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LinkedIn Corporation - 4Q'13 and Full Year 2013 Quarterly Results Call

LinkedIn Corporation Participants:

Matt Sonefeldt – Head of Investor Relations, LinkedIn
Jeff Weiner – Chief Executive Officer, LinkedIn
Steven Sordello – Chief Financial Officer, LinkedIn

Other Participants:

Scott Devitt – Morgan Stanley
Eric Sheridan – UBS
Michael Purcell – Stifel Nicolaus
Mark Marcon – Robert W. Baird
Gene Munster – Piper Jaffray
Mark May – Citigroup
Stephen Ju – Credit Suisse
Youssef Squali – Cantor Fitzgerald
Douglas Anmuth – JPMorgan Securities
Mark Mahaney – RBC Capital Markets

Management Discussion of Results

Operator*:*

Good day and welcome to the LinkedIn fourth-quarter 2013 year-end results conference call. At this time, participants are in a listen-only mode. Later, we will conduct a question and answer session. In order to ask a question at that time, please press star the key followed by the number one on your touchtone phone at any time.

I will now turn the call over to Mr. Matt Sonefeldt, Head of Investor Relations. Please go ahead, sir.

Matt Sonefeldt – Head of Investor Relations, LinkedIn

Good afternoon.

Welcome to the LinkedIn's fourth quarter of 2013 results call. Joining me today to discuss the 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 appointment process; results of our R&D efforts; revenue including revenue growth rates of our three product lines, Talent Solutions, Marketing Solutions and Premium Subscriptions; the product mix between online and field sales; churn rates; adjusted EBITDA and expenses; depreciation and amortization; stock -based compensation; taxes; share dilution; as well as cash flow and CapEx investments.

Actual results may differ materially from the results predicted, and the 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 Web site.

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

Jeff Weiner – Chief Executive Officer, LinkedIn

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

I'll start by summarizing the operating results for the fourth quarter and full year of 2013, and I'll recap some of the key milestones that highlight the success of our strategy.

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

Q4 was a strong quarter that capped another successful year for LinkedIn. Following a period of accelerated product innovation exiting 2012, 2013 was marked by improvements in scale and relevance across all of our core products, leading to all-time highs of member engagement. We ended 2013 with financial results at record levels.

For Q4, overall revenues grew 47% to a record $447 million. We delivered adjusted EBITDA of $111 million, and non-GAAP EPS of $0.39 cents.

For the full year 2013, revenues were a record $1.53 billion, up 57%, and we delivered adjusted EBITDA of $376 million, or a non-GAAP EPS of $1.61.

At the end of Q4, cumulative membership grew 37% year over year to 277 million members. Professionals outside the United States now make up 66% of LinkedIn.

With regard to engagement as measured by comScore, which excludes mobile, LinkedIn and Slideshare combined for an average of 187 million unique visitors in Q4. When excluding Slideshare, we averaged 139 million monthly unique visitors during Q4, growing 20% year-over-year. We also saw year-over-year pageview growth of 8%.

Our internal engagement metrics, which include mobile, also showed significant growth. Unique visiting members grew approximately 31% year over year, and member pageviews grew approximately 48% in Q4, a pattern that shows greater engagement per visiting member.

The value we deliver to members remains consistent -- we enable professionals to build and manage their identities; create and leverage their professional networks; and gain the knowledge they need to be more successful in their careers, across multiple screens and devices. We want to highlight a few of our most successful initiatives in 2013 that deliver across all of these value propositions.

LinkedIn has become the professional profile of record for hundreds of millions of people. 2013 saw the transformation of the LinkedIn profile from a resume into a portfolio with the launch of rich media in May, resulting in members showcasing millions of pieces of visual content in their professional identities. With the revamp of Who Viewed My Profile in June, we also made it easier for members to be found and to leverage the power of their networks, with traffic to the product growing twice as fast as that of the overall site. Finally, members saw their professional brands strengthened through more than three billion Endorsements, which reached critical mass in 2013. In the fourth quarter, we focused on increasing the overall quality and relevance of endorsements, materially improving the overall member experience.

Last year, we also made significant progress connecting the world's professionals and helping them build their networks. LinkedIn added nearly 75 million members in 2013, the largest single-year gain in the company's history. More than 70% of them came from outside the U.S., bolstering our status as a truly global network. Over the course of the year, we improved the accuracy and relevance of network suggestions with revamped People You May Know algorithms, driving significant increases in member signups and connections. More connections leads to more meaningful and fresh content in a member's feed, thus driving greater engagement.

In 2013, LinkedIn furthered its efforts to become the definitive professional publishing platform, delivering the right content to the right member at the right time. Our content ecosystem, which consists of news from Pulse; Influencer and company posts; presentations on Slideshare, and Groups, would rank as the #1 digital business publisher based on unique user metrics. The impact of content on LinkedIn is seen in the growth of traffic to our homepage, where we saw nearly 50% growth in organic engagement in Q4.

Additionally, in 2013, we made significant progress toward making LinkedIn fully mobilized with new versions of our entire mobile app portfolio. We also extended beyond the core LinkedIn flagship app experience with dedicated apps for Recruiter, Pulse, and Contacts. These apps continue to drive deeper member engagement. Since the beginning of Q4, smartphone app homepage engagement increased nearly 40% while social actions more than doubled. And our new iPad app has seen social activity increase more than 10x since the October launch.

Exiting 2013, mobile accounted for 41% of unique member visits to LinkedIn. In 2014, we expect to reach the point where most LinkedIn members access the site via mobile devices. Mobile will continue to be a major area of investment in 2014.

Creating value for our members enables us to deliver useful offerings to customers of our Talent Solutions, Marketing Solutions, and Premium Subscriptions products. These product lines transform the way our customers Hire, Market, and Sell on a global basis.

In Q4, Talent Solutions grew 53% to $246 million; Marketing Solutions was up 36% to $114 million; and Premium Subscriptions increased 48% to $88 million.

For Talent Solutions, 2013 saw continued product innovation helping to drive the scale at which our customers are using LinkedIn to power talent acquisition. In the spring, we introduced a new version of our flagship Recruiter platform, and at our Talent Connect conference in the fall, unveiled a number of products designed to mobilize the traditionally desktop-bound recruiting process. Customer engagement and satisfaction with Recruiter remains at all time highs. Our long-term goal for Talent Solutions is to power half of our customers' hires. The use of data will be integral to achieving that goal. To this end, today we announced our acquisition of Bright.com, a company that uses cutting edge data science and relevance algorithms to match job seekers and employers.

For Marketing Solutions, in 2013 we began the transition to a more sustainable and scalable content marketing model, anchored by Sponsored Updates. Q4 was the first full quarter of availability of the product, and we are pleased with the response thus far. We surpassed 2,000 Sponsored Updates customers, and we continue to make progress on our Sponsored Updates API program. We are currently piloting with several agency partners, and we expect the broader launch later this year. These products, plus the Q4-launched Showcase Pages for specific brands and products, give our customers the most effective way for B2B marketers to engage with professionals.

Within Premium Subscriptions, we remain focused on using our data to improve our existing offerings and build new ones while further reducing churn. We also have begun to invest in Sales Solutions as a core piece of our business. We started Sales Solutions at beginning of 2012 with the launch of Sales Navigator, and since that time we have evolved that self-serve product and created a growing sales team. 2014 will be the year we take the necessary steps to make Sales Solutions a business that can scale into the future.

As we enter 2014, LinkedIn stands at an inflection point. Our mission is to connect the world's professionals to make them more productive and successful. Five years ago, this was largely aspirational. In 2008, we had just over 30 million members; we closed 2013 with nearly 10 times that figure, roughly half of the world's knowledge workers. We've grown similarly across other pillars of the network: we are approaching 3.5 million active company profiles; 300,000 jobs; more than three billion endorsements; more than 24,000 university pages; and billions of weekly updates flowing through the network.

These assets serve as the foundation upon which we will realize our much larger vision: To create economic opportunity for every member of the global workforce, all three billion of them. To do so, we aspire to build the world's first economic graph. In other words, a digital mapping of the global economy, including a profile for every one of the

3 billion members of the global workforce including all of their skills and expertise; a profile for every company in the world and who you know at those companies, so you can get your foot in the door; every job opportunity offered by those companies, full-time and temporary, for profit and non profit; every skill required to obtain those opportunities; a digital presence for every higher education organization in the world offering those skills; and an overlay of all the professionally relevant knowledge shared by each of those individuals, companies, and universities.

As we start 2014, we are committed to making significant, long-term investments in a small number of strategic initiatives that will allow us to focus on fewer product priorities while at the same time continuing to build out the economic graph at scale. Some of those key strategic multi-year initiatives include:

The expansion of our presence in China, where today we already have four million members, but where nearly 1 in 5 of the world's knowledge workers and students live;

The extension of LinkedIn as a professional publishing platform, which will preserve the exclusivity and value of the LinkedIn Influencers Program while enabling all members to share professionally relevant knowledge;

And, over the next several years, the material increase of the volume of job opportunities available on LinkedIn, and through the acquisition of Bright, improved relevance of those opportunities, so that ultimately our members don't need to find jobs - the right jobs will find them.

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

Steven Sordello – Chief Financial Officer, LinkedIn
Thanks Jeff,

Let me remind you that I will discuss growth rates on a year-over-year basis unless indicated otherwise, and that non-GAAP financial measures exclude stock-based compensation expenses, amortization of intangibles, and the tax impacts of these adjustments.

Fourth quarter results outperformed our expectations behind strong
member trends and salesforce execution. For the full year, engagement momentum dating back to last year's product releases drove solid performance across all three product lines.

As we previously discussed, last year we saw engagement acceleration, creating a difficult comparison for this quarter. Against this backdrop, member growth and engagement remained strong, with members increasing 37 percent. As measured internally, unique visiting members grew 31 percent, a positive outcome in light of the upgrades we made to endorsements, which improved the member experience but reduced transactional traffic. Member pageviews grew 48 percent with desktop pageviews increasing 14 percent.

Turning to monetization, third quarter revenue grew 47 percent year-over-year to $447 million.

Talent Solutions remained our fastest growing revenue stream, increasing 53 percent year-over-year to $246 million, and representing 55 percent of revenue versus 53 percent last year.

The field salesforce had a strong close to the year. Deal size and rep attainment improved versus last year, and our net ratio, which measures renewals & add-ons net of churn remained virtually even, a positive result given the larger base of business. Corporate customers under contract grew 49 percent year-over-year to over 24,400.

I want to spend a moment discussing our broader Talent Solutions strategy. Over the past two years, we have increased our focus on deepening relationships with existing customers in addition to broadening our overall customer footprint. During that time an increasing amount of our growth has come from recurring business, and existing customers now represent the majority of our revenue under contract.

Our go-to-market approach and investment in our salesforce reflect this multi-year shift. Over time we have broadened our offering from selling only primarily recruiter to partnering with customers across a portfolio of products that include job slots, recruitment media, and recruiter as a workflow platform. We also have aggressively expanded our footprint of relationship management sales reps. In 2012, we grew our existing customer reps at 4x the rate of new account hunters, and as we exit 2013, our rep count is now balanced between new and existing customer reps. Entering 2014, we continue to see material upside by deepening relationships with the existing customer base. We expect to grow our salesforce by more than 30 percent in 2014, and this growth will continue to be more weighted towards recurring clients.

I also want to spend a moment discussing the strategic importance of job listings. For members, we have focused on increasing the number and relevance of opportunities on LinkedIn. For customers, our goal is to impact in excess of 50 percent of their hiring. Today, we enable passive recruiting at massive scale, and job listings are an important driver to achieve this objective. We add unique value to job listings, a tool historically used only by active job seekers, by engaging passive candidates through our recommendation engines.

With respect to job listings, we have two goals. Our first goal is to improve the relevance for members and customers. To that end, the acquisition of Bright should accelerate the relevance dynamic through cutting edge data technology that will best match LinkedIn members with the best possible opportunities. Our second goal to dramatically scale the number of opportunities on LinkedIn, and adding Bright's relevance capability will only enhance this scale.

With regard to Marketing Solutions, revenue grew 36 percent year-over-year to $113 million, representing 25 percent of revenue versus 27 percent last year.

In the field sales channel, growth slightly accelerated driven primarily by Sponsored Updates. Legacy display performed in-line with desktop inventory growth as improved execution offset a decline in display eCPM, a pricing trend consistent with the broader industry.

Our self-serve ad platform, LinkedIn Ads, continued to perform well, mirroring desktop pageview growth.

As discussed in past quarters, we spent the majority of 2013 building Sponsored Updates. Q4 was our first full quarter with the product and we are pleased with the early results. In less than two quarters, Sponsored Updates has gone from zero revenue contribution to approximately 13 percent of marketing solutions sales. Trends we discussed last quarter continue to hold: mobile is roughly two-thirds of sponsored update revenue; click-thru rates are materially higher than traditional display, especially on mobile; and contribution remains roughly balanced between field and self-serve customers.

Premium Subscriptions again showed solid performance, growing 48 percent year-over-year to $88 million, steady at 20 percent of revenue.

General Subscriber performance benefited from many of the same themes we have discussed throughout 2013, including product iteration to optimize new customer acquisition, onboarding, and retention. Retention rates remained at relatively high levels during the quarter and annual subscribers now represent nearly 50 percent of the base, up from approximately 40 percent a year ago.

We are also pleased with the traction of Sales Solutions. Approximately three quarters of sales solutions revenue today comes from individual premium subscribers, although the field sales portion is growing more rapidly as our nascent sales team builds momentum with enterprise customers. We have received especially strong feedback with the launch of our most recent product feature, Lead Connector. In the first month since launch, Lead Connector has already emerged as the most engaged piece of Sales Navigator.

Turning to revenue by geography, international contributed 39 percent of total sales compared to 38 percent last year. In terms of channel, field sales increased as a percentage of the business to 61 percent versus 59 percent last year. Online performed well in light of the self-serve and subscription acceleration experienced a year ago.

Turning to the non-GAAP income statement, adjusted EBITDA was $111 million, resulting in a 25 percent margin versus 26 percent last year.

Depreciation & Amortization was $43 million, and stock based compensation was $57 million, in-line with guidance when taken together. Taxes were generally in-line with expectations resulting in a relatively high 71 percent GAAP tax rate and a more normal 35 percent non-GAAP tax rate.

GAAP net income was $4 million resulting in earnings per share of 3 cents on 124 million fully diluted shares versus net income of $12 million and earnings per share of 10 cents last year. On a Non-GAAP basis, net income was $48 million resulting in earnings per share of 39 cents compared with $40 million and 35 cents a year ago. The majority of the Q4 share count increase was related to the September equity raise.

Turning to the balance sheet, we exited the year with cash and short-term investments of $2.3 billion against zero debt.

Operating cash flow for the full year was $436 million compared to $267 million in 2012, while capex was $278 million compared with $125 million last year. In 2013, just over 50 percent of capex went towards data centers with much of the remainder devoted to expanding our facilities footprint.

Free cash flow for the year was $158 million compared to $142 million last year. The relatively flat level of free cash flow was primarily due to the datacenter and facilities investments we made in 2013, which will continue in 2014.

I want to spend a moment providing more color on our data center strategy that we began last year. Our goal is to host LinkedIn on a self-managed infrastructure, ultimately enabling us to control capacity growth while more efficiently managing our cost structure, with approximately 50% in opex savings per datacenter once each facility fully tested and operating at scale.

In executing this strategy, our objective is to build three self-managed datacenters globally, the first of which went live in Q4. We plan to build the second this year, and the third in 2015. Co-locating LinkedIn across these three locations will improve both the site speed and experience for our members.

The effect of this program will be heightened capex during this 3-year period. In order to ensure each new datacenter's security and performance, we must build new server capacity while growing legacy facilities in parallel. Cost benefits are long-term and not immediately realized until our strategy is complete.

In 2013, we spent approximately $75 million on our first facility, and an additional $25 million in parallel capacity. As we exit this project over the next 2-3 years, we plan to resume a more normal capex level towards our eventual 10 percent of revenue goal.

We will end the call with guidance for the first quarter and our initial outlook for the full year.

We expect first quarter revenues to range between $455 and $460 million, representing 40 to 42 percent year-over-year growth. For the full year, we expect a range of $2.02 to 2.05 billion, growth between 32 and 34 percent year-over-year.

For Adjusted EBITDA, we expect between $106 million and $108 million in the first quarter, a 23 percent margin at the midpoint. We expect full year Adjusted EBITDA of approximately $490 million, representing a 24% margin at the midpoint of revenue guidance. This guidance incorporates the cost impact of the larger strategic initiatives Jeff highlighted including China and the Bright acquisition, neither of which we expect to contribute material revenue over the next 12 months.

In 2014, we plan to make several large investments to set the foundation for our long-term business growth.

Within Talent Solutions, we expect to invest in on our core by improving the recruiter platform and expanding our salesforce. New initiatives include scaling a much larger and relevance-driven jobs offering; as well as taking initial steps towards building a more focused SMB product. Revenue drivers include deepening relationships with existing customers, and to a lesser extent the full-year benefit from last year's pricing initiatives.

In Marketing Solutions, our investment will focus on building scale within Sponsored Updates through improved homepage relevance, the API launch, and developing analytics and insights to improve customer ROI. We also plan to apply the learnings from Sponsored Updates to our legacy business, evolving our products to become more focused on B2B content.

For premium subscriptions, we will continue to invest in the user experience and improving customer acquisition and retention. We also plan to broaden the subscription base with the launch of a lower price, general consumer subscription product later in the year.

2014 is the year Sales Solutions evolves into a core component of our business. We will continue to invest in innovating the product experience with a larger R&D team while aggressively ramping the salesforce effort, which tripled in size in 2013 on a small base of reps.

Guidance for the remainder of the P&L and cash flow also reflect long-term investment in our team and platform. For depreciation & amortization, we expect approximately $48 million for the first quarter and approximately $225 million for the full year. For stock compensation, we expect expense of approximately $68 million for the first quarter and $325 million for the full year.

On tax, we expect a GAAP expense of around $10-12 million for the first quarter, a number you should annualize for the full year. Even though we are assuming negative GAAP pre-tax income, we will have an absolute tax expense in 2014 given the continued build out of the international tax structure. Starting in 2016 we will gradually begin to benefit from our international tax structure.

On a non-GAAP basis, we expect a normalized rate of 40-45 percent for the first quarter and full year.

We expect fully diluted shares to increase by approximately 3-4 million between the fourth quarter 2013 and the fourth quarter 2014.

With respect to capex, we expect to invest roughly the same percentage of revenue in 2014 as in 2013. As I previously mentioned, a large portion will be devoted to our datacenter expansion and to a lesser extent on facilities.

Lastly, I want to quickly cover the financial terms of the Bright acquisition. We have agreed to acquire Bright for approximately $120 million, roughly 70% in stock and 30% in cash. We estimate GAAP expense impact of $6-8 million in the first quarter, and approximately $25 million for the full year. We also expect a downward adjusted EBITDA impact in the $2-4 million range in Q1, and $8-10 million for the full year, both incorporated in our guidance.

In closing, we ended 2013 in a strong position across engagement and monetization, and we are investing aggressively in 2014 for both our member and customer platforms. We are making several key investments including China, jobs relevancy and scale, and the publishing platform. In terms of the business, we are driving product innovation and developing new revenue opportunities. And finally, we continue to invest in the technology infrastructure to execute against our vision.

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

Question and Answer Segment

Operator:
At this time, I would like to remind everyone, if you would like to ask a question, please press star then the number one on your telephone keypad.

Our first question comes from the line of Scott Devitt with Morgan Stanley.

Scott Devitt – Morgan Stanley
Thanks. I had one for Steve and then one for Jeff. Steve, you gave a lot of detail around the investments in 2014 and a history of deploying quite a bit into the Business as it's been growing and still exceeding expectations in terms of EBITDA. And so I guess the question relates to the EBITDA guidance in '14 and if that similar level of conservatism is built in and has contemplated these investments as well. And then secondly for Jeff, just to be interested in hearing about how you think about the enterprise sales tool in terms of how it could be disruptive, or what it can do for salespeople that no other products have done before? Thanks.

Steven Sordello – Chief Financial Officer, LinkedIn
Hi, Scott, it's Steve. So, we have over exceeded our original plans in terms of EBITDA over the last couple of years. Original guidance in '13 was 23 percent, and we came in at 25 percent. We are still very heavily investing in the business, and so when you talk about conservatism and guidance, what we try to do is just take a best stab at what we think the business will project, in a prudent manner. And this year there are a number of very large investments long-term. Jeff talked about them on the member side. There's China, we continue to scale jobs, the publishing platform.

And on the Business side the Sales Solutions product, the Sales Solutions, salesforce ramp. On Talent Solutions we continue to invest, and on sponsored updates is an investment area. And then, as I just mentioned, the data center investments on infrastructure. So there are a number of very heavy investments in 2014, and we're looking at it from a very long-term perspective towards our march towards our long-term model framework.

Jeff Weiner – Chief Executive Officer, LinkedIn
Scott, it's Jeff. In terms of unique value proposition of our Sales Solutions tools, it's really about social selling and what sales people are going to be able to do leveraging the power of their networks. The power of our data, and I think it really cuts across each critical part of the sales process whether that's identifying the right prospect,

whether or not it's leveraging your network in determining the best way to reach out to the prospect or figuring out how to actually engage with that prospect. You're going to be able to do all three of those things in a meaningfully enhanced way leveraging LinkedIn and leveraging these tools.

Operator:
Our next question comes from the line of Eric Sheridan with UBS.

Eric Sheridan – UBS
Thanks for taking the question. More on the Talent Solutions side, we would've expected sort of a revenue per customer to have been a little bit better given the price increase that was working through the base in the back half of the year. Earlier in the year you had called out the possibility of impact in the form of churn and conservatism around the price increase. Maybe help us understand a little bit better how the price increase went and how it's working through the model?

And then second, following on that a comment you made on the call, about the way in which Talent Solutions is also broadening out now and there's multiple products you're dealing with customers with. Help us understand a little bit better how spend per customer could evolve over time given a broader array of products? Thanks.

Steven Sordello – Chief Financial Officer, LinkedIn
Sure. Your question regarding revenue per customer, our ARPU, as we look at it has actually maintained at record levels. A portion of that is due to some of the pricing impact, but a bigger portion is actually due to simply deepening relationships with existing customers. In terms of larger follow-on deal sizes, we're selling – we've been over the last several quarters selling a portfolio of products including job listings recruitment media in addition to the Recruiter product.

So all those factors are coming in to maintain an ARPU. And the reason why maintaining an ARPU level at this level is a positive is the fact that most of our growth in terms of new accounts, new customers are smaller customers with less of an ability to increase spend rapidly. So we're more than offsetting the drag that comes on ARPU from adding smaller clients with a deeper relationships with existing customers.

Operator:
Our next question comes from the line of Michael Purcell for Stifel.

Michael Purcell – Stifel Nicolaus
Thanks for taking the call. A question on Bright – congratulations on the acquisition. Regarding the Bright score, I'm wondering is the plan to include this as added value for the recruiters? And when you take the Bright score and all the variables and include not just the resumes but also the other activity of the members and included in that score,

and then second I'm wondering if that will become a product that will move off the LinkedIn platform? Thanks.

Jeff Weiner – Chief Executive Officer, LinkedIn
So we are very excited about the acquisition of Bright on multiple fronts as we discussed earlier on the call. We're going to be investing as a core area of focus on increasing the volume of jobs available on LinkedIn, and as we increase the comprehensiveness of jobs available, we also need to maintain our investment in the relevancy of those jobs and making sure we can get the right job in front of the right member at the right time. And that has implications for both our modernization efforts and our engagement efforts. On the modernization front it's really about improving the return on investment for our customers' companies who are posting jobs, and this enables them to connect with the right prospect at the right time.

And whether or not that's the Bright score or leveraging their assets or algorithms or talent in other ways that make sense when it's integrated into our platform, we think we're going to be able to do a good job of improving return on investment there. And the same holds for the individual job seeker who are customers of our job seekers subscription package, and the way in which we're going to be able to integrate these algorithms and matching capabilities into that value proposition. That's on the monetization front. It's also appealing to us in terms of increasing member engagement. We had a big year last year in terms of the number of new members that were added and a good deal of that activity came from international markets and developing economies.

And within those developing countries we saw a healthy number of students coming on to the platform and their core use case, their biggest need is finding their first job. And so to the extent we can become more comprehensive inn those markets with regards to the jobs we have to offer, and again leverage these matching capabilities to get the right job in front of the right member at the right time, we can also deepen engagement. And so the deal from where we sit really make sense on multiple dimensions for us.

Operator:
Our next question comes from the line of Mark Marcon with Robert W. Baird.

Mark Marcon – Robert W. Baird
Good afternoon, and thanks for taking my question. I was really intrigued, Jeff, by what you were just speaking about with regards to the postings. Wondering, can you dimension-alize in some facet what the contribution is to Talent Solutions in terms of the current revenues from the postings and how you're envisioning that growing in the future? You mentioned earlier 50 percent of clients' needs being filled through LinkedIn, and it certainly seems like Bright would certainly facilitate that?

Steven Sordello – Chief Financial Officer, LinkedIn

Yes, this is Steve. So jobs currently represents about a quarter of our Talent Solutions revenue. And, as we think about Bright, Bright definitely is the asset we're looking for there is primarily on the relevancy side but also allows us over time to expand the number of job postings. What we believe this offer over time is long-term tailwinds for the business – for a number of our lines of business including job listings, subscription packages, et cetera. For this year we're focused primarily on the development of the product. So we have not included any material revenue contribution from the Bright acquisition in terms of our outlook. It's all based on investment in the product and R&D.

Mark Marcon – Robert W. Baird
It certainly sounds like with the relevance and the ROI potentially going up that you would have the potential to increase pricing, although it sounds like that probably wouldn't be envisioned until you have proof of concept. Is that correct?

Steven Sordello – Chief Financial Officer, LinkedIn
That would be correct.

Mark Marcon – Robert W. Baird
Great. And just as it relates to the guidance, could you give us a sense for – on the revenue guidance what you're envisioning the Talent Solutions contribution to be? When we take a look at the overall revenue guidance? Or …

Steven Sordello – Chief Financial Officer, LinkedIn
Sure. So, as we look at the business going into 2014 we really expect similar trends to what we experienced exiting the year with Talent and Premium relatively stronger Marketing Solutions continuing to go through a transition towards a B2B content marketing. On the Talent side, I would say that was 55 percent of revenues this last quarter. I would expect it to be in the high, high 50 percent for the full year as a ratio to sales.

Mark Marcon – Robert W. Baird
Great, and if I could squeeze one last one in, can you discuss the growth in Talent Solutions domestic relative to international? You obviously have a long runway on the international side?

Steven Sordello – Chief Financial Officer, LinkedIn
Correct. The proportion of international on Talent Solutions side continues to grow. I would say roughly international the composition of Talent Solutions is probably in the high 20 percent range last year and in the kind of low mid- 30 percent range this year in Q4.

Mark Marcon – Robert W. Baird
Great, thank you.

Operator:
Our next question comes from the line of Gene Munster with Piper Jaffray.

Gene Munster – Piper Jaffray
Good afternoon. If you could talk about the $27 billion global market opportunity and maybe give a little bit more details on that. Is it true that you don't have much if any competition in that market size would be helpful for us, and maybe walk-through how you think about potentially what percentage of that $27 billion you could effectively target, what market share you could have and why? Thanks.

Steven Sordello – Chief Financial Officer, LinkedIn
Sure, I'll start and Jeff may want to elaborate. So when we look at top down $27 billion, that includes jobs, media and staffing. Obviously we make that market more efficient, so there's a certain haircut in terms of the overall TAM. But needless to say we have visibility into a business several times our size. There's a large market opportunity, and that opportunity really expands over time for us as our member base continues to grow and becomes more engaged.

So that's one way we look at it. Another is just in terms of the size of price from number of companies which we have spoken about. And when you look at companies with greater than 500 employees, there's 20,000 in the U.S., there's 50,000 to 100,000 globally. When you include less than 500, those numbers go to 50,000 in the U.S., 200,000 globally, and we're at 24,000 today. Now, naturally there's a long tail, and that's why we talk a lot about the SMB space. And that's an area of focus for us as well in terms of the Talent Solutions business and providing solutions for that core market.

Gene Munster – Piper Jaffray
Do you think of like a market share that's kind of the logic of it, and that's helpful, but do you feel like ultimately you're going to compress that $27 billion market and have 50 percent share or 30 percent share? Are there numbers that you contemplate?

Jeff Weiner – Chief Executive Officer, LinkedIn
This is Jeff. I think in terms of the compression you're speaking of, there's definitely room for greater efficiencies there, and I think we're already starting to see that in terms of companies starting to bring some of the functionalities that would historically have outsourced in-house and leveraging a platform like LinkedIn. In terms of market share targets, we haven't guided to an explicit market share target, but suffice it to say we think we're in a strong leadership position, and we want to continue to grow that position over time.

Gene Munster – Piper Jaffray
Great. Thank you.

Operator:

Our next question comes from the line of Mark May with Citibank.

Mark May – Citigroup
Hello. One question is as the Talent Solutions business the mix of revenue shifts more towards media, how does that affect – I guess it's more for Steve – the way that we should be thinking about that segment in terms of the dynamics around the growth and size of average contract by customer and the growth of that in terms of your transparency of the revenue, in terms of fixed subscription versus more a la carte? Just trying to understand how that particular shift in the business segment there affects some of those high-level financial metrics?

And then secondly for Jeff, the goal of serving 50 percent of the job needs of your customers, it would seem like one of the areas in order to reach that, correct me if I'm wrong, is serving the non-college degreed universe. If you agree with that, what is your strategy for addressing that market segment?

Steven Sordello – Chief Financial Officer, LinkedIn
Hello, Mark, if I understand your question correctly, so about 50 percent of our corporate solutions business is related to recruiter. The remainder is job slots and recruitment media. And I mention job slots is roughly a quarter, so the mix is roughly even with the remainder. That mix has been shifting slowly over time. I'd say a year ago the Recruiter mix was close to the higher 50 percent range, and so that's a slow trajectory. And also we really recently over the past previous quarters just started more push Recruiter for job slots more aggressively. So those are kind of the components in terms of that business. We do also have a portion of our Marketing Solutions business that is talent related, and that's about 15 percent.

Jeff Weiner – Chief Executive Officer, LinkedIn
Hi, Mark, it's Jeff. Thanks the question. Our team here, the Talent Solutions team, has set a very ambitious goal for themselves and they are really serious about it, and it's something they have been thinking about for quite some time. And that starts with our current customer base. So with regard to getting 50 percent, North of 50 percent, that's still going to see a lot of overlap with our core focus area, our immediate addressable of knowledge workers and professionals.

You're absolutely right, though, over time as we continue to broaden the membership, I think we are going to see a shift, and there's really a continuum there with regard to the highest value white color roles and available opportunities moving down toward what would traditionally be categorized as a blue-collar roles. And on a global basis you're talking about knowledge workers and then the next cohort of service workers, skilled trades people and laborers. And this is one of the reasons we want to make sure that we are proactively investing in increasing the volume of jobs available on LinkedIn so we can address that broader audience over time.

Operator:
Our next question comes from the line of Youssef Squali with Cantor Fitzgerald. Youssef, your line is open.

Stephen Ju – Credit Suisse:
Yes, sorry about that. User engagement in terms of the uniques and pageviews was down two quarters in a row now. Jeff, does that worry you? If not, why not, and what gives you the confidence you should be able to revert it? Are the new members at least maybe for the page views just not using the service as often?

That's one, and two, Steve, going back to Scott's question on margin. So the implication I think from guidance is margins for 2014 at the midpoint are going to be maybe flat to maybe even slightly lower. Just help us understand where the big buckets of investments are on the P&L? Because I think you talked about CapEx as being the same in 2013. Thank you.

Jeff Weiner – Chief Executive Officer, LinkedIn
Thanks, Youssef. So with regard to overall engagement growth as Steve alluded to earlier in the call, we had some challenging year-over-year comparisons by virtue of when we introduced new functionality that drove some very significant uplifts in usage. So that was certainly one part of the dynamic. Another is the transition to mobile, and our mobile growth is dramatically outpacing that of desktop, which is by design. And we're very pleased with the shift and our investment in mobile applications, the usage of those applications.

We're north of 40 percent of our engagement is now comprised of mobile usage, and that's up quite substantially over the last several years. We're going to continue to invest in mobile, and we're pleased with the results we've seen thus far. To your last point about new members not being as engaged, that's always been the case.

We're very cohort driven. So far as new members are less connected, and it takes time to start to build up enough connection density where they're getting a high-quality experience with regard to quality of their feeds, the groups that they're joining and participating in, now the influencers that they're following, et cetera. And so we are very keenly focused and have been over time on creating the right on boarding experience depending on the kinds of numbers that we're adding, and we're going to continue to invest in the area. But we have seen over time is, as those cohorts mature on LinkedIn, they continue to become more and more engaged. The only other thing I would add on that front is we do spend a fair degree of time on segmenting our usage base; the highest frequency users, kind of the middle of that frequency segmentation, and then the less engaged users. And we have seen some nice upticks in terms of the most engaged users over time becoming more engaged which is a very healthy sign for us. So the key is going to be continuing to expand that down the continuum of these newer cohorts that we've been bringing on, and of course last year we had more new members than at any time in the Company's history which is certainly going to contribute to that dynamic.

Steven Sordello – Chief Financial Officer, LinkedIn
The only thing I'll add on the engagement front that was another dynamic, in addition to the comps, was in the quarter in terms of endorsements, which was a product we released a year ago. It has reached a very large-scale and there was an effort to improve the quality on endorsements, which impacted transactional volume somewhat. So part of the delta for example our unique visitor growth was around 31 percent. That probably would've been 40 percent, 41 percent without that change, so I just wanted to highlight that.

In terms of the EBITDA and the investments, I would say the primary area of investment is headcount related overall. Most of it is in R&D in terms of growth. We're planning on growing headcount roughly the same number of heads that we did in 2013 with most of the growth in R&D. So about 40 percent plus in R&D growth followed by Sales and Marketing at about a third growth. When you look at what we're focused on a number of the larger initiatives, China is a key investment area for the Company.

We talk about a number of the areas like scaling jobs and relevancy and the publishing platform. And then on the Business side we talked about scaling Sales Solution in terms of both the product and the sales force, planning to more double the salesforce adding infrastructure, which is data center and facilities. Facilities – we have a number of facilities coming online beginning this year, so that's a big investment area.

And then also there's a continuous mix shift in the business which impacts the overall margin in terms of the percentage that is field versus online, and that continues to shift more towards field. And lastly we have the Bright acquisition, which does add some incremental cost for this year. That there is no material revenue plan to offset that cost, so those are kind of the big picture investment areas.

Operator:
Our next question comes from the line of Stephen Ju with Credit Suisse.

Stephen Ju – Credit Suisse
Jeff, I'm curious about your plans in China at a more practical level. What kind of regulatory activity do you expect from the government, if any, that might hinder consumer engagement on the site? And do think you'll have to allot some sort of a contact monitoring system? Also did you have to get some sort of approval to operate, or do you have to work with some sort of a local JV? Thanks.

Jeff Weiner – Chief Executive Officer, LinkedIn
So, taking the last part of your question first, a joint venture would not be an obligation, however, in thinking about our strategy, our entry strategy there, we could certainly

argue that a joint venture makes sense, if you're partnered with the right people, the right kind of firms in terms of navigating localization effort.

In terms of regulatory approval by what that would mean for the product experience, we've been saying for quite some time now with the growth that we've seen in our English-language LinkedIn offering in China, that we wanted to be very thoughtful about further localization. And further localization is going to require a license from the government, and that's going to mean complying with certain things that we would certainly prefer not doing, so for example filtering content. We're very strong advocates for people to be able to express themselves freely, and we recognize that if we're going to be offering our product in the local language, that there are certain things that are going to be required of us to be able to do business there.

In terms of our objective to do business in China, with regard to the size of the marketplace there, it's roughly one in every five professionals. So in terms of our ability to create value for our global membership and to create economic opportunities for that membership, we think China is a key piece of that puzzle.

Operator:
Our next question comes from the line of Douglas Anmuth with JPMorgan.

Douglas Anmuth – JPMorgan Securities
Thanks for taking the question. I just wanted to follow-up on Sales Solutions and if in general it's probably rolled out a little bit slower perhaps than some people have expected. Could you talk about how you're thinking about the timeframe here, what we should be looking at as we go through 2014 as it clearly looks like you're looking to ramp things up and add more salespeople? Thanks.

Jeff Weiner – Chief Executive Officer, LinkedIn
Sure. So, as you know, we had a very deliberate rollout with Sales Solutions, part of it is from the member experience side which we've taken in a very deliberate manner and also is to align the rollout and the rapid sales force with continuous improvement and innovation on the product side. And so throughout this year you're going to continue to see continuous product functionality.

Along with that we're going to ramp the sales force at a more rapid rate. This year there will be a larger dedicated R&D team associated with it and I think another important thing in terms of the overall size of the business is to recognize that this is a business that is subscription business similar to our Recruiter business, and so it's was ratable, and it builds over time. Those are just some of the factors. We're very pleased with the status of the business and the opportunity at this business given the number of sales professionals that are on LinkedIn.

Operator:
Our next question comes from the line of Mark Mahaney with RBC Capital Markets.

Mark Mahaney – RBC Capital Markets
Great, thank you. I want to get back to two questions from earlier just specific comments on – updated comments on reactions you're seeing to the price increases in Talent Solutions and how you think about pricing for that, for those products going forwards.

And then again, Steve, I know you were asked about – I think what we're trying to do is get a same store sales growth figures in Talent Solutions, understanding that the influx of – the increasing influx of international customers and smaller businesses kind of dilutes that.

So is there a way you could talk about – could you quantify the success are having in selling broader range of products to customers by just giving us some sort of same store sales growth number there? Thanks a lot.

Steven Sordello – Chief Financial Officer, LinkedIn
Sure on the pricing question, we really haven't seen any negative impact, material impact in terms of churn from accounts. Our churn levels have been fairly flat year-on-year, and we are starting to benefit somewhat from the price increases that we have rolled out. We've had more focus as well on rigor are pricing and discounting, so when you look at the big picture, pricing incorporates that.

So, as you recall last year was a fairly – was a mid- single-digit price increase in select markets. We continue to evaluate market by market pricing, but again our main goal is expanding the footprint and deepening relationships. That's our primary goal.

In terms of the same store sales, very similar to what we call our net ratio which is add-ons and renewals, net of churn for existing accounts, and that held up very nicely in the fourth quarter. We don't typically give that out, but it's very nicely north of one, clearly.

And that's held up despite the bigger base of business, and that's really a result of multiple factors. One is selling more deeply into accounts so maintaining the number of recruiters seats on average, which means we're selling more into the deeper, bigger customers; selling more products, and so diversifying that base beyond just Recruiter so recruit media and jobs slots; and then the pricing is the third component which has some impact on that.

But that metric has held up very nicely the last several quarters for us, and that's why we believe there's still a large opportunity to go deeper within our existing accounts.

Operator:
And we have reached our allotted time for questions and I'd like to turn the floor back over to Jeff for any additional or closing remarks.

Jeff Weiner – Chief Executive Officer, LinkedIn
Thank you, everyone, for taking the time to join us, and we look forward to talking with you next quarter. Take care.

Operator:
Thank you. This concludes today's conference call. You may now disconnect.