also performing well, leading to a greater than 40 percent lift in effective pricing year-over-year.

We launched our new product suite in mid February. We are encouraged with the early results, where we exceeded our target for signing new customers.

As expected, overall Marketing Solutions growth was impacted by launching the new portfolio and transitioning the salesforce, a trend that will continue as we educate the market about our new Business-to-Professional offering.

With respect to display, we began to see steeper deterioration in the first quarter. This reverses display's relative strength throughout 2014, with growth declining approximately 10 percent year-over-year. We were particularly impacted in Europe, where the ongoing shift to programmatic advertising caused a drop in demand for our traditional display products.

Going forward, display will remain an important component of our product suite, albeit with lessening impact on the business. Q1 was the first quarter where traditional on-site ads comprised less than 50 percent of Marketing Solutions, a trend we expect will continue as we ramp our product suite.

Premium Subscriptions grew 28 percent to $122 million, contributing 19 percent of revenue versus 20 percent last year.

Consistent with past quarters, our general subscription product represents the majority of premium revenue. Our strategy remains focused on aligning paying members with a product that best fits their needs from a simplified set of SKUs.

Sales Solutions outpaced our expectations in the first quarter, growing at a faster pace than general subscriptions. Throughout the year, we will continue to iterate on our flagship product and expand the salesforce to pursue our $15 billion market opportunity. In the first quarter, sales solutions represented just north of 30 percent of premium subs revenue. Important to note, the pace of revenue growth trails underlying business growth given the ratable revenue recognition dynamic.

In the first quarter, field sales executed well as our teams continued to educate the market about the social selling value proposition. The customer base has more than doubled versus last year, expanding faster than our salesforce; and spending per customer has increased by approximately 30 percent.

In terms of geography, currency swings and weaker EMEA Marketing Solutions growth resulted in a slight decline in the percentage of revenue generated outside the US, from 40 percent last year to 39 percent in the first quarter. With respect to channel, field sales drove 62 percent of revenue compared with 58 percent last year.

Moving to the non-GAAP financials, Adjusted EBITDA of $160 million was consistent with our 25 percent margin expectation for the quarter.

Depreciation and Amortization totaled $74 million while stock compensation was $103 million. On taxes, GAAP expense was $11 million, while non-GAAP expense was $22 million, reflecting a 23 percent non-GAAP rate.

GAAP net loss was $43 million, resulting in a 34 cent loss per share, compared to a loss of $13 million and 11 cent loss last year. Non-GAAP net income was $73 million, resulting in earnings of 57 cents per share, compared with $47 million and 38 cents last year.

At quarter end, the balance sheet remained well positioned with $3.5 billion of cash and marketable securities. As previously announced, we plan to use approximately $780 million towards the purchase of lynda.com. Operating cash flow was $165 million versus $129 million a year ago, while we generated $75 million in free cash flow compared to $40 million last year.

I will end the call with guidance for the second quarter and an updated outlook for 2015.

Relative to our expectations in February, our guidance takes into account three incremental factors: 1) changes in foreign exchange rates; 2) adjustments to our operations; and 3) the impact from the pending lynda.com acquisition.

For the second quarter:

- We expect revenue between $670 and $675 million, 26 percent growth at the midpoint.
- We expect Adjusted EBITDA of approximately $120 million, an 18 percent margin. Excluding the lynda.com impact, the margin would be approximately 22 percent.
- For non-GAAP EPS, we expect approximately 28 cents per share.

For the full year:

- We expect revenue of approximately $2.90 billion, 31 percent year-over-year growth.
- We expect Adjusted EBITDA of approximately $630 million, a 22 percent margin. Excluding lynda.com's impact, our margin would be approximately 24 percent.
- For non-GAAP EPS, we expect approximately $1.90 per share.

In terms of foreign exchange:

- Due to recent currency moves, we expect an additional $50 million impact throughout the remainder of 2015 compared to our original forecast.

- For the second quarter, we estimate this additional revenue impact to be $13 million.

With respect to our core operations:

- For Marketing Solutions, we are adjusting our forecast to account for both the continued migration to selling our new suite of products as well as more pronounced secular headwinds for traditional display-advertising, with a concentrated impact in Europe.

- In Talent Solutions, the larger than normal Q1 account transitions have pushed out customer spending later into 2015. This creates a deferred impact on ratable revenue growth throughout the year.

- In total, we anticipate approximately $30 million in revenue impact more heavily weighted towards Marketing Solutions.

Specific to lynda.com:

- For revenue, we expect to add approximately $20-25 million in revenue for the full year, with approximately $3 million for the second quarter. These estimates reflect a late Q2 close, some transitional impacts, and the accounting related fair value adjustment for deferred revenue.

- In the short-term, we also anticipate the integration will impact both lynda.com's existing enterprise revenue as well as Talent Solutions as we pilot different approaches to cross-selling products. We view this as a short-term opportunity cost as we take initial steps to pursue the large enterprise learning and development market.

    - We expect a roughly $15 million additional revenue impact from this transition.

- Longer-term, we expect lynda.com's contribution to normalize in the back half of 2016 as we re-build the deferred revenue base and work through the one-time transitional costs.

Including lynda.com, additional guidance includes:

- Depreciation of $68 million for Q2 and $290 million for the full year, with second quarter amortization of $24 million and $128 million for the full year.

- Stock based compensation of approximately $144 million for Q2 and $500 million for the full year, with lynda.com contributing approximately $24 million in Q2 and $35 million for the full year.

- For GAAP taxes, our ability to forecast remains limited given the level of GAAP pre-tax income, but we anticipate a level consistent equal to or greater than the Q1 annualized level. Upon close, GAAP tax expense will also have an additional one-time impact that could be up to $200 million. This is a non-recurring, non-cash expense related to the transfer of lynda.com's IP to our international entity.

- A Non-GAAP tax rate of 23% for Q2 and the full year.

- And fully diluted weighted shares of approximately 129 million for Q2, 132 million for Q3, and 134 million for Q4; with an average of 131 million for the full year. The lynda.com acquisition will add approximately 1 million shares in Q2, and 3 million in the 2nd half.

In closing, we continue to focus on realizing our long-term vision, building the Economic Graph, and scaling our business to capitalize on our $115 billion market opportunity. We are committed to our multi-year roadmap, and see large upside across our portfolio from the core Talent Solutions business, to our quickly evolving Marketing Solutions platform, to our nascent Sales Solutions effort. With lynda.com, learning and development only increases our opportunity. As we execute, we continue to focus on creating value for our members and customers.

Thank you for your time and we will now take questions.

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