Yelp (YELP) Earnings Report: Q1 2016 Conference Call Transcript

The following Yelp conference call took place on May 5, 2016, 04:30 PM ET. This is a transcript of that earnings call:

Company Participants

- Wendy Lim; Yelp Inc; Investor Relations
- Jeremy Stoppelman; Yelp Inc; CEO
- Rob Krolik; Yelp Inc; CFO
- Geoff Donaker; Yelp Inc; COO

Other Participants

- Mark Mahaney; RBC Capital Markets; Analyst
- Lloyd Walmsley; Deutsche Bank; Analyst
- Mark May; Citigroup; Analyst
- Douglas Anmis; JPMorgan; Analyst
- Matthew Thornton; SunTrust Robinson Humphrey; Analyst
- Kevin Kopelman; Cowen and Company; Analyst
- Peter Stabler; Wells Fargo Securities; Analyst
- Brian Fitzgerald; Jefferies LLC; Analyst
- Youssef Squali; Cantor Fitzgerald; Analyst
- Shreta Gandhi; JMP Securities; Analyst
- Rob Sanderson; MKM Partners; Analyst
- Ken Sena; Evercore; Analyst
- John Edward; Stifel Nicolaus; Analyst
- Jason Helfstein; Oppenheimer & Co; Analyst
- Kerry Rice; Needham & Company; Analyst

MANAGEMENT DISCUSSION SECTION

Operator:

Welcome to the first-quarter 2016 Yelp earnings conference call.

(Operator Instructions)

Please note that this conference is being recorded.

I will now turn the call over to Wendy Lim. Wendy Lim, you may begin.

Wendy Lim (Investor Relations):

Good afternoon, everyone. Thank you for joining us on Yelp's first-quarter 2016 earnings conference call.

Joining me on the call today are CEO, Jeremy Stoppelman; and CFO, Rob Krolik; and COO, Geoff Donaker, will join us for Q&A.

Before we begin, I will read our Safe Harbor Statement. We will make certain statements today that are forward-looking and involve a number of risks and uncertainties that could cause actual results to differ materially.

Please note that these forward-looking statements reflect our opinions only as of the date of this call and we undertake no obligation to revise or publicly release the results or any revision to these forward-looking statements in light of new information or future events.

In addition, we are subject to a number of risks that may significantly impact our business and financial results.

Please refer to our SEC filings as well as our financial results press release for a more detailed description of the risk factors that may affect our results.

During our call today, we will discuss adjusted EBITDA, non-GAAP net income and non-GAAP EPS which are non-GAAP financial measures.

In our press release issued this afternoon and our filings with the SEC, each of which is posted on our website, you will find additional disclosures regarding these non-GAAP financial measures and a reconciliation of historical net income to adjusted EBITDA and non-GAAP net income and GAAP EPS to non-GAAP EPS.

With that, I'll turn the call over to Jeremy.

Jeremy Stoppelman (CEO):

Thanks, Wendy. Welcome, everyone.

We had a great start to the year, with local revenue growth accelerating to 40% year-over-year, driven by the continued strength of our recurring revenue base as well as better-than-expected ad budget fulfillment, and strong sales team approach. This year, we're prioritizing building our core local advertising business, growing transactions, and increasing consumer awareness. And we continue to see tremendous long-term growth potential in these three areas.

Our local advertising business is our top priority, given the significant opportunity to drive higher penetration in our existing markets. To illustrate that point, consider our progress within the Philadelphia Metro area, where we began selling in 2010. Revenue in that market grew to approximately $6 million in 2015, yet only about 2% of local businesses in the Philadelphia Metro area advertised with us. So we believe we still have plenty of room to grow.

In the Los Angeles Metro area, where we've been selling for nine years, about 4% of businesses advertise with us. Revenue in that market continues to grow, up more than 30% year-over-year in the first quarter of 2016.

As we have grown communities, content, and consumer awareness on a city-by-city basis, we have also successfully built a national presence. Today, we've reached a level of scale where national and multi-location businesses represent a big opportunity for Yelp. According to BIA/Kelsey, advertising dollars spent at the local level in 2015 by these larger businesses represent $90 billion, or roughly 60%, of the local advertising market.

In the first-quarter, revenue from chain and franchise businesses comprised approximately 20% of local advertising revenue. Over the years, we have enhanced our product offering to better serve large multi-location businesses, enabling us to acquire new customers and expand on existing advertising relationships.

One such advertiser is State Farm. Based on their initial success and the evolution of our product capabilities, State Farm expanded its advertising program to include its agents in 2015 and has enrolled hundreds of agents in Yelp advertising since. State Farm has been pleased with the high-quality purchase-oriented leads from Yelp.

While small businesses will account for the majority of local revenue for the foreseeable future, we see considerable opportunity within this national segment.

Looking beyond our core local advertising business transactions, which includes Eat24, performed well in the first quarter, with revenue of approximately $15 million. Transactions on Yelp platform grew over 150% year-over-year in the first quarter, reflecting the success of product features on Yelp that encourage consumers to take the next step and transact with local businesses.

We continue to focus on creating a great consumer experience. In March, we hit a major milestone, surpassing 100 million reviews. Our fresh, high-quality content across a variety of categories makes Yelp a top consumer destination, and as of the first quarter, about half of our reviews had been added in the past 2.5 years. Due to our depth and breadth of content, Yelp is increasingly recognized as a leader in local business information.

As demonstrated by the inclusion of Yelp content in the Amazon Echo and our recently announced partnership, allowing Twitter users in the UK, Germany, and Japan to add Yelp geotags to their Tweets.

As the search landscape continues to evolve, we're committed to enabling consumers to discover great local businesses however and wherever they desire. From starting as a desktop website in 2004 to receiving a mobile review every two seconds, on average, in the first quarter of 2016, we have fully embraced the shift to mobile.

In the first-quarter, unique app devices grew 32% year-over-year and app users accounted for about 70% of our page views. With approximately 30% reach on mobile devices, according to comScore , we believe we still have a lot of opportunity to reach additional consumers.

In the first quarter, we ran our second national TV advertising campaign and we're continuing to measure its effectiveness alongside our other marketing programs. Based on our most recent survey, key indicators such as awareness, familiarity, and consideration for Yelp were at their highest level since we started our national TV campaign.

In addition to our paid marketing efforts, Food Network created a restaurant make-over show in collaboration with Yelp, based on customer feedback called 12 Hungry Yelpers and the pilot will be released this summer. We believe that staying at the forefront of consumers' minds will enable us to increase awareness and usage over time.

In summary, I'm proud of what Yelp is achieving. We are helping great local businesses thrive and providing consumers with valuable information across all areas of their lives. For example, a recent University of Pennsylvania study found Yelp reviews to be more comprehensive than the industry standard survey of patients' hospital experiences. Our continued focus on community and consumers is what has made us successful and will position us well to capture the large opportunity ahead of us.

Before I turn the call over, I'd like to take a moment to thank Rob for his many contributions to Yelp's success over the last five years and to welcome Lanny Baker to Yelp. As we recently announced, Lanny has been appointed as our new CFO and will assume this position on May 9. Lanny joins us with significant experience as an internet executive and equity research analyst and we look forward to his leadership as we work to rapidly scale our business.

Now, I'll turn the call over to Rob for the financial details.

Rob Krolik (CFO):

Thanks, Jeremy. Please note that we have posted an updated investor presentation and data sheet on our investor relations webpage that accompany the financial portion of the webcast.

In the first quarter, we achieved strong results as revenue grew 34% year-over-year to $159 million. Excluding brand revenue in 2015, year-over-year revenue growth would have been 42%.

First-quarter revenues came in slightly ahead of our guidance range, primarily driven by better-than-expected ad budgets fulfillment and slightly above average salesperson productivity.

For the first quarter, local revenue was $138 million, up 40% over last year. Transaction revenue was $14.5 million compared to $6.6 million in the first quarter of 2015, primarily reflecting our acquisition of Eat24 a year ago. Other revenue was $6 million. International revenue contributed about 2% of total revenue in the first quarter.

Our customer repeat rate, defined as a percentage of the existing customers from which we recognize revenue at some point in the immediately preceding 12-month period, was 76% for the first quarter of 2016. Cost of revenue in the first quarter was consistent with our prior quarter, as we continue to invest and are hosting and testing infrastructure resulting in a gross margin of 90%.

Total sales and marketing was approximately 60% of revenue in the first quarter compared to approximately 53% last year, primarily driven by our investments in marketing and sales headcount. Sales headcount in the first quarter grew about 40% year-over-year to approximately 2,300.

Product development was essentially flat as a percentage of revenue compared to last year at approximately 20%. G&A was 14% of revenue compared to 17% in the first quarter of last year.

GAAP net loss was $15.5 million and GAAP EPS was negative $0.20 in the first quarter. Non-GAAP net income, which excludes stock-based compensation and amortization, was $6 million in the first quarter.

Non-GAAP EPS, which is non-GAAP net income divided by our fully-diluted share count was $0.08. Adjusted EBITDA was $13 million in the first quarter. We generated approximately $24 million in cash flow from operations in the quarter and finished the quarter with $384 million of cash, cash equivalents, and short- and long-term marketable securities on the balance sheet.

Before I turn to our outlook, I'll go over offering metrics for the quarter. Cumulative reviews grew 31% year-over-year to approximately 102 million. Unique devices accessing our app grew 32% year-over-year to 21 million on a monthly average basis. Mobile web unique visitors grew 9% year-over-year to approximately 69 million on a monthly average basis.

Desktop unique visitors were down 3% year-over-year to approximately 77 million on a monthly average basis. Local advertising accounts grew 34% year-over-year to approximately 121,000. A portion of the new advertising accounts came through our self-serve channel, where we experimented with promotions that we don't necessarily plan to repeat in subsequent quarters. Claimed local businesses were approximately 2.8 million, up 29% year-over-year.

Now I'll turn to our outlook for the second quarter and full year 2016. For the second quarter, we expect revenues in the range of $167 million to $171 million, representing a 26% year-over-year increase at the midpoint of the range or 35% excluding brand revenue. We expect adjusted EBITDA for the second quarter to range between $21 million and $25 million.

We expect stock-based compensation to range between $20 million and $22 million and depreciation and amortization to be approximately 5% of revenue. We expect full-year 2016 revenue to be in the range of $690 million to $702 million, up approximately 27% over 2015 at the midpoint of the range, or 34% excluding brand revenue.

For the full-year, we expect adjusted EBITDA to range between $93 million and $105 million. We expect stock-based compensation to range between $84 million and $87 million and depreciation and amortization be approximately 5% of revenue.

For modeling purposes in the second quarter, we expect our basic share count to range between 76.5 million and 77 million and weighted average fully diluted share count to range between 78 million and 80 million shares. For the full year, we continue to expect our basic share count to be approximately 77.5 million and weighted average fully diluted share count to be approximately 84.5 million shares.

We're pleased with the growth in our core local advertising revenue and we continue to be confident about the strength of our underlying business. We believe our investments in marketing to drive consumer awareness and product enhancements to demonstrate value to our advertisers will position us well in the future.

Before I turn the call over to the operator, I want to take a moment to thank the Management Team and all the employees at Yelp. The last five years have been fantastic experience and I'm very proud of everything we've accomplished. I am as optimistic as ever about Yelp's future and I look forward to a seamless transition to Lanny.

With that, I'll turn the call over to the operator to open up the call for questions.

QUESTIONS & ANSWERS

Operator:

(Operator Instructions)

Mark Mahaney.

Mark Mahaney (Analyst - RBC Capital Markets):

Thanks. A couple of questions. Jeremy, you mentioned this ad budget fulfillment came in better than expected. It's a question for either you or Geoff. Can you just explain what that means? And then I wanted to follow-up with one or two product questions.

Geoff Donaker (COO):

Hello, Mark. This is Jeff. Yes, we did have some really nice improvements on the ad delivery team this quarter. We think of those as one-time improvements from Q4 to Q1 and some of the beat on the revenue side. That meant that, effectively, the budgets that we get from each of our local advertisers were fulfilled at a slightly better-than-previous-period basis rate. And what caused that was some improvement in ad targeting in specific as well as some improvement in our auto-bidding algorithm.

Mark Mahaney (Analyst - RBC Capital Markets):

Okay. And then the two product questions. And you have this in your slides too about, it looks like you're kind of increasingly prioritizing the transactional functionalities in the app itself. Could you talk about them? How much of the opportunity or how many of the businesses on the site actually use that? Like how much gap-up opportunity is there for you?

And then just on the Request a Quote business, can you talk about how you monetize that, whether you've started to monetize that and how you think about that potential long-term? Thank you very much.

Jeremy Stoppelman (CEO):

Sure. Hello, Mark. This is Jeremy. On the transaction side, we do feel like there's a pretty broad potential there. Right now, a big portion of that is of course Eat24 and the coverage that Eat24 provides. And so I think there are 30,000 plus businesses.

As we continue to onboard other vertical partners that cover more locations, more businesses, more categories, I think you'll continue to see really nice growth there both on the food delivery side and then beyond. And so it's something that we're medium- to long-term excited about. And in fact, there was 150% growth year-over-year in transactions. So that was nice to see.

On the Request a Quote side, we're pretty excited about this functionality. I mean, really, it represents a migration of users from doing things like clicking on a website or clicking on a phone number to find out pricing and things like that to moving it online and making it more seamless for consumers.

It's a really great feature for, you imagine a consumer that is maybe looking for a mover and wants to talk to three or four them at the same time. They could do that through the Yelp app. All those businesses can respond either via email or they can download the business owner app. And the volume we're seeing there is quite surprising. It's taken off quickly.

We haven't focused on monetization; it's something that we're looking at. I would probably view it as something like incremental inventory, on ad outside, but clearly, those conditions are valuable and we think there will be some opportunity there.

Operator:

Lloyd Walmsley.

Lloyd Walmsley (Analyst - Deutsche Bank):

Wondering if I could follow-up on that ad budget fulfillment improvement question. Is that something that's just showing up in local ad revenue per account and is that something that you think can continue to benefit spending levels throughout the year? And I guess, kind of follow-up on that, is that primarily unlocking budget from national advertisers or do you see the benefit of that across the customer base?

Geoff Donaker (COO):

Hello, Lloyd. Geoff again. Yes, the short answer is it's both local and national type advertisers in this case. You know, I think of these gains in terms of ad delivery and auto bidding as being mostly a one-time thing.

We certainly would expect that level of fulfillment to more or less carry through the year, but we're not expecting incremental gains there. And fundamentally, yes, the point is we're really just delivering more of the budget that we've already gotten from those advertisers.

Lloyd Walmsley (Analyst - Deutsche Bank):

Okay. And then, I guess, second if I can, maybe you could elaborate on what some of the promotions you were running in the self-service channels and why you think, or why you don't plan to repeat those and talk about, maybe quantify how much that drove in terms of either incremental accounts or incremental account revenue. Is that something we should be cautious not to extrapolate? Any color you could share there would be great.

Jeremy Stoppelman (CEO):

Sure, thanks for the clarify question there. Important topics, I know many like to do ARPU times accounts and that's always a dangerous way to go, since accounts is such a mix of self-serve accounts, at the very lowest end. Some of them who will participate in promotions along the line of get your first $200 in Yelp advertising free. We may, effectively, in a case like that, get zero revenue from that account, all the way up to accounts who spend thousands of dollars a month with us.

So looking at that overall ARPU is just a little bit of a dangerous exercise because there's so much averaging going on. And then, yes, the reason to mention that there was promotions involved is, in any given period, we're constantly running a variety of different promotions to bring in self-serve advertisers, some of them along the lines that I just described where we might give hundreds of dollars in free advertising upfront in order to get folks on.

Some of those promotions are successful, but we also find others just bring in large numbers of accounts with low ARPU, and as a result, we tend to discontinue those and then try it in other forms as well. We just wouldn't want anybody to expect that that 10,000 net increase in local advertising accounts would be something that would necessarily repeat or would be important, given that a meaningful percentage of those were low spending self-serve accounts.

Operator:

Mark May, Citi.

Mark May (Analyst - Citigroup):

Thank you. I had one on sales force, what you've been seeing in recent months in terms of retention and hiring and what, if any, impact some of the local offices outside the Bay Area, the impact that that's had on the sales organization.

And then follow-up question on your comments about national accounts. I think you said it was about 20% of the business right now. What's the growth rate look like there over the last year or so? And if you could describe a little bit how those types of arrangements differ from your traditional local arrangements. Do they tend to be longer duration, higher margin, sticker, et cetera? Thanks.

Geoff Donaker (COO):

Sure. Hello, Mark. This is Geoff again. I'll try on both of your questions here. First off, on sales force hiring and retention, trends have been pretty consistent with historical averages, I would say. It's always been help for us to have to diversification across the offices. We've got four big offices now in the US. And so that is helpful as you see trends change from one market to the other. But there's no particular trends that I would call out in the first quarter of this year. Just generally hiring and retention trends have been pretty much on-plan.

As to your second question on national accounts, the growth rate there has been nice and yet it's been growing at comparable rates. I think we've given that 20% number in the past to the overall local revenue business. And as to the question about how do those relationships differ, there is a wide range within what we think of as a that national segment, from State Farm at the very large-end all the way down to what we think of as mid-market accounts, which could be a local business owner who owns 8 or 10 locations in a given city.

And so there is a mix of arrangements there. On average, though, most are doing similar things to what local independent business owners are doing, which is a combination of an enhanced profile and then a CPC advertising package. Many of those largest accounts do focus on ROI, even more so than say an independent local business owner, and therefore, we tend to see, with that more sophisticated buyer, it does tend to be a stickier buyer than some of the independent local businesses.

Operator:

Douglas (Anmis), JPMorgan .

Douglas Anmis (Analyst - JPMorgan):

Thanks for taking the question. I just wanted to follow-up on the sales force questions from Mark. In particular, can you just talk about the local strength in 1Q and to what degree was that a function of some of those sales force hires, the step-up that you saw in the back half of last year, that the productivity increasing among those specific sellers?

And then secondly, you said you were on-plan for the year, and I think you said 20% to 30% is where you had been targeting sales force growth before. With the front half loaded, then you did 40% here. Is that still the case, 20% to 30% for the year? Thanks.

Jeremy Stoppelman (CEO):

Hey Douglas. Okay. So, on sales force performance. It was a good quarter for the sales team. Important to note that sales team performance in any quarter is actually a relatively small percentage of the overall quarter performance, given how important overall recurring revenue is to the business.

That having been said, it was a strong quarter. That wasn't necessarily driven by any kind of uptick in productivity. Productivity on the sales force level is pretty predictable or has been pretty predictable and consistent with past couple of years in terms of the sales force by tenure level. As to the question on sales force growth, yes, we're still expecting 20% to 30% overall growth on the sales team for this year.

Douglas Anmis (Analyst - JPMorgan):

Great. Thank you.

Operator:

Matthew Thorton, SunTrust.

Matthew Thornton (Analyst - SunTrust Robinson Humphrey):

Hello, guys, and Rob, absolute best of luck. I guess one for Rob here, I guess, the EBITDA guide for the full year was raised a little, nice and strong.

But given the step-up in marketing spend expected for the year and the shuttering of the brand business, obviously, it implies a pretty nice incremental margin. So I guess the question is are there savings elsewhere maybe that we're not factoring into the model or is there any change to that $20 million in incremental marketing spend that you were expecting for the full year?

Rob Krolik (CFO):

Thanks, Matt. Appreciate that. As far as the marketing spend, there's really at this point, we don't -- we had given out, I think, at the beginning of the year, that we said we'd spend about $50 million and we'll spend no more than that in 2016, so there's really no expectation change on that. The only thing I'd say is it's a little bit more front-end weighted than back-end.

And so, on EBITDA guide, we do expect continued leverage. We've given Q2 guidance that's showing almost a doubling of what we experienced in first quarter. So, we feel good. We feel like we're on track.

We do feel like, obviously, it's back-end weighted, so we didn't pass through the over performance in Q1. It was only $1 million anyway, less than 1%. So, we feel like we're on track to hit that.

Operator:

Kevin Kopelman.

Kevin Kopelman (Analyst - Cowen and Company):

Thanks a lot. So, first just a follow-up on the promotional channels. It sounds like those are lower ARPU accounts, but what role did those have in acceleration in the quarter as we're thinking about that going forward?

And then just totally separately, can you help us with Eat24, what pro forma growth was and how that looks? And then lastly, other revenue was down a little bit. Anything in particular there? Thanks.

Geoff Donaker (COO):

Hello, Kevin. It's Geoff. I'll take your first question and I think Rob will take your second two there. You asked about the promotional channel. And let me say, at the higher level, self-serve accounts are an important minority of the business at this point, in terms of the local revenue business.

Promotions in and of themselves, though, while a nice driver of self-serve activity, turn out to be kind of rounding error in terms of the overall local advertising at this point. Certainly an interesting area of experimentation for us and we can it playing an interesting role a couple years down the line. But right now, not a meaningful portion of the business.

Rob Krolik (CFO):

Hello, Kevin, it's Rob. On Eat24, last year, we broke out Eat24 to help people understand and give context for why we bought that company and how much of integration has helped both their business and ours on the transaction end. A lot of revenue synergies. You definitely saw that last year. I think that's definitely continued.

We have included that, as we did in the prior year, in transaction revenue. We're not breaking out individual line items of business, but I think you could do some math to figure out where it's coming from, obviously. A pretty big growth rate on the transaction end.

As far as, I think you said, other revenue for the remainder of the year, or why the under performance in Q1, it was off by I think $0.5 million or so in Q1. And that's, other revenue represents the partnerships that we have with a variety of different partners and so we get revenue in there in varying degrees. And so a partners can drop out or various different things can happen. So it's a pretty small number. We would expect that that other revenue to be fairly consistent for the rest of the year.

Operator:

Peter Stabler, Wells Fargo .

Peter Stabler (Analyst - Wells Fargo Securities):

Thanks for taking the questions. I've got a couple. First of all, for Geoff, could you tell us what percent of local ad contracts in the quarter were being served on an impression basis? I know you're migrating the business to CPC, but I'm guessing that you have some legacy impression-based contrast. So, kind of the share between impression-based and CPC-based.

And then secondly, we've noticed an increase on business pages of competitive advertising units. Just wondering if that is widespread and, kind of generally, can you talk about ad load in terms of ad units per page served and what kind of an impact that's having on click-through rates? Thanks so much.

Jeremy Stoppelman (CEO):

Hello, Peter. Thanks for the questions, there. First off, CPC, we're no longer breaking out that specific mix. We were sharing that for a while because that transition was so interesting and important to the business. Effectively, that shift is over now. We certainly do have some legacy CPM advertisers now, and it's an important minority, but a shrinking one.

At this point, we're really fully selling CPC and have been now for well over a year. And so for all intents and purposes, all new accounts come in with CPC, who are advertising, and a meaningful percentage even of our recurring base from prior period have converted over to CPC now. So in a lot of ways, the shift is over and all for the good.

As to the question about ad load. Really nothing new to report there. The team's constantly experimenting with different forms of ad delivery and targeting to make sure that we're serving up relevant ads wherever possible and also maximizing RPM on those pages. I'm not sure exactly what you guys have noticed there, but no major shifts to speak of.

Operator:

Brian Fitzgerald, Jefferies.

Brian Fitzgerald (Analyst - Jefferies LLC):

When you look at the local services category, when you look at local in general, it seems very fragmented and competitive. There's a lot of players that are vying for the ability to not only market for these local services and [S&Bs], but actually get a piece of the transaction.

I guess our question is do you feel that you need a horizontally integrated stack here so you can offer both the advertising, the marketing, the close, the loop formats, the booking, maybe a payment option and a CRM service? Is that important, having a horizontal suite or is it more the breadth and scale of your relationship with these local vendors?

Jeremy Stoppelman (CEO):

Sure. I guess I'll take a stab at the one. I think there's a variety of different related services that we can provide. And I think we'll continue to offer a number of different things. And then for each potential customers, they'll pick and choose the ones that really make sense for their business.

So in some cases, we may have a transaction offering, whether that's homegrown like a CE or a different partner that we go out there and sign up. Another example is Request a Quote or Message This Business, that could be a useful channel for a local business if they choose to engage with it. Others may just want additional exposure and therefore CPC is the product for them.

And there could also then be a combination of multiple of those. I think that, over time, that's what we would expect, is to continue building out the various services that allow greater exposure for great local businesses and then allow them to move that customer that's browsing into an actual buyer and down the funnel through either starting a conversation with them or actually transacting, involving payments, and so forth. We see all the steps. The funnel is important in things that we can actually do on Yelp.

Brian Fitzgerald (Analyst - Jefferies LLC):

Great. Thanks, guys.

Operator:

Youssef Squali.

Youssef Squali (Analyst - Cantor Fitzgerald):

Thank you very much. Two questions, please. I guess the first is around just national accounts. You said earlier how national accounts are more, in a way, more ROI-focused than the smaller accounts. As you focus more on that segment of the market, I was just wondering if you feel that the measurement and analytics tools that you have right now are adequate. Whether you still have a hole there that you need to fill that would ultimately maybe cause that segment to see maybe an acceleration in growth.

And then on the local advertising accounts, if you were to normalize for the promotion that helped you drive the self-serve accounts, I think if I look at the last five or six quarters, I think you've average about plus 6,000. Last quarter, you averaged 10,000. Is it just fair to assume that that extra three or four was driven by these promotions and so normalized for that, the growth rate was relatively consistent? Thanks.

Jeremy Stoppelman (CEO):

Hello, Youssef. Thanks for your questions. First off, on the national buyer and our ROI tools. In fact, in the last few months, we've introduced a number of new product features for national buyers that I think have been helpful to the business. I'd say we're still on our early innings in terms of providing the right level of product support for that sophisticated national buyer. But we have done a number of things to improve the experience for them.

For instance, one of the things that we introduce was a multi-player capability, such that clients like State Farm can actually go ahead and pay part of the budget for a franchisee themselves through a national fund, but then also the franchisee can go ahead and increase that's spend on their own in order to buy more clicks and so on. So that's an important capability.

We also did introduce a better version of the multi-location dashboard so that, again, in example of State Farm, they can go ahead and see, across a number of different locations, how their advertising is performing. Still early innings, but some nice improvements there already. As to any particular milestone or product other, I don't think there's any one product introduction that's going to be a step function change in this business, but it'll be a long, slow build to continue to provide the right set of tools for them.

Then as to the question on promotions, there's always been a mix of self-serve and full-serve since we went public in that local advertising account number, which is why, internally, although we measure it occasionally look at it and share it externally, it's really not a measure that we're driving towards internally or that anybody's commissioned on.

The sales team, and we overall, are really focused on local revenue, which is fundamentally the important thing and so these promotions are interesting and it's certainly valuable to introduce the business to new local businesses and self-serve accounts, but that's not a number that we put a lot of stock in.

Operator:

Ron Josey, JMP Securities.

Shreta Gandhi (Analyst - JMP Securities):

Hello. This is Shreta for Ron. I had a question on mobile apps. They grew 32% year-over-year and you've mentioned in the past 10 times more engaged for mobile app users than web. Could you talk about your efforts around increasing engagement on apps and how that's tracking? Thanks.

Jeremy Stoppelman (CEO):

Sure. This is Jeremy. So we grew mobile app usage 32% year-over-year. We feel really good about that. And the more users we're able to migrate over from web, from our view, the better. They tend to be significantly more engaged and we like that. We have a one-on-one relationship with that user. So instead of going through an intermediary, also known as Google , we actually get to be on somebody's phone and that also leads to better user sign-ups.

And 70% of our page views are actually now coming from these apps. So we continue to spend a lot of effort trying to device ways to increase contributions as well as return visits. Looking at functionality like show casing hot new businesses and alerting users through push notifications with helpful information. Those are all things that we're looking at and so we'll continue to tune those numbers over the year.

Shreta Gandhi (Analyst - JMP Securities):

Great, thanks.

Operator:

Rob Sanderson.

Rob Sanderson (Analyst - MKM Partners):

Thank you. I wanted to go back to the productivity questions. Can you remind us what the productivity ramp for a new hire typically looks like and how long does productivity take to ramp to a fully tenured level?

Or anything about the steps along the way, like the second six months of a new rep versus the first six months. Just can you give us a sense of what the renewed vigor in the net sales number that you're reporting, just how that flows through in terms of the productivity curve as we model going forward. And then I have a follow-up after that.

Jeremy Stoppelman (CEO):

Hello, Rob. One of the things we've said in the past about the local sales rep on average is that it takes about six to nine months, to be kind of veteran-level productive, or fully productive, if you will. One of the slides that is in the investor deck that you've seen before shows contribution margin over time.

One of the things that you can see, and that's on a loaded basis, is that, for when we acquire a new local advertising account, on a blended basis, including churn in that segment as well as in the sales force, we're still getting about $2 back for every $1 we invest in the first year.

Of course in the second and third year, that margin is a whole lot higher, at about a 95% contribution margin. But again, even in that first year, it is about two to one, even including all the ramp-up time with sales force, given that new people is such an important part of building the sales force.

Rob Sanderson (Analyst - MKM Partners):

That's helpful. Then, a question on engagement. App growth of 32%, that's a good number, but 29 million app users, it's probably only about a quarter of your total mobile uniques and that's significantly under-indexed versus many of your peers.

So what can you do and what are you doing to grow that even faster than 32% and bring that proportion up higher? Obviously it's a focus, but like to learn a little bit more about your efforts there and then just a housekeeping. The data sheet says number of searches on mobile is 70%, the script said page views from app was 70%. Are these metrics synonymous or just coincidental that they are both 70%?

Geoff Donaker (COO):

They're coincidental.

Jeremy Stoppelman (CEO):

Yes, and on the -- This is Jeremy taking the app engagement question and reach. When we look at it, based on our measures, we're at about a 30% reach in the US. So we feel like there is a significant upside, although we're quite proud of where we are. I think if you look at top 20 comScore properties, we make that list now. But, we're going to continue to invest there, obviously. We have marketing efforts which contribute.

But really, how I think about it is we still have a tremendous web footprint, both on desktop and mobile. That's like having several Super Bowl commercials every month that allow us to educate people about our app and give them a better experience. And when they do move over, they're about five times more engaged. So even though that number is smaller than our very, very large web reach, those users are driving obviously disproportionate engagement.

Operator:

Ken Sena.

Ken Sena (Analyst - Evercore):

Just maybe a question on competition. We're seeing a lot of efforts from Google , from Facebook , and others in local. You mentioned that your sales headcount has increased 40%, kind of consistent with your increase in local revenues, but it does seem like there's a wage increase on there too based on your total revenue increase, I guess of about 12% or so.

But as some of these other players come into the local space, are you seeing any upward wage pressure at this point? Even assuming that the 20% to 30% headcount guidance that you had given for the full year stays in place? Is there an opportunity, basically what I'm asking is, is there an opportunity to see some sales leverage as we look out to the back half, and if so, can you help us get our heads around that? Thank you.

Jeremy Stoppelman (CEO):

Hello, Ken. Yes, it's interesting. You tied together competition with possible wage pressure there and we're not really seeing that at this time. If anything, I would say that those big competitors you describe, Facebook and Google , don't really have sales forces of the kind that we have and, as a result, there's just really not a direct competitive situation there.

As to long-term sales leverage, I think the most obvious thing that you'd see in the long-term is that, to the extent that growth rate's slow of our sales force, then most definitionally, you'll see leverage there in that part of the business. In the near-term though, we're continuing to try to grow the sales force at as quick a rate as we can reasonably support, and that's the 20% to 30% that's we're forecasting for this year.

Rob Krolik (CFO):

And, Ken, this is Rob. I think in the first half of this year, obviously, given the overall growth rate for the year we're projecting of about 20% to 30%. It's going to be higher in the first half of the year than the back half.

So we will see that the leverage ramp over the year and, one of the things is, I guess, if you look at last year from a comp standpoint, when you comp the first half of last year where we lost a lot of people, obviously, as we hire in the first half, we are benefiting from that. So it looks a little higher and that's why in the back half of the year, it'll look pretty moderated and then obviously, it gets fairly tremendous leverage out of that. That's why we're projecting a second half EBITDA weighting and specifically into Q4.

Ken Sena (Analyst - Evercore):

Got it. Thank you very much.

Operator:

John Edward, Stifel.

John Edward (Analyst - Stifel Nicolaus):

Thanks for taking the question. Do you have a feel for the proportion of brand advertising dollars that might have migrated over into local ad dollars after you shutter the business in 4Q? And just a follow-up on that, on how you categories revenues. We've been testing some search queries on Yelp with our location tagged since the beginning of the year. And we noticed some non-local businesses are making their way into the right hand reel ads, where it says ads by Google .

So I was wondering if that's categorized somewhere different, businesses that actually won't to deliver to Manhattan when we're searching for Manhattan and would those maybe show up in the other revenue line or how would you categorize those? Thanks.

Geoff Donaker (COO):

Hi John. First question was the brand dot ad dollars. While I don't have a specific number for you there, my sense is that would be deminimis, that most of the brand and display advertising revenue that we got 2015 and previous really was coming through ad agencies and it was a different kind of spend than what we tend to get on the local advertising side.

So, we're happy with that 40% local advertising growth rate and we don't really think that any of it specifically came from a brand migration from the same set of customers. And then as to the question about the rate rail and those AdSense ads that you see sometimes, that does show up in other revenue and certainly there's all kinds of stuff that shows up there, and as you know, that's programmatic as well as just coming from specific advertising targeting on Google .

John Edward (Analyst - Stifel Nicolaus):

All right. Thanks.

Operator:

Jason Helfstein, Oppenheimer.

Jason Helfstein (Analyst - Oppenheimer & Co):

Thanks. Two quick ones. Anything you could share as far as user engagement, meaning like, minutes per visitor on any of the metrics, just so we can kind of understand engagement going up or not, et cetera. Secondly, on transaction revenue, it was up 4% sequentially. What's the right way to think about the outlook for the rest of the year and is there a metric that that would track? So just any help there. Thanks.

Jeremy Stoppelman (CEO):

I'll take the first one here. On the user engagement side, the main metric that I can share is the delta between what we see on the web and what we see on the app as so as we're moving users from the web to the app, I actually misspoke earlier. I said it was 5X, it's actually 10X. So the activity, the searches, those types of things, page views is about 10X, when you get a mobile user converted over to a mobile app user.

Geoff Donaker (COO):

And on the second part of the question about transaction revenue and, is there a metric to track, there's not really specifically a metric to track is how we look at it. I mean, there is actually transactions, and we've said that, on the platform itself, which is up 150%, and then there's the Eat24 business, which obviously is driven by orders, which we're not specifically breaking out. But you can imagine that, throughout the year, that's going to grow at a fairly healthy rate.

I know you said 4% quarter-on-quarter, but a pretty big jump from last year. And I will call out that last year, we acquired Eat24, say, mid-February. And so there's some benefit that we're getting as a result of that. But it's still growing at a very healthy rate and that's what we're anticipating for the rest of the year.

Jason Helfstein (Analyst - Oppenheimer & Co):

Thank you.

Operator:

Kerry Rice, Needham.

Kerry Rice (Analyst - Needham & Company):

Thanks a lot. Thanks for squeezing me in. Maybe back to the earlier part of the call when you talked about ad fulfillment, ad delivery and ad bidding improvements. You highlighted some, at least ad targeting, improvements. I was curious if that was coming from any of the closed loop data you're getting from transaction. If we're starting to see that build into that and push your ad revenue up.

And then, one question on advertising, your incremental spend their. How much did you spend in the quarter, if you can disclose, and if there's any additional earnings, any new channels that you found were stronger than others or just any other color there? Thank you.

Geoff Donaker (COO):

Hello, Kerry. Geoff. So first off, on ad targeting and the budget fulfillment, there are a number of different factors that are going into ad targeting and the team is constantly experimenting with that. To my knowledge, transaction data actually hasn't been one of the things on which they've been targeting users to this point. And so it's certainly an opportunity for the longer-term, but to my knowledge, it's not something that they've focused on to date.

As to our advertising, the advertising that we do, we spent about $13 million in marketing in the quarter, which is footing still to that $50 million general target that we gave for the year. The bulk of that was spent on television advertising, which we have found to continue to be very productive in driving overall unaided brand awareness, consideration, and familiarity with the brand, which turn out to be at all-time highs.

But it also does include other channels, for instance, some of the promotions that I mentioned for CPC advertising and actually acquiring business customers. It also includes marketing for our Eat24 and SeatMe businesses. All of this things are rolling into the $13 million marketing line.

Kerry Rice (Analyst - Needham & Company):

Thank you.

Operator:

Thank you, ladies and gentlemen.