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TREE - Q4 2017 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree, Inc. Fourth Quarter 2017 Earnings Call. (Operator Instructions) As a reminder, today's conference is being recorded.

I would now like to turn the call over to Mr. Doug Lebda, Chief Executive Officer. Sir, you may begin.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Thanks, operator, and good morning to everyone on the phone. For today's call, I'll share my thoughts on LendingTree's fourth quarter, provide relevant updates on the business and discuss the progress we've made against our strategic initiatives, before turning it over to J.D. who will then take you through the financials and our guidance.

Before we jump into the numbers, let me first provide a quick disclaimer on forward-looking statements. During today's call, we may discuss LendingTree's plans, expectations, outlooks or forecast for future performance. Forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate or other similar statements. These forward-looking statements are subject to risks and uncertainties, and LendingTree's actual results could differ materially from the 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 measure, definitions and full reconciliations of non-GAAP measures to GAAP.

Now let's dive right in. LendingTree's fourth quarter capped off a truly transformative year. In addition to growing full year revenue and adjusted EBITDA by 61% and 65%, respectively, we more than tripled the size of our credit card business, strengthened our position in existing categories like small business and personal loans, and made our first foray into the asset side of the consumer's balance sheet with the acquisition of DepositAccounts.com last June. In addition to exceptional financial performance, we made significant progress against our strategic initiatives, positioning us well for continued success in 2018 and beyond.

Speaking specifically to the fourth quarter, our financial results came in ahead of our own expectations. J.D. will run through the precise numbers. But LendingTree's performance in mortgage once again outpaced the overall industry, with revenue from mortgage products growing 22% year-over-year during a period where the overall industry was down 21% according to industry estimates. We believe this is evidence of the value we provide for both consumers and lenders in any interest rate environment.

To break this out, Q4 refinance revenue grew 15% year-over-year, while the overall industry was down 42%. Purchase revenue was up 41%, while the industry grew only 2%. Clearly, we are in a purchase environment. And during periods like this, we work very closely with our lenders and have a history of gaining real market share.

In Q4, revenue from non-mortgage products grew 105% year-over-year. Primary drivers here were personal loans, up 74% year-over-year; home equity, up 138% year-over-year; and we're seeing continued strength in our credit card business where revenue increased 35% year-over-year on a pro forma basis. We're also seeing real traction in small business with the integration of SnapCap and are quickly building momentum in deposits as DepositAccounts.com benefits from scale from the LendingTree platform.

For those of you who are new with us, we hold an Investor Day each December where we discuss our goals and provide transparency into our business. This past December, we reiterated our key strategic initiatives, which are: one, to expand into new categories; two, to strengthen the consumer relationship; three, to reimagine the consumer experience; and four, to achieve widespread funnel optimization and marketing efficiency. Based on what we're seeing right now, we remain solidly on track against these initiatives, and you're seeing that progress reflected in our numbers today.

Regarding our first initiative, expanding into new categories. I am thrilled with the solid revenue growth we've seen since the acquisition of DepositAccounts.com and MagnifyMoney. We are now able to engage with consumers across a broader financial product portfolio, increasing the number of interactions with these customers, while also increasing our monetization. We're currently monetizing traffic on DepositAccounts.com and MagnifyMoney, and we will soon launch a deposits experience on both LendingTree.com and inside the My LendingTree platform.

In small business, we're very pleased with the SnapCap integration since the September acquisition, and we see a lot of opportunity here. One of the things you've heard from me in the past is that the benefit of operating across all loan types as we further diversify our business. We're going to continue to invest in and expand into new and relevant categories.

Now in terms of strengthening the customer relationship, this is where My LendingTree comes in. Currently, we have more than 7.4 million users on the platform, with revenue contribution from My LendingTree growing 109% in the fourth quarter compared to the prior year. We're seeing that as My LendingTree scales, the opportunity to strike innovative business development deals is also expanding, and we'll be announcing new partnerships in the coming weeks. Additionally, we're rolling out a number of personalized features like comparable home sales and customized alerts to not only deliver a -- deliver more value to consumers, but also to improve our monetization. I'm thrilled to see that the numbers continue to move in the right direction.

But I'm most excited about the progress we're making on our third initiative, reimagining the consumer experience by digitizing the mortgage process and improving the post-offer experience on LendingTree. As the scale player in mortgage, it's absolutely critical to enable digital fulfillment for consumers and our lenders. Right now, we have over 40 lenders that have integrated with at least some degree of digital fulfillment, and we've got another 40 lenders in the pipeline. Additionally, we continue to make progress with our new mortgage experience. We continue to test this, a small segment of lenders and consumers, and the results continue to improve, which has been so encouraging that we have now tripled volume into this new experience and have 7 lenders participating in the program. Not only have we been able to drastically reduce unwanted phone calls for the consumer, we've also increased the offer rate by 25% and improved lender lock rates considerably.

Our fourth and final initiative is to achieve widespread funnel optimization, and we continue to make significant strides. Through targeting, automated personalization, testing and machine learning, we're seeing improved page performance, increased engagement and improved conversion rates, all of which are essential as we continue to improve the flywheel of our business.

With the solid groundwork we've laid in 2017, suffice it to say that we are on track for a successful year ahead. With that, I'll turn it over to J.D. to walk you through the numbers.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Great. Thanks, Doug, and good morning to everyone on the phone. Thank you all for joining us today. With Doug having already provided relevant updates on the business, I'd like to briefly cover the recent quarter's performance, but also spend some time discussing a few important and likely underappreciated items that impact our results in the quarter and moving forward. There are a lot of moving pieces related to tax reform, equity compensation and our convertible debt that I want to make sure are well-understood. Let's start with the quarter, and we'll get to those pieces in a moment.

In the fourth quarter, the company managed through a seasonally challenging quarter to deliver revenue and EBITDA growth ahead of expectations. In the quarter, consolidated revenue of $161 million represents year-over-year growth of 60% and exceeds the high end of our prior guidance. We always take a conservative approach with regard to our fourth quarter to account for the fact that seasonality has an impact on our business.

And while we certainly felt some of the expected seasonal headwinds, we're thrilled to be able to report better-than-expected results. It's also worth reminding you that the CompareCards acquisition was completed in November of 2016. So our fourth quarter 2016 comparable includes approximately 6 weeks of CompareCards impact.

At the product level, our mortgage business generated $67.7 million of revenue in the quarter, up 22% compared to the prior year. While down sequentially in the fourth quarter, the trends in that business have picked up in Q1, as we would generally expect.

Non-mortgage revenue in the quarter remained strong at $93.3 million, growing 105% year-over-year and 58% pro forma for the acquisitions. We're very happy with the acquisitions we made in 2017. They're trending nicely, with both small business and deposits performing well in the quarter, and MagnifyMoney is complementing a number of our LendingTree businesses. Non-mortgage now represents 58% of total LendingTree revenue.

Variable marketing margin came in at $56.1 million or 35% of revenue. We expanded margins modestly, and we reduced marketing spend in certain channels to optimize profitability. Again, this highlights the flexibility in our model. Adjusted EBITDA in the quarter grew 56% year-over-year to $29.6 million and also substantially exceeded the high end of our prior guidance.

As discussed in the third quarter call, we continued to hire aggressively in the fourth quarter to support sustained growth and scale. In the quarter, we added 52 full-time positions, ending the year at 535 total employees. While it's critical that we continue to invest in our people, I'd like to point out that we're still very lean relative to the scale of our business.

Turning now to the GAAP results. There are a few things to discuss that impacted our results in the fourth quarter and some other items that will impact our results as we move forward, and I'd like to take time to address them.

In the fourth quarter, we recorded a net loss from continuing operations of $6.5 million or $0.54 per share. Due to the Tax Cuts and Jobs Act, we recorded a one-time charge of $9.1 million reflected in tax expense and representing a reduction in the value of our deferred tax assets. Also in conjunction with tax reform, we elected to donate $10 million towards the establishment of a charitable foundation. This is a community effort we've been contemplating for a few years, and we felt the time was right to fund this charitable endeavor. This expense is recorded in G&A in the fourth quarter. Both of these charges are fully reflected in our GAAP results and considered one-time in nature.

Excluding the impact of these and other extraordinary charges, our adjusted earnings per share in the quarter was $0.84, which is up 9% compared to the prior year. The primary drivers of the discrepancy between the growth profile of adjusted EBITDA and adjusted EPS are increased amortization of intangibles related to recent acquisitions and the increased interest expense largely related to the accretion of the debt discount associated with a convertible debt offering.

In addition, the reconciliations in today's press release show that the diluted share count that we use for adjusted EPS increased by more than 500,000 shares from Q3 to Q4. The majority of that increase in diluted shares in the quarter is related to the performance of our stock and the dilution associated with the convertible debt we issued last May.

Moving forward, should our stock price continue to increase, we will also experience additional dilutive effects related to certain executive compensation arrangements. To be clear, all of these have been previously disclosed. While it may be difficult to fully mitigate the impact of future dilution, which increases or decreases with our stock price, we acknowledge the impact and will continue to evaluate share repurchases as part of our capital allocation strategy.

In the last 6 months, we've repurchased $32 million of stock. And just yesterday, our board approved an additional $100 million in share repurchase authorization. There are additional matters related to stock-based compensation that you should be on the lookout for in 2018.

First, a large tranche of executive options from 2014 awards vested earlier this month. Given the performance in the share price, those options generated substantial compensation for the recipients, and the company is required to remit payroll taxes, such as Social Security and Medicare, upon the exercise of options. While a few executives have elected to exercise a portion of these options via 10b5-1 plans, others have not yet committed to exercising. Because the expense to the company arises upon exercise and the decision to exercise may depend on the stock price or individual circumstances, forecasting these expenses becomes inherently difficult.

Similarly, Doug has a tranche of 590,000 options from a grant from 2008, shortly after our spinout from my IAC, and those are set to expire in August of this year. And while Doug has generally chosen to retain much of his stake in the company, he will obviously be forced to exercise those options prior to their expiration in August.

We currently estimate the total impact of all of these extraordinary expenses to be $6 million to $7 million on our full year 2018 results. But let me emphasize that this estimate will fluctuate with stock price and is subject to individual exercise decisions. Note that this expense will be included in our -- in both our GAAP and non-GAAP results, as defined. These expenses have been reflected in our full year and first quarter adjusted EBITDA guidance, which I'll discuss momentarily.

Before addressing our guidance, I want to close the loop on the impact of tax reform. Like most companies, LendingTree will, on balance, stand to benefit from this lower corporate tax rate. For 2018 and beyond, we expect our effective tax rate to be approximately 28% as opposed to the 41% that we've seen historically. That said, the full benefit of lower rates will not necessarily be immediately recognized. The same option exercises I discussed stand to produce material tax deductions in the coming year, such that we expect to generate substantial net operating losses for tax purposes in 2018, which we anticipate will be used over the course of 2019 and 2020.

To be totally clear, we estimate operating losses for tax purposes only, not our GAAP results. So while we benefit from, longer term, from a lower tax rate, our near-term taxpayer status minimizes the immediate benefit.

With that, let me provide a bit of context around our guidance for the first quarter and full year. Our full year outlook, which we just provided 2 months ago at our Investor Day in December, remains unchanged. While the year is off to a very good start, we'll revisit our full year guidance when we report Q1 in April, the same approach we took to guidance revisions in 2017.

Recall that our full year 2018 guidance calls for approximately 30% growth in revenue and adjusted EBITDA. And remember that the adjusted EBITDA figure includes the impact of the estimated $6 million to $7 million in extraordinary payroll tax I mentioned previously.

Our first quarter guidance introduced this morning is consistent with our full year outlook, representing approximately 30% growth over the first quarter of 2017. Revenue is anticipated to be $170 million to $175 million, representing 28% to 32% over Q1 '17. Variable marketing margin is expected to be $59 million to $62 million. And adjusted EBITDA is expected to be $30.5 million to $32.5 million, representing year-over-year growth of 28% to 36%. This includes an estimate for extraordinary payroll taxes in the quarter of $1.5 million to $2.5 million.

I realize that's a lot of information. But as I think you know from our Investor Days, we're committed to being very transparent and communicative. I'd like to refocus on the fundamentals of the business.

As Doug mentioned at the outset, 2017 was a transformative year for LendingTree. We saw the benefits of both organic growth and acquisitions. We bolstered our balance sheet, became the scaled diversified player in our sector and, most importantly, for investors, delivered third year of growth in excess of 50% in both revenue and adjusted EBITDA. We're seeing great trends in our business, and we are thrilled with the momentum that we're carrying into 2018.

With that, let's open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Mark Mahaney from RBC Capital Markets.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Two questions, please. On this mortgage digitalization journey, Doug, could you talk about how long you think that will take? Is that a multiyear journey, a couple of quarters? Just how long does it take to get through -- to get material traction in that? And then just very briefly, the total loan request, did you disclose what that was or what the year-over-year growth was?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Let me take the first part of that, and J.D. can tell you what we can tell you on the total loan request number. The mortgage digitization journey really breaks down into 2 components. It breaks down first into the consumer experience we've talked about, where we -- where LendingTree effectively takes over the initial contact with the customer. We only transmit the customer's information to a lender once they're selected, and we talked about that. I think that's going to be a couple more quarters before we get the revenue from that experience equal to, call it, the legacy business model of the company. But it's moving entirely in the right direction, and I'm actually thrilled and surprised with where it is. The second piece of it is once a consumer actually selects a lender and they're working with them, the digital mortgage experience is effectively automating the processing of loans through the lender system. If you look at companies like Rocket Mortgage and some of the technology that the Velocifys and Ellie Maes and Roostifys and many others have put out, effectively, what this does, it enables the consumer to upload their documents and get automated underwriting upload credit reports, property values, et cetera, without having to fill out lots of paperwork and fax a lot of documents. I think that is probably a this-year event. Lenders are recognizing the increased efficiency gains. Quite frankly, it's many ways becoming table stakes for mortgage companies. You -- if you're the mortgage company that's sitting there saying, okay, fax me in all your documents, while somebody else is saying, click here in one button and everything is uploaded, you're at a continuing disadvantage. More broadly, we benefit from any digitization of any part of the mortgage process, and these lenders just continue to make gains. And it's happening by the third-party tech companies. But it's a long answer to saying I believe it's a this-year event.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Mark, the second part of your question was total loan request. And we did not disclose it partially -- well, largely because as our models become more diverse, and we've got different revenue models and different products like credit card, it becomes a less relevant metric. What I will tell you about mortgage, however, is obviously, as Doug mentioned, we've moved -- we started moving in the fourth quarter, and we obviously know that we're moving here in the first quarter towards a more purchase environment. So clearly, total loan request in mortgage will be down, but that's indicative of the environment not specific to LendingTree. And as mortgage is a smaller part of the overall business, it becomes less relevant.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

And the only other thing I'd add is in the mortgage business, which is cyclical, what you see -- now, we have grown through the cyclicality by increasing bid -- in bids and the level of volume the lenders want. In a more purchase environment, that's the time when mortgage lenders really invest in new technologies to make themselves more streamlined and really to reduce their cost. They need to do it. They need to improve their CRM capabilities. In a refinance environment, they're just trying to close as much business as they can. Now is the time when they actually invest. And so the cyclicality of the underlying business actually really benefits our business here because this is when the lenders actually improve their processes.

Operator

And our next question comes from the line of Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Two. Has anything you've seen since your Analyst Day regarding higher interest rates or some recent softness in housing sales caused you to change your outlooks for mortgages growing in the mid-teens for 2018? And then we've seen an uptick in the higher non-advertising operating expenses. Other than the payroll expenses you called out, how much of the additional operating expenses in 2018 would you classify as one-time in nature?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I'll let, again, let J.D. take the second part of that, and I'll take the first part. I think over the past many years, particularly since we changed our pricing and bidding model and our -- and the way we do our marketing in 2008 following the financial crisis, we've grown through the ups and downs of mortgage. And the same trend continues. So as rates go up, you typically see refinance originations decline clearly, and purchase continues to do its thing based on the underlying housing market. Lenders flip over to wanting purchase customers. They still want refinance customers, there's just fewer of them. And we're able to then help the lenders switch over that business. They increase the bid value for LendingTree lead, and they want more of it because they need more in their other -- they need more because their organic business is not there. So long story short, rising interest rates I won't say helps us. It certainly doesn't hurt us. It definitely makes our lenders pay attention to improving technology and improving processes, which improves conversion rates. And I look forward to the day when rising rates hurts our business because that will mean that we're at about 50% share instead of 2%.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. So Jed, I guess, as Doug says, when we gave our guide for the full year in mid-December, we obviously are contemplating the rate environment. And so that guidance -- it's a very nice position we're in as obviously, mortgage doesn't need to grow to breaking that pace for us to deliver exceptional growth as a business. And so, no, there's absolutely no change to that forecast at this point. With respect to your expense question, obviously, the one that we're watching, just as any company that's grown headcount the way we have, is payroll, as you point out. And that's just the scaling function. And I would point out that on a revenue per FTE basis, we were obviously incredibly efficient and continue to be so. And so we're very lean relative. In terms of other expenses that you'd identify as one-time, I think they're just scaling things. We can work through with the offline and go through each of the line items, but there's nothing that jumps out at me as a big one-time item.

Operator

And our next question comes from the line of John Campbell from Stephens Inc.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

Doug, just back to the digital fulfillment pilot. Anything you can share, just maybe broadly or anecdotally, about the conversion uplift from the digital channel versus the traditional offline channel?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

It's -- I would say it's significantly higher from the lender's perspective. However, it's really an apple and orange. So if you -- if once you -- instead of sending a customer intro to a lender at the time they fill out the form, as LendingTree is doing that incubation and we're only sending it after they select a lender, it's further down in the funnel. So we're seeing multiples of the locker rates that you would see if we just send them to you sort of raw, however, they're deeper down in the funnel. What I can share is that I think in December, we were saying that we were roughly, I think, 1/3 to 1/2 of the monetization versus our existing mortgage experience. The monetization has now moved up north of 50% and it's climbing, and we still have a lot of product improvements to go. So that -- and the lenders, by the way, and you saw some of this at Investor Day, they are wildly pleased with the performance of that, and we've got a lot of interest from new lenders. We expect -- we've got a major industry conference coming up in a few weeks, and we expect this to be a major focus of that conference as we meet with all of our lenders. And we also expect to see them, as we sit down with all of our analytics meetings, asking for significantly more volume.

John Robert Campbell - *Stephens Inc., Research Division - VP and Research Analyst*

That's helpful. And then it sounds like as far as this kind of really taking hold across the board, it's a bit of a waiting game. Obviously, lenders -- you have more lenders in that upfront technology. But then also, you mentioned waiting to see at least a kind of in-line payout to the traditional channel. But if conversion is kind of "materially higher," when do you expect those payouts eventually move well above the traditional channel where you kind of balance out the lender ROI?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Yes. I would -- if you think about the inefficiency of the -- first off, the current system works the way it does because that's the way it had to work without the advent of real-time pricing technology, real-time processing technology and fantastic CRM systems. I absolutely believe that as that new experience, internally we call that Rulo, you might have heard us use that term before, we expect that over time, that significantly increases not only the payouts, there's a couple more impacts as well, too. First, you match a lot -- you get offers for a lot more borrowers because you can sort of skip the filtering step inside of LendingTree and go directly to the pricing engines. So you see a material increase in customer satisfaction from that. Obviously, you're reducing phone calls. You're also increasing capacity with your lenders massively. So if you go from a situation where a customer is getting called and -- not just get called, but sold by 5 different lenders, and you go from that situation to a lender only gets a customer once they've been selected, you now basically increase the capacity on the network more than 5x. And that opens up a lot more volume that lenders can actually demand.

Operator

And our next question comes from the line of Youssef Squali from SunTrust.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

A couple of questions, if I may. Could you speak to the margin trends within the mortgage business? I'm particularly interested in the purchase versus refi. There seems to be natural de-aggregation or should be natural de-aggregation in the margin as we get more refis -- I'm sorry, less refis and more purchases. So if you can just speak to that trend. And then on the buybacks, so how should we be thinking about that new authorization? Is it primarily to be offsetting the dilution? Or are you just having that being enacted to be opportunistic? Maybe just help us think through that.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure, sure. Let me start -- I'll start with the buyback question because it's literally just an authorization. As we pointed out, we bought stock back over the last 6 months, over $30 million worth of stock over the last 6 months. And we are deploying a certain amount of our free cash to buy back shares knowing that we have pending dilution. So it's just a capital allocation philosophy in the authorization itself, and that's obviously been a good bet. The authorization itself is just that and consistent with previous authorization. So there's nothing to read into the amount of the authorization. I would read into the consistency with which we're making a bet on our stock and also trying to manage our capital allocation. With respect to your question on mortgage, obviously, we've acknowledged that we are currently in a purchase environment. And the majority of our mortgage business has always been in refi, and refi monetizes better just because of the (inaudible) of the transaction there. And what happens when we move to a purchase environment, where we referenced that we tend to garner market share, is because we demonstrate our value to lenders who are going after an increasingly -- a smaller pool of refi. Okay? And so we saw that certainly in the fourth quarter. I think we're seeing that here in the first quarter. We don't break out individual margin profiles by business. But the nice part about the diversification that we've experienced over the last years, that's a less of an issue for us. And certainly, as we projected our budget for 2018, that was all considered in our guidance prior. So we go through, obviously, industry data and projections for levels of mortgage activity and origination activity when we put together our budget. And so we don't see any diversion from that at this point.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

And the only -- just to add on to that a little bit. In terms of at the VMM level margin trends, I would never be looking at VMM percentages. I would always be looking at VMM dollars. What you would typically, for -- and a declining percentage margin is, in some ways, actually very good when you see it. What that means is that lender demand for new customers is higher than what is coming in right now. So therefore, we step on the marketing gas and market into that. To get each new additional customer obviously cost you additional money to get it because we're increasing bids and increasing spend across all of our marketing channels. I've said before, too, some ways you can see the health of the business by how much we're running on TV as well at times. And that's not -- I wouldn't take that one to the banks necessarily because we're always testing and doing different things. But when you see us generally doing more marketing, it means that we're trying to drive more volume to our lenders. On the buyback philosophy, our philosophy is always this, we take -- J.D. and our finance team works with a couple of our board members. We put up -- we put a grid together every quarter so we can both buy back a certain percentage of our cash flow as well as have something in place should things be opportunistically available, which it would, and that's worked very well in the past. The IRR from our buybacks has been phenomenal.

Operator

And our next question comes from the line of Kerry Rice from Needham.

Christian Kerrigan Rice - *Needham & Company, LLC, Research Division - Senior Analyst*

Last question was a good segue for my question on -- I know, Doug, that you do focus on dollars, both generally on the VMM line and EBITDA line. But can you talk a little bit about how your marketing may change over the next year as you really focus in on targeting and penetrating these markets? Do you plan to use television as extensively as you have? And will that change how much you spend on marketing? And then maybe a corollary to that is, as you go through this digitalization process, wouldn't that inherently boost some margin because of the, just less friction points and things like that, is that the way to understand that? And then the final question is just on personal loans, saw a really nice growth in Q4. Was there anything that changed in the industry or things that you did to drive that growth? And should we think of this as kind of the level set as we look into 2018?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Sure. Just hitting on the marketing mix and some of the things you might see. I would say, with some of the acquisitions we've made, we have made significant progress in, I don't even want to call it SEO, I would call it putting fantastic great content out on the Web and syndicating it in areas and on our site that Google and other websites love and they love to link to it, so we actually are increasing our capability there. Obviously, that stuff comes for free. And we avoid any of the black hat tricks and make sure that, as I said, we're delivering great content. The other change you could expect to see is that we will be broadening our advertising and you'll see us, not only potentially advertise the CompareCards brand brought to you by LendingTree across all of our channels, but you'll also see us increasing the breadth of the product advertising that we're doing. As the monetization in these non-mortgage products improves, we have more and more leeway to go out and drive volume. And it's not just the monetization improving, it's also the level of demand improving as lenders just want to continue to grow and lend, and our market share is still low. I'll let J.D. handle the personal loans question.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. Kerry, as you asked about personal loans, it's actually highly related to your overall marketing question, right -- or the answer is, I should say. The marketing messaging in personal loans has been shifted to be much more about the consumer need as opposed to the product. And that's been really effective for us. I think it's just -- it's a very good product for us as well and one where we feel like we have exceptional market share. But marketing has clearly enhanced personal loans. And for that business to have hit scale in Q3 and maintain that scale in a seasonally challenging Q4 is exceptional. And so -- and we've seen that trend kind of continue here in Q1. So we're really excited about that business, and I'm glad you brought it up. That's really the main driver. And then the only other thing I'd emphasize is we're going through, from a marketing perspective, a lot of segmentation exercises. And to your point, we can become much more personalized. And we are also testing at a much higher velocity than we were a year ago. And so as the business gets bigger, we start to benefit from scale. We start to be able to affect some large-scale tests in every one of our businesses, and personal loans has benefited disproportionately.

Operator

And our next question comes from the line of Hamed Khorsand from BWS Financial.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

First off, could you talk about My LendingTree and what you're seeing as far as the product's subscribers are looking at and purchasing that's driving the revenue growth there?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Sure. I think I could say it's across the board. Given it's still fairly early, you're going to see more activity around credit cards and personal loans as they're also the things that as your credit score improves, most easily can improve. The other interesting thing I would say is that there's an opportunity inside of My LendingTree with people that actually can't get offers today that we can actually help improve their credits. So it's a fantastic Net Promoter Score experience. But I would say in the early days, particularly since most of our traffic, that signing up through that is coming through LendingTree, so they're non-homeowners, you're going to see it mostly in credit cards and personal.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Is it still 6% to 8% of your total revenue?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

I believe it's over 10% now.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Over 10% now.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Okay. All right. And then last question is on the lender composition, has there been a significant change in mortgages given that now you're going into more purchase as far as the demand go?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

No. What we've seen and we always hopefully said is that lenders who can do a refinance can close a more -- purchase loan, too, and they gravitate to the ones with the highest conversion rate to the most profit and the easiest to process. And as the easy ones go away, they are willing to work a little harder and improve their processes to do so. That happens, not just switching between refinance and purchase, but it also means you add in more states, you increase your caps, which is your overall level of volume. You might increase your filter settings, reduce your -- or increase your LTV settings, reduce your loan amount settings and also, typically, up your bids that you're willing to pay as you see conversion rates improve.

J. D. Moriarty - *LendingTree, Inc. - CFO*

The only other thing I'd add to that, Hamed, is when you see a lender go off of a network, sometimes it reflects that they're just not succeeding on it, and we replace them with a more successful lender. And that's actually an opportunity for us to grow a new lender. And so that's something we've seen across a number of products. And we just look at this as an opportunity to diversify our business and expand our relationships and overall coverage.

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

But isn't there also somewhat of a delay as far as the purchasing activity and what the bids are when it comes to a rising interest rate environment?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

No, it happens -- we actually -- in sort of the real-time nature of how our business works, it's interesting you guys kind of -- I mean, investors see things on a quarterly basis. We see changes in demand. Like for us, a refi versus purchase is just reflected in demand, and it's no different than Texas versus California. And sometimes, there's more demand in certain areas. So every day, we're seeing increases and decreases in demand. And demand is price, it's quantity and it's coverage. Those are the 3 functions of the demand equation. And we see those things change instantaneously, and they change exactly in tandem with the corresponding marketing cost for us to go generate that volume. So as the lenders are instantaneously changing because they're reacting to their own pipelines and what they're seeing in their own shop, that is being instantaneously seen on the marketing side. And you either see marketing cost per visit rise or lower in tandem with the revenue, and that's why we're able to grow VMM and EBITDA in any interest rate cycle.

Operator

And our next question comes from the line of Stephen Sheldon from William Blair.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

You're continuing to talk positively about the opportunity on the asset side for consumers. So I guess, what do you think you need to do to see that really become a material business for you over the next few years? Is it about expanding consumer awareness or getting the monetization there right with banks and other depository institutions? Just I guess any color on that.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Sure. So this started with the purchase of DepositAccounts.com. And as I said in our remarks, we're now taking that experience, not just across their site, but also putting that on LendingTree. These -- we also see that benefiting from our business development team. As we're out there doing deals with publishers, we can get better payouts because we not only have deposits, we have all the other lending products as well. Really, to see this thing scale and obviously, the closest competitor here is Bankrate, and I would put this similar to credit cards, which is we bought a -- one of the insurgents in the credit card business, but had very good payouts. And with the combination of great work from their team, which is now we're all one team, great work from the LendingTree sales team, great work from the BD team, we were able to not only increase demand that those lenders want from us, make sure the payouts stay up, but then we can go and turn on the marketing gas. The same thing is going to happen in deposits for the smaller player compared to the insurgents here. We know from our lending partners, we have a very good product. They like the quality of what we're sending them, and they want more of it. And so we just now need to deliver more of it. And then as they add more products and they increase their -- the demand, then we can go fulfill it. So it's going to work, I think, very similarly to credit card. And we really benefit here by having a great product, but with a brand name that's not as well-known in the market where we can add the LendingTree brand name, add some of the LendingTree BD capabilities and just replicate what we did in the other products.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Stephen, the only thing I would add is with My LendingTree, right, we're trying to -- our opportunity with My LendingTree is to have it be a diversified platform with many interest for consumers. And so having something meaningful on the asset side of the equation is really helpful for us. And so as we go throughout the year, we're going to continue to add tools and things to drive engagement that are actually of value for the consumer. Deposits feeds into the My LendingTree strategy extraordinarily well. And so we think we'll have a real advantage in driving engagement.

Stephen Hardy Sheldon - *William Blair & Company L.L.C., Research Division - Analyst*

Okay, that's very helpful. And then, I guess, just within the 2018 guidance, could you maybe walk through your expectations kind of by revenue type? Where would you expect to see above-average growth across the different business lines and maybe where would you expect to see slower-than-average growth?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. Listen, our guide reflects the mortgage environment that we're in right now based on rate. We've talked about that certainly at the Investor Day. While we're not calling out individual products, some of the non-mortgage businesses that have been incredibly resilient to a rate environment have been (inaudible) to us. So obviously, we talked previously about personal loans. That's been a great non-mortgage business for us. We're continuing to take share in credit card. We've mentioned other businesses like deposits and small business. I think the really exciting thing is where we'll see what I'll call the fourth leg of the stool for non-mortgage. And we've got 3 businesses right now that make up the -- make up over 80% of non-mortgage. That's credit card, personal loan and home equity. And we think sometime in the back half of this year, you'll see the fourth leg establish itself.

Operator

Our next question comes from the line of Mike Grondahl from Northland Securities.

Michael John Grondahl - *Northland Capital Markets, Research Division - Head of Equity Research & Senior Research Analyst*

Just a question about revenue growth, core revenue growth. If you try to subjectively bifurcate it between existing customers and new customers at a high level or even at the product level, how do you kind of see that in 2017 and maybe 2018?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

It's a good question. And I can tell you it's not the way we model out the business. We obviously know internally what is new and what is existing customers. It's not something that we disclose because any -- except for the My LendingTree stuff. So I mean, if you just look at it from there, by definition, any revenue from My LendingTree means that's coming from an already existing customer. Now some of those people -- because most of those people are coming through the other loan types. So you've got at least 10%. I believe in the past, we've said about 20% of all of our revenue is "organic." But we'll get you -- we can potentially try and get you some more specific numbers there. But really, the business gets modeled out at the core physics in what we call the flywheel level, where you're looking at what is my expected revenue for every customer who's visiting our site, what's the demand across all the products, then you go try to optimize your marketing spend against that, and any revenue from existing customers. The nice thing about that is it's typically coming with no marketing cost. However, here's what makes it somewhat more complicated, which is why we model it differently. Think of an existing customer who wakes up one morning and sees a TV ad and decided it's time to go refinance their mortgage, and they go to Google.com and they type in LendingTree, and then they click on a LendingTree ad. Is that an existing customer? Or do we just pay to get that customer to come back again? It's actually both. So we think the VMM way is a better way to look at it. But what we look at internally is obviously repeat business and engagement, and the way we really look at that is on the My LendingTree platform and the fact that that's now over 10% of rapidly growing revenue with fantastic Net Promoter Scores, I think, is testament to that.

J. D. Moriarty - *LendingTree, Inc. - CFO*

The only -- listen, the only thing I'd add is Doug's answer is based on the consumer customer, not the lender customer. And let me emphasize, we don't need to add any lenders or issuers to meet all of our growth objectives and then some. Obviously, there are a number of metrics that we watch very closely on a weekly basis that we don't disclose, like average spend per lender or we watch what our top 5 or top 10 represent of a given product. But we've [disclosed] any of that information obviously for competitive reasons. We feel pretty good about those trends. And as I mentioned before, sometimes a lender moves out, then we look at it as an opportunity to grow another lender.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

And if you meant it on the lender side, I apologize for that, the only thing I would add to that, as you think about the flywheel that we've talked about and just the way the business works, by having -- and again, this is just like a search business, so it's sort of like asking Google. Hey, if somebody stops bidding on the keyword mortgage rates, does that take down your overall revenue? The answer is no because there's hundreds of other companies in there that are bidding on the term mortgage rates and every other keyword under the sun. The same thing is true with LendingTree. We've got hundreds of lenders. And the liquidity of any marketplace business, the more lenders you have in there, the more variation you have in how they do underwriting, in how they do marketing, in how they see the world, the better off it is for us. So we see -- for example, in personal loans, once you've got 40 or 50 lenders, you start to see pricing change, so we have a 500 basis points spread for the consumer between the low price and the high price. You have verifiable savings, and that happens because you've got all these lenders. So when 1 or 2 lenders has a problem, which by the way, they always do. I can promise you at any given time over the 21 years we've been running this, some lenders always pulling back and some lenders are always expanding. But we benefit from the aggregate demand from all 500 lenders, not any individual lender.

Operator

And our next question comes from the line of Rob Wildhack from Autonomous Research.

Robert Wildhack

Quickly on the repurchase. Is there any chance we could see the share count actually coming down this year or not so much?

J. D. Moriarty - *LendingTree, Inc. - CFO*

I mean, to be clear, it's a capital allocation strategy. We're not going to totally offset the dilution. And our intent in going through this in this level of detail with you is to then recognize that we will work through with you kind of our assumptions around pending dilution throughout the year. So -- but no, I don't -- we won't be buying back that much stock now.

Robert Wildhack

Got it. And then as My LendingTree revenue contribution continues to grow meaningfully and you continue to increase engagement there, I'd expect that, that revenue comes on with maybe less marketing behind it. So is that -- as My LendingTree grows, can you just kind of share your thoughts with us on the decision view past that through the profitability versus reinvestment in broader and maybe brand marketing, just how you're thinking about that?

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

So 2 things there on the marketing side. So first off, if you've got more revenue coming from My LendingTree, that additional revenue per customer, it's factored back into the bogey, if you will, that we give to marketing. So for example, let's just say we're adding an additional $3 for every lead that we generate because a certain percentage of those people sign up for My LendingTree. We then say, hey, our revenue for this lead type from that channel is $3 higher. Finance has that in the systems. And then, therefore, that is immediately transmitted to the marketing team to go drive VMM dollars. So any increase in revenue per customer, whether it comes from cross-sell, higher conversion rates, better pricing, better coverage or My LendingTree revenue goes immediately back into marketing. The second thing -- and all of our marketing, by the way, is profitable. So even when we do "brand advertising," we're pretty tight on this that we make sure that we're making money with the dollars that we spend now. Offline has a bit of a couple months lag to it, but it still makes us money. The exciting thing that I would say, we're getting closer to the time where we will be able to advertise My LendingTree/come to LendingTree, get a free credit score and get alerts to save you money throughout your entire life. We will be able to do independent marketing of that product as the expected values continue to improve. And I think we're getting closer and closer to that day right now. When that happens, that could really open the flood gates to growth, but we need to make sure that the expected value to revenue is there so that we can advertise that. Last thing I'd say on that front, because we've got this big -- this always great product diversification, that also adds to our marketing. So when we go -- if you look at the competitors in that space, let's take a Credit Karma, who does not have the level of product breadth that we do for monetization, doesn't have the depth of lender coverage, their monetization is going to be lower, we would expect that just like our monetization and mortgage is higher and we can go win business development deals against our competitors, we would expect that our monetization in My LendingTree will be higher than our competitor's products, and therefore, we'll be able to more profitably spend on marketing.

Operator

And I'm showing no further questions at this time. I would now like to turn the call back to Mr. Doug Lebda for closing remarks.

Douglas R. Lebda - *LendingTree, Inc. - Chairman & CEO*

Thank you very much. And again, thank you to everybody on the call for your attention. To just wrap this up, I just would say a couple of things. I am pleased about so many things with the company. It's actually difficult to wrap this, but I'll just highlight a couple.

Number one, on the acquisitions. M&A is always a dicey proposition for any company. However, for us, it's proven to be incredibly successful. It is because we've got a fantastic process, because we're able to identify real synergies and we're able to identify before we actually do the deal because a lot of times, we are able to apply what LendingTree already has with the product and the team for something else, and we can put those things together.

And I think on the third point on acquisitions, we are increasingly proving that we are the best home for entrepreneurs. The case studies that we've got from our initial acquisitions, we can now go to an entrepreneur and say, listen, do an earn-out with LendingTree and you're going to make more money than doing your series C, D, E, F and G, and praying for an IPO 5 years from now. Why don't you just come on, change jerseys and let's blow this thing up to the moon.

Second thing is our core business and our processes are absolutely working. We like to say around here that we're always skating where the puck is going. We've been ahead of changes on the management team, trying to continually upgrade our management team, trying to continually make sure that we've got great talent development processes. And we've got, I think, one of the best teams of any Internet company and certainly, the best team that I've ever seen at this company.

And then the third thing I would say is that we're still in the early days. We're still at a 2% [reasonable-ish] market share. But that continues to grow. The model is working for lenders. We've got verifiable savings for consumers, and that enables us to continue to grow our distance from our competitors. And then all of that together is giving us tremendous confidence for 2018 and beyond.

So to just conclude, I would like to say, first, thank you to our employees for all the work you do. I'd like to say thank you to our lenders and our marketing partners for your trust in us. And I'd like to thank our shareholders for your confidence in our company, and we look forward to talking to you again in a couple of months.

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.
