Operator

Good day, ladies and gentlemen, and welcome to the LendingTree Incorporated fourth quarter 2016 earnings conference call.

(Operator Instructions)

I would like to introduce your host for today's conference Mr. Gabe Dalporto, Chief Financial Officer. Sir, please go ahead.

Gabe Dalporto - LendingTree Inc - CFO

Thank you, operator, and thanks, everyone, for joining this morning for the LendingTree's fourth-quarter 2016 earnings conference call. On today's call, I'll discuss the fourth-quarter financial results as seen in today's press release and turn it over to Doug who will provide his thoughts on the quarter and an update on how we are trending into 2017.

First, a quick disclaimer. During the call, we may discuss LendingTree's plans, expectations, outlooks or forecasts for future performance. 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 The LendingTree's periodic reports filed with the SEC.

On this call, we will discuss a number of non-GAAP measures. And I refer you to today's press release available on our website at investors.lendingtree.com for the comparable GAAP measures, definitions and full reconciliations of non-GAAP measures to GAAP. With that let's get into the results.

Today, I'm pleased to be discussing another quarter of strong financial performance at the Company. Despite the typical seasonal headwinds we expect to see in the fourth quarter, we recorded new highs in revenue, variable marketing margin and adjusted EBITDA.
The mortgage business returned to sequential growth despite seasonality and increasing interest rates, providing further confidence in our outlook for that piece of the business in 2017. And with the acquisition of CompareCards in November, our credit cards business exceeded expectations and is carrying terrific momentum into the new year.

Taking a closer look at revenues, consolidated revenue of $100.8 million represents year-over-year growth of 29% and exceeded the high end of our previous guidance on strength in mortgage, credit cards and home equity. Mortgage revenue grew 4% sequentially in a seasonally slower fourth quarter to $55.4 million, up 18% compared to the fourth quarter 2015. According to Freddie Mac, 30-year fixed rate mortgages averages 3.45% through the September quarter, and rose to as high as 4.2% in the month of December.

As expected, several key mortgage lenders that had previously tempered spending in the third quarter [to work off] backlog, resumed spending at levels that were equal to or in some cases greater than levels we saw in the first half of the year. As we move into 2017 where rates remain well above 4%, we are seeing lender behavior progress as expected with increasing demand and more focus on primary purchase mortgages.

Non-mortgage products revenue of $45.4 million was up 45% versus the fourth quarter of last year, and comprised 45% of total revenue. Including impact from the acquisition in November, credit cards revenue of $16 million led the growth among our non-mortgage categories, up 145% year over year, followed by home equity which grew 134% over the same period and continues to be a solid growth driver.

In terms of profitability, variable marketing margin grew to $36.8 million, another record and up 31% from the year ago period. And we grew adjusted EBITDA by 58% year over year to $18.9 million, also exceeding the high end of our previous guidance.

In GAAP terms, the Company recorded $8 million of net income from continuing operations or $0.63 per diluted share. Adjusted net income per share, which excludes certain items expensed under GAAP, registered at $0.87 per share. Both GAAP and adjusted earnings per share figures reflect the full $5.3 million tax provision in the quarter. As we move into 2017, I'd point out that we expect year-over-year EPS growth to become a more meaningful measure for us as we lap the anniversary of becoming a full corporate taxpayer.

Moving to the balance sheet and our liquidity position. Our unrestricted cash balance declined to $91 million as of December 31 from $177 million at September 30. As we incurred cash outflows of $80 million in conjunction with the CompareCards transaction, and another $23 million related to the purchase of a two new office buildings in Charlotte, North Carolina. On the latter, we're in the process of securing a mortgage against those properties that will return some of that cash to the balance sheet. That said, in addition to the $91 million in cash on hand as of 12/31, we maintain an untapped $125 million credit facility, giving us ample liquidity as we continue to evaluate our M&A pipeline. With that, I will turn it over to Doug.

Doug Lebda - LendingTree Inc - Chairman & CEO

Thank you, Gabe, and thanks to everyone for joining this call today. Since Gabe has taken you through the numbers, I'd like use this time to provide some color on the overall business, discuss performance in the context of our long-term strategy, and our outlook for 2017 and beyond.

Overall, we had another outstanding quarter, which caps off a year of strong and consistent growth in both revenue, which grew 51% over the prior year, and profitability, with adjusted EBITDA increasing 71% year over year. At our investor day just a couple months ago in December, we laid out our four key strategic initiatives for the year ahead which we believe are thoroughly aligned with LendingTree's mission to enable growth in market share and position the Company for sustainable growth over the long term.

As a reminder, these strategic initiatives are, one, to expand into new categories while still growing market share in our existing categories. Two, to strengthen the consumer relationship through more options and improved intelligence, particularly around our My LendingTree product. Three, to reimagine the consumer experience, particularly in mortgage. And four, to manically optimize our conversion funnel from add to unit to all the way through loan funding which is something that we believe will substantially move our Company forward. I'm proud to say that we have already made great progress, even in the last two months, and are much more confident in our ability to execute on all of these initiatives.

On the fourth quarter, total mortgage requests grew 25% year over year and revenue per loan request increased 14% substantially as interest rates have risen and lenders have leaned in expanding filters and increasing demand. It's imperative to note that we have successfully managed this
business through a wide variety of interest rate environments time and time again. Our business model, the depth of our relationships with lenders, the LendingTree brand and our exceptional team has enabled us adapt, change and move quickly to provide a quality experience for consumers while still meeting lender demand.

Many lenders in the past several months have seen their own organic traffic and marketing efforts slowing in the quarter, which has enabled us to gain big wins with several top partners by filling in the gaps that higher rates created in their own business. With the refinance market expected to contract considerably in the future, and by the way that's something we have been anticipating, preparing for and letting you know that it's coming and that we can manage through it. We are now focused on increasing our overall share of the market and increasing wallet share with our large, midsize and small clients.

We are also seeing a substantial shift from refinance to purchase, just like we had been telling you will happen in our business naturally for the last many, many years. In January, we experienced unseasonably high volume and lender demand for purchase mortgages. This transition is happening.

This increase in consumer and lender demand creates an upside for LendingTree, as we are seeing traditionally focused refinance lenders enter into the purchase market and purchase focused lenders are looking to grow their business with LendingTree. To put this into perspective, Q1 purchase revenue is currently pacing to roughly 25% growth on a year-over-year basis. Additionally, large banks who are focused on retaining existing customers are increasingly taking advantage of our ability to identify customers that are shopping on our site who are customers of those banks.

In the year ahead, we're laser focused on increasing conversion by improving the borrower experience and delivering high intent borrowers to our lending partners, both of which will enable us to also gain market share. The year is already off to a strong start, and I'm confident we will continue our growth trajectory as expected.

Now onto home equity where the market is ripe for continued growth. The number of requests for home equity loans grew 87% year over year, and revenue year over year increased 134%, as we have benefited from adding more lenders and more lenders are opening their filters to serve customers. We grew our home equity lender network by 20% sequentially, adding 12 lenders in the quarter, 8 of which are brand new to LendingTree’s home equity marketplace.

In the quarter, two of our largest national banks materially grew their home equity business with LendingTree. As interest rates are expected to remain elevated, we anticipate increased lender demand from both national and regional banks as well as correspondent lenders who focus on cash out refinance.

Now shifting to credit cards which is -- just has a lot of good news for us. Back in November, we announced our acquisition of CompareCards, a top player in the credit card comparison-shopping space. Since the acquisition, CompareCards and LendingTree have been working side by side to capture meaningful market share through optimization of both of our brands and our two websites.

Adding two prominent brands as part of one organization allows us a great proportion of our marketing shelf space and the integration of our business enables us to efficiently optimize card issuer relationships and payouts. In short, we benefit by having two brands and we benefit by running those two brands in a very similar fashion.

I'm thrilled to say we are achieving scale across marketing channels, and achieving scale with our marketing partners and also with our lender partners. Collectively, our cards business represents about 10% of the credit card comparison-shopping market, and we have a massive opportunity to double our market share and reduce the leverage of our competitors by continuing to market very effectively and continue to grow. As we grow, we make it more difficult for our lenders to do the same type of marketing as we've talked about in the past.

Building on the momentum generated in Q4, we are in the process of several exciting developments in the credit card space. Our credit cards team is building a suite of testing tools designed to create deeper engagements with the issuing banks, allowing issuers to actually test marketing efforts before they come in full steam. We are developing our analytics around how consumers interact with advertising platforms throughout their decision-making timeline, enabling us to find customers that we can deliver with very high intent.
Over the next two quarters, our focus will be on increasing card recommendations inside of My LendingTree and leveraging tradeline data from a user's credit file to make even smarter card recommendations. Clearly, we remain very confident in our ability to compete and scale in this vertical, and we’re thrilled with our acquisition that we made.

Let’s move on to personal loans. We generated a record number of personal loan requests in the quarter, increasing 60% year over year. And we also doubled the number of matches made between consumers and lenders, improving the experience for consumers and significantly making our funnel more efficient.

In the quarter, we added 40 new lenders to our personal loan marketplace, signifying the stability of the personal loan market and the growing demand from both consumers and lenders. Moving forward, will continue to focus on improving conversion rates through all points of the funnel, from form page, offer page, and ultimately in closings with our lenders just like we do with every one of our products.

Now moving on to small business loans, which performed exceptionally well and generated record revenue in the quarter. In November, we launched a small business contest that resulted in over 1,100 entries which provided valuable insights in the financing needs of small businesses and significantly got our word out.

Currently, we are working on improving the borrower experience by developing an all new offers page with data attributes that are unique to LendingTree. Such as the average time to fund a loan and the average loan amount for LendingTree customers. This type of data will help our customers make much more informed decisions.

In 2016, business loan requests increased 49% year over year, and lenders on the network are continuing to ask for even more volume. Industry experts are estimating that the market for online business loans could exceed $200 billion in originations by 2020. As I’ve said before, this space represents a massive opportunity for LendingTree and I’m thrilled that we continue to see real traction in this vertical.

Finally, I wanted to call attention to our personalization platform, My LendingTree. We saw continued enrollment growth in the quarter, and now have more than 4.3 million consumers on the platform who have opted in for a free credit report product and ongoing alerts.

Through these recommendations and alerts, My LendingTree is generating roughly 14% of our total personal loan volume and almost 25% of the LendingTree credit card volume related to the LendingTree brand. The newly redesigned My LendingTree app, which by the way is fantastic and I encourage you to download it, is live as of yesterday for Android and iOS with an enhanced user interface and greater platform stability to further improve engagement and the customer experience.

Additionally, we found on average My LendingTree users can save $325 a month by following the proposed savings recommendations on the platform. For the average American, this is huge and is really verifying the fact that we believe this can be great for consumers and can also be great for lenders and great for LendingTree. We’re now ramping up paid marketing for My LendingTree, and in January we set a new record for My LendingTree monthly revenue contribution.

Now turning to our outlook for Q1. In the first quarter, we anticipate revenue to be between $122 million and $126 million or 29% to 33% over the first quarter of 2016, with variable marketing margin in the range of $41 million to $43 million.

We expect adjusted EBITDA to be in the range of $20.5 million to $22 million, implying year-over-year growth of 30% to 39%. Based on our pacing since the start of the year and our outlook for Q1, we are increasingly confident in our ability to achieve the full-year guidance we provide in December which calls for 30%-plus growth in both revenue and adjusted EBITDA.

To conclude, 2016 was a great year for LendingTree. We strengthened our leadership position in several categories, and have built a strong foundation for executing our key strategic priorities in 2017 which will set us up for many, many years to come. With almost two months into the year, we are already in a strong position. We are already seeing a lot of momentum, and we could not be more excited about the opportunities ahead of us. With that, we’ll open it up for questions.
QUESTIONS AND ANSWERS

Operator
(Operator Instructions)

Our first question comes from the line of Matthew Carr with SunTrust.

Matthew Carr - SunTrust Robinson Humphrey - Analyst
Thanks for the question. As you look at the purchase mortgage space, how much more room do you think you have in terms of improving monetization as the organic volumes (inaudible)?

Doug Lebda - LendingTree Inc - Chairman & CEO
It's a really good question. First off, purchase, there's a lot of room for purchase to grow and then I will talk about monetization. We're not going to give you necessarily specific numbers, but we will give some anecdotes.

We have about a little over 2% share in the overall refinance market of originations. Our share for purchase is substantially lower than that, so there's a ton of head room to grow in purchase. And a lot of the consumer experience initiatives behind that are what we are really excited about.

Those initiatives all relate to your second question which is monetization. And I pointed to our investor deck which shows you the leverage of changes in our funnel. Long story short, there's a ton of room for upside in monetization of purchase. And the reason is because we will get lender close rates to continue to move up, which will then get them to continue to increase their bids.

In addition to that, if you look, and these are hypothetical numbers but they're not far off. You could match 50% of your borrowers with at least one lender, and you just make that 60% or 60% to 70%, but 50% to 60% is a 20% increase in monetization just there.

If you can move from three lenders to an average of four, you pick up an additional one-third of monetization. If you move close rates from 2% to 4%, you're not going to quite double monetization but you will probably get it up there by 50% to 70%. So suffice it to say, there's a ton of room to move monetization as we continue to work with lenders. And by the way, in addition to our initiatives, a lot of that happens naturally because lenders who previously didn't focus as much on purchase now they've put a big focus on it and they cleanup their internal processes too.

Matthew Carr - SunTrust Robinson Humphrey - Analyst
Thank you so much.

Operator
Our next question comes from the line of Mark Mahaney with RBC Capital Markets.

Jim Shaughnessy - RBC Capital Markets - Analyst
This is Jim Shaughnessy stepping in for Mark this morning. Thanks for taking the question. Just on mortgage, I think at the analyst day you mentioned that mortgage was likely a low to mid-single-digit grow over 2017. I'm just wondering given the comments about January trends, January purchase trends year to date, is that expectation -- is that still the expectation or do you think is it incrementally more positive? Thanks so much.
Gabe Dalporto - LendingTree Inc - CFO

Yes, I think it’s a great question and we’ve certainly have seen a lot of momentum moving into the year, particularly on the purchase side. So we said mid-single-digits, maybe it’s mid to upper single digits. We are marginally more bullish on mortgage than we’ve been, and we think purchase has a lot of room to grow on a lot of legs.

Jim Shaughnessy - RBC Capital Markets - Analyst

Great, thank you. If I have one more follow up. It looks personal loans might have been down a few million sequentially in the quarter, is there anything else to call out here besides seasonality that we should be aware of?

Doug Lebda - LendingTree Inc - Chairman & CEO

Absolutely not. Seasonality is pretty much it. We had forecasted and told everybody it was coming and it’s come out the gates stronger in Q1 as well. So, Gabe, (inaudible).

Gabe Dalporto - LendingTree Inc - CFO

I will point to the personal loans business where number one, we achieved record volume in Q4 which is a testament to our marketing. And we’ve mentioned the fact that we might be seeing a little weakness [park yelsh] issues and integration issues with an acquisition of one lender by another.

But as we move into Q1, we’re looking at pretty -- for the first time in a while, increases in revenue per lead and a lot of lender demand. We also added a substantial lender in late Q4 that we’ll be getting the benefit of as we move into Q1. So that industry and that segment feels pretty good for us right now, and we have some tremendous opportunity for volume as well as finally some RPL increases as we go forward.

Jim Shaughnessy - RBC Capital Markets - Analyst

Got it. Thanks guys.

Operator

Our next question comes from the line of Kerry Rice with Needham.

Kerry Rice - Needham & Company - Analyst

Maybe first on mortgage, as you had just highlighted I think, Gabe, that you now maybe mid to higher single digits for mortgage revenue growth in 2017. Can you talk a little bit about seasonality in Q1? Does that generally accelerate in Q1, and maybe is it different this year because it’s more purchases than refis?

Then maybe a similar question on the non mortgage, clearly credit cards is doing well, home equity is doing well. But do you look at that growth trajectory as an acceleration in Q1 in the non-mortgage business or any maybe guidance as we think about non-mortgage growth for 2017? Thank you.
Doug Lebda - LendingTree Inc - Chairman & CEO

Let me take the first part of that. [You can total this number] (technical difficulty). Run this business we always see Q4 seasonally weaker, which is why we projected what we projected. And I know when we did that, some people didn't understand what was behind it. The Q4 (technical difficulty) places people are buying stuff not (technical difficulty) stuff, in Q1 people typically finance stuff at a greater rate.

So you typically do see some stronger Q1. And we put that (technical difficulty) guidance here as well. Now that said, we're still seeing growth really across the board. And probably I'll probably get corrected here, but sequentially, I don't think we have any product -- I think almost all of our (technical difficulty) through our office sequentially, and I believe throw up year over year.

So we're (technical difficulty) growth everywhere. It's happening through monetization, it's happening through demand, it's just happening through all the things that we said. So you definitely see Q1 a little bit stronger than you do Q4. Now in addition to that, from what we've said, so what we've hit on in mortgage, one from mid-single digits to higher single digits.

That's not only telling you that we have the a lot of confidence in abilities and our plan, which I was obviously more confident than December, but we also have confidence that we can now be even a little better on mortgage. Now, that doesn't mean it's going to be better in everything, but it gives much more confidence about the overall year.

Operator

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

Mike Grondahl - Northland Securities, Inc. - Analyst

Congratulations on the quarter. Sort of two quick questions. One, could you talk a little bit about what's embedded for mortgage activity and credit card activity in 1Q? Then maybe secondly, could you talk a little bit about trends that you are seeing at some of your larger mortgage customers, where their demand is and what they're thinking?

Doug Lebda - LendingTree Inc - Chairman & CEO

So the first one, can you just clarify what you mean by embedded?

Mike Grondahl - Northland Securities, Inc. - Analyst

Well you have revenue guidance of $122 million to $126 million. If you somewhat broke out mortgage and credit cards, sequentially how are they doing compared to 4Q?

Doug Lebda - LendingTree Inc - Chairman & CEO

I'm going to let Gabe take the embedded one, and let me talk about the customers first. And on the notion of the individual products, we don't necessarily release very strict revenue on product by product. We do mortgage and non mortgage as you'll see in our Qs, because we consider that competitive.

Now the keys in our big mortgage customers, let me tell you what's happening. They are expanding demand in every way you could think off. So there increasing their demand for purchase, they're also increasing their demand for refi.
Keep in mind that increasing demand encompasses a number of things. It encompasses the number of customers they want, it encompasses how wide they're willing to go, for example, they move their minimum loan amounts from let's say $200,000 down to $100,000 and that creates that funnel effect. We add more lenders, which means we get more trends and it’s per and those lenders focus more on close rates which does that.

In addition, you have just the secular trend of moving from off-line to online right out of our investor deck, and that’s continuing to happen. And as lenders are increasingly want to lend, if you think about it, how you drive volume? That’s what we’ve said since the very beginning.

Any individual lender trying to drive their own individual volume will be less efficient than if LendingTree, and we can drive the entire market and then let lenders carve it up and slice it the way they want. And that’s happening with our big customers, it’s also happening with our smaller ones. It’s definitely more accentuated with our big customers.

And by the way I’ll take one more second to make this point. I just was looking yesterday at our top-10 lenders across the board, and you cannot believe how our top 10 spenders have moved from call it smaller corresponding lenders 5 or 6 years ago into now the major money center banks, the major credit card issuers and the major personal loans lenders and it a beautiful thing to see that transition happening. Gabe, you want to talk to the embedded numbers?

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**Gabe Dalporto - LendingTree Inc - CFO**

We already mentioned mortgage mid to upper single digits. As you look at credit cards, obviously higher growth rate in credit cards. We’re seeing great momentum in the combined credit card business, and that encompasses our own LendingTree branded efforts where we are seeing really nice growth as well as CompareCards they’re are seeing really nice sequential year-over-year growth. So we are very happy with how the credit card business is performing.

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**Mike Grondahl - Northland Securities, Inc. - Analyst**

Got it. Thank you.

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**Operator**

Our next question comes from the line of John Campbell with Stephens.

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**John Campbell - Stephens Inc. - Analyst**

Congrats on a great quarter and a good start to the year. So you guys mentioned that the I think the total loan requests were up 57% year over year, and that’s against total rev up 29%. So I want to dig in on that growth rate differential, was that more less matches or lower rev for match or maybe just a combination of the two?

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**Doug Lebda - LendingTree Inc - Chairman & CEO**

It’s really a mix shift issue. So if you look at aggregate loan requests and personal loan requests were up very, very significantly compared to mortgage. So it’s really a mix shift into lower monetizing products, I wouldn’t worry too much about it.

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**John Campbell - Stephens Inc. - Analyst**

Okay, that’s helpful. And then on the match rates, just curious about your thoughts. How that’s going to fair this year.
It seems like the average American balance sheet continues to improve, you’ve got improving credit scores, that’s obviously going to help a little bit. But can you talk about the expectations just around your customer appetites this year? Do you feel with a bit of the wind back regulations and I guess just rising rates that there could be a widening of the credit box?

**Gabe Dalporto** - LendingTree Inc - CFO

Yes, so thanks for that question. We are already seeing substantial increases in demand. We’ve talked about mortgage where the match rates are up and matches per are up. So that’s already happening.

We are in personal loans, we see very, very strong demand for prime and improving demand for mid-subprime. So I think that’s a positive trend. Credit cards, the issuers are relatively insatiable. So there is strong demand there.

And home equity demand is really exploding. The number of lenders has increased dramatically there, and interest in that product has increased dramatically and that’s working for the lenders. So I think what seeing is there’s pretty strong demand across the board for our products, and that’s benefiting obviously on the match rate side.

**John Campbell** - Stephens Inc. - Analyst

Okay, that’s helpful. And then just if I could squeeze in one more. On the mortgage side, can you talk a little bit more about the size of customer, how you’re seeing that split out across the board? Are you seeing some of those larger lenders pick up appetite over the last quarter or two?

**Doug Lebda** - LendingTree Inc - Chairman & CEO

Absolutely. When you think about these large lenders, the have a very, very big appetite when their volume closes. Somebody’s got 2,000 loan officers and their volume goes down by a little bit, even 10%, they’ve got 200 people sitting around with nothing to do and they want to fill those guys up.

So we’re definitely -- so the bigger lenders on the network have a lot more experience with LendingTree unless they can up their buys, and that’s been working really across the board. So it’s not only bigger lenders joining the network, it’s bigger lenders with bigger appetites and bigger budgets spending a lot more money with us or wanting to spend more money with us. And quite frankly, we have so much lender demand right now, we are working diligently increasingly on the marketing side to make sure we can get all the volumes and fill it up for them.

**Gabe Dalporto** - LendingTree Inc - CFO

And just to supplement Doug’s point. The number of lenders with $500,000 plus spend with us increased materially in the quarter, so we are definitely seeing people move up the food chain.

**John Campbell** - Stephens Inc. - Analyst

That’s great to hear. Thanks, guys.

**Operator**

Our next question from the line of Neil Doshi with Mizuho.
Neil Doshi - Mizuho Securities Co., Ltd. - Analyst

Doug, can you maybe talk about some of the new markets that you’re trying to move into like pre-prime or commercial real estate, insurance, etcetera? I know it’s early days, but how are some of those products coming along and any initial uptake there?

And then secondly, how should we think about the growth of My LendingTree users? That’s seems to tick up nicely. Will we see more effort in terms of marketing that app so that people will download that app? And what type of stickiness do you guys tend to see when someone downloads the app and starts using the My LendingTree app? Thanks.

Doug Lebda - LendingTree Inc - Chairman & CEO

Got it. So on the first one, some of the things we’re looking at, and I don’t want to get too specific here because some of them are acquisitions so I won’t go -- I will give some anecdotes, But one that’s actually launching today or tomorrow believe it or not is auto insurance. We’re doing it through a partnership, and we’re actually probably going to be marketing that directly in addition to cross-selling on our site.

The commercial mortgage business is one that is very broker-based with high middle manage fees, low transparency and the developers need to flip those every five years. So we like that. We’re looking at every category of small business loans, and if you would just say small business it breaks down in probably 10 different categories of lending.

And then we’re looking at some of the nichier areas, for example, could even go as well as helping builders find individual investors where banks are not available. That’s so-called hard money market. We think that’s interesting, although early. We think life insurance may be interesting, but that’s a long time away. By the way, we will start all these insurance things as partnership so we don’t have to distract from where we are.

In each of these categories, by the way, there are a number of acquisitions that could potentially be available at decent prices. So that’s the good -- it’s all a little bit of a flavor of it all there. And the second one?

Gabe Dalporto - LendingTree Inc - CFO

And to the second question which I believe was My LendingTree and marketing of My LendingTree product. In January, we started some paid marketing on My LendingTree direct to the website as well as some app marketing on our legacy app.

Doug says the new app is fantastic, I highly encourage everybody to download it. We will be scaling up our app marketing on that product in the coming weeks, so we very much look forward to scaling up our marketing on My LendingTree.

Neil Doshi - Mizuho Securities Co., Ltd. - Analyst

Thanks, guys.

Operator

Our next question comes from the line of Hamed Khorsand with BWS Financial.

Hamed Khorsand - BWS Financial - Analyst

First off, just talk about mortgage. The trends you’re seeing there from your lenders, is that more of a secular trend what you’re seeing as the lenders are coming on, spending more? Or is that market share gains from a competitive standpoint?
Doug Lebda - LendingTree Inc - Chairman & CEO

It’s absolutely both. So the way we like to think about increases is first off, you have got the size of the market growing, and I don’t have -- if you look at our investor [ridge], it’s that little bubble at the bottom and that’s definitely growing which means there’s a secular trend of lenders getting more of their volume from online. Which just makes total sense.

We’ve talked about it before. This is really last big category to move online, so you have that happening. And then you have the lender, which by the way, is showing that lenders are increasing their demand so they’re increasing their demand with us from that.

We’re also seeing that lenders are increasing their wallet share with LendingTree, and we are really going after that hard. We are basically going to lenders and saying what’s it going to take to get more and more of your wallet share, and we do that based on a really great analytics platform.

We actually go in and tell the lenders where they can succeed, where they can’t and much money they can make in each of their filter segments, and really going in and help them do that. So it’s definitely stealing wallet share, and it’s definitely moving online. And then you have this purchase refi change which shows that the off-line market is going down, so now they’re going to shift even more money into areas where they can get volume.

Hamed Khorsand - BWS Financial - Analyst

Okay. And then just following up on My LendingTree. Now that it’s been a couple years at least, could you provide some stat on how long before the actual subscriber takes action? Actually wants to do something beyond just looking at their credit score?

Doug Lebda - LendingTree Inc - Chairman & CEO

Sure. So actually we are seeing modernization happen in the first couple months. And then quite frankly, it will tail from there for a period of time except for your sub prime folks you’re going to see increase in the credit score and then they’re going to be able to lower pricing that way. And then for other people who obviously take action in the first couple months, they’re going to have more needs continuing throughout their life as they buy homes and do other things. But they’re actually transacting fairly quickly, which gives us a lot of confidence that we can even put together marketing campaigns after that.

Hamed Khorsand - BWS Financial - Analyst

Okay. But are you seeing anything from the inactive side, where customers sign up and they are excited, they’re monitoring things and how long before they become inactive, and what you’re doing on that front to get them engaged again?

Doug Lebda - LendingTree Inc - Chairman & CEO

Yes. So every time we -- so first off, the engagement is still there, but you’re going to have fewer alerts. So you don’t need to come back all the time unless we send you an alert. So the new features we add and the new alerts we add, we’re seeing it bring people back.

They’re coming back not because they want to come play a game on My LendingTree, they’re coming back because we sent them an alert that’s actionable for them and then they can take action. And we are both seeing a lot more customers taking action, we’re also getting better conversion rates from our alerts to them taking action just by a number of blocking and tackling and ongoing initiatives through conversion funnels like we do everywhere.

But the other thing I would add is, one of the great things about this alert based product. You get wonderful customer satisfaction out of something like that, because you’re not calling them or you’re not touching them unless there’s actually a real savings. And consumers love it and now we’re
going to go start telling them about it. With this bigger monetization we’re going to start marketing, which I know has been a long time coming but we feel better about it. We will start small and scale into it.

Operator

Our next question comes from the line of Jed Kelly with Oppenheimer.

Jed Kelly - Oppenheimer & Co. - Analyst

Thanks for taking my question. Looks like CompareCards grew about 30% in 2016, and the site still has much less website traffic than some of its larger competitors. Do you actually think it’s possible to accelerate CompareCards revenue growth by leading in more into branded channels in 2017?

Gabe Dalporto - LendingTree Inc - CFO

Yes. So absolutely, I think it’s possible and there has been great collaboration between the teams across a variety of marketing channels. The great thing is they are fantastic at things like paid search, we are fantastic in things like display and some partnerships and things like that. So we are in social, so we are sharing that knowledge across the Company so that we can leverage what they are great at, they can leverage what we are great at. And I think that helps the combined companies, and we can also really focus the marketing efforts where we’re going to get the highest payouts as well.

Jed Kelly - Oppenheimer & Co. - Analyst

Thanks.

Operator

Our next question comes from the line of Michael Tarkan with Compass Point.

Ann Dreskelsen - Compass Point - Analyst

This is actually [Ann] [Dreskelsen] on for Mike. Thanks for taking my questions. Just with the dust now settling after you guys completed the CompareCards, how can we think about capital allocation at this point? Should we think you’re going to skew more towards M&A or maybe go back to the buyback?

Doug Lebda - LendingTree Inc - Chairman & CEO

Buybacks we are there typically every quarter, we haven’t bought a lot recently as Gabe said. We tier it based on price, and the prices ran up and therefore we didn’t get any buybacks this year. From a capital allocation standpoint, increasingly we are focusing on that. I can’t predict which way it will go, basically we’re going to deploy capital in the most efficient way possible.

We are going to keep looking at leverage to make sure that we can do that. And I think it’s not lost on me that when I think about it, the companies that perform the best over time are the ones that make smart capital allocation decisions. Which means you buy back your stock when it’s valued right and you use it for acquisitions carefully in way that you can get things that are accretive and try to do that very efficiently over time. And we’re there.
So I can’t tell you which one is it’s going to be, I can tell you we are going to make more acquisitions. And one of the things that’s really thrilled me is somebody working for the Company and seeing our Company be able to actually execute an acquisition and have it come in, diligence it, get the right numbers. By the way, we’ve said no to probably 10 plus things recently, and we said yes to one. So I think it shows we can buy the right thing and we can execute it the right way and integrate it the right way.

Ann Dreskelsen - Compass Point - Analyst
Just a clarification question for me. Did you guys buy back any stock during 4Q?

Doug Lebda - LendingTree Inc - Chairman & CEO
No we didn’t, obviously we were in the middle of an M&A process and the rest was capital allocation and we wanted to make sure we had the right firepower there. I think the CompareCards acquisition is a great example and model of the type of thing we want to look for, which is growing, is profitable, it’s highly strategic, it complements our needs in the company and it has a fantastic multiple.

So those are the types of things we are looking for, and those can be highly accretive acquisitions. We want to make sure we have the right amount of capital available there, and we are very, very happy with that one.

Ann Dreskelsen - Compass Point - Analyst
And then one more for me. On the injunction against, I guess from Next Advisor, are you seeing any impact there? Can you quantify that for us if possible?

Doug Lebda - LendingTree Inc - Chairman & CEO
So we’re seeing a slight -- so let’s just clarify it for everybody. That injunction basically says that we cannot do native advertising, which is basically writing an article and putting it out on the internet. We cannot do native advertising only through three ad networks that place those.

So while that caused short-term dip like we’ve talked about before, now we are doing direct deals where those ads used to get placed and the injunction will have a little effect but it will -- but it’s diminishing over time. You should also know the percentage of our profits that came from that native stuff, I don’t know if Gabe will talk about it, but it was not very large. So it really hasn’t had that much of an effect.

Gabe Dalporto - LendingTree Inc - CFO
Obviously, we prefer it wasn’t there. It had a short-term impact call it in Q3, Q4 for our core business. The team basically took the challenge and they have really blown up other marketing avenues, and our core business had a record month in January, CompareCards had a great month in January, neither of which had anything to do with native advertising. So we feel like we would like to have it not there, but we have done really well with it (inaudible).

Doug Lebda - LendingTree Inc - Chairman & CEO
So another way to think about it is, we’re doing fine with the injunction and we’re still growing and business is good. If we didn’t have the injunction, it would be better.
Okay. Thanks, guys.

Our next question comes from the line of Blake Harper with Loop Capital.

Two questions. One, given that you had provided guidance at December 13 at your investment day and that we able to see pretty handily, looking back, given the upside there, would you be able to classify it as a conservative outlook at the time? Or was there an accelerated level of activity there in the last two weeks, two and a half weeks of the quarter that led to the upside or something else related to the timing that you could call out that led to the upside from the outlook at that time?

And then the second question I had is related to -- I wanted to see, Doug, if you could expand on the margin potential expansion from My LendingTree given the incremental SEM costs you don't have with those customers, would you be reinvesting some of that in some of the app marketing? Gabe, I know you mentioned, or you would be able to have some of that flow through to the bottom line potentially?

All very, very good questions. On the second one, it's really a channel thing. So each marketing channel operates independently of another. So you don't necessarily -- in our business it's really the direct marketing business. So you don't really move money from one channel to another or from one product to another unless you're getting more demand and supply and you losing VMM.

So basically you're always looking for VMM. If we're getting a profitable -- if we're getting profit on anything we're running, we're going to keep running it. So we're going to run My LendingTree ads, and when we run them stuff will fall to the bottom line.

But we will look at the My LendingTree ads not against all of My LendingTree, but just based on the volume that comes in from there. So the organic volume and the cross-sell volume that comes through our site naturally will all drop to the bottom line, and we will evaluate the marketing based on just the volume that we are driving in.

By the way, that marketing is also -- there's another layer that you have to go which is you have to target different demographic segments and have different monetization ability. So there is another layer of complication there that quite frankly because we're so good at marketing gives us a competitive advantage.

My reaction from December to now is obviously things did get a little stronger. But in addition to that, when we were at investor day, we were not focused on our [big and] guidance that we had just given, we were really focused on the long term things and we were obviously incrementally more confident in investor day and things came in a little better.

Okay. Great. Thanks a lot, Doug.
Operator

Thank you. And I’m showing no further questions at this time, and I would like to turn the conference back over to Mr. Doug Lebda for closing remarks.

Doug Lebda - LendingTree Inc - Chairman & CEO

Fantastic. Thank you all again for being here, and thank you for your very thoughtful questions. As many of you know, I’m in the interesting position at this Company where I get to think of both as a CEO and as an investor. As a CEO, I can tell you this is a fantastic Company with fantastic processes, hiring wonderful people who really get our core principals and I’ve never been more thrilled with that.

As an investor, I like to look at this and see what is the value of the Company and how do I believe as an investor. And when I look back at what this Company has gone through over the last eight years, I feel very confident they can do anything.

First, we went through the financial crisis and people worried that we were going to get through that. Second, we had a money-losing bleeding from owning a mortgage originator at the worst time, and we got rid of that, we made a lot of money. Then people were worried about loan losses, we got out of that and we dealt with that.

Then people are worried about diversification, I think we proved that one. Then along comes the fin tech bubble in all these crazy valuations. When that bubble starts to pop people thought we were going to pop, and obviously went right through that.

Then follow it up with personal loan crisis which had people worried, then the shifts from refinance to purchase. And then lastly, whether we are going to be able to actually buy and integrate an acquisition.

We’ve come through, we’ve weathered every challenge. I don’t know what the next worry is going to be, but I feel very confident we are going to figure that one out to. This is a company that can weather the storm.

In addition to that, the industry is setting up exactly like we’ve said over the last 20 years. It just took a lot longer, and we are perfectly well-positioned in the industry. And then last is our competitive position, where we continue to gain share against competitors, you can see that in public company revenue growth of us versus them, and you can see how we are continuing [bets with you].

So as a CEO, I love being part of this Company, and as an investor I have tremendous confidence/ And I hope many of you continue to come along with the ride for us which we think is going to be very exciting. So thank you very much.

Operator

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