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EDITED TRANSCRIPT

TREE.OQ - Q3 2020 LendingTree Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 05, 2020 / 2:00PM GMT

OVERVIEW:

Co. reported 3Q20 results.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the LendingTree Third Quarter 2020 Earnings Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to hand the call over to your host, Mr. Trent Ziegler. Please go ahead.

Trent Ziegler - *LendingTree, Inc. - VP of Finance & IR*

Great. Thanks, Elisa, and thanks to everyone for joining the call this morning to discuss LendingTree's third quarter 2020 financial results. On the call with me this morning are Doug Lebda, LendingTree's Chairman and CEO; and J.D. Moriarty, Chief Financial Officer.

As a reminder, we posted a detailed letter to shareholders on our Investor Relations website earlier today. And so with that, we'll keep our prepared remarks relatively brief, and we'll spend the bulk of our time this morning addressing your questions.

So before I hand the call over, I'll quickly remind everyone that during today's call, we may discuss LendingTree's expectations for future performance. Any forward-looking statements are subject to risks and uncertainties and LendingTree's actual results could differ materially from the views expressed today. Many, but not all of the risks we face are described in LendingTree's periodic reports filed with the SEC.

We will also discuss a variety of non-GAAP measures on the call today, and I refer you to today's press release and shareholder letter, both available on our website at investors.lendingtree.com, for the comparable GAAP measures, definitions and full reconciliations of non-GAAP measures to GAAP.

And with that, I will turn it over to Doug.

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

Thanks, operator, and thanks, Trent, and thanks to everyone for joining the call this morning to discuss LendingTree's third quarter 2020 results. On the call with me -- I'm sorry. I got that wrong. Thank you, Trent, and thanks to everyone for joining the call.

Before we get into questions, I'd like to spend a few minutes giving you my perspective on the business and a few of the reasons why I'm increasingly encouraged by the prospects as we continue to navigate this challenging period.

First, the benefits of diversification have never been more clear. Financially speaking, our performance over the last 6 months has demonstrated the durability of our business model. We have generated more than $50 million of adjusted EBITDA in the prior 2 quarters in spite of the fact that the revenue opportunity in 3 of our 5 largest segments, credit cards, personal and small business, has been de minimis.

Our mortgage business is showing great strength relative to where we are in the cycle. As we've previously discussed at length, environments like we're in now, where refinance activity is booming, have not historically been our strongest periods. And when lenders are flush with volume, they need our service less. So the strength we've exhibited over the last few quarters are a testament to our competitive position. And our insurance segment continues to thrive. It's clear to us that the insurance industry is still in the early innings of a digital evolution, and we are extremely well positioned to capitalize on that fundamental practical shift.

Operationally, we have been able to leverage our competitive strength in categories like home and insurance to continue to expand our ecosystem of users, suppliers, partners and content. We've made great stride in development of the My LendingTree platform over the last several months, and I'm especially encouraged by our strength recently when we announced our integration with Plaid. This integration enables My LendingTree users to connect all of their bank accounts and view their borrowing, saving and spending in one central hub. Importantly, this incremental layer of rich transaction level data gives us a more holistic picture of the consumer, which enables us to deliver more sophisticated and personalized recommendations. The incremental data will also provide valuable -- will also prove valuable for our partners as we consistently provide more transparency and insights.

In summary, the performance of our home and insurance remains strong, and we are seeing early signs of recovery in many of our consumer businesses as well. We've used this period of time to put renewed focus on strategy, innovation and execution, and we feel extremely confident in our relative competitive positioning as well. As a company, this is the third financial crisis that we've endured. Each time we have emerged smarter, stronger and better positioned, and I'm confident today as I've ever been.

And with that, operator, we can open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Jed Kelly from Oppenheimer.

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

Just a couple, if I could. Just one, on how you're sort of thinking about the mortgage environment into next year, if it kind of becomes more of a goldilocks environment, I mean just how do you see yourself positioned?

And then just on the insurance, can you parse out where the strength was driven from? Was that from more new car sales or was there anything that you've been doing there to reaccelerate the growth?

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

And why don't I touch on insurance and then J.D. will -- I'm sorry, mortgage, then you guys can touch on insurance? On mortgage, we feel very, very well positioned. And the reason is that we've used this period of time to maintain and grow wallet share with our lenders and continue to get increasingly more integrated with them. And as we've maintained these very solid relationships during a time when they're flush with volume, that usually sticks in markets where you're going into that might have reduced origination volumes. And our share is still so small of the overall mortgage market, and we're still touching gobs more than we're even closing on our own website and that we're seeing even closing with lenders. So we're -- and then when you add in the alert functionality with My LendingTree, that continues to get better. I think we're extremely well positioned.

And I talked about on the last call, one of the reasons is -- one of the major product enhancements we made in mortgage has been the ability to take on more of the, call it the selection criteria on our end so that we're sending fewer multi-matched customers to multiple lenders. We're basically getting you choice and then having one lender in most -- in many instances actually talking to you and doing the sales. And that's really helped increase capacity and increase conversion rates at lenders, and that's just going to continue.

The great news about mortgage, the only thing I'd add is it was our first product, and it's our strongest one. And after going through this cycle, whereas I said in my remarks, I would have thought it would be challenged. I'm more bullish on that than ever.

John David Moriarty - *LendingTree, Inc. - CFO*

So Jed, it's J.D. The only thing I would add on the mortgage answer is recognize that while aggregate mortgage, core mortgages we identified, it grew 14%. The refinance product is growing in excess of 30%. So what you're seeing is our lenders shifting away from purchase to refinance because that's where the economic opportunity has been. You're also seeing a significant decline year-on-year in home equity, which is understandable given the rate environment in the cycle.

So lenders are focusing on the near-term opportunity. And as Doug points out, we always have this cycle where there's a lot of organic volume. We were certainly going through that in the first half of the year. That's a little bit of a tenuous period for us. We're encouraged when lenders keep our product on and shut off others. I'd say that as we shift here from the third quarter into the fourth quarter, we're getting into an environment where our marketing services, our customer acquisition services are more valued. And in that respect, it's more like the bridge from 2016 to 2017. In '17, as you know, we saw some very nice sequential growth there.

And so from a lender demand perspective, that's kind of the cycle. And our -- the demand for our services tends to lag that low rate environment, where lenders have that organic volume. So we think that's critical to understanding what's going on. But I just want to detail that while mortgage overall, core mortgage grew 14%, refinance is growing much faster, which is a better indicator of the low rate environment.

As it relates to insurance, we highlighted in Q -- well, end of Q1 and Q2, that obviously, auto sales were down and inquiry about auto insurance was down. And we highlighted that carrier behavior was that they just were not convinced that the traffic would convert effectively. And so as the market has stabilized, what we've got is more conviction from carriers. We think our business, because it's probably on balance, a little bit more search dependent and also, by the way, more right priced, it's probably more of a true indicator of carrier intent to add customers. And so that's what you're seeing. And so we're thrilled with the performance in insurance in the quarter. And it's really a manifestation of a lot of the strategic objectives that QuoteWizard has put in place over the last year or so. So we just think that's a very healthy business. If I look under the hood at the behavior of all of our top carriers and their spend with QuoteWizard, it's a really good story.

Operator

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

John Robert Campbell - *Stephens Inc., Research Division - MD*

Really good work on the My LendingTree development. You guys have done a lot of features there. I mean it seems like the Plaid integration, that really opens a door to the rest of the consumer data, if you will, so that's a good long-term development.

I'm just looking for 2 updates on My LendingTree. So first, if you guys can maybe update us on the insurance integration efforts and kind of the early stage monetization on the platform? And then on the data and analytics side, I know you guys have made a pretty concerted effort over the last year or 2 to really kind of get deeper into the data. I know you got the Blueshift partnership. So just curious about how that's helping you guys get a little bit better yield out of your massive kind of set of data.

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

J.D., would you want to start there and I'll end it?

John David Moriarty - *LendingTree, Inc. - CFO*

Yes. No, absolutely. So insurance integration is ongoing, John. I guess there are 2 aspects to it. One is on the surface, you would look at integration of our funnels. So effectively, over time, we want to get into being able to ingest somebody's information into My LT, know, for instance, their driver's record and be able to -- and we can work with third-party data providers for that and be able to show them auto offers. Now there's the obvious one.

And when I say integration with our funnels, we, over time, also want -- we think it will be a catalyst for our home business -- or pardon me, for our home insurance business, that is. But that is small. As a reminder, auto is 80% of the insurance business. Today, we are making progress, but most of the alerts that you get around insurance are not as personalized as we would like them to be. And so that is an ongoing -- that is a key objective for next year is making that more personalized. Right now, if you get an alert from us around auto insurance, it is typically an alert that says what the average savings is of somebody in your geography, okay? And that's obviously not our goal. We want it to be way more personalized. So as we head into next year, that's one of the objectives.

Now as it relates to data, we have a bunch of internal objectives. You refer to Blueshift. That is more what we call CRM and making sure that we are not only alerting our consumers with regard to the right product but also understanding how they got to us and where they went next. So meaning when somebody is in one of our call centers and they get a call from a consumer, we want them to have the right dashboard as to every interaction that customer has had with LendingTree, if they started from a personal loan, et cetera. So we're making progress. I don't think it is necessarily showing up in our financial results at this point. Where it will manifest itself as we head into '21 and '22 is the data utilization is critical to making sure that other businesses other than personal loans can get that same amount of organic or near organic volume.

And so being smarter about reengaging a customer at the right time, which is what these investments this year -- well, last year and this year will do, will enable us to make credit card more targeted, make insurance more targeted. So when you see us spending money this year, and I think you used in one of your notes that we're on the offensive, we made a very conscious decision in the second quarter to not freeze on our investments and to make sure that we continue to invest in the business for next year. So all those data investments, ongoing; the people who will affect those campaigns, ongoing.

And so when you see our OpEx rise here in the second half, it's because we're preparing for next year. Now the good news is that because we've done that, we're actually going to be in a position where I would expect our OpEx growth to slow next year. We've made these investments this year.

So I think on insurance in terms of manifesting itself as a -- My LT manifesting itself as a meaningful channel for the insurance business, I don't think that realistically occurs until next year. We're encouraged by the interest in My LT among insurance consumers. So most of our survey work shows great interest there. And then the data investment is ongoing, and we think it will have meaningful results next year and beyond.

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

And the only thing I would add is with the early kind of results on My LendingTree, which as J.D. said, is basically a click-out business or giving you sort of more generalized offers, we are at work in our insurance business to be able to give real bindable quotes. And we've seen some very good work in that recently.

And that, coupled with Plaid -- this is still in the very early idea stages. With Plaid, we can see your payments. And we can see when you're paying your insurance bill. We would know if you're a homeowner, if you own a car. So we'll be able to have a lot more data there. And that, coupled with being able to give bindable quotes fully next year, as J.D. said, bring a lot more growth there. So I think this year was invest and test, and next year, hopefully bring it home.

John Robert Campbell - *Stephens Inc., Research Division - MD*

Yes. That's super helpful. And then one little follow-up for J.D. On the OpEx, I mean it's clear you guys are kind of ramping that in the back half of this year. You stay on the offensive. Could you just maybe give us a couple of call-outs there? I know you got some duplicate HQ spend. So maybe if you could kind of outline what that release is for next year?

And then you guys came into this year with a traditional brand spend. I think you're earmarking $50 million. So kind of a sense -- I know you're probably still going through planning and a lot is going to be dependent on the recovery across some of these business units. But if you can give us a sense of what that might look like next year? I don't know if it's too early for that, but any kind of color out there would be helpful.

John David Moriarty - *LendingTree, Inc. - CFO*

Sure. So obviously, this year, we went in looking forward to spending money to support My LT. So let me take the second part of the question first. We're still evaluating what that brand spend will be. We paused in light of COVID on brand spend just because in some of our businesses that would have benefited, the payouts were not there, right? On the consumer side of the business, when you see that decline, you obviously would pause on brand spend, and we're not alone in doing that, right? So that's the second part of the question.

As we go into next year, we have not yet set a goal for brand spend. What I can tell you is we certainly have the intention of supporting My LT. We're very happy with the product. And as we evaluate the macro environment, we will flex up -- if for instance, our macro recovery in '21 is better than our forecast, we will be in a position to flex up our brand spend accordingly.

Right now, what we're assuming for our consumer businesses is that they track unemployment and to a degree, consumer spending, right? if you think about businesses like card, credit card issuers are only going to want to spend on new customers when they're enthusiastic about not only the creditworthiness of the customer but the intent to spend. So as they get confidence, we think that the card business will benefit, but there will be a lag.

In personal loans, we're already seeing a recovery, and that's encouraging. And there are signs of recovery in all of our consumer businesses. But when that insulates into a better financial profile is obviously somewhat unclear. We're assuming it tracks unemployment and consumer spending. We're assuming a 6-month lag. As we see that, we will flex into spend for My LT and brand spend.

Now the other piece of your question is Q3. And just looking at -- as a reminder, we did not freeze hiring but we did ask people for a plan B. And plan B was really look out to '21 and say, what do you need? And so what you're seeing here in Q3, of the step-up in OpEx in Q3, about $1.3 million is related to compensation. $1.5 million, almost $1.5 million is related to facilities because that's the first full quarter of that additional rent expense or lease expense and recognize that much of that will reconcile itself next year because we're basically paying for 2 facilities and some facilities that we don't need. There is also a pickup in professional fees to the tune of $1.5 million. As you know, in the quarter, we not only had financing activity but also a lot of legal activity that we're happy to have in the rearview mirror with regard to our home loan center.

And so much of this OpEx is not what I would call a core increase in OpEx. Some of it will continue in Q4. And obviously, the good news about having made these investments this year is we're pretty optimistic that we're going to have to invest less in people and systems as in '21, relative to the investments that we've made in '20.

Operator

Our next question comes from the line of Mark Mahaney of RBC.

Mark Stephen F. Mahaney - *RBC Capital Markets, Research Division - MD & Lead Internet Research Analyst*

Okay. 2 questions, please. In the letter, you talk about positive trends in consumer credit and spending. Could you just double click on that a little bit and talk about any details you can provide on what are the data points that make you think that they are positive trends in consumer credit and spending?

And then Doug, if you don't mind, do you think there's a material impact on your business, on LendingTree's business based on who wins the presidential election and the makeup of the Senate? Or is that largely immaterial to the fundamentals of LendingTree over the next 2 to 3 years?

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

Why don't you take the first and I'll take the second?

John David Moriarty - *LendingTree, Inc. - CFO*

Yes, absolutely.

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

I have time to think about it now, too.

John David Moriarty - *LendingTree, Inc. - CFO*

Why don't I take the one, Mark? On the consumer business, I guess we could refer to a couple of things. There are -- anecdotally, we are seeing, if I go back to the March-April time frame -- and let me take credit card as an example, our credit card business. We basically watched the capacity in that business, the demand from our issuers diminish pretty significantly, and we had certain of our card issuers who just got off the affiliate channel completely. So we would look at where they were on other -- on our competitors, and we would see that their cards were not available. And they refer to -- we're just getting off the affiliate channel.

Well, the good news is, as we sit here in November, those credit card issuers are back on the network, okay? So even those who fully pulled off of the network are now back on the network. I would characterize them as cherry picking, okay? So they are issuing cards, watching the consumer spending, and that is influencing how they'll spend go forward. But to be clear, as we look at Q4, we do expect revenue in our credit card business to grow substantially off of a very low base, okay?

So as I said, we're watching all of these businesses relative to unemployment and consumer spending, and we're monitoring the month-on-month revenue opportunity. But for a business like card, we expect revenue growth that will be substantial on a percentage basis in Q4, but we don't expect it to contribute. There will be a lag before it starts to contribute because we are spending marketing dollars there. But as an indicator of the interest of card issuers to grow portfolios, it's encouraging to have them back on the network.

Personal loans is interesting in the sense that the largest use case for a personal loan is the consolidation of credit card debt, right? So we have not had consumer interest in personal loans because consumers generally used the stimulus dollars to pay down their credit card balances. And there's been a lot of press about the fact that the consumer actually in terms of credit debt is in a pretty good position. So there has not been as much consumer demand for personal loans. But on the supply side, okay, with regard to all of our personal loan lenders, at the low point in personal loans, we were at about half of the lender base we were pre-COVID. We are now in a position where all of the personal loan lenders are back on the network and looking to grow. So that's the encouraging sign in personal loans.

Now, that business always has a seasonality to it, right? So you always go from a strong Q3 to a diminished Q4. That's really on the consumer side, and then it recovers in Q1. So recognize we probably do not, on a revenue basis, expect the same growth in personal loan Q3 to Q4. If we get it, it's a function of this particular COVID-related cycle, not the consumer. But we have to be conscious of the consumer demand for personal loans.

Small business is the other business that was profoundly affected. And again, we're seeing really good month-on-month trends there with regard to both small business demand for loans and lender access to capital. So that business is, I would say, ahead of schedule relative to where I might have guessed it at the midpoint of the year.

So all 3 businesses are showing signs of lenders coming back. I think the big thing to recognize is in card specifically, that's a business where we will see revenue growth before we see contribution growth, and that will weigh very significantly on us in Q4. But actually, as it does, that's a sign that it's recovering, we think in '21. Now getting back to where we were, $211 million of revenue in fiscal '19 is going to be a challenge, and that's going to take time throughout '21, and we're going to need some macro recovery there. So we're looking at all the signs of macro recovery. The card issuers being back on the network is one of them.

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

And picking up on that and then adding the second one, I would say, so I always think of the health of the underlying consumer. If lenders are lending, if the credit card companies are coming back and the personal income companies are coming back, then they must be able to profitably lend money. They've looked at the impact of COVID and they're sort of moving back in business. So that's health of the industry. The second thing is health of the business. Are they buying advertising? And that obviously lags. And that's starting to come back. So I think that's a good sign.

In terms of the election, I don't think it's going to -- we're fine either way. And the way I've always characterized our business, I once said this, that if lenders are lending and borrowers are borrowing, we're fine. Now I said that before 2007, when we were 90% mortgage and when mortgage lenders for a period of time stopped lending. And obviously, that had an impact. The diversification certainly really helps.

And if anything, what I think you might see is the CFPB could come out and could start to regulate more, which was very under regulating during the Trump -- it was regulating less during the Trump administration. I won't make any judgment on it. That actually could modestly cut to our benefit because typically -- particularly operating and advertising on the Internet, you're competing sometimes against people who aren't necessarily following the rules and are sometimes too small to be the target of regulation. So a little more rule leveling never hurts. So I think broadly, we're fine either way. And I think it might cut to our benefit a little bit.

And then the only other thing I'd add is -- which I think will appeal to Democrats, to potentially Democrat administration, but more importantly to our business as we help people's credit improve. When J.D. talked about refinancing credit cards into a personal loan, the reason you can do that is, first, because it's available. But secondly, you can do it then again and again as people's credit improve and you can actually save the money on their loans, which is basically what our mission has always wanted to do is give consumers the ability to manage their balance sheet the way corporates do. And I think we're kind of taking steps in that direction. And with My LendingTree, then you sort of create your own business out of actually helping people improve their financial situation, and that's appealing financially and morally as well.

Operator

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

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

Great to see the nice boost from the publisher platform and insurance in the quarter. So I just wanted to ask a couple of questions on that. One, was this the first quarter of material revenue contribution from that platform? And then two, just maybe some more detail on how you're seeing the platform being monetized by your insurance plans.

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

J.D., or Trent, do you want to talk to that?

John David Moriarty - *LendingTree, Inc. - CFO*

Sure. No, it's not the first. It's just -- it's continued improvement. I wouldn't call it the first quarter of that initiative at all. What we're really happy about there is that's an investment that the team brought forward that is -- that has ended up being -- you've heard us talk about kind of our investments process, where you can bring forward things that aren't necessarily going to contribute in the next fiscal year but are the right thing to do for the business longer term. The insurance business has been particularly strong in bringing forward these ideas in a very focused manner. And no, this is not the first quarter that we've seen strength there at all. It's just continuing to execute, and we're thrilled with it, and it's ahead of schedule relative to its contribution. And so it's probably the first quarter that we're pointing it out publicly.

As a reminder, with many of our acquisitions, but particularly insurance, one of the strategic game plan kind of things is diversify the business, come up with different channels. This is one of those approaches, if that makes sense. So that's -- we're just really happy with the performance.

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

Got it. Okay. And then a quick one on Plaid. I guess since you've launched the partnership in September, I know it's very early, but can you maybe talk about the degree that users so far have been willing to link their bank accounts to My LendingTree? And then how do you think about the incremental monetization opportunities with that data? I think you talked about it a little bit, but I guess just to ask it another way, what types of recommendations do you foresee providing to consumers with that data?

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

Got it. Trent, I know you had some specific -- I'm not sure what we can disclose there. So I'll hit some generalities, and then you can hit some specifics.

I would say, first off, it's very early, and I would say it's very encouraging. The product itself is great. And the response from people who are using it, it is fantastic. And I encourage you to play around with it. Initially, you're just setting up to your accounts and seeing things. And that's pretty good. However, the next step which we're starting to do is basic cash flow forecasting. And once you get about 3 months in, that's when we can start to really get -- make much better recommendations to the consumer because we'll actually see what their income and what their expenses are. And then in month, which will lead into the next thing, which is recommendation, you can imagine that you can actually say you're spending too much or you need to save more. And so you'll just be having a product that is much more engaging and much more usable.

Then sitting on top of that, as I said, you'll see if you're an insurance user, you'll see if you've got a car, you'll see if you're a homeowner. And all of those things just spin off all of the ancillary services that you can imagine around LendingTree, which is clearly loans, insurance, deposits, introductions to RIAs, which we've just started, the exclusive offers on insurance credit card. Credit card and personal loans, we've talked about our -- what we call our [pre-call] product.

But having live bindable offers that you can give directly to a consumer on the back of that will be -- could be a potential -- I don't want to say a game changer, but it could be a big boost in monetization. It's definitely going to be a boost in engagement, which when you're there, then it's easier to get you to do things. And if we're saving you money and we're actually helping you with your life, then you're more likely to trust us around next time you're looking for something that's serious.

Do you guys want to add anything to that?

Trent Ziegler - *LendingTree, Inc. - VP of Finance & IR*

Yes. I guess yes. Stephen, we're...

John David Moriarty - *LendingTree, Inc. - CFO*

Go ahead, Trent.

Trent Ziegler - *LendingTree, Inc. - VP of Finance & IR*

No. I'm just going to touch on Doug's point, which is to say we highlighted in the letter that it's very early, but of those users that have linked up their accounts and taken advantage of that functionality, they're 1.5x more likely to engage with the platform than users that have not done that, and revenue per user is almost 60% higher. So again, it's very early, but obviously, the signs are pretty encouraging as to what we could do there.

And then I think just to further Doug's point around the incremental data and the visibility that we have into the consumers, right, being able to see when they're making specific payments and the vendors that they're making those payments to, if we can see that you just paid your insurance premium to a certain provider, we know that's a good time to hit you if we think that we can save your money, et cetera. That's just -- that's one example.

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

And I could see down the road in the B2B channel as we look at private label and co-brand My LendingTree, you're starting to see where they -- if you're seeing where they're shopping, you're seeing what purchases they're actually making, you could then -- and what airlines they're flying on and what hotels they're staying in, you could be working with companies like that and getting people to be switching and giving them offers to saving money in other categories. But where we would commit with the financial piece and -- but have customers who -- and lay that on top of their own customer database. So I can see some really interesting B2B stuff down the road, too.

Operator

Our next question comes from the line of Youssef Squali of Truist Securities.

Youssef Houssaini Squali - *Truist Securities, Inc., Research Division - MD & Senior Analyst*

A couple of questions here. Going back to the insurance business, I was wondering if you could maybe peel that onion a little bit. So obviously, congrats on a really strong quarter. But if you maybe can speak to drivers of growth between maybe price and volume? We've heard anecdotally throughout the quarter that the price, in particular, was really, really strong. So if you can -- for car insurance, obviously, premium and lead gen prices. Maybe you can speak to that? Also, DTC or direct-to-consumer insurance guys versus maybe the incumbents and just the sustainability of that kind of growth going into Q4.

And then on the home segment, home equity seems to be the deflator there. Can you just remind us how much of that business is home equity related? And again, kind of what your guidance is implying for that segment?

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

Let me hit the home equity part and then J.D. -- and then I'll hit insurance kind of at high level. And since J.D. -- by the way, J.D., since we're not in the same location, we're throwing questions back and forth.

Think of -- one of the reasons we put the home segment the way it is, is because lenders who lend against your house use refinance mortgage, purchase mortgage and home equity largely as substitution products. And so you move wherever you're -- and the reason for that is there's an element of fixed capacity that we've talked about before, where there is human involvement. There's appraisals that need to happen. There's documents that need to get swapped, titles that need to get recorded. And while that process is getting more streamlined, there's still capacity.

So when you think of mortgage lenders as manufacturers basically, you're taking in raw material of consumers and turning it out the back end of loans. And so they need to maximize that capacity. And so in a refi boom, you're going to take all of your resources and process refis, and you're going to leave everything else effectively sitting there. The way you leave it -- but it fit there as you price it higher or something to that effect or you change -- or you get back to those calls later effectively. And so that -- so I wouldn't worry about that. So I look at home in one total category.

And on the refi front, there have been -- between refinance and purchase concentration in the past, there have been a lot of investors who sometimes will worry about that and go, oh my gosh, you're all refi. When refi goes away, it goes away. We've lived through every single one of those cycles. And as long as you're, overall, increasing your market share and your penetration, things are fine. And we talk to -- there are big clients there, like these relationships are very, very close.

Moving to insurance, what I would say is just overall, think about this as supply and demand. And if insurers are one of right policies, the place that they are increasingly moving towards is online and direct marketing acquisition channels. And between our relationships with the major players and the minor player -- and J.D. or Trent can talk to how that continues to fill out. And our right pricing ability and then just the continued reach of the monetization is better, you can just keep moving into more and more marketing channels like we've talked about.

And plus the management team there, I mean those guys have delivered, the whole team has delivered really, really well and just continues to innovate and find new products that their insurers want to work with them on, work on new ways of integration. And it's just been really remarkable to see. And they've had an impact on the LendingTree business even on the tech side and helping us out with some of the things on the core LendingTree business. So I can't say enough about them.

J.D. can -- he's got numbers.

John David Moriarty - *LendingTree, Inc. - CFO*

Yes. I'm just looking across -- I mean in terms of our top customers and insurance, Youssef, it is really -- I would characterize the outperformance as a little bit of a combination of everything. What's happening is we're getting contribution from other channels that we've not historically -- as I look across the top customers, literally across our top 10 customers, all but one increased their spend materially in Q3 with us. And so -- and most in the double or triple-digit area, but it continues to be big brand name carriers. And so that's really encouraging. So we're getting more share of wallet there. It's not necessarily -- I think you were suggesting is it new entrants, direct-to-consumer players, et cetera? No. I'd say most of the strength is actually in our core base of customers.

Now in terms of price being the driver, we certainly went through that a year ago in insurance, when we were seeing prices for clicks that we would never have forecast when we were analyzing QuoteWizard. That's not really the characterization of the strength in this quarter. The strength in this quarter has been more broad-based. As I look at overall RPL, it's up sequentially, but so is CPL and volume is up.

Now RPL is up. I'm not going to disclose individual RPLs, but RPL is up greater than 10%. It's not something across from Q2. Obviously, our overall costs are up as well. Q2 is a little bit of a challenging comparison. But if I look at where RPLs are in the quarter, they are below many of the quarters in '19, most quarters in '19 actually. And cost is as well. So we're just becoming more efficient. And I think it's basically the diversification of the business that's responsible for these returns.

Youssef Houssaini Squali - *Truist Securities, Inc., Research Division - MD & Senior Analyst*

And so it sounds like most of these drivers are sustainable. There's nothing that onetime in nature or...

John David Moriarty - *LendingTree, Inc. - CFO*

No. It continues to be a pretty healthy business.

Operator

Our next question comes from the line of Jamie Friedman of Susquehanna.

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

I continue to like this shareholder letter format, compliments on that. It's a good format. I apologize if I missed this, but did you call out the student loan impact? Typically, it's seasonally relevant in the Q3.

John David Moriarty - *LendingTree, Inc. - CFO*

Yes. And recognize, we had a -- we did not -- we called it out last quarter when we talked about guidance for Q3 because we knew that the student business was going to be more challenged given the uncertainty around enrollments, and it was. And so we had excellent performance a year ago in students. So we were coming up against a difficult comp. Layer on the COVID environment and the uncertainty around enrollments, that does influence the behavior of student lenders.

And recognize that the in-school portion of the student business, that's a Q3 business as we've always talked about. And it's dependent realistically on a more narrow base of lenders than we would typically like. So it is not providing as much strength in Q3 as we would typically have gotten. So when you look at our -- that quarterly progression, we have to recognize that.

James Eric Friedman - *Susquehanna Financial Group, LLLP, Research Division - Senior Analyst*

Got it. Okay. And then also in the shareholder letter, you call out the recovery relative to COVID lows on Page 5. But I was just wondering, you'd go through September. Can I just ask how have some of these observations trended in October? Because you doubled in card September versus May. There's other observations. So anyway, how is October looking?

John David Moriarty - *LendingTree, Inc. - CFO*

Sure. As I mentioned before, we're watching the quarter-on-quarter performance of those consumer businesses as an indicator -- sorry, the month-on-month as an indicator of how we can project out '21. Now obviously, we're not projecting out '21 at this point, but we're watching the monthly behavior as an indicator, and we're encouraged. When we look at our expectations for Q4, we're encouraged on the revenue line in a business like card, less so in terms of contribution. But we recognize that that's what's going to happen first. So when we point to September to May -- or sorry, May to September, it's an indication of issuer interest in being on the network. And so in that respect, we feel pretty good.

But we're going to be cautious about the consumer business, given the uncertainty around COVID, right? So it would be one thing. I think we'd be in a very different environment if there were more certainty there. We're going to have to continue to watch our business quarter-to-quarter because of these consumer businesses. We are encouraged. I'd say all 3 businesses are ahead of where -- if we had the same conversation a quarter ago and you had asked me where we would be in card, personal loan and small business, I actually think all 3 businesses are ahead of where I might have projected then in terms of partner interest in growth. So that part is great.

But in terms of financial contribution in Q4, that card business as we invest in it with marketing spend will weigh on the quarter, and that informs the guidance. So recognize that, that's a big driver on our guide.

Operator

Our next question comes from the line of Melissa Wedel of JPMorgan.

Melissa Marie Wedel - *JPMorgan Chase & Co, Research Division - Analyst*

On the card margin, I definitely hear your point about seeing certainly revenue growth sequentially, but it sounds like really more positioning for longer-term recovery. To the extent that -- I mean you guys have mentioned in your letter that that's really tough to get your arms around right now, I think the industry as a whole. To the extent that, that takes longer than you would necessarily hope, is that sort of positioning and pricing something that you'd be willing to support for a bit longer even if it's built into '21?

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

So let me hit it at a high level, and then J.D., please, or Trent, fill in. The card business, so fundamentally, you're always going to be spending money on marketing to drive in consumer demand if you've got or consumers if you've got lender demand. And then the lender demand is obviously price and quantity for the different types of cards that they want to issue. If they're issuing high-value cards and spending a lot of money on marketing, then we're going to go out and drive, be able to spend a lot and drive that business up and then you see the revenue go up.

At times like this where you're both pulled back in marketing, at a unit level, you're making a little bit of money. But the good news is you're not losing money, like you may have a -- there's a bit of a lag in credit card reporting, so you may have like a day or something that looks odd. But in the general trend, you market to make as much money as you can. And that demand is coming back but slowly. When it comes back, we're positioned to win, and we'll get it better than anybody else will. But it's sort of -- we're fishing. It doesn't cost us to fish. But when the fish come back, we'll start bringing them in the boat. But until then, you leave your lines in the water as long as you've got enough gas in the tank, if that makes sense.

J.D., if you can translate that, that would be wonderful.

John David Moriarty - *LendingTree, Inc. - CFO*

Sure. I mean, Melissa, I guess the way that we'd look at it is, we have the good fortune because of our variable cost structure that, obviously, our costs contract track when the revenue opportunity contracts. The card business has that same dynamic, maybe not quite to the same degree. But it's not that we're losing money. What we're losing is contribution. But it's a business that obviously has critically important partners. And it was a $200-plus million revenue business a year ago.

We don't think there's anything structural here where that business does not recover. So we are going to be patient, and we're going to continue to invest in that business. It's just we -- I think we just need to recognize that there is going to be a lag where you will see some modest revenue growth here and we won't see much of a contribution. If it takes longer, it takes longer. We've been very conservative with regard to all of our forecast for the consumer business for next year, and I think appropriately so. I got to emphasize, we think those businesses are ahead of those conservative projections. It's just that we're dealing with that at the moment, right?

So that's -- sorry, Doug, go ahead.

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

No. My only add was going to be that in some ways, too, the credit card, the demand from credit card issuers is because consumers are somewhat appropriately spending less on their credit cards. And if that comes back, their price, their -- as their revenues go up on a unit basis, that translates to us. It just takes a while.

Operator

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

Robert Henry Wildhack - *Autonomous Research LLP - Analyst of Payments and Financial Technology*

I wanted to follow up on the initiatives to tie insurance more into My LendingTree. And specifically, what's the starting point today? How much of the insurance business now is coming through the My LendingTree channel?

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

I might have a specific number that I can share with you, but I would say very little. Less [than] single digits. Certainly single digits, probably less than 2.

John David Moriarty - *LendingTree, Inc. - CFO*

De minimis.

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

De minimis.

Robert Henry Wildhack - *Autonomous Research LLP - Analyst of Payments and Financial Technology*

Okay. Got it. And then a more broad question. I just wanted to -- last quarter, you characterized the M&A pipeline as full and there were areas of interest. What does that look like today? And anywhere to call out where you guys are seeing opportunity?

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

I don't know how much we'd like to talk about this, but go ahead, J.D.

John David Moriarty - *LendingTree, Inc. - CFO*

As you imagine, given that we've been acquisitive as a company for the last few years and given that we actually had a pretty good track record in terms of integrating acquisitions, the funnel effectively of things that we see has expanded this, so that's great. In some cases, we were getting the question earlier in the year, does COVID make things cheaper. In some cases, what it's done is actually given us more confidence that companies that we've looked at are actually really good businesses, right, because they've performed well during this period of time. So it's actually a really good -- it's a really good opportunity for us to get a view on some businesses that we've tracked for a couple of years now.

So listen, I think we are in the fortunate position where we don't have to go after some big partner wallet. By that, I mean we got into the credit card business in '16. We got into the insurance business in '18 and early '19, and those are big areas. So we don't have any great urgency on that side of things. We are seeing more and more opportunities. We continue to be excited about things that will put us more on the asset side for the consumer that will integrate well with My LendingTree. Or specifically, we've talked about small business as being an area that we'll continue to look at. Investments is an area that we'll continue to look at.

So I'd say that the funnel is pretty full of opportunities and we're busy. And I'd say that those are the focus areas, and we're going to continue to be disciplined with regard to price. But I think over this past year, we've actually learned a lot about some businesses that we're pretty excited about.

So M&A will continue to be a driver of our story. The good news is, as we look out over the next year in the portfolio of businesses that we have, our organic growth will be just fine and any M&A will be additive but not necessary.

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

Nothing to add. Well done.

Operator

I am showing no further questions at this time. I would now like to turn the conference back to Doug Lebda.

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

Thank you, operator, and thanks again, everybody, for being here today, and thanks to everybody at LendingTree who's just performed fantastically over this period of time.

To our shareholders, I thought today's call was interesting in that we're talking a lot about structurally supply and demand and that this company just is continuing to balance supply and demand. And this year, as we said before, our focus in doing that was focusing on winning, making sure that our relationships are solid with our partners, making sure that our modeling is well with our internals, making sure that our marketing is right with the consumer, making sure that our monetization is there, and then improving all of those things, improving our share. And this year, we've had the luxury of time to be able to do that, and we can see ourselves winning.

The second thing that I'm really encouraged also about is just seeing the market continue to evolve. We recently are going through -- we're obviously going through our internal planning process. And when you look back at the size of the market that we serve and how it's grown over the past several years and how our share is growing inside of it, and then we continue to see the evolution of financial services on the Internet and how it is the absolute makes-sense product for the Internet and how financial services advertisers are increasingly moving online, we stand in the years ahead to continue to win.

And then the last point I would say is that as demand comes back, from these lenders, and we're sitting here, then LendingTree wins. And so this year, we can win in market share and we can win on products. And that positions us for the coming years to win not only on the bottom line, but importantly, to win with consumers in giving them revolutionary products that are actually going to change their lives.

And so with that, we'd like to thank you very much, and we will talk to you next quarter.
