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Monster Worldwide, Inc. Q3 2007 Earnings Call Transcript

Question-and-Answer Session

Operator: [Operator Instructions]. Your first question will come from the line of Mark Mahaney with Citigroup Investments.

Mark S. Mahaney - Citigroup Smith Barney

Great, thank you. I hope you can hear me, two questions please. The first is any comments on where you think long-term International or European margins can go relative to the U.S. and then secondly, in terms of the product improvements, could you specifically talk about some of the interstitial ads that had been at times rampant on the site, and your aggressiveness or eagerness to remove those to what extent? Thank you very much.

Sal Iannuzzi - Chairman and Chief Executive Officer

First. I guess first question first. With regard to international and margins; we really, as we said in our comments, we believe our opportunity in the international markets is just beginning. We are in really the early stages of developing those markets. We have had obviously significant success but the opportunity, whether you look at India, whether you look at China, whether you look at the rest of the Pacific Rim, whether you would look into Europe and not only in the countries which we are doing very well, but in others where we haven't really even begun, we see the opportunity as really tremendous and we are in a investment mode right now. Its hard to tell exactly where the margins will fallout, but certainly we have seen some improvements this quarter and we expect to see continued improvement, as we continue to invest and see that investment turn into more revenue and absorption of more of the costs if you will that they were incurring.

But we think, overall the opportunity for us in the international market is significant, and we came away from a customer advisory meeting which ended earlier today, actually here in Mainer and one of the request from our customers was for more international support and more international help, and so we know that we are on the right track and it gives us a great deal of confidence in the direction we have taken. With regard to the pop ups, if you will, and I use that term just because I have difficulty pronouncing the other word or the other term, but when we look at the site I think we all realize that we have gotten feedback from our customers and from our associates. We really felt that may be we had gone a little bit too far and both some of the types of ads that we had on the site and also in terms of the volume, and we have made decisions to pull some of that down. It is in the short run, its cost us some revenue, it's also cost us some opportunity for revenue. But we think it's the right action to take and I think in the long run, we will not only improve and be able to engage that market on a broader scale... the advertising market on a broader scale, but will also create quite a bit of benefits from our core business.

Mark S. Mahaney - Citigroup Smith Barney

Thank you Sal.

Sal Iannuzzi - Chairman and Chief Executive Officer

Thank you.

Operator

Your next question will come from the line of Peter Appert with Goldman Sachs.

Peter P. Appert - Goldman Sachs

Thank you. Tim, I think you mentioned a little bit of, lower than anticipated, spending on some of the restructuring actions. Does that call you to rethink the amount of savings you are looking for in the second half, which I think you've said previously was in the \$50 million to \$55 million range? And then, some what related, so this calls under one question to redirect; you've talked about redirecting some of the savings and increase promotion in marketing spending. I am noticing that that marketing promotion spending was actually down a little bit sequentially in third quarter and declined as percent of revenue in the third quarter. So I am wondering how that fits with your plans to spend more on marketing and promotion.

Tim Yates - Executive Vice President and Chief Financial Officer

Peter its Tim, responding to the first question. I don't think that over the long run it changes our projections in terms of the fourth quarter to the extent that we've been delayed to some what to some extent in launching some of these things while we are catching up. I don't think it in fact may cause the operating expense and the capital expenditures to be at little bit less than we otherwise might have thought.

Peter P. Appert - Goldman Sachs

Okay.

Sal Iannuzzi - Chairman and Chief Executive Officer

Well regard to your second question, I think that, what we've realized this quarter is two things; our advertising spend and maybe the better way of saying it is our advertising coverage, was expanded rather significantly, particularly in September and you will see going into the Q4, where we have been very aggressive. I think probably just taking television advertising for example, we are much more visible than we have been say earlier in the year. Why it hasn't translated into the numbers is that, at the same time as we have increased that spend and increased that volume of advertising, we have also been able to buy smarter, we have been able to execute in a better way where we saved substantial dollars. And I think you will continue to see, I think that some more benefits to be harvested, if you will, from those actions. And you will see our investment those savings being channeled back into meaningful advertising... I mean the bottom line is we want to get in front of our customers, we want to get in front of our seekers and make sure that they see us, they know we were there... that we are there, we want to make sure that we're visible. And what you see is every dollar we possibly can is focused on accomplishing that and those dollars aren't accomplishing that, we are pulling back out. So you are seeing some savings and you're seeing some spend at the same time, that's why more or less we stayed at equilibrium, or slightly below.

Peter P. Appert - Goldman Sachs

And so for the fourth quarter you look for the percent... the revenue expense on marketing promotion to be roughly flat year-to-year.

Sal Iannuzzi - Chairman and Chief Executive Officer

No I think in Q4, you will probably see advertising and marketing to stop to accelerate, somewhat.

Tim Yates - Executive Vice President and Chief Financial Officer

On an absolute dollar basis.

Sal Iannuzzi - Chairman and Chief Executive Officer

Okay. You will see there... it won't be as much as we are actually buying in terms of new advertising and investment that we'll making in that area, because we will continue to see some of the benefits of the savings. But I think net- net, if you will, you will see a some what of the uptick.

Peter P. Appert - Goldman Sachs

Okay, Thank you.

Tim Yates - Executive Vice President and Chief Financial Officer

Thank you.

Operator

: Your next question will come from line of Imran Khan with JP Morgan.

Imran Khan - J.P. Morgan Securities

Yes hi. Thank you very much for taking my questions, few questions. Sal you've talked about that fourth quarter U.S. growth rate would be similar to Q3 or may improve. Considering that your U.S. growth rates explode last couple of quarters. Are seeing any stabilization that giving you the confidence that you think that the U.S. growth rate might improve in the fourth quarter, I didn't understand that the statement. And secondly you have been very aggressive buying back shares and have you thought about doing capital restructure... capital structure because your free cash generate may de-lever up to buyback on the structured share buyback. And the third and this is the last question I promise, is in terms of the ChinaHR, obviously the revenue growth is very strong and into your excess price gives two options, how quick you can improve the margins for ChinaHR? Thank you.

Sal Iannuzzi - Chairman and Chief Executive Officer

Okay, I think what we will do is first of all we'll try and remember all three questions, so that we make sure we respond correctly. If we don't please come back to us. With regard to the first question may be I'll take a shot at it and Steve I am sure can add to it, and with regard to the second question, I will push that one to Tim and then we will go on to the third, Okay? First of all, here in the U.S. I think that we have of couple of things to play. Obviously, we have noted in the previous call, meaning last quarter that there were a number things we needed to change, a number of things that we needed to address, with regard to the U.S. market. And part of the realignment, if you will, of the executive team was to put Steve's expertise particularly in the area of sales, at work in remediating some actions that had been previously taken in North America. It is an area where none of us I think were happy with the performance we were experiencing and we needed to bring there the strongest talent we had, to fix that problem. And I think that what we were seeing is considerable a progress. It's too early and it's way too early, to say that its done, there is lot of spade work, a lot of blocking and tackling, if you will, that still has to be done. But we are seeing some real goods early signs of progress. And therefore we are comfortable saying to you that I think where we have arrived that now is, and I am going to caveat this in a moment and give some caution on this.

I think where we are now is a sort of at the bottom of the curve, and that we are starting to see those signs of improvements, that I think we are at a point of stabilization and we should be able to improve from here, that's why you see that there might be a slight improvement and I want to be cautious there, that when I say slight I mean slight, you shouldn't read that as just a hedge. But I think we will start to... we were at a point of stabilization with a potential for little bit of improvement. The issue that I... the greatest caution I have is obviously and even given in our comments, all of us realize that the economy, the macroeconomy is out there. There is a plenty of turmoil in the markets and none of us have a crystal ball on exactly what that's going to mean for us. So I think that borrowing any real strong drop beyond what we currently see ahead of us in the general economy, again we are comfortable with the estimates that we gave. If that would have steepened beyond expectation then those numbers could change. The benefit, if you will, and its kind of ironic to I call it a benefit is that, given the improvements that we are making to our system, to our methodology, the work that Steve is doing, I think that we... in a time of slump if you will, we have opportunity to build... opportunity for

ourselves and gain just because of improvements we are making. So we have a bit of built-in offset just because of some of the mistakes we made in the past. Steve?

Steve Pogorzelski - Executive Vice President, Global Sales And Customer Development

I would just talk on I think three areas and first understand, we have held the account movements in the telesales channel which establishes greater stability, creating the customer continuity we use to enjoy and it enables our sales force to act in a consulted manner, that lowers telesales rep turnover which declined substantially in the quarter. We continue to focus on increasing sales force productivity, greater capacity of that sales force and leveraging a predicted segmentation model. The investments we have made in marketing drives more seekers resumes and job response, and that in turn has increased the value proposition to our employer customers, which in turn will have a positive impact on future renewal rates. And at the same time, we're investing more on online marketing dollars to acquire more customers through our Ecom channel. The new product launches, we executed in the third quarter having a positive impact on key user-engagement metrics which drive customer sat increase renewal rates. So we're planning ambitious product launches in Q4 and Q1 as Sal have alluded to you earlier and that will further stimulate user engagement, and again increase renewal rates and give our sales force simply more to sell. So we're dressing sales force more to coverage, greater focus is being put on sales force productivity and increase marketing to the seekers.

Tim Yates - Executive Vice President and Chief Financial Officer

Imran, it's Tim, you were breaking up a little bit on your question on the buyback of the shares. But if I heard correctly, I think you are inquiring about the possibility of using a structured program of some kind?

Imran Khan - J.P. Morgan Securities

Yes, yeah.

Tim Yates - Executive Vice President and Chief Financial Officer

I think, we've obviously we've looked at the options the company have, we feel we've been able to execute quickly and efficiently at this time with the buyback we've done. We will continue to review those options. But right now we're comfortable with our tactical approach.

Sal Iannuzzi - Chairman and Chief Executive Officer

And, with regard to your third question which again you were breaking a little bit, but if I heard it right, with regards to ChinaHR and the timing of our acquisition. It's my... I think we've said it before and I think that it still holds. Probably we will end up concluding that transaction sometime in the first quarter of next year based on everything we see in front us right now. We have some upcoming negotiations over the next month, which will make those plans a little bit more definite hopefully. We are obviously looking forward to moving forward with that. In terms of the future of ChinaHR, we have a number of plans underway. We are building strength, if you will, management strength, so that we are ready and prepared to integrate that entity with our business as quickly and expeditiously as possible. So we are very happy with the prospects and we think, as I said before huge opportunity and hopefully within next three months or so, we will get that finished.

Tim Yates - Executive Vice President and Chief Financial Officer

Can we have the next question?

Operator

[Operator Instructions]. Next we will hear from the line of Christa Quarles with Thomas Weisel Partners.

Christa Quarles - Thomas Weisel Partners

I have one quick question around the verticalization of job seeking. There is a lot of competition out there and I was just wondering, is there any other investment going into tailored job seeking experiences? And then the other question was just around, you talked about some execution issues into Q2 and I was just wondering in the North American side in particular, I was just trying as you think about the MEI used to be the predictor for what the North American business would do, and in fact because you had that bifurcation there I mean will we get back to your growth looking more like the MEI growth and is there competitive equation in there in terms of you guys not going as fast as the MEI? Thanks.

Tim Yates - Executive Vice President and Chief Financial Officer

I think to first rephrase the question. The first question was on what we are going to expand in verticals?

Christa Quarles - Thomas Weisel Partners

Yes, just assuming like if I am a nurse, do I have a specific job seeking environment. That's where some of the competitors out there in the States have made some headway and I am just wondering if guys have a far around the competitive product there.

Mark Stoever - Executive Vice President, Internet Advertising & Fees

Hi Christa it's Mark Stoever. Yes, we actually do have some great thinking around the vertical space and it's similar to what we have said in the past, which is we are sort of have been recognizing that seekers are navigating the Web and looking for the next core opportunity. They are doing it in variety, in different ways, in new ways, particularly in different demographics. So you will see the youth sites, in the youth demographics searching for jobs in a very, very different way. So here we have identified some key communities. We are really open for the fact that people will need to be content in networking and we are going to look at all of those opportunities, to make sure that we are not only attracting just active seekers but we are attracting the folks who might be passive employees and we are recognizing that those folks are across the net right now.

Sal Iannuzzi - Chairman and Chief Executive Officer

Christa, just to add to that I think that what we are doing is looking not just... we are looking opportunities to organically grow sites or services, We are also... we are appropriate keeping our eyes open towards potential acquisitions, hoping that it may be beneficial and helpful to our clients. In addition to that, this is an area where we see, on the advertising side, quiet a bit of opportunity. I think that in re-channeling some of our energy from what we have discussed earlier in terms of the pop up ads etcetera and move to more appropriate advertising of some of these community I think presents us with a number of fairly exciting opportunities. So that's an area that we are keenly aware of, Mark I know spends a lot of his time focused on it and so does Tim. And we'll continue to do that and hopefully in not too distant future we will be taking some actions in those areas. May be you can help with that. You had a second question that was coming to a little bit gargled. Can you repeat the question?

Christa Quarles - Thomas Weisel Partners

Yes I guess the question is when will be North America growth... I understand that there is macroeconomic challenges, but when will North America set in there or what the MEI is showing and is it execution or competition that's causing you to under perform relative to where the MEI is?

Sal Iannuzzi - Chairman and Chief Executive Officer

Go ahead, Steve. Its yours.

Steve Pogorzelski - Executive Vice President, Global Sales And Customer Development

I think first of all, the MEI is based on job postings across a thousands sites, which include a number of free and very low cost sites. So its becoming less of proxy of revenue or future revenue growth as

those sites will proliferate and start to queue the data. At the same time we continue to be focused on executing better and attacking the marketplaces with the renewed vigor through our product marketing and sales force coverage to grow faster the MEI, and I would also suggest that as we continue to move into an environment that maybe moderating from an economic standpoint, we still have acute skill shortages and other aspects of our business continue to grow, things like resumes and applicant tracking system in diversity products, which will make us less dependent or less of a correlation to the MEI, in future quarters.

Christa Quarles - Thomas Weisel Partners

Okay, thanks.

Operator

Your next question will come from the line of the T.C. Robillard with Bank of America Securities.

T.C. Robillard - Bank of America

Good afternoon. My apologies... I apologize if you've already answered this question. But the buyback, do you have any material restrictions on that buyback other than just normal volume-based restriction on shares that trade and then tagged into that, can you give us a sense if you have already the optimal kind of cash level, you feel you need to run the business?

Tim Yates - Executive Vice President and Chief Financial Officer

We are not aware of any restrictions other than the regular, limitations in terms optimal cash to run the business from a working capital perspective, I don't think we need a lot of cash and the company has some debt capacity as well.

T.C. Robillard - Bank of America

And would you be willing to take on that side from any type of acquisition. Would be willing to do that in terms an optimal capital structure and returning capital to shareholders, whether in terms of dividend or additional buybacks?

Tim Yates - Executive Vice President and Chief Financial Officer

I think in theory, yes. We are early in our... at least for me, personally in our review of all the opportunities that the company might face. We are aggressively perusing the buyback we have done. There are some calls on capital, as you see from ChinaHR. But at the end of reasonably short period of time, I think when we have our collective minds around what things might make sense in addition to what we see on horizon for acquisitions, in theory I think Company has a prudent level of debt capacity.

Sal Iannuzzi - Chairman and Chief Executive Officer

Yes, I think that we obviously have the debt capacity as to mention. We have obviously more than an ample amount of cash on hand, even assuming that we had execute 100% on the approved buyback programs, that's in place now. I think that we want to move... I think we are moving aggressively but cautiously at the same time because, we don't know whether other opportunities present themselves, whether they be in Mark's area in IAF or there is opportunities beyond ChinaHR in other marketplaces internationally, perhaps even domestically. So part of the exercise is to move aggressively that will somewhat be dictated on where the stock price is and how attractive we think it is at certain pricing, and also by the opportunities that present themselves out there. But we don't want to jump; we want to make sure that we keep some of our product drive opportunities that may be out there.

T.C. Robillard - Bank of America

Understood, thanks for the color, Sal.

Sal Iannuzzi - Chairman and Chief Executive Officer

Thank you.

Operator

Your next question will come from the line of Mark Marcon with RW Baird.

Mark Marcon - Baird

Good afternoon. With regards to the North America, can you give us a little more color with regards to what you are seeing on the enterprise side, relative to the smaller medium business side and what you are seeing on the Ecom channel and how that's progressing? And finally, back in the summer there was an announcement from Monster about a change in the pricing structure. I was just wondering if you could update us in terms of that being rolled out or how we should think about that.

Steve Pogorzelski - Executive Vice President, Global Sales And Customer Development

Mark, it's Steve. From an enterprise and the SMB growth standpoint in North America, they are really on similar tracks from a growth standpoints, I think one of the important things to notice is that the terrific growth we are gaining in International has driven a large part by our enterprise sales force working with U.S. multinationals. We're hiring at greater rates outside United States and they are in... within the U.S. Ecom revenue performance in North America was flat in the third quarter, which really was an improvement over the negative growth rate in the second quarter, in the short-term as I said earlier, we are investing more in that channel in the fourth quarter to stimulate growth and we have also plans in the longer term to rollout a next-generation products that will create a better buying environment and a user environment for our customers in North America along the lines of the Ecom.

Mark Marcon - Baird

Is that next-gen product, Steve the announcement that we got in the summer, in terms of the different... the more flexible packaging for posting?

Steve Pogorzelski - Executive Vice President, Global Sales And Customer Development

The flexible posting packages and what you allude to pricing pieces really change in the product model in which we offer durations... different durations of jobs and other ways to sell jobs to customers to give them greater flexibility and it's really days in terms of launch of the product but from a sales force standpoint we feel that the products has really, put us in a much better competitive position particularly being customers with smaller needs, generated revenue from the product in the third quarter and we... I think it will continue to help us in this environment on an ongoing basis.

Mark Marcon - Baird

Great. Thank you.

Operator

Your next question will come from the line of Jim Janesky of Stifel Nicolaus.

Jim Janesky - Stifel Nicolaus

Yes. Thank you.

Operator

Sir, we cannot hear you?

Jim Janesky - Stifel Nicolaus

Now can you hear me?

Sal Iannuzzi - Chairman and Chief Executive Officer

Yes we can.

Jim Janesky - Stifel Nicolaus

Okay. Thank you. I think it might be a little bit early but as you go into the fourth quarter and are looking at customers with the large...your enterprise customers are looking at renewing contracts for 2008, what type of read are you getting for them in terms of their appetite to either renew at higher job order categories, or are they a bit more cautious as they approach the end of the year?

Sal Iannuzzi - Chairman and Chief Executive Officer

I think what we are seeing in its early days, as we begin to build our pipelines and get visibility to those deals is that, we are seeing a bit of moderation in growth, particularly domestically in terms of enterprise hiring, but at the same time as I alluded to earlier to Mark's question, U.S. multinationals part from at least the demand standpoint with Monster, are expending in greater rates overseas. So we are continuing to reflect the general moderation in the challenging labor market in United States, while at the same time using that sales force and our entrenched customer base to help build other international operation where hiring seems to be a bit more robust, right now.

Jim Janesky - Stifel Nicolaus

Are you hearing any caution from the multinational front as you are in the U.S. They are still growing, where the growth rate sequentially was similar to the second quarter. So I would imagine that at least right now the signs are all pretty strong, right?

Sal Iannuzzi - Chairman and Chief Executive Officer

Well I am not making a commentary towards about what an international growth rate would be in the fourth quarter I think I just would suggest that this point of time the slowness in the U.S. economy is not materializing in the international markets. We believe the global economy is more resisting... resilient to U.S. let down turns in the previous economic cycles. We are being vigilant and looking at it and right now we have been remain positive about our ability to utilize our enterprise sales force to leverage multinational growth through out the world.

Unidentified Company Representative

Yes operator, we have time for one more question.

Operator

Thank you, sir. And your final question will come from the line of Tobey Sommer with SunTrust.

Tobey Sommer - SunTrust Robinson Humphrey

Thank you, I was wondering if you could elaborate a little bit on ChinaHR. something you already touched on. What was the potential impact that would have on the margin given the fact it was fairly close to being able to exercise your option there. Thank you.

Tim Yates - Executive Vice President and Chief Financial Officer

Well its a growth market. It's a business where we do need to spend money on to capitalize on the market position that ChinaHR has. That having been said, at the moment, we are not close enough to quantify that precisely for you, but we are committed to the market and we are also committed to expanding to take the maximum advantage, particularly in next years Olympics. So we are a little too early to quantify the precise number for you.

Sal Iannuzzi - Chairman and Chief Executive Officer

One thing that we are not... that we certainly will not do, ChinaHR is very valuable asset to us. And it is a valuable asset because we really truly believe, the entire management team here believes, and the Board that it really offers a tremendous potential for the future. So irrespective of what might be a temporary margin impact. And I am not suggesting that there is going to be a margin impact on an appreciable level. But whatever its going to be, we are going to whatever we need to do to make sure that we take advantage of that opportunity, the benefit of the opportunity that we have and execute on it as boldly as we can. We know that its going to be quiet some degree of investment. Part of the benefit of the restructuring it that it gives us within the context of margin we have today. Some of the fire power that we need to make that investment. And if we need to go beyond that, we will but it's really a little bit too early in the game, to be able to define that in any meaningful way. We would be simply just be guessing. Did I answered your question?

Tobey Sommer - SunTrust Robinson Humphrey

It does. thank you very much.

Sal Iannuzzi - Chairman and Chief Executive Officer

Thank you.

Operator

At this time, I would like to turn the call back over to Mr. Jones for any closing remarks.

Robert Jones - Vice President, Investor Relations and Corporate Communications

Yes. Once again, we'd like to thank you for joining us this afternoon. If you would like, you can access a replay of this call through our website under Investor Relations. Also, please feel free to call me at anytime, at 212-351-7032 if any further questions. Thank you.

Operator

Ladies and gentlemen, this does conclude today's teleconference. You may all disconnect.

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