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TREE - Q1 2015 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree Inc First Quarter 2015 Earnings Conference Call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. (Operator instruction) As a reminder, today's program is being recorded.

I would now like to introduce your host for today's program, Mr. Alex Mandel, Chief Financial Officer. Please go ahead.

Alex Mandel *- LendingTree Inc - CFO*

Thanks, operator and thanks to everyone for joining us today for LendingTree's First Quarter 2015 earnings conference call. First, a brief disclaimer. During this call, we may discuss LendingTree's plans, expectations, outlook or forecasts 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 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 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. We're delighted to share with you to share with you our results for the first quarter 2015 today. This was another record breaking quarter for the Company in terms of financial metrics, details of which I'll share shortly.

Moreover, during the quarter, we continued to achieve greater resonance with consumers, increased relevance to our lenders, a heightened profile in the marketplace more broadly and further recognition of the critical strategic positioning we have achieved on the frontier of online consumer finance. We believe the market is recognizing the critical importance of customer acquisition to lenders across loan categories and across the credit spectrum and the unique abilities LendingTree has to deliver in this segment of the value chain.

Our mortgage products' revenue in the quarter grew 8% year-over-year to $37 million, which also reflects sequential growth of 11% over the fourth quarter of 2014. Since annualizing the launch of our national brand campaign in Q2 of last year, our year-over-year growth profile had normalized as we have previously discussed. However, benefiting from both a fairly sudden and notable drop in mortgage rates heading into the first quarter coupled with strong absorption of the ensuing increase in refinance volume by the lenders on our marketplace, which we see as a testament to our client development efforts over the past year. We realized growth ahead of the low- to mid-single-digit profile we had previously anticipated.

Revenue growth from our non-mortgage products further accelerated in the quarter, achieving a record $13.9 million in the quarter, up 140% year-over-year and marking the fifth consecutive quarter of triple-digit year-over-year growth. I would also note that the arc of this growth profile has been one of near consistent acceleration in the rate of growth even if the business is scaled. Our non-mortgage products revenue now comprises a record 27% of total revenue, up from 14% in the year-ago quarter.

In Q1, every one of our non-mortgage lending businesses grew year-over-year, including home equity, reverse mortgage, personal loans, small business loans, auto loans and credit cards. Revenue from personal loans continue to comprise over half of our non-mortgage products revenue in the quarter and grew by 11-fold year-over-year. And while we're thrilled with the progress in personal loans, we're presently working very hard to accelerate the growth and contribution of our emerging loan categories, particularly small business loans, credit cards and student loans. These categories are in focus in the market and lenders are asking us for the volume. All in, total revenue grew 27% year-over-year and 16% sequentially to a record $50.9 million in the quarter.

From a profitability standpoint, the Company achieved a record $21.2 million of variable marketing margin in Q1, reflecting a 42% margin. But we're very pleased with this result, as Doug will speak to you shortly, we are not anticipating the same margin profile in Q2 and beyond for several reasons. Among them, we estimate that something directionally approximating 1 million of VMD contribution in the quarter was a function of the initial drop in rates and was apparent in January and February, but less so in March and beyond.

Adjusted EBITDA of $8.9 million in the quarter was also a record and reflected a margin of 18%. The strong revenue and VMM delivery in the quarter converted well into incremental EBITDA as we realized some operating leverage. Our adjusted net income from continuing operations, which is reconciled in our earnings release and which excludes certain amounts expensed under GAAP, as well as certain one-time items was $7.9 million or $0.65 per diluted share. Further, we delivered very solid GAAP net profitability in the quarter. Having put significant legal expenses behind us, the GAAP earnings power of the Company was demonstrated as we achieved $5.4 million of net income from continuing operations or $0.44 per diluted share.

From a balance sheet perspective, our working capital position, which we calculate as current assets, including of unrestricted and restricted cash minus current liabilities, including loan loss reserves, improved by $5.3 million to $86.4 million at March 31.

In summary, the Company's strong financial results in the quarter demonstrated the kinds of financial characteristics we have believed our business model held the potential to realize; growth, operating leverage, GAAP earnings power and conversion of earnings into cash flow. All of these facets came more clearly into focus in the quarter. We're fortunate to be well positioned at the moment. We're clearly in a favorable credit cycle where lenders want to extend credit to qualified borrowers and we're hearing regularly that acquiring those in-market consumers is the single greatest constraint to growth that lenders of all varieties are facing. We're also seeing tremendous innovation in the market presently both online and offline as lenders are striving to fundamentally improve the delivery of credit to qualified borrowers. And we are exposing consumers across the credit spectrum to a full breadth of these opportunities through our marketplace, helping them to save money and find the loans that are most appropriately suited to their needs. And while it's a great time in the market, we are ultimately striving to build a business that's sustainable over the long term, not simply capitalizing on the current environment, across loan categories, across the credit spectrum and throughout market cycles.

I'd now like to turn to Doug for his perspective on our Company's progress in the quarter, dynamics and our outlook for Q2 and updated full year.

Doug Lebda - *LendingTree Inc - CEO*

Thanks, Alex and thanks to everyone for joining the call today. Since Alex walked you through our financial results for the quarter and candidly they speak for themselves. I'll spend just a few minutes providing my perspective. Following that, I'll discuss our financial outlook for the rest of the year in the context for our near-term strategy.

Our first quarter results were terrific, coming off a very strong fourth quarter in which we achieved new highs for revenue, VMM and adjusted EBITDA. We handily exceeded each of these metrics in the first quarter. Total revenue was up 27% year-over-year and 16% sequentially. We converted 42% of that revenue to variable marketing margin, the highest we've seen in five quarters. And that translated to the bottom line, as we delivered $8.9 million of adjusted EBITDA, growth of nearly 100% year-over-year and almost 50% sequentially over our previous high.

Digging in just a bit and looking at our mortgage product, there are couple of things to highlight. I'd be remiss not to acknowledge that some portion of our mortgage growth, no doubt, benefited from tailwinds in the refinance market. As Alex mentioned interest rates dropped more sharply in late December and early January and have remained low, and quite frankly, based on what I'm reading recently, continue to remain low and are expected to remain low.

As we discussed to some degree last quarter what that means for us is almost immediate influx in refinance consumer traffic and immediate decline in acquisition cost as organic traffic ticks up and paid placements convert substantially better. However, unlike similar market cycles in the past where we've seen a commensurate decline in our monetization as lenders dial back orders to work their own organic volume, in Q1 the decline in monetization was less pronounced and less immediate. This is testament to our sales efforts and signing up lenders who are less interest rate sensitive and less capacity constrained and also a very strong signal that our product is converting for lenders.

As Alex noted, we estimate approximately $1 million of benefit in Q1, stems from this rate impact and could be considered to some degree as non-recurring, which we always like to call that out every time that happens in the past. I'll touch on this further in the context of our forward-looking guidance.

Moving to non-mortgage revenue, growth in personal loans continues to accelerate as we optimize existing marketing channels and open new ones. We've grown monthly revenue from $1 million in July to $2.4 million in January to more than $3.1 million in March and it's worth noting that all of our personal loan lenders on our network, almost all of them increased their spend with us over the first quarter -- over the fourth quarter. As we mentioned before, the beauty of the personal loan category for us, is that unlike mortgage there are virtually no capacity constraints. As long as we continue to unlock new cost efficient sources of traffic, add lender distribution across the credit spectrum and deliver high quality product that converts for lenders. This revenue stream will continue to scale. In addition to personal loans, our reverse mortgage product was up 29% compared to the prior year and auto loans grew 22%. And while relatively small, our emerging categories and small business loans, credit cards and student loans are setting up beautifully. We've got the product and the lenders in place for making strides on scaling marketing as monetization improves and we expect to see meaningful contributions from these products in the next quarter or two. As a Company, these businesses are an area of particular strategic focus and we're hiring resources to scale them and drive them going forward. Additionally, we continue to focus on building new products to delight consumers. In My LendingTree, where we're quickly approaching one million users, the brain behind our savings alerts continues to get smarter. We just recently added functionality to drive real time market based alerts to consumers for whom it makes sense to refinance our existing mortgages or personal loans.

In the next 30 to 60 days, we anticipate rolling out that functionality for the auto loan and credit card categories. Also noteworthy, an alpha version of our My LendingTree app for iPhone is now available in the app store. Just last week, we released a personal loan rate table experience on our website, which enables consumers to compare us and shop for personal loans without even filling out a form. We're not yet live with any syndication deals on that product, but we're very close with few partners and anticipate more to come.

Another area of focus for us on the product front centers around integrating ourselves deeper into the consumer experience by engaging with lenders to better understand and improve the process after we hand-off the customer. We've proven fairly adept at improving conversion rates throughout our own form enhancements and user experience and we're transferring that knowledge to our lenders.

Internally, we're organizing teams to work directly with lenders to improve conversion further down the funnel and ultimately these conversion wins benefit everyone because as lenders conversion rates improve, they are willing to pay us more for every single lead. While we continue to make great strides in our product and engineering efforts, there is a long list of additional initiatives ahead of us and given our recent performance, we're confident we can accelerate down that path.

And with that, I'll move into our outlook for Q2 and the rest of the year. Clearly, our first quarter results exceeded our expectations and put us on pace to exceed our previously provided full year guidance, but as we've said before and I'll say again, we'll continue to take a very disciplined and very balanced approach to delivering robust earnings growth while making calculated investments in the business. In terms of top line revenue, we continue to expect robust growth from our non-mortgage products. Looking at mortgage though, there are couple of factors at play. In the second quarter the refinance market remains relatively favorable, although not at the same levels we saw in Q1. And purchase originations are projected to show double-digit year-over-year declines (sic) as we head into the seasonality -- as we head into the seasonally strong spring and summer months. I'm sorry, double-digit growth as we head into the spring and summer months. That said, we expect year-over-year mortgage growth in the second quarter to continue in the mid-single digits. With that we're providing total Company revenue guidance for the second quarter at $51 million to $53 million, which represents growth of 21% to 26% compared to the second quarter of last year.

Moving to marketing costs. We're not expecting to sustain the same level of margins we saw in Q1, because quite simply, we're producing a new series of TV commercials aimed at further broadening our message and brand beyond mortgage and establishing LendingTree as the search engine for money. You've seen us do this before and you've seen that in one quarter things dip and then it can accelerate from there. We expect that a portion of the production expenses in addition to incremental media buys to support the campaign that will impact our Q2 results and then ultimately improve our results from there. Additionally, we're focused on scaling our emerging categories as I mentioned before. So we're going to market those businesses at thinner margins in the earlier days like we always do. Lender demand is already there and we need to capitalize on it in order to establish ourselves at the forefront of the marketplace in these products. These factors in conjunction with what we discussed as our non-recurring benefits in mortgage should lead to lower margins in the short run but higher margins in the long run. As such, we're anticipating variable marketing margin in Q2 to be $19 million to $20 million.

Moving down to adjusted EBITDA, we anticipate $7 million to $7.5 million in the second quarter which despite the additional ad spend represents year-over-year growth of 27% to 36%, which puts us at the forefront of Internet growth categories.

Now to our full year outlook, we're increasing our guidance across all these metrics. Revenue is now anticipated to be $202 million to $208 million, an increase of 21% to 24% compared to full year 2014 and up from our previous guidance of $193 million to $201million. Our full year revenue guidance reflects continued growth in non-mortgage, partially offset by the potential for softness in mortgage as the rate environment remains uncertain. We're increasing full year VMM guidance to $78 million to $82 million, up from our previous guidance of $76 million to $80 million and consistent with our longer term view, that VMM of approximately 40% of revenue remains appropriate as we continue to invest in marketing to build our brand and drive more consumers in. And adjusted EBITDA is now expected to be -- is now anticipated to grow from 37% to 42% over 2014 to $30 million to $31 million, an increase from our prior guidance of $27 million to $29 million.

To wrap up, I'd like to provide a little guidance on our full year outlook. I'm sure you've done the math and realized the back half of the year given our first quarter guidance appears relatively flat to the first half in terms of profitability. The reality is that we like to invest in our business and doing that means what we do is we provide consistent and increasing EBITDA profitability while still investing. And we think that we can do both, we can walk and chew gum at the same time and we think that 40% adjusted EBITDA growth in the current year is absolutely fantastic.

So with that, we're going to continue to make investments in technology, products and marketing while still maintaining and hopefully increasing that growth rate setting us up to be the search engine for money in the coming years.

With that, I'll open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kerry Rice, Needham & Company.

Kerry Rice - *Needham & Company - Analyst*

Great quarter, Doug. First question is just on the non-mortgage business and as it relates to personal loans, do you have any sense on maybe what percent marketing you are for some of these new lending platforms, like a lending club or even Avant Credit, things like that? And is there -- do you know if they've been typically using digital and so this is a shifting around the digital budgets or is it a kind of transition from an offline to online, if you have any color there? And then regarding My LendingTree, you've done a great job about a million enrollees now, how do you think about driving continued growth on that to the next million enrollees? Do you just going to have to roll up and do a lot more marketing or if you can give us any insights into the strategy there?

Doug Lebda - *LendingTree Inc - CEO*

Sure. Without giving insight into specific clients, we're anywhere for personal loan lenders between 5% and probably 20% to 25% of their business. Long term, we hope to be a much more substantial part of that, most of their volume right now believe it or not comes from direct mail, comes from direct mail solicitations from companies that they bought to go after specific categories like health. We think that that will continue to scale up the beauty of those guys as they expand their credit categories, as they widen out their filters, we think that that will continue to grow. We also think we can do it through alerts and through making the brain smarter on My LendingTree. On My LendingTree, the next million -- you know the beauty of My LendingTree is that we've seen it just continue to accelerate, each 100,000 users is coming faster than the last 100,000 users and now the paid marketing is starting to workout. So given the monetization that we've seen on that product and given how smart our alerts are; now we can dial-up to paid marketing. It's very, it's profitable for us and we'll do it. So, expect to see the Company start to be thinking about lifetime value metrics and things that other leading Internet companies do and expect to see us dial-up the frequency of transaction as alerts continue to roll out. So it's actually -- the beauty of where we are with the Company now, we know exactly what we have to do and it's ours to do. We know how to market, we know how to market across products, we know how to sign up lenders after getting back from the LendIt conference about a week ago, it was very, very clear that lenders are literally begging to get on our network across all the products. Somebody shared an anecdote yesterday that small business lenders are literally asking us to pay for engineers to sign up their lenders faster and sending cookies and lunch down, so that some engineers can even do that faster and quite frankly I've been speaking so much to lenders that my voice has even gone today. So we feel great about where we are in the business and I feel great about the competitive set too. I don't see -- we used to talk about some other competitors that quite frankly aren't there and now we're just focused on being the dominant search engine for money and trying to capitalize on what we think is a very unique advantage.

Operator

John Campbell, Stephens

John Campbell - *Stephens Inc. - Analyst*

Thanks guys, good morning. Congrats on a great quarter. I think you guys mentioned you did about $2.4 million in personal loans rev in January and then I think you guys said a little over $3.1 million in March, so if I take your comments about personal loans being up I think 11% -- up 11 times from last year. And if our 1Q 2014 basis is even close to being right on personal loans, I think that might imply a pretty big February number and then may be a decline sequentially in the March. So, first, is that an accurate assumption? Are you guys starting to see a little bit of seasonality in that business? And then you know given we've run through April already, have you guys seen that reaccelerate from March or is that little bit over $3.1 million number a pretty good run rate (inaudible)?

Doug Lebda - *LendingTree Inc - CEO*

Yeah, I don't want to get into specific guidance in the quarter. What I can say is, I don't think that's a seasonal -- the beauty of that business, it's not seasonal at all. The early personal loan business is really credit card refinance and it's still so massively underpenetrated that I don't see any seasonality. The month to month metrics, I don't want to comment on, but April is continuing to track very, very nicely. And I don't think we had a strong February and a weak March there, they're doing just great. And it's going to continue to do great because as lenders, as I said as they open up there are filters to take more credit -- a wider credit spectrum and as I noted as they improve their technology, I was sitting with a consumer the other day and watched the hand off between us and then when it went to our lenders website it was quite frankly horrible, now wasn't on us, but we're working with them right now to improve their conversion rate and the hand off that from our site to theirs. It's very early -- very similar to the early days of Expedia or price line where you might have looked up the site and then gone and then picked up the phone and called the airline and as that purchase path checked out happens and continues to improve it's going to be even better. And what we hear from our personal loan lenders is that they have 7 to 10 times more money to lend then they can actually lend. So where are they going to go get it, they are going to get it from us or Credit Karma and that's pretty much the direct mail and those are pretty much the games in town and you know what, I'll take our brand and our marketing team up against anybody's.

John Campbell - *Stephens Inc. - Analyst*

Great, thanks for that. And then just again on non-mortgage and just as it relates to the -- just the full-year guidance. I mean you guys brought guidance up a good bit. I guess a little bit of that's coming from mortgage, but mainly from non-mortgage, so just curious what gives you guys the confidence and the boost for guidance for the full year? I mean is that based on some type of committed spend from lenders, or maybe some conversations you are having with some of the lenders, or is that just mainly, just accelerating growth trends from some of the new offerings?

Doug Lebda - *LendingTree Inc - CEO*

I mean look at some level -- I don't know, I always have this interesting debate if you took Q1 times four. It's an interesting boost, but we're not taking it all the way there. So what we try to do is to give significant year-over-year earnings increases and then whatever we have extra we'd like to reinvest it back into the business. In Q2, we're going to do new TV commercials, hopefully assuming we get them right and we're going to spend some money on that. We're going to let our -- some of these new emerging businesses run it at much thinner margin, so it's really balanced between mortgage and non-mortgage. I think both of those businesses are -- all of those verticals are massively underpenetrated. For those of you who covered Google in the early days, you'd be like asking about like Google's cost per click in sort of pharmaceuticals versus financials and they're all going to grow as we make this thing work. Our revenue is going to grow in every one of these verticals. We're going to syndicate our offerings just like they did in the early days and we're going to have our owned and operated business that we drive through our own marketing. So it's very balanced. It's hopefully very disciplined in reinvesting back in our business to get to north of $30 million of EBITDA and 40% growth.

John Campbell - *Stephens Inc. - Analyst*

Got it. And if I could just squeeze in one more here. Just back to the My LendingTree, anything you guys can share, just kind of rev uplift or transaction stemming from that platform. I know the brains are kind of still in the works, but anything you can share now and then maybe any kind of commentary about what you guys kind of expect over the near term?

Doug Lebda - *LendingTree Inc - CEO*

What I can share is this that it's profitable within the first few months on paid marketing and that's what really matters for us and gives us confidence to step on the gas on that one. So it's not going to be -- now I caution everybody, this is not going to be like some subscription business that I sell you that says it's going to be profitable over a year or two, it's profitable in a pretty short-term already. Consumer feedback is absolutely fantastic. People love it. I'd encourage all of you to sign up for and to give us feedback. Lord knows, I'm signing up for it and give our product team feedback all the time. I get alerts. I've saved money and I encourage everybody else to do it as well. There will be other competitors in that space by the way. I mean the credit products in the United States is moving from paid to free, but we think that the alerts significantly differentiate us. And importantly, if you compare us to every other so-called lead generator in marketplace, you know (inaudible) et cetera, we've got real-time pricing data from every lender that we constantly can ping and call and nobody else has that. So because of that we can actually give you timely real time alerts. In many ways our pricing engine is like the GDS of the airline industry and we've got the real-time pricing information across all the products and nobody else has that and we are going to continue to capitalize on that.

Operator

Hamed Khorsand of BWS Financial.

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Hamed Khorsand - *BWS Financial - Analyst*

I wanted to start off with -- there was huge jump in accounts receivable, are you exposed to any specific customer? What brought that on this quarter?

Alex Mandel - *LendingTree Inc - CFO*

Yes, Hamed, it's Alex. There is not one specific customer that represents any meaningful concentration. It's just a reflection of the performance of the business in the quarter and the timing of the collection of those receivables.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. And I guess My LendingTree is approaching that one-year mark. Are you guys able to provide us with some aspect of statistics, as far as those initial users staying on the network and monetization of those users, how active they are engaged with you guys at this point?

Doug Lebda - *LendingTree Inc - CEO*

No. And the reason is simply for competitive reasons. As one of our competitors said to me the other day, sort of jokingly said you are a private company and I see every single one of your statistics and I study them, I don't want to give everybody the opportunity to do that. So we're going to keep it at a high level, we are going to keep it at VMM, we will keep to subscriber levels. Ultimately over time we're probably going to have to give some more information on that, but it's all moving very, very well.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. And my last question is on the mortgage end of the business. So was this purely all volume driven revenue increase or was there some sort of a price increase aspect to that business as well?

Doug Lebda - *LendingTree Inc - CEO*

Yes, price increase, no -- if anything, pricing. Keep in mind, we're a [bedded] platform, so when volume moves up in the industry, pricing would typically move down right away. I think we saw as the pricing did not really move down and that that volume stuck. Now keep in mind with pricing, it can happen by either the price per lead going down in a given segment or it can happen by lenders doing what we call closing our filters, so maybe they moved their minimum loan amount from $100,000 to $150,000, or $175,000 which means we've got unfulfilled demand, but I can tell you just on some of the statistics and numbers we've looked at, we have substantially more room to grow in mortgage even just from increasing -- as credit continues to expand, we've got unfilled slots across the mortgage category just like we do in a lot of these other categories. And I was talking to one of our board members yesterday, he's been running media businesses all his life and it's the same exact thing that other people see which is making sure all your inventory gets sold and that's what we are working on. And as that continues to get better and better there is major room to grow in that business as well.

Hamed Khorsand - *BWS Financial - Analyst*

So what are you assuming in your guidance, mortgage pricing staying flat or declining?

Doug Lebda - *LendingTree Inc - CEO*

I am sorry, say that again.

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Hamed Khorsand - *BWS Financial - Analyst*

In your guidance for the mortgage business, what are you assuming, price per mortgage lead increasing, declining?

Doug Lebda - *LendingTree Inc - CEO*

Yes, you can't -- you can't look at averages, and I apologize for that. And we, again we don't really -- we can't give that for competitive reasons. If you looked at apples to apples over time, which means not average mortgage lead, but if you looked at you know you got to take a specific lead of 700 FICO score in Texas with a 20% down on a refinance, over time those prices will absolutely go up because conversion rates are going to go up. Lenders don't target a price per lead, they target cost-per-funded loan, they don't really move with their cost-per-funded loan. So, therefore as we help them close more loans as we're continually focused on, they will pay more per lead. The only reason we do per-lead pricing is to match our marketing cost with our revenue, because in 2008, we got burned as conversion rates went down in the market. We were effectively long advertising and we had to match those. That's the only reason you price on a per lead basis. Ultimately lenders are paying us for closed loans and the amount that they'll pay us for closed loans does not vary over time. So all we have to do is improve the product. I mean literally you take a lender who is converting it, pick a number 4% you make them 8%, they will pay twice as much per lead. Guaranteed, no problem, no negotiation necessary, because they are trying to close as much volume as they can at that given cost per closed loan. That's why everything that we do most part relates back to conversion rates.

Operator

Bob Napoli, William Blair.

Bob Napoli - *William Blair - Analyst*

Just wanted to follow up on the growth and how much of the growth that you're seeing is coming from same lenders versus adding on new lenders. And one thing that was obvious from LendIt is that there are new lenders every day and any of those products sets, small business, mortgage, student loans, et cetera. So how much of your growth is coming from new lenders versus the same store sales if you would?

Alex Mandel - *LendingTree Inc - CFO*

It's a good question and I'm going to answer it slightly differently. I would say in mortgage, I would say, growth is mostly existing lenders closing more loans and coming in and widening the filters and that's because LendingTree's mortgage product, there are people who have mastered that unique art of converting a LendingTree mortgage lead into a closed loan.

In non-mortgage, it's happening mostly with -- I would say it's split 50-50, it's existing lenders who pretty much are still fairly new, learning the unique art of converting an online lead and again it's a unique art and it's the early days in this category. I mean we're still only facilitating 1% or 2% of all loans in the United States, and then lenders coming on the platform.

The beauty though of these new lenders is they get it. I shared stories of -- we sign up a bank that we've worked on for three years and they send a Big 4 Accounting firm down to give us the full exam and get us signed up as a preferred vendor and then maybe they sign a contract three months later, and may be they start et cetera, and these new conversations are two engineers sitting down, say, okay, our API, your API, we send you this data, you send us this, we point out an issue an error in the hand off between our data and their data and it's like fixed the next week. So it's a completely different story and it's a completely different understanding. By the way over time, the banks will get that way too. I mean they have to or they're going to seed a significant portion of the market to these new emerging platforms. So these platforms likely to get bought by the big guys and hopefully not get trampled on and muffled or the banks will figure it out themselves. And the other exciting thing for me is home equity. I mean, I met with a home equity lender yesterday, the guy has been on our network for 17 years and his bank is -- they had pulled out of the market, now wants to be back in the market and he's coming back in the market in a pretty big way. Home equity used to convert 20% on our site until the banks pulled out of it in 2008. So, I feel really -- I feel incredibly bullish about where the -- the technology to actually convert an online lead to an online loan is actually happening. As that happens, we sit in a perfect position to benefit from it.

Bob Napoli - *William Blair - Analyst*

Doug, obviously you have great opportunities here in the US but this is not just a US phenomenon if you would. A number of your US customers are moving international and there are obviously new international players as well. I mean do you have any thoughts around going international, some markets, UK, anything?

Doug Lebda - *LendingTree Inc - CEO*

That's a tough one for me. I always have thought, but the US has 50% of the worldwide consumer debt. It tends to turnover and it tends to be fairly uniform and the UK, which I think is the next biggest market, you've MoneySuperMarket, which is the closest analog to us and who's done a terrific job, but I think has a big share of that market. So, I think for us we got to just as much as I hate to say stay focused, I think we got to stay focused.

Bob Napoli - *William Blair - Analyst*

And then the small business, last question on small business. What are your-- there is a number of new players there and you're -- it's very early on for you, but are you confident that product is going to work?

Doug Lebda - *LendingTree Inc - CEO*

Extremely confident. All we need -- again our business is so simple all you have to do is be able to market, get customers and the brand works there. We've shown we can -- we know we can drive in the leads, we got 15 lenders I believe on that network and 20 more in the pipeline and who are big enough to come on and we're going to -- look, we are going to make a market and the winners are going to win and the losers are going to lose like it always has. This is -- every other category is playing out just like mortgage did and mortgage isn't over yet and then you layer on My LendingTree on top of it and that's the reason I just continue to be incredibly bullish.

Operator

Noah Steinberg, G2 Investment Partners.

Josh Goldberg - *G2 Investment Partners - Analyst*

It's Josh Goldberg for Noah. I guess just two quick things. First, obviously the spend in the second quarter on the advertising, on the commercials and some other efforts. Can you kind of quantify or breakout how much that is and then I have a follow up?

Doug Lebda - *LendingTree Inc - CEO*

Yeah, I think, I don't know yet. My guess is production costs which you expense. So the way advertising cost work, you make a new add and the accounting rules make you expense it in the period you run the ad. In my guess, it will cost a $1 million a $1.5 million to produce three ads which is a direct hit to EBITDA, in the period they run them. So assume we run them all in Q2, that's been roughly what that is. Quite frankly if we don't have that expense, yes, our EBITDA will be up, but it will be disappointing, because it will mean that we didn't get the ads right and that we didn't run them or we didn't see something that really tickled us. We're starting to see -- we've seen some early presentations and we really, really like them. So, I think we're on the right path there.

Alex Mandel - *LendingTree Inc - CFO*

It's Alex. Sorry, just to add to that. I think it's a combination both of whatever production expenses become appropriate to recognize in the quarter as a function of the timing you are varying your spots as well as general increase in media spend.

Doug Lebda - *LendingTree Inc - CEO*

That's a great point.

Alex Mandel - *LendingTree Inc - CFO*

Given that we're in the spring home buying season and this is the season we're buying for us. And so, for example, April, May and June are probably higher spend times than, for example, January and that would be irrespective of whether we have new spots or whether we're running the existing spots.

Doug Lebda - *LendingTree Inc - CEO*

It's a great point.

Josh Goldberg - *G2 Investment Partners - Analyst*

Got it. I guess the other question is just, you probably (inaudible) add about $1 million more this quarter on the mortgage side, outside of that is it closer to $50 million of increase, it sounds like the majority of that's going to come from your non-mortgage business. I think people are concerned at least today after the opened that that your non-mortgage business is going to slow after it just accelerated nicely in the first quarter. Is it fair to say that the majority of the growth in the second quarter is going to come from non-mortgage and therefore you'll continue to see strong triple-digit growth in non-mortgage for the foreseeable future?

Doug Lebda - *LendingTree Inc - CEO*

Yes. Very simply put, yes. We expect significant continued growth in non-mortgage. We're adding new cap. The existing categories we're in are growing like crazy, the new categories are just kicking in, conversion rates are very good, customers are happy on the consumer side and our clients are loving it and begging us for more. So we're going to step on the gas until it doesn't work.

Josh Goldberg - *G2 Investment Partners - Analyst*

Okay. Would you mind just commenting just to clear the air here because I think you said you did $2.3 million in January and $3.1 million in March in the personal loan side. The assumption is that February came in, in between those two. So call it between $7 million to $7.5 million in personal loans. I think you said it's about 50% of your non-mortgage business. Is that fair?

Doug Lebda - *LendingTree Inc - CEO*

I don't know. Alex, you want to take it?

Alex Mandel - *LendingTree Inc - CFO*

Josh, I think that -- what we had said in the fourth quarter was that personal loans was more than 50% of our non-mortgage. That continues to be the case in this quarter.

Doug Lebda - *LendingTree Inc - CEO*

Yes, and without releasing specific numbers and looking here at January, February, March and April on personal loans and the numbers have increased every single month, month over month at double-digit percentages, month on month and month on month, straight into April.

Operator

Joseph Garner, Emerald Advisers.

Joseph Garner - *Emerald Advisers. - Analyst*

Doug, I'm wondering if you could talk a little bit more about your efforts to kind of fill out the box on the personal lending side in terms of adding more lenders and then kind of filling out the credit spectrum as well there.

Doug Lebda - *LendingTree Inc - CEO*

Sure. So on the lender front, we're having conversations with everybody who wants to lend in the personal lending space. Some of those include all of the major lenders, obviously are the major new prospects, but also importantly, we're starting to see the traditional banks in there and we have guys like OneMain and Springleaf for example and now they are going to be one entity, who also do a very good job, but more traditional lenders will come in there as well. It is not -- the beauty of that market is that people underwrite, every lender underwrites differently, which is great for us, because the more diversity in underwriting criteria, the better off that is. We will where we have very good coverage right now in mid-prime and in subprime, the risk models are really just starting to be tested. It's really a question of, can you originate a subprime unsecured loan and do it profitably. And as I said last quarter, where 50% of the people don't even match in personal loans, that number is still roughly the same. And as that changes, that just changes the whole dynamic of that product. It's also conversion rate based obviously as they get their technology in line and they improve that just helps as well. But it's safe to say that customer acquisition costs are the number 1 concern and cost for every one of these companies. As I said there are seven to 10 times more money put to work and they can even put to work and no I don't know another place they can go for it other than direct mail. So we'll take as much as we can get, and we plan to give them more that's why we have to keep investing in that, as I said investing profitably to drive that to them.

Joseph Garner - *Emerald Advisers. - Analyst*

As demand seems to be rising in that space and as you're adding more lenders to the platform, have you -- what have you noticed in terms of the price per lead?

Doug Lebda - *LendingTree Inc - CEO*

Price per lead has definitely gone up, but it goes up in conjunction with conversion rate. So if you look at, you know, the publicly available guys would say they will do on cost per funded loan and I would say if they're targeting 200 basis points or 220 basis points or 50 basis points or whatever it is their cost per funded loan goal. That's what they'll effectively pay for a loan and then the lead price where we do have a lead pricing, again in some instance we do funded loan pricing with some lenders not getting into specifics with each lender, then they pay us more per lead as the close rates scale up and the things that I've seen again very early on are that there are significant improvements that we're going to make to conversion rates by working for them -- with them. And so I would expect that the cost per funded loan would hold steady, but if you again take a hypothetical 5% conversion rate and turn it into a 10% conversion rate, it has doubled your revenue per lead, which means you could now go spend twice as much money on advertising to go drive even more and that's really the game for us.

Joseph Garner - *Emerald Advisers. - Analyst*

Okay. And then you talked a little bit earlier about the home equity side and as you mentioned that used to be a very significant product line for you, I'm wondering how broad based you're seeing the interest there? We've certainly heard on this end from a number of traditional banks, how they're seeing that as a growing part of their book of business? Are you seeing it with -- at this point in time with just a few lenders, you're seeing a broader and how long do you think it may be until that becomes a more meaningful part of your business again?

Doug Lebda - *LendingTree Inc - CEO*

I think it's a major focus for us for the rest of the year and then in some ways, I heard from one lender two days ago, we might have actually hurt ourselves there by moving that to a strictly per lead price, because if at a per funded loan price the banks are actually allowed to amortize their marketing cost over the life of the loan, but they can't if it's upfront. So, I would expect some pricing flexibility there for us and we're going to get a lot more lenders in there. They have to upfront expense all their direct mail cost, but if it's cost per funded loan deal, they can amortize the marketing expense, those things close in less than 30 days. So I think with some pricing flexibility, we're going to go step on that gas. And there is new technology, they are just like personal loans, so it's -- (inaudible) home equity loan is even closed online in a few days, not totally online, you are going to sign some papers ultimately, but there's new technology they're coming to bear just like personal loans. There's new lenders coming into that space just like personal loans, and as I said, the banks need to get back into the game. So I expect it to be a big focus the rest of the year.

Operator

This does conclude the question-and-answer session of today's program. I'd like to hand the program back to management for any further remarks.

Doug Lebda - *LendingTree Inc - CEO*

Fantastic. Just want to say thank you again to everybody on the phone. Hopefully, you've seen that we continue to perform and deliver. I'm pleased with the continued interest in our stock, I'm pleased with people who think we're doing great and I'm pleased with people who're seeing -- it's kind of funny sometimes I read articles about how we're going to tank, and I get a good chuckle out of those too, because at least that's what makes the market, and we're going to continue to perform. You got a management team who is best in this. We're sitting at the perfect place for this Company at the perfect time and expect to see us continue to perform and we're going to bust our humps to make it happen. Reach out at any time to any of us with any questions you have, whether they be positive or doubts. We always enjoy the feedback and enjoy talking with each of you and we look forward to giving you hopefully great results in a couple more months. Thank you.

Operator

Thank you, ladies and gentlemen for your participation in today's conference. This does conclude the program. You may now disconnect. Good day.
