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TREE - Q4 2015 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen and welcome to LendingTree Incorporated fourth quarter 2015 earnings conference call. And at this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will follow at that time. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to introduce your host for today's conference, Mr. Gabe Dalporto, Chief Financial Officer. Sir, you may begin.

Gabe Dalporto - LendingTree Inc - CFO

Thank you, operator and thanks everyone for joining us today for LendingTree's fourth quarter 2015 earnings conference call. First a quick disclaimer. During this call, we may discuss LendingTree's plans, expectations, outlook or forecast for future performance. These forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate, we are looking to, or other similar statements. These forward-looking statements are subject to risk and uncertainty and LendingTree's actual results could differ materially from these views expressed today. Many, but not all of the risks we face are described in LendingTree's periodic reports filed with the SEC. On this call, we will discuss a number of non-GAAP measures and I refer you to today's press release available on our website at investors.lendingtree.com for the comparable GAAP measures, definitions and full reconciliations of non-GAAP measures to GAAP.

The fourth quarter marks yet another period of record revenue, variable marketing margin, and adjusted EBITDA and caps off a breakthrough year in which we grew revenue by 52% and adjusted EBITDA by 87%. In the quarter, we generated revenue growth of 78% versus the same period last year and grew adjusted EBITDA by 100% in the same comparable period. The rapid and accelerating growth we've experienced is a testament to the efficacy of our business model and our team's continued execution.

Let's first discuss mortgage. Revenue from our mortgage products increased to \$46.9 million in the fourth quarter, up a remarkable 41% compared to the fourth quarter last year. Sequential growth in mortgage represents increases in both purchase and refinance and was driven primarily by improved monetization as our sales team expanded lender coverage translating into higher per unit revenue.



On our non-mortgage products, which performed exceptionally well, also experienced accelerated growth in the fourth quarter, recording year-over-year growth in every lending category. Revenue from non-mortgage products increased 193% year-over-year to a record \$31.4 million and now comprises 40% of total revenue. Just two years ago, our revenue contribution from non-mortgage products was a mere \$4.7 million. Clearly, our strategy to diversify the business has paid dividends and we expect that trend to continue.

Inside of non-mortgage, we were pleased to see continued success of our personal loans marketplace. Personal loans revenue grew sequentially to \$16.2 million despite anticipated seasonal headwinds in Q4 and January delivered strong sequential growth and record revenue. Revenue from our credit card vertical continued its upward trajectory delivering \$6.5 million in the fourth quarter increasing almost 2.5 times versus \$2.7 million in the third quarter. Our growth in cards continues to stem from strong fundamentals including rapid volume growth driven by marketing. We continue to believe that we represent only a small portion of this very large and growing category and that there is substantial opportunity ahead for us.

Also noteworthy in non-mortgage, revenue from our home equity and reverse mortgage products grew 214% and 87% respectively versus Q4 2014. Additionally, the small business loans category started to show positive signs of growth eclipsing \$1 million in the quarter. All-in, we grew consolidated revenue by 12% sequentially in the quarter to a total of \$78.3 million, slightly ahead of our revised estimates we announced in early January.

In terms of profitability, we delivered a new record of \$28 million in variable marketing margin, up 60% over fourth quarter 2014, also exceeding the high-end of our revised guidance. At 36% of revenue in the quarter, our variable marketing margin increased from 35% in the prior quarter even as we expensed approximately \$600,000 of television commercial production. Adjusted EBITDA of \$12 million represents another new record and doubled our fourth quarter 2014 results. While you noticed that adjusted EBITDA margins declined slightly in the quarter from 16% of revenue in Q3 to 15% in Q4, a portion of the increase in operating expenses can be considered as non-recurring in nature and we expect adjusted EBITDA margin expansion moving forward as reflected in our revised outlook, which Doug will discuss in a moment.

In terms of GAAP net income, we recorded \$32.1 million from continuing operations in the quarter. Our GAAP results were impacted by a \$23.9 million income tax benefit, which reflects the release of the majority of the Company's valuation allowance previously held against deferred tax assets primarily pertaining to net operating losses. To put a finer point on this, you've previously seen very little run through the line on our income statement. That's because, as we generated NOLs, we were fully reserving for them as we are uncertain about our ability to utilize our NOLs.

We have now reached a point where we've achieved consistent profitability and expect to be able to utilize our NOLs as we generate income in the future. As such, we're releasing the valuation allowance in Q4 and going forward, you'll see us recognize a tax provision of approximately 40% of pre-tax income. While we'll book the tax provision on our income statement on a cash basis, we expect to pay an effective tax rate of 10% to 15% in 2016 and approximately 35% in the three years following. The release of the valuation allowance this quarter is very positive as it means that we are now comfortable that we will be able to generate future profitability that would allow us to utilize our NOLs and other deferred tax assets going forward.

From a balance sheet perspective, our working capital position increased to \$191.6 million at December 31, up from \$95.1 million at September 30. As I'm sure most of you know, we raised additional equity financing of \$91.5 million, net of underwriting and offering cost during November at a gross price of \$115 per share. After subsequent declines in our share price, we announced on January 14, 2016 that our Board of Directors authorized an additional \$50 million of stock repurchase capacity. During the first quarter to date and since that additional authorization, we have repurchased 573,000 shares at a weighted average price per share of \$69.74 for aggregate consideration of \$40 million.

Given our cash position, our current results and our bullish outlook, our Board of Directors yesterday approved an additional authorization of \$40 million in stock repurchase capacity. In total, we now have \$57.3 million remaining share repurchase authorization. We intend to implement this buyback plan as a prudent way to return value to shareholders.

In closing, our record-breaking financial results reflect our team's proven ability to execute and grow across all categories and to give us continued confidence heading into 2016. Now, I'd like to turn it over to Doug who will add his comments on the business and discuss our outlook for 2016.

Doug Lebda - LendingTree Inc - Chairman & CEO

Thanks, Gabe and thanks to everyone for joining the call today. Since Gabe has gone through the financial results, I'd like to offer some perspective and context on our performance as well as update our guidance for 2016. As evidenced by our results, the fourth quarter topped off a phenomenal year for LendingTree. We exceeded not only our own expectations, but also the expectations of our shareholders and analysts and we still believe that we're in the early innings of an industry transformation where we are extremely well positioned.

In our mortgage business, we once again achieved record results in what is typically a seasonally down quarter. We grew mortgage revenue 6% quarter-over-quarter and 41% year-over-year where the overall mortgage market was down 9% quarter-over-quarter and up only 17% year-over-year, continuing our trend of outpacing the industry. This is a direct result of our sales team's great execution. We signed 34 new lenders to the marketplace in Q4 alone with many more in the pipeline. We're meeting our clients marketing expense goals, which they express in a cost-per-funded loan bogie working with them to steadily improve their conversion rates and it's paying off in increased budgets coming our way.

In the fourth quarter, revenue from refinance and purchase experienced growth not only year-over-year, but quarter-over-quarter as well. Considering the typically weak Q4 in mortgage where holidays caused lenders to pull back and consumer demand drops, this is very significant. We have the spring home buying season right around the corner and a low rate environment with deep lender relationships in an industry that continues to shift from offline to online and I believe fervently that our mortgage business can be a significant driver of our Company going forward.

Moving into non-mortgage products, I couldn't be more pleased with our progress. We've been able to leverage the strength of the LendingTree brand to successfully expand into new categories, which are experiencing growth across the board. In personal loans, we continue to see significant growth. Consumer demand is stronger than ever with 149% growth in personal loan requests from January 2015 to January 2016, which on average exceeded 13,000 consumer requests per day.

In addition to the 25 active personal loan lenders on our network, we have over 15 new lenders in the pipeline. Lenders are now adjusting rates offered to consumers to better reflect risk and underwriting guidelines in order to provide attractive returns to investors. They are setting up a sustainable path for continued growth in this industry. As a marketplace as you know, we benefit greatly from having many lenders competing for the consumer each with a different view of credit risk and underwriting guidelines. The disparity in rates offered to consumers, which is still averaging over 500 basis points means that LendingTree's proposition is very beneficial to consumers and our ability to target consumers and leverage our brand in marketing makes the value proposition for lenders stronger than ever. I'll echo what Gabe said in his remarks. Personal loans are off to a great start in 2016 and without a doubt, lenders are seeing LendingTree as a core source of volume to grow their business.

Moving on to credit cards. In Q3, we said that we expected continued growth in our credit card business. We achieved that and then some with credit cards growing 142% quarter-over-quarter. The fact that this business grew from less than \$500,000 in revenue only six months ago to \$6.5 million in Q4 is a testament to the great work of our marketing and sales teams and most importantly to the power of our brand. Additionally, given our increased unit revenue in this category, we were able to launch a credit card focused TV spot, which has performed exceptionally well and also rolled out significant online marketing that is targeting this vertical. Moving forward, we'll continue to expand our marketing efforts and deepen partnerships with card issuers through opportunities such as volume-based pricing, pre-qualification integration tools, and co-branded marketing efforts.

Regarding home equity, we've added 14 new home equity lenders in the quarter and have three of the Top 5 largest US home equity lenders on the network and as home values improve and more consumers are able to access equity in their homes, we anticipate this growth trajectory to continue. Some of you may recall that home equity was an extremely profitable product for us prior to 2008 and our team is pushing hard to make that happen again.

With that context in hand, I'd like to provide our expectations for Q1 and for full-year 2016. For Q1, we anticipate topline revenue to come in between \$85 million and \$87 million representing year-over-year growth of 67% to 71% and the strong sequential growth is attributable to progress in both mortgage and non-mortgage. With the cost of new TV spots behind us and those spots now in market, we anticipate variable marketing margin to be in the range of \$29 million to \$30 million and adjusted EBITDA is anticipated to be in the range of \$13 million to \$13.5 million representing year-over-year growth of 45% to 51%.

For full-year 2016, revenue is now anticipated to be in the range of \$370 million to \$380 million or 46% to 49% over full-year 2015. This is a significant increase from our previously provided guidance of \$315 million to \$320 million. Variable marketing margin for the year is now anticipated to be \$129 million to \$134 million or 36% to 41% over 2015, which represents an increase from our prior guidance of \$108 million to \$112 million. As a percentage of revenue, variable marketing margin is expected to be relatively flat to recent quarters at around 35%. Finally, adjusted EBITDA is now expected to be in the range of \$62 million to \$65 million, up 52% to 57% compared to full-year 2015, an increase from our prior guidance of \$50 million to \$52 million.

To sum it all up, I am absolutely thrilled with our progress and our results. This Company spun out of IAC in 2008 in the teeth of an unprecedented financial crisis. We said then that we needed to make improvements on our marketing, sales, and customer experience. We're now a long way toward that vision and the financial results reflect this and more. And we've built an incredible team who is focused on building the pre-eminent marketplace for consumer and small business loans.

After nearly 20 years since our founding, I can safely and proudly say that this business model of matching consumers and lenders is proven. This Company wasn't a one-hit wonder with mortgage, we're not a two-hit wonder with personal loans, or a three-hit wonder with credit cards. We're a company that is steadfastly helping consumers save money on their loans and helping lenders save money on their marketing cost to reach those consumers.

And most importantly, consumers are waking up to the notion that they can comparison shop and save substantial money while lenders whether they're big banks, regional banks, start-up companies or non-bank lenders continue to realize that LendingTree is an incredibly efficient way of finding customers that meet their unique criteria. We're witnessing a sea change in consumer finance and LendingTree is perfectly positioned to capture it. Thank you and I'd like to turn it back to the operator to answer any of your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Robert Peck, SunTrust.

Robert Peck - SunTrust - Analyst

Thank you so much. Congratulations on the quarter. Doug, I was wondering if you just give us a little more color around what you're seeing out there in the environment. I appreciate what you've given us so far, but obviously with some of the results of the public lending companies, we're getting a lot questions just on the health and what the implications are to LendingTree? So if we have a little color on that, that'd be great and then I just have one follow-up.

Doug Lebda - LendingTree Inc - Chairman & CEO

Sure. Look, what we've heard particularly on the personal loan front and as I mentioned in my remarks, people are -- lenders are increasing their rates particularly in subprime to just adjust for loss rates and to make sure that their investors get appropriate yields. We're hearing a lot of different things from different lenders. I think these statements are somewhat overblown or risks that people perceive in the industry. Everybody's got a different view of underwriting criteria and as I talk to lenders and as our team talks to lenders, their business models are solid.

They're seeing potentially increased default rates, but in very narrow areas in particular in subprime, but the pricing and underwriting changes are something natural that any lender would do and I don't want to go into specifics of any one lender because I have a lot more information, but suffice to say particularly in personal loans, we think it's just an evolution of the industry and that business continues to be absolutely fine.

And for lenders that are either balance sheet lenders or securitization lenders, I talked to one lender who did a securitization the week before last, that was pretty big and they're not seeing any issues. So it's -- I think it's -- we're continuing to add lenders, we're continuing to see increased capacity, and we think the health of the industry is actually still pretty solid.

Robert Peck - SunTrust - Analyst

Fantastic. My second question was around, you have a competitor last night that came out and talked about implications of Google and some of the changes that Google has made. Could you just give us a little more color around any implications at all that you're seeing so far or maybe anticipate?

Doug Lebda - LendingTree Inc - Chairman & CEO

Yes, the Google experiment for us and them moving into the space was clearly a cloud over the company and when you see what Google had done in shopping and had done in local and had done in travel, there were certainly risks. Now, we were a partner with Google on the mortgage front. Some other companies particularly in credit card have seen maybe more effect from Google. We, quite frankly even in our partnership we're seeing really de minimis revenue from Google and so we never really saw it as a threat.

Now keep in mind, we're not an SEO-based company, we do some SEO, but as people have heard me say many times, I think SEO business models have a lot of risk with them because it's great to have free traffic, but the minute Google realizes that you're getting a lot of traffic for free, they can change algorithms, they can add more paid search results to push organic down and they can put ad units above even the paid results like they've done in credit card.

So for us, we've never really seen any impact on credit card, but we don't do a lot of paid search or organic search. In our other businesses, we're not a big SEO company and that's why we always really like to have a diversified set of marketing that spans everything from radio to TV and we do a bunch of SEM, but we don't rely on any given marketing channel because we want to have control over our destiny not outsource it to somebody else.

Robert Peck - SunTrust - Analyst

And just on the SEM side of that there, I mean this change they've been tinkering with recently, this four links above the fold and no right hand rail links. Have you seen any impact there or is that just too early to really see?

Gabe Dalporto - LendingTree Inc - CFO

I can take this. This is Gabe. Yes, we have some data here and there's nothing to indicate that will be a material change.

Robert Peck - SunTrust - Analyst

Thanks again, congratulations.

Doug Lebda - LendingTree Inc - Chairman & CEO

And the only thing I'd add on SEM, the good news for us is with a very high brand recognition, we do extremely well in SEM. So I think any changes in SEM will only benefit us.



Operator

Mark Mahaney, RBC Capital Markets.

Jim Shaughnessy - RBC Capital Markets - Analyst

Hey, good morning guys, thanks for taking my question. This is actually Jim Shaughnessy stepping in for Mark this morning. Quick question, couple questions around MyLendingTree. Obviously saw another great quarter of user additions. I know you're not willing to provide any monetization, but maybe you could provide some qualitative metrics around engagement or maybe talk about the role MyLendingTree plays in the personal loan and credit card growth? I'd be great. Thanks.

Doug Lebda - LendingTree Inc - Chairman & CEO

Sure, it is providing a material -- we won't give any specifics on this due to competitive intelligence and the fact that everybody can -- it's public company can read and analyze this and there's lots of companies moving in the space. I can say it's providing a material amount of our overall revenue and it's not triple-digit, double-digits type thing, but it's definitely growing. I can tell you the product works great. One nuance I would point out that MyLendingTree is different than just free credit reports.

So MyLendingTree is the entire user experience post submit, after you press the submit button and it's where you interact with our lenders, read reviews, you can also obviously get your free credit score. So everybody actually has a MyLendingTree account. We have almost 2 million people or whatever the number was signed up for the free credit report product and the alert product. The alerts are getting better.

It's adding significantly to VMD. We have doubled the alerts that we have from three months ago and with our new CMO now on board, who is doing a fantastic job, we're seeing continued integration between our CRM efforts, which are very important and the MyLendingTree team, the data team and we're expecting great things, but it's definitely helping. The monetization is absolutely improving and consumers absolutely love it.

Jim Shaughnessy - RBC Capital Markets - Analyst

Fantastic, that's great color, thank you. And then maybe one question on the mortgage side, are you guys willing to ballpark at least to how purchase mortgage fared versus refinance? Thanks.

Gabe Dalporto - LendingTree Inc - CFO

Yes, this is Gabe. Both purchase and refinance grew in the quarter and purchase, as you know has a strong negative seasonal headwind. So that was actually a pretty significant accomplishment.

Operator

Nat Schindler, Bank of America Merrill Lynch.

Nat Schindler - Bank of America Merrill Lynch - Analyst

Hi guys, great quarter and congratulations, but can you help me a little? Clearly your strategy of increasing incrementally on your marketing expenses, paying dividends, because it's causing even greater acceleration on the topline and you're dropping more down. Are there particular areas where you have seen better marketing efficiency or where the marketing is particularly working and do you see going forward, staying right around this 65% of revenue range?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Just a couple nuances there. Number one, I would say, all of our marketing is working better and we continue to make improvements. You also benefit in our marketing from the fact that we're not a one product company. So for example, if we were only in mortgage, when we would run an ad that says come to LendingTree for a mortgage and that could be radio, TV, print, search, social, et cetera, but when you come, you can only get a mortgage. The same thing could be said with credit cards. The fact that we are a multi-product company means that you might see an ad for LendingTree that says come get a credit card and you come and you go, maybe I'll click around on home equity or refinance. So that you get a lot of benefit by being in multiple products.

The second key thing is you get benefit by being able what I call marketable events. We can actually do individual marketing campaigns for mortgage, home equity, auto, personal, business, credit card, reverse, student, et cetera and free credit report. We can also do global ads as they come to LendingTree for everything you need. So that helps us because we can target on individual websites or individual search terms around specific things. The important thing to note on our marketing though, we actually don't target a percentage and this is somewhat contrary and some people don't like to hear this. As we have more lender demand, we actually go out and drive more customers. That could mean that on a percentage basis, our variable marketing margin percent goes down because if some lender says hey, I want three times as much volume next week, if we can profitably drive it to them, we're going to go drive it to them.

And as I've said to investors before, if I could spend \$1 billion on marketing in a quarter at 10% margin, well, my percentage would decline, we'd have \$100 million of VMM that would be incremental and that would be a really good thing.

So we really don't look at the percentages. If we can get an incremental dollar, \$10 et cetera because we're seeing lender demand increase, we'll go do that. So the way we work is very much on the day-to-day like a trading system, lenders are inputting what they want and what they're willing to pay for it and it works just like Google and other bidding platforms out there in the ad side and then with that demand, we go fulfill that and if we can fulfill it profitably, we go do it. So our sales team increases demand, our marketing team increases supply and that's the way it works. So I'd encourage you guys and every shareholder really look at the dollars improving and that's where we want to go.

Nat Schindler - *Bank of America Merrill Lynch - Analyst*

Great, Doug and one further question and I know this one might be a little difficult because I don't want you to talk too much about competitors, but as you see your space and clearly there's been a divergence with you guys and maybe a private company doing quite well and other people in this space not doing as well. What is it in the execution, if you had to distill it, what is the one thing that really is driving differentiation?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

It's really -- honestly it's the flywheel of the interaction of several factors and the only thing I can liken it to is why we started in our world with probably 20 search engines and now we have one, maybe two and why you started with probably 15 travel sites and you really have two that are dominant. In a marketplace business model, as your clients are willing to pay you more because you provide great value for them, you can then in turn go drive the market through marketing and as you use that money to build a brand, your marketing then gets more efficient and that just keeps reinforcing and creates its own strategic moat around your company and that's basically what we're seeing.

We've got awesome execution in marketing, but the fact that our marketers have a LendingTree, the brand LendingTree, which will get a 40% to 50% lift in any ad if you show that versus another competitor side-by-side, that makes our marketing more efficient, which enables us to do TV, enables us to do higher paid marketing, which means that we can drive more volume to lenders, which means you don't need to work with 15 different partners, you can work with one or two, which means we can deepen wallet share, which means we can invest in the customer experience, which means we get more money in marketing and the flywheel just continues.

So, ultimately in a marketplace business model unlike if you're just selling a good service, you end up with one or two winners and I think we are -- the flywheel is spinning and it's working and it just continues to do it and I think that's -- it's that factor. It's the flywheel factor, it's not marketing

or sales, it's the fact that both feed on each other in a very, very, very positive way and you just keep gaining share and then you get to a point where when you go to a distribution deal and you're facing another competitor the fact is, just like Google saw when they had a syndication business they could pay more to syndication partners than Bing or anyone else could because they had a better marketplace of advertisers.

We are seeing the exact same thing when we go to business development partners, we can afford to pay more because our monetization is more, our brand is more likely to get clicked on because that happens we can go gain share there and then we can afford to drive the market because we're still only -- keep in mind, we're still like 1.5%, 2% penetration for LendingTree of all the loans done in the US, but that just keep. Once the flywheel spins, it just keeps going until you screw it up and we don't plan on screwing it up.

Operator

Eric Wasserstrom, Guggenheim Securities.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Great, thanks very much. Doug, just maybe just to follow up on that point a little bit more. Can you just articulate how your marketing plans for this year particularly on national media advertising compare for last year and how we should think about that being reflected in your EBITDA margins for this year?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Yes, let me let Gabe take that in detail. I would say, our TV plans are bigger this year and keep in mind as you walk from call it SEO to TV on the span of marketing, TV is your most expensive on a unit basis, but you can only -- the companies that can actually afford TV means that TV really works and they've got really, really good monetization. So spending more on TV is actually a positive indicator that there is a lot of lender demand and the monetization is really good. So we're absolutely going to increase it. We're changing our approach do a lot more ads, to do them a lot more targeted, we now produce them all internally, write the scripts internally, but with that, Gabe, give some details without giving too much.

Gabe Dalporto - *LendingTree Inc - CFO*

Yes. So I think Doug really hit it and I totally agree. We will increase spend on offline media specifically TV this year. We've been seeing some pretty good results and we wouldn't expect to see any kind of material impact to VMM margins or EBITDA margins.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

So just I'm clear on this point, is it that TV spend is replacing other kinds of spend or is it that the incremental margin that you're generating is offsetting an overall increase in spend?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

No, so the thing you need to always understand with our business and it's similar to what like let's say an Expedia or a Priceline would do, marketing spend, it's expense for us, is fuel on the fire. So if lenders don't want more volume, we would spend less money on marketing. So we're always trying to -- the way we run the business is to maximize VMM dollars and to maximize adjusted EBITDA or cash flow dollars, dollars not margin. So if lenders want more, we will spend more. When 2008 happened and lenders wanted less, we spent a lot less to still maximize the amount of profit of the Company. So that's the way we run the business and the fact that we're upping spend means that lenders want more.



So nothing ever replaces anything. They actually run very independently. The search team has a bogey every day of what they need to produce. We know what lenders want and it's not just amount of demand, it's actually more like keywords in a Google where there are billions of combinations between credit score and loan types and geography et cetera and certain campaigns will drive certain types of volume and we actually look at it at a very micro campaign level and then those ads shut-off as that ad becomes unprofitable or that little segment of demand starts to turn to the point that we've satiated that demand.

Similar to when Expedia sees that they've got 10 hotel rooms in Hong Kong and I got anymore Hong Kong keywords, they're going to take those down because those rooms have been filled and there's no more inventory there. So we run the exact same thing. So, the sales increases demand in these little segments, the advertising kicks on to supply that demand and nothing substitutes for anything else, but the fact that we're running a lot of TV means that there's a lot of lender demand because you can drive more volume through TV than anything else, but it costs you more to do it, but if we can afford it and it's making us money, that's a very, very positive indication for the Company.

Gabe Dalporto - *LendingTree Inc - CFO*

I totally agree with everything Doug said and to put a finer point on your question about EBITDA margins, I think it was what you're asking. Our guidance would imply EBITDA margins going from mid-15s in Q1, up to 17s in Q4. So we would expect to have that TV advertising be profitable and grow our margins over the year and as always if we can find more profit, we'll go grab it, but that's kind of how we're projecting right now.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Great, thanks and if I can, maybe just move to a different topic. I think Doug, did you indicate that you added 34 lenders in the quarter and I think you indicated that four of them were in home equity and reverse mortgage. Can you give us some sense of where lenders are coming on to the network and are these lenders that are completely new to TREE or are these lenders that are participating in other products and trying to expand their reach with TREE?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

So, home equity, we actually added 14, I believe on mortgage we added in the 30's and it's a mix and home equity, it's a mix of lenders that have been on before and lenders who are new to the network and the ones they've been on before, they're sort of re-learning the home equity business because many of these lenders have been out of it since 2008 but I can tell that when home equity for example was humming in 2004, 2005, 2006, 2007, then there were lenders doing what a lot of the so-called innovations are happening with other lenders today, which are instantaneous approvals, being able to complete the entire process online et cetera.

The major banks had wonderful wonderful processes and had extremely high conversion rates, very high customer satisfaction and fantastic monetization. So as that comes back again, that I think is going to be a great growth driver of the business going forward. So it's definitely a mix as long as there's a secondary market, they can securitize and sell these things or put on their balance sheet, it's a wonderful consumer business and a wonderful lender business. And it's coming both from non-banks, but importantly, it's coming from the major banks in the US.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

And this will be my last question, but I guess that sort of the direction I wanted to understand, to the extent that refi volumes you know is clearly under in cyclical decline, are you seeing any transition from the lenders on the network to demand more incremental purchase volume or is the purchase volume coming primarily from new participants on the LendingTree network?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

So refi is actually up and what I said before between refi and purchase inside of mortgage and a big misconception of this Company has been over the years that when refi changes or when refi goes away if rates go up that business goes away and again in the marketplace like you need to understand a mortgage lender can do refinance and purchase, but if they make more money in refinance, they're easier to close and it's more efficient. So if you can shoot fish in barrel, you'd rather shoot fish in a barrel than cast a line out 50 yards and hope to catch a fish, but if you can't shoot fish in a barrel, you're going to cast your line out and go try to catch a fish.

So lenders immediately, they toggle between refinance and purchase. Some lenders focus more on purchase and we have a phenomenal purchase business. So the volume in purchase is always there, it's really a question of the monetization and lenders willingness to focus on it because keep in mind they're capacity constrained, so if they can fill up all their volume in refinance, they're going to do it and do purchase when they need to, but as refinance goes down, when they switch over to purchase, they pay us more for what they focus more on it, they have better conversion rates, which improves monetization and then the purchase business grows while the refinance to go down, but keep in mind too, we still have a small percentage share even in refinance. So a lot of this is going to happen, a lot of the growth in mortgage just happens through share gain. So when you go from 1% share to 4% or 5% share, you're going to grow your business 4x or 5x even in a declining -- even if the overall market declines because we're just seeing a secular trend from offline to online and as monetization improves, we can drive that trend online through increased marketing.

Operator

Kerry Rice, Needham.

Kerry Rice - *Needham - Analyst*

Thanks a lot. Great quarter guys. Couple of questions on mortgage and then one on just overall. The 34 lenders added to the platform in the mortgage business, could you talk a little bit maybe about the mix not between refi and purchase, but are these kind of the mid-tier where you've typically added lenders to or are they bigger. Can you talk a little bit about that? And then maybe what's drawing them? Is it again just kind of the core value proposition that you always have had or are they being attracted to the platform for some of the new products that you've rolled out and then the overall question is, you highlighted home equity, you highlighted SMB, how do we think about that growth maybe in 2016. Obviously, credit card seems like it's on a very similar trajectory as the personal loan business was. So can you give us some context maybe around SMB and home equity growth there?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Sure. And I think -- so first off on mortgage, honestly it's across the board. We're definitely seeing increased interest from major banks and that's not only adding new ones, but it's also them increasing cap and increasing their buys because it's working, but we've also seen a major shift in the market not just our market, but you can see it with published figures from banks to non-bank entities and non-bank entities, the very large ones, the Quicken and the Loan Depots the guaranteed rates and many others, I don't want to leave anybody out in here, both big and small are gaining share and they're gaining share because they're ahead of the curve on technology, they're ahead of the curve on customer service, and there's liquid secondary markets. So we're definitely seeing increased buying from them, but we're also seeing the big banks get in the game and that's working.

And then you see it down on smaller companies because you can work on LendingTree in a niche, very similar to the way you could work on Google in long tail keywords in a given category and we have a lot of lenders that focus on one local market or they focus on maybe jumbo mortgages, they focus on just purchase, they focus on just refinance, like that's the beauty of LendingTree, you can pick the areas where you're going to win and we're going to help you do that. In terms of specific numbers for let's say a small business or a home equity, we aren't going to break those things out in detail except to give general anecdotal guidance when it make -- not guidance but general anecdotal results when it makes sense. So, and that's really just a competitive situation. I can tell you, they're all growing, but they're all independent entities. So it's the same way that



Google might grow in one keyword category versus another one that's the same thing as LendingTree and Google talks about overall revenue and overall EBITDA, doesn't talk about let's say, growth in their pharma category or their keywords in a certain business and that's really the way we are and our filter settings are really just like key words.

We have ones that everybody wants to focus on, call those like head terms and we have a long tail of a lot of stuff and even in personal loans we have 50% that goes unfulfilled like literally no matches and we have an experience for those people too. So I can tell you small business is just getting ramming speed. These are all going to happen just like personal loans and just like credit cards. So in any category, take small business, as the lenders are getting more automated and better at converting loans then they can afford to pay us more, so they increase their bids because they want more volume. As they increase their bids and this is the flywheel I talked about, we can then afford to go spend money on marketing. So five years ago, we might have had interest in a small business lender, we couldn't afford to go spend money on marketing because the conversion rates are low. Same thing happened in personal.

Now that the small business lenders are getting automated, we can drive the volume in marketing, leveraging our brand, and our marketing techniques and that helps the business grow and start space small business flywheel. Same thing happens in home equity, lenders make it work. That means the monetization improves. That means we can afford to go do marketing. So they all grow independently up and until lenders don't want to grow or they don't demand those loans.

LendingTree is great as long as lenders want to lend money and consumers want to borrow money and to the extent those things are happening in general in the world, we will be able to grow and make it work. We have a natural brand advantage on the consumer side and we have a natural monetization advantage on the lender side with relationships we've built up for years. So it's really that search engine effect happening in our industry and each of them is going to grow independently. It wouldn't surprise me if we exit the year at or over 50% in non-mortgage. That said, mortgage has phenomenal opportunity and each one of them grows independently based on supply and demand of that individual market.

Operator

Hamed Khorsand, BWS Financial.

Hamed Khorsand - BWS Financial - Analyst

Hi, good morning. I missed this one, some housekeeping question. How many members do you have on MyLendingTree?

Doug Lebda - LendingTree Inc - Chairman & CEO

2.7 million, sorry.

Hamed Khorsand - BWS Financial - Analyst

Got it. And then as far as the mortgage goes and you have a strong, strong Q4, what are you thinking as far as how that segment plays out in 2016 given that you saw the really sharp increase in a very weak quarter?

Doug Lebda - LendingTree Inc - Chairman & CEO

It's going to continue to grow and how much we don't give guidance specifically but as I said to Eric on the last one, mortgage is just like everything else, it grows, get some halo effect of everything, but it grows independently. So as lenders get better at converting mortgages and by the way, all of the technology you've seen around lenders having fully online experiences, et cetera.

That's enures completely to our benefit because as lenders are better at converting loans, converting a customer inquiry to the loan, we got higher conversions, lenders want more of it because they're more efficient. Things like our call center product where we actually can make calls on behalf of lenders that makes lenders incredibly efficient. We've seen some lenders increase their buy with us 5x because we're actually making their shop more efficient. So mortgage will continue to grow because our share is small and mortgages are moving online and we're sitting perfectly positioned to capture and it's going to grow both in refinance, it's going to grow in purchase too. By the way for mortgage, just to put a finer point on that, mortgage growth is actually accelerating in Q1.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. That helps. On the personal loan side, the sequential growth was very minimal in Q4. Is that going to be the going trend for that segment or was there some sort of anomaly there as far as the traffic trends in lenders?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Absolutely not going to be the continued trend. We had actually told people in some investor presentations it is going to be flat or potentially down just due to seasonality. If you think about in Q4 what typically happens for our Company and we've been very successful the last few years have of actually bucking this trend. In Q4, consumers typically focus on spending, not borrowing and in addition to that the media rates go up because you've got all the holiday shopping going on and so media is more scarce. So you have consumers less interested in borrowing money and you have lenders and you have us -- you have lenders taking time off and you have us not being able to find media that's as affordable as it is in other times and so therefore typically Q4 is our seasonally weakest quarter and that's particularly true in personal loans and then typically out of the gates, we just think of a normal customer, you get your credit card bills from your holiday shopping and you go oh my God, I got do something with this and then that's the time to go come out of the shoot in Q1 and get your financial life in order the same way you get your gym memberships and everything else spike up in the first quarter. So that's typical in personal finance and the fact that we grew even 6% was absolutely phenomenal and unexpected for us.

Hamed Khorsand - *BWS Financial - Analyst*

The last topic I wanted to discuss was advertising in 2016. We have the election then the Olympics this year, how does that work in your budget as the year progresses and supply of ad space gets tight and prices go up?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Yes, I mean that's a great question and you know we honestly -- so in past cycles, olympic cycle or election cycles, maybe there's some small impact but we haven't seen major impacts and if you can think about national advertising in elections, it's all focused on eight or 10 states. Like it, it's not broad-based national TV advertising. I think the Obama campaigns spent zero dollars on national ads. So certainly, there will be some some localized tightness, but I wouldn't see that having a major impact.

Operator

John Campbell, Stephens, Inc.

Hayden Blair - *Stephens Inc. - Analyst*

Hey guys, this is actually Hayden sitting in for John, most of my questions have actually been answered, but I was wondering if you could actually just give us real quick the breakdown in that exchange marketing expense between the other online and broadcast spend?



Doug Lebda - *LendingTree Inc - Chairman & CEO*

I don't think we typically do that. Let me see if you can do it, it will definitely be in the 10-K when we released that I believe later this week or next week. So, it will be in there. I don't have the number at my fingertips.

Hayden Blair - *Stephens Inc. - Analyst*

That's fine and then just trying to get a sense of how aggressive you guys tend to be with the share repurchase. Do you guys have kind of a target level of cash that you're looking to keep and then I guess above and beyond that plus some allocated for that share repo, with any additional cash there, do you have any focus on product development or anything on the M&A front that you like to highlight?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Yes, so overall, the way we think about this is every quarter that we're in the market doing a buyback, which expect us to be more active. We have our own internal view of where we believe we should be buying and how aggressively we put a grid together, we feed that to a firm on Wall Street and that moves around and then they go execute that throughout the quarter and we obviously don't tell where that is. Suffice it to say, at lower prices, we buy a heck of a lot more and at higher prices, we buy heck of a lot less.

So, I would characterize it as mostly opportunistic, but at the same time I expect us given our growth outlook of where we are just like we were a lot -- I don't know that we'd be aggressive as we were last quarter, depends on the stock performance, but I would expect us to be more focused on doing buybacks and probably more regularly. Frankly, our stock on a multiples basis is cheaper than it was two years ago, which is perfectly insane when the competitive landscape has changed significantly and we were banging on the table at \$115 a share when Gabe and I were flying around the country saying that LendingTree is a good buy.

So, we certainly believed in it then and so obviously we believe even more at these kind of levels and given the outlook, we're going to -- we hope people make the right decision because we're going to continue we think to grow in this industry. So that's about what we can say in buybacks I think if you have any other follow ups but suffice it to say, expect us to be in the market because right now we believe that our stock provides a really excellent return for our shareholders and on M&A, the one thing I would say there, we absolutely have an M&A pipeline, but at the same time as I said before, we are choosy and we're not going to buy somebody who's failed steam .

So, we are not out there feeding -- we're seeing private company multiples and private company evaluations quite frankly in general, at the insane level, but the good news is they're getting less insane. So I think investors are waking up that they don't need to invest at 92 times 2020 revenue and then lose money for the next five years and therefore as those valuations come down, we think there's going to be a lot of opportunities in M&A, but with roughly \$200 million in cash and another \$100 million of debt capacity, we've got plenty of dry powder to make some moves.

Operator

Blake Harper, Topeka Capital Markets.

Blake Harper - *Topeka Capital Markets - Analyst*

Thanks, hey Doug, I wanted to see if you could provide some commentary about your mobile traffic just either the number of units that you had, how they convert and monetize and also as that relates to the the MyLendingTree customers as well?



Doug Lebda - *LendingTree Inc - Chairman & CEO*

Sure, mobile overall is about 53% of total traffic. As I think every company experiences, mobile monetizes slightly less and the reason, quite frankly is it's as simple as customer experience, you see a TV ad, you have to get up off your very comfortable couch, walk to your computer, type in a URL, that is showing more borrower intent than swiping some things on your phone.

Now that said, it's a wonderful mobile experience we have and the monetization is totally expected, it still makes us a ton of money. We still run a lot of ads in mobile. It's both app and web and mobile web, mostly mobile web. So we think that's -- we see that's just where customers are, but we want to find them wherever they are. Same thing is true in MyLendingTree. Most people access it over a mobile device, but that's also because you typically get your e-mail on your mobile device, if you can get an alert, you're going to click on the alert and it's going to take into that mobile experience.

Blake Harper - *Topeka Capital Markets - Analyst*

Great, and then the second question I had is, you obviously raised the 2016 guidance a lot. I think that you probably could have made a statement to investors in the Street that your business is healthy if you hadn't even raised it as much but I just wanted to understand your confidence level, but you that -- is it an aggressive target that you made or do you see that as being somewhat more on the conservative side and potentially if things play out the way that you think with your flywheel and the marketing that there is room for you to increase that further if things do work out the way you plan?

Doug Lebda - *LendingTree Inc - Chairman & CEO*

Yes, so the way we think of guidance is somewhat traditional, but also I think credible and I'll just be happy to tell everybody. We believe that we should issue guidance because we want to tell people what we actually believe we can do and it is what we believe we can do. So every week around here, we have a new forecast of what's happening. Trent Ziegler comes in and tell us this and I use that as my road map for the week to go talk to people in different areas and that's the way. So we have a new forecast updated. With our guidance, I would say we do like to beat it and we have, knock on wood, a pretty good record of beating it. So typically, I wouldn't say its conservative, I would say its middle of the road, but it's something that we would expect that we can at least meet, if not beat. Now, doesn't mean everybody should get ahead of us because there's a very important caveat in here, which is we want to show to investors very, very solid revenue and very, very solid adjusted EBITDA growth and we want it to be extremely profitable just because I view myself as a shareholder and that's what I'd want as a shareholder.

So for better or for worse, you get it the way I want it and hopefully shareholders agree too, but if we have opportunities to then invest back in product or invest back in marketing as Gabe highlighted, Q4 was going great. So, we accelerated about \$600,000 of production expense in TV and probably spent more on advertising in TV that really benefits Q1. We did that in Q4 because we could still meet our commitment to you all and to me and everybody in this room as a shareholder and still invest.

So we always run a balanced view between profits and investment. We're never going to be a company that's going to tell you that we're going to lose money and quote unquote invest and just lose money. Any dope can do that. What you really need to be able to do is both focus on the short-term and the long-term. So at times that we have opportunities, we will invest and that will be sometimes when people say, well your percentage margins decreased, I'm like yes, my percentage margin decreased, my dollar profit increased because we invested in A,B, C, D, and E and still more than met our commitment to you all as shareholders.

So that's our philosophy on how we do this and that's what we're going to continue to do. So, I would caution people about getting too far ahead of us because if we have opportunities, we want to give you a solid commitment that we believe we're going to hit, but if there are opportunities to pull forward investments or to invest in marketing and our product, we're always going to do that, but I'll always call it out so that you can know what the number could have been. I mean, suffice it to say, if we didn't want to spend as much money on product and tech and focus on the long-term, then we could have the numbers blowing the doors off this even more, that's not our philosophy. So we want to be balanced between growth and hitting our commitments and also still able to invest for the long-term.

Operator

Mike Grondahl, Northland Securities.

Mike Grondahl - Northland Securities - Analyst

Thanks for taking my questions guys. Maybe the first one quick for you, Doug. If you think about each of your verticals; mortgage, personal loans, credit card, home equity, small business, where are you in terms of penetration today to where you think you can be in three to five years and maybe be helpful to use a baseball analogy like mortgage, you're in the fourth inning, sixth inning. Just curious how you think about each vertical like that?

Doug Lebda - LendingTree Inc - Chairman & CEO

So interestingly they're all, I would say mortgage, which is the most quote unquote mature is still massively in the first inning and if you look in our IR presentation online, we're happy to send you one, if you look at the total addressable market in mortgage and how huge the number is, the Company spent on mortgage marketing to get customers and where that is online and where that is with comparison shopping, we are tiny. I think we're still at about 1.25%, maybe 1.5% of the total mortgages in the US.

So mortgage is in the first inning, but growing really fast and that's considered mature. I think we are on average if I have run some charts, we're like 10 years behind travel and I think where we are today, where travel was maybe six months after September 11 when the flywheel in travel started to go but I believe that over the next 10 years, you're going to have half or more of all loans done online, because it's a commodity.

It's the easiest one to compare and it's got the most benefits for consumers to comparison shop and it helps to dramatically lower lender costs. So I believe we're seeing not only a secular shift some offline to online and we're seeing a replacement from traditional mortgage brokers and loan brokers to essentially online comparison shopping sites like LendingTree. So we are in the first inning across the board and for things like small business and personal loans, we're like still in batting practice.

Mike Grondahl - Northland Securities - Analyst

Got it, that's helpful. And then maybe a quick one for Dale. Dale on the tax rate, I think you were basically saying for GAAP purposes use 40% for all of 2016.

Gabe Dalporto - LendingTree Inc - CFO

Yes, so that is correct. On a GAAP basis, you'll see approximately 40% across federal and state taxes and on a cash basis, it's going to be materially less this year and about 35% the next three years.

Doug Lebda - LendingTree Inc - Chairman & CEO

And by the way, from a former accounting wonk, this is Doug, the GAAP accounting rules require you to accrue what your taxes would be even if your cash taxes are not going to be at that level. So that's why you have to accrue and show in your GAAP income statements an effective tax rate even if you're not actually going to be paying that this year because you're using NOLs and then obviously you're accruing an asset, which you expect to bleed off over the coming years.

Operator

And I'm showing no further questions in the queue at this time.

Doug Lebda - LendingTree Inc - Chairman & CEO

Wonderful, listen, I just want to thank you all for your attention. I want to thank you all for your support and as we said, this business just continues to do well and I get continually surprised every quarter by just the level of execution that our team shows here. This is an industry that's poised for significant growth online and I think we are poised significantly to capture the very large majority of it just like we saw in general search and just like we saw in travel.

We're seeing market share gains across the board. The flywheel is working between marketing and sales and I think it is very telling when you see the bifurcation of our results to where competitors are and I still remember as I said, the days when there were 15 search engines and that doesn't exist anymore and I remember the days when there were 20 travel sites and now you really have two or three that have broken away.

I think we are 10 years behind travel. We're probably 13 years behind search, but we believe that LendingTree is poised to be a very large company doing great things for consumers and doing great things for lenders and we look forward to reporting Q1 results in just a couple months. We're happy to answer any of your questions. Feel free to reach out at any time and again thank you for your support and your attention.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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