LinkedIn Q1 2015 Quarterly Results Transcript

LinkedIn Participants:
Matt Sonefeldt – Head of Investor Education, LinkedIn
Jeff Weiner – Chief Executive Officer, LinkedIn
Steve Sordello – Chief Financial Officer, LinkedIn
Douglas Anmuth – JP Morgan
Dan Salmon – BMO Capital Markets
Scott Devitt – Stifel
Mark May – Citi
Brian Millack – Morgan Stanley
Justin Post – Merrill Lynch
Mark Mahaney – RBC Capital
Eric Sheridan – UBS
Heath Perry – Goldman Sachs
Robert Beck – Summon Trust
James Lee – CLSA
Tom White – Macquarie

LinkedIn Q1 2015 Quarterly Results Transcript

Mountain View, Calif. – April 30, 2015

[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.

[Douglas Anmuth, JP Morgan]

Great thanks for taking the question. Guys was hoping you could provide some more details on the sales transitions you know just I guess why you're doing it. Why it was so much larger this year than what you've done in the past. How this is playing out now. Is this something you have reversed in anyway or you are just continuing to move forward with the sales transition? And then secondly on marketing solutions if you could talk more about the split between sponsored content and display. I think you said sponsored content now 40 percent but, over time, kind of what you think this can get to within the marketing business. Thanks.

[Steve Sordello, CFO, LinkedIn]

Hi Doug. This is Steve. Yes in terms of the account rep transitions, as you recall, we ramped the sales force more aggressively at the back half of last year. And in Q1 there was the focus on repurposing to drive deeper customer relationships and it was to a much higher extent than we've ever done in the past. We actually transitioned accounts to about 60 percent of our customers have a new account rep, so it was pretty material, and we believe it had an impact on the business in terms of kind of up sells and churn to some degree. Now we are exiting out of that. And think we are in a much better position now again, this was done for the long-term, which we believe is the right thing.

And I think, given the magnitude it was so much larger than in prior years, it had a little bit of a disruptive factor in the quarter. In terms of marketing solutions, the mix yes sponsored updates, just continues to grow very rapidly, much faster than the other components within marketing solutions. On the display side, we did see more of a headwind this particular quarter, particularly in EMEA, and that is something that we modeled in going forward today, so that, for the first time, dipped below 50 percent for the business while sponsored updates is now at 40 percent.

[Douglas Anmuth, JP Morgan]

Ok, thank you.

[Dan Salmon, BMO Capital Markets]

Hi guys. Good afternoon. Steve maybe just to walk through the guidance in a little bit more detail. First just on lynda. When the deal was announced you noted that they did about $150 million of revenue in 2014, growing about mid 20 percent. And obviously, with the deal closing halfway through this year, we chopped that in half. And then you also talked a little bit about the fair value adjustmentsment for deferred revenue. Is that the explanation for the difference between call it 90, excuse me $80 million or so of revenue to be expected based on last year's run rate versus the more closer 20 to 25 in the guidance? Or is there something else going on around there around changing the offering as well?

[Steve Sordello, CFO, LinkedIn]

Yes no that is exactly the primary reason you know when we are anticipating a late Q2 close so yes you are roughly 50 percent of kind of the run rate business. The fair value adjustment for their deferred revenue is basically a 60 percent write down to deferred revenue. And so the revenue that we actually are able to recognize this year is seriously diluted. Now we will rebuild

that backlog and the estimate is kind of mid '16 we'll be through that transition of rebuilding that backlog. The other smaller component that we are baking in is just transition related type of impacts as we start to pilot cross-selling to some degree with our LTS sales force and leveraging their sales force as well.

[Dan Salmon, BMO Capital Markets]

And maybe just one quick follow-up there, obviously flowing through here, a fairly significant cut to the proper to the annual EBITDA guidance. Just wondering, is there any incremental investment? Anything sort of long-term oriented that is incrementally contributing to that gap that has appeared in the last three months from what that guidance was initially given?

[Steve Sordello, CFO, LinkedIn]

No I would say from an EBITDA perspective you know we obviously look from a long-term horizon against the opportunity. No material change in terms of that long-term outlook. We are being impacted you know by lynda, the acquisition of lynda, both the, the revenue, which I just described, where we are basically bringing in about $100 million of cost basis and not being able to recognize the full extent of the revenue, given the write down of the deferred revenue. So that's a big chunk of it.

There are also some more one time transactional or transition costs related to severance and other elements that will play out this year. I would say that's around in the $25 million range. So those are the primary elements that are putting a little more pressure on EBITDA. Again you know this in no way changes our longer term EBITDA margin profile. You know in the outer periods. While we are focused on lynda not from maximizing revenue or margin in the short-term, it definitely would be accretive to, to the margin. The other component that we touched on, in the prepared remarks as well is FX. We talked about this historically and the impact on the business. We are a global business. Historically it's been less than 1 percent of our revenue.

On the last earnings call I said our guidance basically represented it would be 1 to 2 percent of revenue and since that time in the Q1 period that number has shifted to roughly 3 to 4 percent so that's having roughly a $50 million impact for the remainder of this year. Which the majority flows through the bottom line as well. So those are some of the moving pieces and when you FX adjust it on a constant currency basis it adds about 4 to 5 percent of growth to our top line, for the year.

[Dan Salmon, BMO Capital Markets]

Great. Thank you.

[Scott Devitt, Stifel]

Thanks for taking the questions. Within talent solutions can you just talk a bit about the pipeline for corporate customer ads and whether it's as steady as it has been in the past few years? As well can you speak to and update us on any recent changes of new corporate additions between large corporates versus small and medium? There has been a mixed shift towards small and medium in the recent past, and finally can you speak to any changes to the historical increase in spend per corporate account upon renewal by annual customer cohort or otherwise? Thanks a lot.

[Steve Sordello, CFO, LinkedIn]

In terms of customer additions we had another strong quarter, we're just south of 35,000 accounts. Most of the strength in terms of absolute number of customers was particularly strong in North America and in the SMB space. So feeling good about the engine in terms of acquiring

new bookings and customers. You know I would say it is weighting more and more toward SMB, in terms of the numbers a natural trend. You know counteracting that has been our ability to continue to increase spend per customer particularly with the larger accounts so our ARPU hasn't maintained at record levels. I would say those trends for the most part continued. We did see a little bit more weakness in up sell and a little uptick in churn again. We believe the account transition impacted that. It was a little bit more weighted toward Europe, there is some macroelements on top of that, within that region. Overall, customer per spend continues to build the pricing increase that we are flowing in. We haven't seen any impact in terms of if you, if you segment out those customers, you know, they are increasing spend by around the pricing increase, so no churn directly attributable to that. So the underlying fundamentals continue to be healthy in this business.

[Scott Devitt, Stifel]

Thanks if I could follow-up just as it relates, Steve, to the forward guidance through 2015. Those statements would be accurate as well in terms of the way you contemplated and put forth the guidance in terms of 15 in terms of noticeable changes that you would highlight in any of those factors within talent solutions.

[Steve Sordello, CFO, LinkedIn]

The only thing I would highlight in particular is the fact that it happens in Q1 for the most part, given a rateable business it builds through the year. And so it tends to have a magnified impact on the annual guidance. So that is something to highlight. You know I think we still want to see, we have been through these account transitions, we are feeling in a better position now from a long-term perspective, how that performs over the rest of the year. But we are feeling, we are feeling good about that. I think we have seen, again on a relative basis Europe's been a little bit weaker on both the talent solutions and marketing solutions side. And particularly more in the U.K., where there are some (macro and) election cycles and things happening. But overall you know feeling good about the underlying fundamentals of talent solutions.

[Scott Devitt, Stifel]

Thank you.

[Mark May, Citi]

Thanks a lot. I just wanted to circle back again to the EBITDA guidance. It looks like excluding the impact of lynda, that your EBITDA guidance for the year went from about $785 million to $700 million. So about an $85 million delta. Just wondering, Steve, if you could kind of shed a little bit more light on what's driving that? Maybe you know what are some of the incremental areas of investment that is driving that change? And then in terms of the sales rep transition, if I understand what you are talking about, sounds like maybe you are transitioning hunters to gatherers. And if that's the case in terms of the impact that that might have going forward, would that cause you know an even greater ARPU per customer, rather than adding new customers? What is the impact we'll expect to see on some of the key metrics going forward? Thanks.

[Steve Sordello, CFO, LinkedIn]

Yes, Mark, on the first question trying to work back from the original annual guidance of 785 you know you bake in a little bit of overperformance in Q1. And then the currency impact the $50 million flow through the vast majority of that flows through the EBITDA line. And then on top of that you know we talked about some of the transitions, including this account rep, which is actually the smaller portion. The larger portion of roughly a $30 million change in guidance and kind of the core business is within marketing solutions you know as you recall, we spoke last quarter about starting to sell the new product suite and going through a major kind of transition of

training the sales force to take the suite to market. That is still ongoing, and education still happening. We are actually pleased where we're at. Demand is strong. But that transition's still occurring and then the other element within there is display. Display was down 10 percent this quarter. More material than in prior quarters. You know we for some time, had expected more headwinds than we've seen and this was the first quarter where we've started to see more material headwinds on the display side.

[Mark May, Citi]

Ok.

[Steve Sordello, CFO, LinkedIn]

So those are basically the balance of the delta to get down to you know the current organic guidance.

[Mark May, Citi]

Got it. Then the Hunter gatherer and maybe the impact on ARPU versus customer growth?

[Steve Sordello, CFO, LinkedIn]

So yes the rope for doing this is to better position. It's not just hunter gatherer elements. It is just the relationship manager side as more and more of our business, 80 plus percent of our business is kind of renewal now, making sure we have the right sales presence on top of each of these customers and that requires, from time to time, a repositioning of accounts. And you know in an effort to move there quickly, as I said, we did much more than we have previously. And again, the long-term goal here is to continue to drive customer success and drive you know more renewals and reduce churn and that's what we believe we are doing. So we'll just have to see how that plays out again over the long-term.

[Mark May, Citi]

Thanks.

[Brian Millack, Morgan Stanley]

Thanks for taking the questions. I have two. First on the issues around the marketing solutions sales force transition, it sounds like that's a piece of the lower EBITDA for the full year. Can you just talk about some of the incremental challenges you've seen now, compared to when you issued the original guidance at the start of the year? Kind of what issues are you running into on the marketing solution sales force transition? And the second question on the talent solution sales force. You said 60 percent of customers had new accounts more than usual. What is a typical year? What do you typically transition each year and anything you can share kind of on what you are seeing throughout April and progress on the transition.

[Steve Sordello, CFO, LinkedIn]

Yes on the marketing solutions question you know I wouldn't call it out any sort of problem per se. I think this is just a massive effort. You know we have a very large opportunity in kind of the marketing to professionals on our platform. And you know we launched sponsored updates or sponsored content a couple years ago. We are now rolling in the (buso) component of really providing a broader spectrum of products. And that is a pretty large endeavor, and so that's an element too. You know we are just we are doing well. I would say the demand is very strong. We are just going through that cycle. And again, I think the larger degree is the display side. Particularly in EMEA. That is where the bigger piece of the challenge is relative to the marketing

solutions guidance.

[Brian Millack, Morgan Stanley]

OK and then the talent solution side?

[Steve Sordello, CFO, LinkedIn]

Can you repeat the question?

[Brian Millack, Morgan Stanley]

Yes you mentioned 60 percent of the customers had new account reps. What do you do typically in the beginning of a new year? And then anything you can share on why you did more this year and progress you are seeing in April so far from the new account reps?

[Steve Sordello, CFO, LinkedIn]

Yes so in a typical year, I would say the max is about a third, 30 percent roughly. So it was materially higher. And I think as I said, I think we are feeling good now that we are in position. You know I still think we need to see how it plays out now, this longer term investment. But I think we've gotten through the real, more transitory kind of challenges when you undertake such a large endeavor like that.

[Brian Millack, Morgan Stanley]

Ok, thanks.

[Justin Post, Merrill Lynch]

Great. Thank you. Ask about the premium subscriptions revenue, it was up $1 million quarter over quarter. I think you said sales navigator was over 30 percent or maybe $37 million. How did that do quarter over quarter? And I think you mentioned it was above your forecast. What seems to be driving that? And what kind of clients are you adding there? Thank you.

[Steve Sordello, CFO, LinkedIn]

Yes on the premium side you know as expected you know came in pretty much as expected – we are also going through transitions there with the new on boarding subplatform and the simplification of SKU. So that's all been embedded and actually going fairly well, and we talked about the kind of shorter term impacts on prior calls there. In quarters like Q1 where seasonality is stronger is more impacted.

In terms of sales navigator, we, it is just north of 30 percent the premium revenue. It was south of 30 percent last quarter. It is growing at a much faster rate, obviously, than premium subscriptions and you kind of have to look at it on a bifurcated basis. There is the field sale side where we transitioned most of the accounts to the flagship and then there is the online component, which hasn't been as transitioned yet. They are about 50-50 this quarter so it continues to build toward there.

I would say in terms of the customer side, what's been encouraging on that front is, we have been making good traction with larger accounts. You know we have spoken historically about this being longer sales cycle in terms of this is much higher volume type deals than within talent solutions, and we continue to make a lot of progress within larger accounts. Nothing significant to announce this particular quarter but feeling good about that transition and the progress we are making with some of these bigger accounts.

[Justin Post, Merrill Lynch]

And I don't know if you can tell us about some of the feedback you are getting on the product and give lot of improvement to still go, or how do you feel about the product quality?

[Jeff Weiner, CEO, LinkedIn]

The feedback thus far has been good. And I think most importantly, we have been able to take, into consideration, where people think we can improve. And we are moving very quickly on making those improvements. And we are encouraged by the reception in the marketplace and we are going to continue to invest there.

[Justin Post, Merrill Lynch]

Thank you.

[Mark Mahaney, RBC Capital]

Thanks. On the rolling out of the price increase in talent solutions have you seen any push back related to that? You mentioned on the option pricing dynamic something like a 40 percent lift. Is that the kind of max lift you would expect? Would you expect more of a lift? Just put some context around that. It sounds like a good number but is there more to come from that or less to come? Thanks.

[Steve Sordello, CFO, LinkedIn]

Yes in terms of the price increase, we really saw no impact in terms of churn. When we looked at on the cohort basis in terms of customer spend for accounts that renewed pretty much in line with the price increase. So as expected, not seeing churn from that price increase.

On the marketing solution side, in terms of sponsored updates, yes we continue to see that business grow at a healthy rate. You know I would say it's across multiple dimensions on the pricing side, the 40 percent in the auction dynamics. I think that's a result of better targeting and more demand that's driving that. And you know I think it does have room to continue to build. You know we have been very pleased with sponsored updates and as we continue to drive more content via more traffic to the site, that is obviously another very powerful engine of driving growth there. So yes, very pleased with sponsored updates traction and we think there is still some more upside to the pricing.

[Jeff Weiner, CEO, LinkedIn]

In addition to pricing optimization specifically also a lot of great work taking place right now in terms of improved relevancy in our feed, which not only benefits our marketing customers and partners, but is also going to benefit the member experience and we think there is some low hanging fruit there and we are very encouraged by some of the signs that we're seeing in terms of improvements in social gestures, engagement and the price optimization and yield that Steve was just referring to.

[Mark Mahaney, RBC Capital]

Thanks Jeff. Thanks Steve.

[Eric Sheridan, UBS]

Thanks for taking the question, and thanks for the clarity around some of the puts and takes of the EBITDA. Not to beat a dead horse but to go back to the sales force transition just want to understand in terms of if a normal year you did about a third of transitions and this year you did 60 percent what were you seeing as you exited 14 into 15 that into a heavy renewal part of year you decided to make that degree of a transition in the sales force? And trying to better understand a little bit what the goal was around the transition. Was it align people around certain sub sectors or industry verticals? And maybe a little bit more color on how long you think some of those relationship manager changes might play out in the marketplace. Thanks.

[Steve Sordello, CFO, LinkedIn]

Yes, so this sort of effort in combination with also you know providing more support to customers historically you know we have evaluated you know either pilots or like you said, doing this in other years where it was at 30 percent, and typically we did see a positive impact that followed that. And it's one of the reasons why we actually accelerated it more this year. Because in some pilots and in prior years, when we've undertaken efforts like this for the long-term, it had had positive results. And I think this year, we you know caught us a little bit by surprise in terms of the amount and kind of the impact in terms of some of the distractions that that causes but we did see success in the outer quarters from investments such as this.

[Eric Sheridan, UBS]

And maybe I could just one follow-up question? Just in terms of the churn the way you are framing churn, is it churn in terms of the relationship between the enterprise of the customer and LinkedIn, they either lowered licenses or they terminated the relationship all together? Or are you defining this churn in terms of dollars of churn? Just trying again to get a little more clarity there. Thanks.

[Steve Sordello, CFO, LinkedIn]

Yes it is more the latter. It is the latter. It is dollars. Dollars in churn. If a customer ends up spending less that counts as churn. It's not on a per customer basis, so it's dollar churn. And when you look historically, it has been a number that has fluctuated. In Q4 it was actually at a record low for us, a churn. And through 2014 it's fluctuated. It's basically right now back at Q2, Q3 levels of '14.

[Eric Sheridan, UBS]

OK great thank you.

[Heath Perry, Goldman Sachs]

Great. Steve to the extent that, that you know you have got this list of what sound like largely one off things this year, is it fair to, to expect that you know as we look into next year, that we see a snap back in terms of margins? Or is it more of a gradual you know we are resetting at this lower level and then back on sort of the, the pace of progression that we have been? And then to the extent that you called out in the, in the prepared remarks that the sales force changes within talent solutions had more of an impact on the marketing side. Is that a function of job promotion that was being done? So the impact was less on the core recruiter seat subscription side of the business? I guess what I'm asking is just how, how exactly on a product level that disruption manifested itself.

[Jeff Weiner, CEO, LinkedIn]

It's Jeff. I'll take the second question first. So with regard to the account alignment, and with regard to representation, that's really about long-term alignment between the right customer and the right segment with the right representation. And so you are introducing new people to new accounts and they are rebuilding relationships. And as Steve said earlier that's something we've done every year, not necessarily to the same magnitude and that is a byproduct of a broader global footprint, that is a byproduct of the way we are going to market, a byproduct of the way in which different segments are purchasing different products.

It is very much a natural evolution of the business and like Steve said, this year it was more than we've done in the past. It also came a little earlier in the year than we've done previously and that may have created a different kind of variable and as Steve mentioned we are really working our way through that and starting to see good traction as you would expect as those relationships are rebuilt.

[Steve Sordello, CFO, LinkedIn]

And in terms of the, of the margin you know I think there are a couple of points, I mentioned the long-term outlook has not changed in any form. You know I think when you think about elements like FX, that's something that is on a relative basis to a prior period. And you know there was quite a steeper change in the first quarter and towards the end of last year. So kind of ignoring those two elements.

You know I think the other component that we talked about today is some of the more business impacts the roughly $30 million. As I mentioned we are more focused on the long-term so we don't necessarily try to dial back spend in any given quarter when there is a transitional period happening. So that element you know will play itself out over time. I think the lynda contribution is one of the more focused areas. This is a year where we are being impacted. Both in terms of the write down of the deferred, which is pretty significant in terms of the impact on margins given that you take over the whole cost structure, again some of the one time transitional costs severance costs things of that nature for work components, so that is a bigger piece. As I mentioned I think mid next year will be in where we've overlapped that and rebuilt the deferred revenue base.

[Heath Perry, Goldman Sachs]

Great. Thank you.

[Steve Sordello, CFO, LinkedIn]

So in terms of margins yes I would say it could be lumpy from here to there but again no change to our long term outlook.

[Heath Perry, Goldman Sachs]

Great thanks Steve.

[Robert Beck, Summon Trust]

Thanks for taking my questions. Just two questions. Steve you talked about the talent solution side about churn upticking. Can you give us a feel for magnitude or ballpark range impact on churn.

And number two you had a continued growth of mobile. I don't think we heard you disclose what the mobile revenues are. And can you give us an idea of what the impact to the overall business is because of the shift to mobile? Thanks so much.

[Steve Sordello, CFO, LinkedIn]

Yes, so on, on the transition piece you know the goal is really to get to a better long-term customer segment model. And now that we're there, we probably won't have as many transitions as that. In terms of the mobile piece you know mobile from an engagement perspective is a stronger driver than it is on themontization side, for our business. It primarily impacts marketing solutions more directly, because of the advertising component. It is about 78 percent of the sponsored updates revenue. Which is 40 percent of overall marking solutions. So it's growing but a relatively smaller piece of overall revenue base.

[James Lee, CLSA]

Thanks for taking my question. Two questions here please. First on marketing solution, can you give us an idea maybe on relative pricing for sponsor update versus display? And also maybe help us understand how sponsor update is doing in EMEA specifically where you see weakness. And lastly on business revenue for 1Q.

[Steve Sordello, CFO, LinkedIn]

Sponsored updates clearly has stronger pricing given it's a more performance based product than the display side. And it is growing globally, I would say stronger within the U.S. Within Europe, I think the bigger swing was on the display side. Display was weak across the globe but more so in Europe on a relative basis and again more in the U.K. interestingly enough.

Part of that is due to the fact a lot of agencies purchase out of the U.K. and they are moving more to performance-based advertising so that's an element of that. In terms of (buso) revenue, as you recall, we had a very strong Q4, including the data solutions business which has been winding down, as well as it was the last opportunity to really for the sales force to sell through the prior business sales products. So we did see a decrease quarter to quarter as expected with the transition to some of the new suite, which really launched mid quarter and so basically was about half the revenue of Q4.

[James Lee, CLSA]

All right if I could add a question for Jeff specifically on China, I think you mentioned in the press that professional education would be a meaningful offering in China to differentiate. Can you help us understand that a little bit? Do you need a separate license to offer online education? And also on R&D in China do you have a dedicated team or is it mostly relying on the U.S.? Thanks.

[Jeff Weiner, CEO, LinkedIn]

We have taken the second question first. We do have a dedicated team. They have been doing a great job of ramping up. And that's across the board, across all functions, no just sales and marketing which has been the case in other international markets for us, but also research and development and that team is hard at work on localizing product, and we've got some exciting things in the pipeline there. With regard to the question about education, that is a byproduct of the lynda acquisition, and one of the things we are most excited about is taking that, that course work in the library and that high quality repository and expanding the global footprint. So markets like China and India, we believe, hold a lot of promise there.

[James Lee, CLSA]

And separate license Jeff?

[Jeff Weiner, CEO, LinkedIn]

Oh that would be consistent with the way we are already doing business. And as we announced last quarter we have obtained our license in China.

[James Lee, CLSA]

Ok great thanks.

[Tom White, Macquarie]

Great thanks for taking my question. I guess first when you are talking about some disruptions from lynda this year, you made some comments about how it might impact your talent solutions business. Can you just sort of explain that a little bit more? Is that literally just talent solutions, field sales people taking time away from selling talent solutions to now kind of focusing on selling lynda to the enterprise? And is that disruption meaningful enough to kind of maybe you can quantify it in the EBITDA guide down? And then just on the updated tam numbers you gave $15 billion for sales solutions I think that was up from $10 billion comment on the last call. What drives kind of the updated revision there? Thank you.

[Steve Sordello, CFO, LinkedIn]

Yes so in terms of the lynda transition, we do want to experiment this year with some piloting. We want to find the best way to go to market with these products. We do recognize this is a very complementary product on the enterprise side within LTS, and so we want to start to experiment with testing and piloting of segmenting sales forces and going to market.

That is a portion what have we call the transition and there is also a piece baked in for lynda itself in kind of the go to market there. Roughly $15 million for the year is baked into that. In terms of, in terms of the sales solutions tam work, we see roughly $15 billion, total market that's based on kind of a single product today, with our sales navigator product and roughly $20 million professionals globally. Based on our network and our data we also look at it from a visible pipeline perspective in which we have about $12 million active sales professionals on LinkedIn and again that $8 billion is based on our current products and a relatively conservative AFP assumption and so like talent solutions that visible pipeline should build over time as we grow members, increase pricing per suspecttive, increase products and the network just continues to grow more generally.

[Jeff Weiner, CEO, LinkedIn]

I would also add, though it didn't come up specifically, the addressable opportunity in learning and development at $30 billion is something we are obviously very excited about. And we think by virtue of the quality, of the library that lynda brings to the table, and that world class team that we are very well positioned to integrate in unique ways and start to get after that addressable opportunity.

OK that's going to do it for today. Thank you all so much for your time and we'll talk to you next quarter. Take care.

-- END --

Investor contacts
Matt Sonefeldt
msonefeldt@linkedin.com

Matthew Danziger
mdanziger@linkedin.com

Kristin Altorfer
kaltorfer@linkedin.com

Press contact
LinkedIn Corporate Communications Team
press@linkedin.com