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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the LendingTree, Inc. First Quarter 2022 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Andrew Wessel, Head of Investor Relations.

Andrew N. Wessel - *LendingTree, Inc. - Head of IR*

Thank you and good morning to everyone joining us on the call this morning to discuss LendingTree's First Quarter 2022 Financial Results.

On the call today are Doug Lebda, LendingTree's Chairman and CEO; J.D. Moriarty, President of Marketplace and COO; Trent Ziegler, CFO; and Scott Peyree, President of Insurance.

As a reminder to everyone, we posted a detailed letter to shareholders on our Investor Relations website earlier today. And for the purposes of today's call, we will assume the listeners have read that letter and will focus on Q&A.

Before I hand the call over to Doug to give his remarks, I want to remind everyone that during today's call, we may discuss LendingTree's expectations for future performance. Any forward-looking statements that we make 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 our 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 definitions and full reconciliations of non-GAAP measures to GAAP.

And with that, Doug, please go ahead.

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

Thank you, Andrew, and thank you all for joining us today. Our business again performed well in the face of a difficult macro environment. Our lending marketplace grew revenue and VMD year-over-year despite rapidly increasing rates. Improving demand and unit economics across purchase mortgage, home equity, personal and small business loans helped to offset shrinking demand for rate and term mortgage refinance. As expected, our mortgage lender partners have increasingly relied on us to provide them with new customers as the refinance wave recedes. Improving RPLs across our other mortgage offering proves this business is resilient, helping us to outperform declines in overall origination volumes.

The Consumer segment of our marketplace has continued strong growth as personal and small business loans performed tremendously well and the credit card business returned to pre-pandemic RPAs. Insurance has begun what we project will be a robust recovery in its financial performance after troughing in the fourth quarter of last year. I'm happy to have Scott join us on the call to explain how we differentiate ourselves from our competition and why we have a more positive outlook for the remainder of the year than others.

Our updated guidance for 2022 acknowledges the rapid increase in mortgage rates that we have seen so far this year as well as continued inflationary pressure our insurance partners are navigating. Lowering our outlook is not something we take lightly, but the economy has been more volatile than we predicted when we first issued guidance at our Investor Day.

The underlying strength of our business model and our balance sheet position allows us to continue investing in our growth initiatives as well as our brand. We expect these investments to generate very attractive returns by driving increased value, engagement, loyalty and trust with our customers, positioning LendingTree as the best digital consumer shopping experience for financial products in the market.

I founded the company over 25 years ago, and LendingTree has continued to evolve and expand its product offerings to address almost every personal finance need a customer has. Harnessing the unmatched depth of our partner network with an improved digital experience will delight customers, providing -- provide access to the broadest array of offerings in the industry and foster lasting relationships with our customers.

Highlighting some of the progress on our strategy, we are now able to present embedded bindable insurance quotes and prequalified loan officers to My LendingTree members digitally. We have a solid pipeline of lenders and issuers looking to access our TreeQual platform to acquire new borrowers. The improved conversion rates and unit economics from TreeQual will help drive revenue and margin growth in our consumer segment, and we look forward to further integrating our insurance agency and our mortgage partners as we move forward.

The team has rallied around our growth strategy, and we are all excited to begin seeing the early results of all of that hard work. I look forward to discussing our progress on this call as well as future ones.

Now operator, we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from John Campbell with Stephens Inc.

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

By my math, just within the mortgage revenue, you guys did, I think, as much purchase revenue in 2018 as you did last year and in 2020 combined. So I think you've proven you can get better yield out of purchase. And also in 2018, it looks like you're facing a purchase origination level that's going to be probably lower both from this year and next year. So my question is do you think you can get that purchase revenue back to kind of those past levels? And what kind of changes do you really need to make in the business to start flipping that mix from refi to purchase and kind of how long that process takes?

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

Yes. I'll answer in concept and then I'll let others chime in on numbers, John, it's great to talk to you. So first off, as I alluded to in my remarks, there's -- and we've talked about -- and a lot of shareholders, by the way, I missed this. You're picking up on something that is refi recedes and the RPLs of refi, obviously -- everything works on supply and demand. So lenders obviously always demand refinance volume. That's the demand side.

Unfortunately, right now, the supply side of that has pretty much gone away. So then what do you do? You switch your capacity over to both home equity and purchase at the individual lender level, and you also start to open up other filters. What that does is it moves the RPL up in purchase, which then enables us to go market against that.

What we've seen so far, I would say, is the result of working with our lenders and J.D. and team have done a great job at that in getting them to expand filters. So we've had some sales wins, but lenders also do this very, very naturally.

Then on top of that, one of our initiatives, in particular, one of our strategic initiatives, Marketplace 24 is working to drastically improve the communications with customers post submit when they're actually engaging with our lenders on the marketplace. And we're going to start releasing that in pieces early in May, and it's going to proceed through July, but that's one initiative that's aimed directly at that. And then as lenders see higher conversion rates, then they bid up the value of a purchase lead, ultimately, they're all targeting a cost per funded loan. J.D., anything to add on that?

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Well, yes, the only thing I would add, John, you've heard us talk about parsing the funnel more intelligently over time. And so I think if you were to look at it from the perspective of one of our lender partners, they would say not all purchase traffic is equal, and we've sort of talked them that over the last couple of years. So we're selling early-funnel, mid-funnel and late-funnel purchase. Late funnel is very well valued right now.

Now why is early and mid less well valued. It actually is very much tied to the lack of housing -- pardon me, the lack of inventory in the market and the tightness of the purchase market overall, which is obviously well publicized. So as that loosens up, which there's recent evidence that it is actually getting a little bit better, that will better enable us to get paid for early and mid because it will convert at a higher rate.

So in a strange way, what's really happening is over the last couple of years, our network has gotten healthier, meaning there's less inefficiency for our lender partners because they're getting what they want, but the disparity between what we get paid for early and mid versus late-funnel purchase is pretty significant. We just need a little better housing market in terms of those consumers being able to find a home and get a transaction complete, and that will drive our purchase revenue.

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

The only thing I'd add to that is in the parsing, I know we're going to get a question on insurance at some point and getting the right consumers to the right partner has been a source of value. And the other thing I'd say is RPLs on purchase have moved up considerably, because of that switching and what J.D. talked about. So it's moving in the right direction, and it will continue that way.

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

Okay. That's great to hear. And then one quick follow-up. On the guidance, it looks like you've got revenue growth assumptions are growing faster than VMM growth. So it looks like maybe a little bit of pressure on the owned segment margins here and there. But maybe if you can unpack that. I mean it sounds like mortgage is in a really good spot. Obviously, you grew that 500 bps or so do all the stuff you just mentioned. And then insurance looks like it's probably going to be pretty heavily weighted in the first half and then get better in the second half. And then just maybe some thoughts on consumer and then also on the brand spend side as well.

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

Yes. So I know like I'll let Trent, let me hit it early, and then I know one thing is we're recognizing marketing margins. So -- and we've talked in the past, in this quarter about home, for example, while our RPLs are doing well, the customer acquisition cost while still very profitable, we're not seeing relief like we would normally see when rates go up. We're still seeing a number of other parties that are in those auctions keeping pricing up higher in Google and others. We -- and we're assuming that gets a little bit better, but not as well as we thought. Trent, what else would you say?

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

Yes. I mean it's a good point on mortgage, John. I mean as we've seen in prior cycles, as competition starts to fade just as the market shrinks, we would expect to see some relief on the customer acquisition side. We haven't seen that and to Doug's point, to the degree that we expected. And so that's sort of being reflected in the margin expectation for the rest of the year.

Going back to your question on just on the outlook for the rest of the year. If you go back and you look at the segment level guidance that we gave at Investor Day, we're still pretty well in line with that outlook, perhaps trending towards the bottom end on several of those measures.

The one caveat, just being the outlook for margin and insurance is a bit more flatty. I mean, obviously, you saw where the margin profile of that business was in the first quarter at 26%. We expect that to obviously improve as we progress throughout the year, but we're going to need that to improve. And I think on the margin relative to the guidance that we gave in February, that's a bit more cloudy.

Operator

Our next question comes from Jed Kelly with Oppenheimer.

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

Great. Just circling back on insurance. Is this a case of the carriers not calculating the inflationary impacts this time around versus used car prices, I guess, a couple of months ago? And how long will it take for them to get to like to reset the rates? And I guess, just when do you actually think they will be coming back in marketing? And then that I heard that Scott's on the call. So can you actually discuss some of the differences between where you are and some of your competitors?

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

Yes, I'll start and then hand it over to Scott. And by the way, Scott, thank you for being up at 6:00 in the morning out in the West Coast.

Listen, I'm very pleased with how our insurance team is working, and they're doing a really, really good job. The issue that we've talked about before, and Scott will address the underlying reasons is that carriers, in general, are not wanting as much -- are not demanding -- back to supply and demand are not demanding as much volume the same prices as they did several years ago. However, it's trending in the right direction. We've got a number of sales wins, and we're certainly doing better than competitors. And I'm really, really proud of what the team has done. Scott, why don't you take that question?

Scott Peyree - *LendingTree, Inc. - President of Insurance*

Yes, sure, Jed. The answer to your question about inflationary pressures and loss ratios and underwriting profit with carriers. It is a matter of, I think, the levels of inflation and the cost per incident that the carriers are dealing with is just much higher than anyone expected. And just inflation where it's going, they worked their models, they were just not expecting it to keep running out of control like it's happening. And so -- and then when you submit rate increases to the states, a lot of times, you're limited into how much the rate increase you can submit every 6 or 12 months. So they're just trying to keep it and they're having a hard time doing it to some level.

Now that said, it depends on the carrier with where they're at. A major carrier just came out yesterday and made public comments that they feel they're largely done with all their rate increases, and they feel like they're in a good spot, but she also indicated that, they're going to wait in a number of states a few months just to check on the profitability of the policies of the new rates before they really start leaning into marketing.

All of that said, I do feel like, it's a very turbulent market still, certain carriers are leaning in, certain carriers are leaning out, but the overall trend that we're seeing at QuoteWizard is a steady increase in demand. And we're seeing growth. We saw growth in Q1 over Q4, and we're expecting growth, more growth in Q2. So we're seeing a general positive trend as far as the majority of our carriers are spending more today than they were spending last month, and we expect them to continue to spending more as the year goes on.

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

Can you, Scott, can you address like why and we talked about it at our Board meeting yesterday, but like some of the -- maybe go into names with the carrier wins and also Jed's question why we seem to be doing better than competition.

Scott Peyree - *LendingTree, Inc. - President of Insurance*

Yes, sure. Happy to do it, Doug. I would say we -- and I'll go back to the 2016 when we went through a very similar period in the insurance industry. And we're largely doing the same playbook there. We, as QuoteWizard, are being hyper vigilant on focusing on quality of consumers and what the carriers have garnered. They were throwing up red flags to us probably in the second quarter of last year. The things were trending the wrong direction. And so we made a proactive decision to really lean into what our carriers needed, understanding that we were heading into a pretty rough waters in the industry.

So honestly, we probably made some decisions that affected revenue for our company in the second half of last year, but I think we were viewed in a really positive light with our partners by making some of those moves and not trying to hold on to unnecessary revenue that they didn't want. And I think that is paying off for us here in the first half of the year as they're coming back in, and there's that trust level.

We've gained significant SEM market share, which was a big goal of ours. I think that's a combination of taking market share from some of our competitors as well as just consumer shopping behavior in general is up. So I think we've got a really good mix of traffic going to the carriers right now. And that's why we're seeing them lean into us a little bit.

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

Great. And then just, Scott, a follow-up. I think you've always talked about having probably better paid search conversion better than your competitors. Is that deteriorating just on more of your competitors in Google trying to acquire traffic on people shopping? And how should we think about the arc of the VMM margins sort of returning to those high 30s VMM levels throughout the balance of the year?

Scott Peyree - *LendingTree, Inc. - President of Insurance*

Yes. I mean I would say we're seeing generally a less competitive marketplace in the Google marketplaces right now. But I would also say, our carriers -- our RPLs are still down year-over-year. And that's a lot to do with carriers, just hyper focusing on certain geographies and certain demographics on the most profitable consumers right now during these very turbulent times in the industry. So what will happen over time is these carriers, I mean, they want to grow. They want to grow their policies. And so when they are feeling more comfortable about overall profitability of the policies that are running. They're going to start opening up those demographics and geographies again. And that's the point where we have better levers where we're making more monetization per consumer coming through our funnel, and that gives us more leverage to increase margins, which we're already working and feeling our margins are going to increase a few points in Q2, and we feel that trend will continue on an upward trajectory over the next 6 to 12 months.

Operator

Our next question comes from Ryan Tomasello with KBW.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

I guess, shifting to capital allocation. Can you give us an update on how you're thinking about the various outlets for deployment for the rest of the year? Obviously, nice to see the share repurchase in the quarter. Do you think you'll continue to be active there? And any updates on -- your thoughts around M&A and where you think that could fit most nicely into the existing business?

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

Yes, I'll start. This is Trent. Yes, I mean, look, we've been happy to be buying our stock back the way we have over the last couple of quarters, having addressed about 5% of the float between Q4 and Q1, certainly happen to be buying with the stock trading where it was and even more so now.

Our kind of primary goal in capital allocation is we obviously want to preserve the flexibility that we've built up to be able to execute on M&A when opportunities present themselves, and we don't want to encumber that flexibility. That said, we've got a business that's still generating cash every quarter, and then so we can kind of use that as a proxy for how much we're willing to put into the buyback.

And so we'll continue to think about it the same way, there are some nuances coming up in Q2 with our -- the settlement of the convertible notes that we have maturing in late May. So we kind of need to get through that before we reevaluate our buyback plans, but that's how we're thinking about it. And certainly, we've been active in the market, and we'll continue to be based on our relative view of the stock.

I'll turn it to J.D. to talk a little bit about how we're thinking about M&A.

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Sure. Hey, Ryan, we're probably from an M&A perspective and just in terms of the things we're seeing, we're as busy as we've ever been, but that's really because it's -- those opportunities are coming to us from a wider range of things, right? So there are people who are in our traditional customer acquisition business. And obviously, those multiples have come in dramatically if you look at any of the public comparables. And then there are a number of fintechs that have been incredibly well valued by the private markets over the last couple of years, and those values have come in dramatically. So we have a wide range of things to look at, and we're going to be selective. And obviously, we're always comparing those opportunities versus buying back our own stock.

I think the really nice thing is we've been able to buyback our own stock in a significant way 2 quarters in a row and not impair our ability to be aggressive with M&A. And we have been incredibly selective over the last couple of years. We obviously had a multiple environment that we didn't really agree with relative to the earnings power of many of the companies that were so dearly valued. That's coming back to earth that will present opportunities for folks like us who generate real earnings.

And so we're excited about the period in front of us. The last couple of years have been frustrating from an M&A perspective, but that's okay. But we're certainly seeing more in light of the way the funding market -- both the private market has changed really in terms of the opportunities for many of the start-ups that were so well valued for the last couple of years.

That's not the only thing we look at, obviously. There are some companies, as I mentioned, in our traditional space that will become very interesting here. So I would expect that M&A continues to be core to our strategy for the next couple of years.

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

The only thing I'd add to that, we still have $97 million in an authorization from our Board, we are definitely still, we still see very, very attractive IRRs on our stock and subject to maintaining flexibility, we think that's a good use of our cash.

Ryan John Tomasello - *Keefe, Bruyette, & Woods, Inc., Research Division - Analyst*

Great. Thanks for that. And I know we've already spent a good amount of time on the headwinds in mortgage, but I think it would be helpful if you could put more specific assumptions around what you're -- how you're viewing the market outlook this year versus, say, what you were thinking back in February. I realize that there's no direct framework, but if it's possible to put any guardrails around the revenue and earnings sensitivity to worse- or better-than-expected conditions in that market, particularly if purchase begins to fade, given the affordability pressures that continue to build there?

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

Yes. So I'll hit the high notes and then move from there. The interesting thing about mortgage and I'll return to conversion rates. We have so much traffic even today coming through both purchase and refinance. The magic as long-term shareholders have known is getting at the conversion rate from us sending a customer to a lender and then converting it.

In a 2% conversion environment, whether it's a purchase or a refinance, we still have 98% to go, and our Marketplace 24 and initiative is, as I said earlier, really aimed at improving our conversion rate. So there's -- we really don't need to go get more volume.

And at the end of the day, we're still only closing a couple of points of all the mortgages in the United States, and we have 20 or 30x that on your site already, who are shopping there, but just not closing here. It presents an enormous opportunity, and that's why we're working on fixing the customer experience because that has a direct impact on our revenue.

J.D., anything else. But by the way, other than that, we assume the MBA statistics and the market just makes life a little bit harder and it's more related to lender profitability and lenders being able to profitably convert loans than it is necessarily the size of the market. J.D., would you say?

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Yes, Ryan, I'd just say, every year, obviously, as we map out the year ahead, we look at the MBA data, we look at Black Knight and others that publish data on affordability, on consumers who would benefit from a refinance. And obviously, we monitor that throughout the year.

We also are very mindful of our cycle. So we're watching, obviously, affordability for the consumer. We're watching gain on sale for the lender. And usually, when we watch that gain on sale compress, as we all know that it has this year fairly dramatically, we watch for a loan officer employment indicators.

And so many of our lenders, many of our lender partners have announced layoffs of loan officers. That is typically something that is followed by -- or along with that is the cost environment for us to acquire traffic actually improves quite a bit. So as we look at the year, the year-end mortgage has generally played out on the volume side as we expected, right? We expected volume to be down dramatically and refinance, it has. The cost environment has not come down as much. We think that is still to come. We need to shift to purchase and home equity. We're doing that. Both those businesses are doing well. So we actually feel reasonably good about our projections that we made in December.

I would say that from January to April, it has been a bit more dramatic on the macro side than we would have expected. If you think about the affordability for the consumer, that shift has been pretty dramatic. If you think about, I think Black Knight estimates the refi population in March at 2 million in January, refi population that would benefit from a refinance at 2 million. In January, that was 5.9 million. That's a pretty dramatic shift. So we have to acknowledge it is a little bit more dramatic than we anticipated in December, that is actually part of our shift in guidance, right? It's just acknowledging that. But when we look at our performance across that backdrop, we're actually very quiet pleased, and we just have to continue to navigate in an environment like this.

The piece that has not yet happened and we think will is the cost side of the equation. That's still in front of us. While it would be tough to drive volume in things like refinance, we should be able to drive better margin over time.

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

One thing J.D. said to accentuate is the consumer benefit, then it also ties to rates. In refinance, obviously, it doesn't make -- if you're not going to save money, you shouldn't do it, and consumers know that. But the key thing to focus on is that LendingTree's refinance business on a day-to-day basis doesn't work on sort of aggregate rate levels or rates high or low. It really works on the rate of change. And you'll see this in mortgage companies right now where some people are laying off, but they're all trying to hold on because they know some day rates are not going to -- they might go from 5% to 4%. They might go from 5% to 6%, and then somebody's going to say there's a recession when they pop back to 5%, and all of a sudden, we get a refi flood.

And unless you have the loan officers and the technology, you can't do that, but we'll see that effect immediately and you're setting up a little -- as rates go higher, you can actually get more benefit because rates can move lower. There's -- when you're at 2% and go into like 1.875% , there's not that much movement. But as they go little higher, it's going to set us up for refi boom and just like happen every day. Not every day, but every week or month. But this year, right now, you're going through the adjustment period, which we always go through during the switchover, if you will.

Operator

Our next question comes from Rob Wildhack from Autonomous Research.

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

Doug and Scott, just a follow-up on insurance and the decision you outlined to lean into what carriers need in delivering high-quality consumers, all of those things. When do you expect you'll start to see those investments and decisions come through in market share gains?

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

Well, I'll start and then I'll let Scott. I think we're seeing it in market share gains right now. I think that's why we're doing better than competitors and why carriers are increasing ties with us, and I'll let Scott talk some more.

Scott Peyree - *LendingTree, Inc. - President of Insurance*

Yes, I agree with Rob -- with what Doug just said, I think we're already seeing market share gains in this space. And we're seeing it as budgets very cautiously come back, we're one of the early winners of getting those budgets.

I would also add on some of the products -- new product growth we focused on, like inbound calls for our clients, direct to click for our publishers. The agencies are growing really rapidly. Our health and home insurance industries had a spectacular Q1. So a lot of those internal initiatives are really outperforming and performing at a high levels that we were hoping that would and that helps as the legacy business has been down over the past couple of quarters. So I think as that legacy business continues to come back, which it is, it bodes really well for the future.

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

Yes. And we look forward to talking more about the agency in the future. It's doing better than expected from an economic standpoint, from a customer satisfaction standpoint, and the customer experience of being able to give you actually real bindable quotes from multiple carriers online with a person who can also help you make that decision integrated inside of, My LendingTree, like that's the, that's where we're pointing in the direction of that shift, and it's going really well.

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

Okay. Just to follow up on that. When you say that just we're cautiously coming back and you guys were seeing some early wins, was that -- were those coming back throughout the first quarter? Or was that something that happened more towards the end of the quarter and into April?

Scott Peyree - *LendingTree, Inc. - President of Insurance*

Yes. I would say from our standpoint, it was -- it started in January. It obviously did not balance as much as we wanted as we were hoping in January. Now it was just because the carriers didn't bounce back from a profitability standpoint as much as they wanted. But we've seen what I would call a gaining momentum every month throughout the year. We got the initial bounce up in January, and then our momentum has been growing in February, growing in March and April. June is looking very -- I mean, I'm sorry, May is looking very strong right now. So I would say it's just all in all, there's up and down to the individual client level, but at the overall level for insurance, it's a pretty steady growth year-to-date.

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

Yes. Yes, I've been looking at a business here that is run rating very nicely and is having steady improvements weekly, monthly, and it's nice to see that. So the aggregate number is reflected in the guidance, but the momentum is what gives me a lot of excitement.

Operator

Our new question comes from Youssef Squali with Truist.

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

Just want to go back to the Consumer segment in particular. I guess maybe, Trent, starting with you relative to kind of the expectations that you outlined at Analyst Day and whatnot, how has that progressed throughout the quarter and particularly as you look forward to the rest of the year? Has your expectation changed just because of rising rates? And then I have a follow-up.

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

Yes, Youssef, I mean consumers, relative to our outlook at the beginning of the year, Consumer is the one segment that's squarely on track. I mean, obviously, we've talked about for the macro implications on both mortgage and insurance. But Consumer remains pretty squarely on track. As we highlighted in the letter, both personal loans and small business are performing exceptionally well. Credit card continues kind of a steady recovery.

And the end market backdrop there, like the health of the network, the health of our partners in those businesses is really strong. The market outlook for growth in personal loans as an asset class continues to improve. We have really productive conversations around our TreeQual offering in both personal loans and card. And so among the 3 segments, we feel really good about the outlook in Consumer.

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

And on the competitive front there, I think some of your competitors have also put out some pretty decent numbers for credit cards and personal loans and SMB loans, et cetera. Have you seen any kind of change, material change just because that subsegment remains really healthy, so I'm assuming it's attracting a lot of interest.

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

Maybe I'll start and J.D. can follow on. I mean certainly, the card category has been for a long time very competitive, and we know that. But I don't think there's been any dramatic change from a competitive standpoint as we look at kind of our business and our relationship with our partners in those products.

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

No. The card business used to, it's been a process of -- the personal loan business kind of came back before the card business did. As Trent points out, personal loan network health is really good. One of the things that occurred in 2021 is the expansion of our lender base there. Card, the desire on the part of the issuers is absolutely there. We are gradually waiting for the interest from the consumer in new cards to return.

It has gotten better. It's still not quite back to 2019 levels. Now obviously, the interest on the part of the issuers toward reward cards associated with travel, given the backdrop and the loosening of mass mandates, et cetera, that's a very real thing that will benefit us. But I would say the card business is basically on par with our plan this year but getting better each month that passes, okay? So that's great to see.

Personal loan business is very, very strong. We feel really good about it. Small business, very strong, ahead of our expectations. And so we're thrilled to see that. The only business within Consumer that is having some challenges is student. That's because of the extension of the CARES Act. So that's a macro factor sort of beyond our control, but it's relatively small. But as Trent points out, the Consumer segment overall, really strong.

Now the competitive environment when businesses like personal loans do well, yes, we've got a tough competitive market. That is not causing any problems for us at present. And we're actually really excited about the traction that we're seeing with a bunch of our personal loan and credit card issuers. We've talked about TreeQual, that's a key part of our strategy to embed ourselves further with our partners in both credit card and personal loan and deliver the right borrowers to them, right? So we're making great progress there.

So to the extent that you think about short term and long term this year in Consumer, I think we're making great progress on both fronts. Short term, those are businesses that are dramatically better than they were a year ago and long term, the product innovation we're really excited about.

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

That's great. One last one, if I may. My LendingTree, My LT continues to grow kind of very nicely. Can you just give us an update as to kind of the engagement you're seeing there, conversion from that channel? Any kind of KPIs that you can help share there would be really helpful.

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Yes. No, absolutely. It's J.D. I'll start. We're really excited about the future of My LT as it relates to things like TreeQual. So as My LT grows, and we're now over 22 million members, members are going to see real offers inside of My LT. So engagement will be defined a little bit differently. It will not just be a function of coming to check your credit score, it will be a function of actually coming and checking on your credit score, but also receiving an offer for a credit card that's appropriate for you, receiving a personal loan offer. So we're making good progress towards things like that, which I think will define better types of engagement. And candidly, for us will result in a much better economic proposition, right?

So we have actually been through a very strategic reduction in sale traffic to our My LendingTree base over the last year. To be more selective with what we e-mail the base. And so that is often help people measure engagement. Did somebody read that e-mail, did they open that e-mail. We've actually reduced the noise in the channel to the base, and we're really happy with the progress that we're seeing in My LendingTree in terms of revenue contribution despite that because we think it leads to a better customer experience. We're trying to make sure that we don't spam our base with useless emails.

So I think the quality of the dialogue with the My LendingTree member is improving and the economics continue to be consistent. I think over the next year, you're going to see more behavior-based offers. Because you improve your credit score, this card is now available to you, right? So the big thing in our strategy with My LendingTree is a true adjacency of a reward for the consumer and sort of a members-only approach, which is it's not a paid product, but we're looking at it like from the mindset of what would the consumer pay for, let's deliver that and find a way to do it on a free basis. That's the strategy.

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

Yes. And the only other things I'd add to that, and I thought that was a great answer is, if you think about, My LendingTree and as the upgrade from you came into the marketplace, you clicked on an ad, you filled out a form you closed or you didn't close. And then we're offering you the opportunity to say, "Hey, you can set it and forget it," and we'll just alert you whenever we can save you money. That's where J.D. is talking about the quality of the traffic. The beauty of having all of these lenders network up is that we can then deliver you through, we can deliver you real offers through TreeQual. So we're only in, My LendingTree, we're putting the best customer experience first. And then we're worrying about the monetization as a secondary basis. So we've got -- that's why we want to have the insurance agency embedded in there so you can get real offers for TreeQual. So you get real offers for credit card and personal loans and might have a click out mortgage. We're working on some enhancements there. So that's the goal there.

And then really importantly, from a business model standpoint, the goal then is that your recurring revenue, every time that person needs to check your credit score, et cetera, that we can give them the best offering, as J.D. said, at the right time. And we don't need to pay for you again to come through LendingTree. A lot of our repeat traffic still comes from you clicking on an ad, which means we're paying for you twice. So over time, our VMM should do better as well in addition to improving the customer experience.

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

Youssef, the only thing I would add -- the only thing I would add on, My LT, revenue or contribution from My LT users is up about 20%. So that's a good story. Now keep in mind, that tends to track with personal loans. So obviously, as RPLs are higher, those My LT numbers are going to look better. But revenue per engaged is 1.6x. So that's actually really good to see.

Our base, as we've talked about, we've been able to build this base of 22 million users without a lot of basically no marketing spend against it. What you're going to see us do over time is actually diversify that base, driving folks with -- from a mortgage funnel, driving folks from other funnels, insurance, et cetera, into the My LT experience. As that base diversifies, there will be all kinds of benefit for the marketplace business. So that's, I just want to emphasize, that's really the strategy. The 2 have to go hand in hand.

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

And then the last thing I would say is even at our Investor Day, we have an internal project called Digital Adviser, and that's going very well and is on track.

Operator

Our next question comes from Melissa Wedel from JPMorgan.

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

Wanted to follow up on some of your comments on TreeQual. I'm unclear if, has the scope expanded on that in terms of incorporating more network partners into TreeQual? Or has that -- is that stable? And if so, are you still on track to sort of implement that across most of the space by year-end?

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

So let me start, and then I'll hand it off to J.D. Let me just -- for everybody describe again what TreeQual is. And by the way, that's an internal name. In both the personal loan and the credit card business, there are slight nuances to fulfill the -- let's take credit card. You come to LendingTree or any credit card comparison site, you enter in some basic information, it gives you a list of credit cards and some potential rates and terms that you could potentially -- that you will probably be approved for. And then you click on that, you go to their website, fill in the rest of the information. And then a month later, the issuer tells us whether or not you closed.

So imagine instead, if you come to LendingTree, you fill in information and you're presented with 2 or 3 actual card offers that when you click on it, the card goes in the mail. And then in personal loans, basically the same thing. And lenders -- the initial lenders like this because it increases their conversion rates. J.D. said earlier about getting the right volume. They're only seeing people who are clicking on an actual real live offer. So they're all going to get approved. It massively improves the customer experience and the customer satisfaction, and it improves our unit economics and our monetization because we're not sending 100 people over to a lender and getting 3 closings back. We're going to send 100 people over and get 95 back. Now it's not going to be quite that start, but that's the, that's TreeQual.

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Right now, we've got 3 credit card issuers live on it today. Metrics that we anticipated have all been at or actually better than what we anticipated when discussing it with the partners in testing. So it's actually returning better outcomes, mostly better outcomes than we anticipated. So that's great to see. That's the -- what we would call the inventory side of it. So what does the consumer see.

We're about to launch our first personal loan partner, and so that's really exciting. And we've got, I would say, that pipeline of partners. There's some complexity to this because you have to work with a couple of third parties and work through it with the partner to onboard them. But second quarter, I would anticipate, we've got another handful of credit card and personal loan, I'd say, 5 or 6 in the pipeline, whether they all get done in the second quarter or it bleeds into the third, that's kind of the time line that I would think about. And that's a dramatic change in both of those businesses.

As Doug pointed out, what it will do for us, I mean, some of our partners in personal loans, we're anticipating that we could have -- we could maintain our existing business with them and that TreeQual could actually replicate and doubles it, all right? So to give you some sense for how it enables you to take market share. It's just a more efficient way to deliver them the consumers that they want. And we think it's a bit of a moat or barrier to entry in both of those businesses. So I just keep telling the team, somebody said to me, so this is really hard to implement, I said hard is good. Hard is a barrier to entry. It's a quality of revenue issue. And I think in both personal and credit card, that's exactly what we're doing. We're improving the quality of the revenue.

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

Yes. No doubt, the functionality of TreeQual is certainly compelling. I think one of the other things that jumped out to me in looking through your letter this morning is that you noted dramatically improved performance for those partners who have been onboarded so far. I was hoping we could dig into that a little bit. Are there any -- I guess, I'm wondering what metrics you're looking at or they're looking at? And then does that, are you seeing already an increase in allocated budget to LendingTree versus others as a result of that? Or how would you see that filter through?

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

So in personal loans, particularly in personal loans, it's -- you don't necessarily have budget allocations, lenders want typically, if they're, it's still electronic that many times, they're able to run on cap. The challenge -- the key metric you look at is the conversion rate from when we send a consumer to somewhere else, the LendingTree, and the percentage of those people who actually come back with a closed transaction. And that relates to the unit economics on your revenue per customer directly because most of those things or credit cards are -- we get paid on a cost per issue, revenue per issue.

And the same thing is mostly true with personal loans where we get paid on a closed loan. So if we can make dramatic changes in the conversion rate, we can make dramatic changes in the unit economics, and then that business will grow.

And the only other thing I would say, when I started LendingTree, the whole premise is you fill out a form and you get multiple real offers to compare. And in credit card, less so on personal loans, I think that's not happening. So this is just -- this is getting you to actually be able to see real offers. J.D., what else would you add?

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Yes. Melissa, I think in terms of like it's translating into more budget in card, that tends to be month-to-month, the payouts will not be different. The efficiency will be really on the marketing side for us. So as payouts in -- for certain cards go higher, we'll just be able to deliver more approvals and garner more from our base. That's why it's so critical that we expand our My LendingTree base as well.

Now this is not exclusively tied to My LendingTree, but that's why the strategies are so linked. I think in terms of impacting the margin profile in each of those businesses, I don't think that's a 2022 thing. I think that's something that we'll start to ripple through in 2023. And we're going to have to kind of look at all the data in terms of TreeQual, this year as we assess our budget for next year and look at what it does for those 2 businesses.

I'm very confident that we will garner more market share and wallet share with partners in those businesses. That part is -- that's not a debate. This is very much what they want from us. What it means in terms of can it get big enough to dramatically change like a margin structure in those businesses, that's a more open question that we've got to work through. It's just a matter of size and getting enough volume to them through it.

Operator

Our next question comes from Nat Schindler with Bank of America.

Nathaniel Holmes Schindler - *BofA Securities, Research Division - Director in Equity Research*

Can you help me out a little bit because I saw very different behaviors from some of the public in tech players in the personal loan space. Obviously, there's a lot of growth in the demand side from consumers. I know the demand and supply go backwards, I think you called that supply. But the consumer is more interested. They have higher credit card balances and there's less stimulus checks. People are spending money again.

But you saw also from at least a couple of the players in the fintech providers that are public to very opposite stances. Cutting their credit box dramatically on one side and another one that dramatically expanding the credit box as we both taking a different take on what's going to happen to the consumer in this changing inflationary environment, potentially recessionary. What would happen to your business? And how would it affect you if in either side of those is correct? And where do you see the consumer coming out longer term as we move forward with these rising rates?

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

Yes. I won't speculate on where the consumer is going, but I will say in personal loans, in particular, what you just described is what mix of market place, more lenders you have with the more diversity of their credit boxes means that on any given day, we can deliver the consumer the best deal in the market from whoever sees it that way. And what I always like to say is if lenders are willing to lend and borrowers want to borrow, we are able to make a marketplace in that, particularly in personal loans.

The time when the business gets tough is when those personal loan or any lender starts to see obviously, huge defaults and then they cut it or they have a capital -- they can't get capital that's happened in the personal loan market several years ago and the airhole shuts off. And then you wait it out. The nice thing for us is you reduce your marketing spend and it kind of balances out. J.D., would you also get where is the consumer going?

John David Moriarty - *LendingTree, Inc. - COO & President of Marketplace*

Well, I mean, Nat, I guess what's going to happen there's greater dispersion in pricing for any of our products right now within that environment, right? And so think about what our value add is as a marketplace, marketplace-based on comparison alternatives for the consumer.

If everybody is at the same price, it's not a great deal of value for the consumer. If there's great spread, there's more value. So in some respect, in the interim, that's not a bad thing for us in terms of the call to action to compare. So that's kind of one way to look at it.

In terms of -- I don't think there's enough data out there yet in terms of where all of our lender partners are going. We're certainly seeing, as we mentioned, in consumer partners who just very much want to grow. I'm not hearing a ton of credit box tightening discussions when we go out and talk to our partners for the first time in a while in person. There's not a whole lot of credit box tightening discussion going on right now. So that's not reflected across our network today. You're hearing a couple of data points of that if and in a higher rate environment, we actually think that's a good call to action for people to compare.

Operator

Our next question comes from Jamie Friedman with Susquehanna.

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

Doug, J.D., Trent, I was wondering at least at a high level, can you talk us through your thoughts on the VMM and especially the EBITDA margin contemplations at a segment level, if you can, for the remainder of the year?

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

Yes, Jamie, it's Trent. I mean again, I kind of point everybody back to the segment level guidance that we gave at the Investor Day. I mean, we said the Home segment was probably going to be down 15% to 25% on a revenue basis in light of what we knew was coming in terms of higher rates and lower refi volumes. We still feel like the bottom end of that range is achievable and likely, and we got it for a margin profile of 35% to 40%. We still feel like that's eminently achievable as well.

If you look at Consumer, as I already said, our outlook there remains fully intact. And we guided for 45% to 55% growth. Totally achievable. And certainly the trends from Q1 and into Q2 support that similarly on the margin profile, something in kind of the mid-40s.

And then Insurance is the one where there is a little bit of a caveat. I mean we expected that business to be up 10% to 20% on the year. Sitting here today, I think we're being cautiously optimistic, that's probably more like a 5% to 10% type grower, and the margin profile of that business. Certainly, the first quarter results suggest that we're trending a little bit beneath the segment level margin that we guided for there, but we're hopeful that, that will recover as the year progresses.

And in terms of how all that translates into EBITDA margin, I mean I do want to point out that we've done a pretty good job being disciplined in our OpEx. We've clearly moderated the rate of growth in our fixed cost structure, in our non-marketing cost structure. The fixed costs in our business have remained relatively flat for the last 3 quarters, and we're certainly doing our best to hold the line on that piece of it.

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

Got it. And then if I could just ask on this call out in the shareholder letter about Consumer, specifically on credit card, where you call out that the revenue per approval increased 47%. Is that, because the revenue per approval grew less than the card business I'm sorry if I'm being slow, thinking this through, but is that a function of increased volume? Or are the origination dollars smaller, why is that happening?

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

Yes. I mean revenue per approval is a function of a number of approvals that we deliver for our issuers in aggregate and what we get paid for that. So the increase in revenue per approval is a function of increased demand from the issuers for new originations, for new issuances. As J.D. talked about earlier, I mean we're clearly seeing a healthy backdrop there in terms of issuers wanting to spend marketing dollars, wanting to put on new issuance where we've been a little bit more challenged is on our ability to drive new consumers and new approvals to them.

Just the marketing backdrop there has been more difficult. It is competitive and remains competitive. And so our focus in that business is obviously to get more efficient through TreeQual as we onboard more partners, but also to look for other marketing outlets, other sources of traffic, and that's where we're focused in the card business.

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

Got it. Thanks for that. I'll drop back in the queue.

Operator

Actually, Mr. Friedman, you're the only one left in the queue. You can continue.

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

All right. Well, what I was trying to get at that, Trent is that the revenue actually grew faster than the approval. So is that because you -- I guess is it volume discounts because you had more approvals?

Trent Ziegler - *LendingTree, Inc. - CFO & Treasurer*

The number of approvals that we're delivering for our partners is up and the amount we're getting paid per approval is also up.

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

So, but why would the revenue in the segment grow faster than the revenue per approval? I'm sorry, Doug, if I'm being exceptionally slow.

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

Because the revenue, sorry, James, the revenue per approval would be a function of how the issuers across our network, say, we will pay you x per approval. They incent us to deliver them volume, we succeed delivering them more volume just the math of a higher rate, a higher price, just like everything else is inflated over the last year and more volumes. So it's 2 metrics working in tandem. So that's going to lead to a higher percentage, right? We've got a multiplier effect of more volume across a higher base price.

Operator

I'm showing no further questions at this time. I'd now like to turn the conference back to Doug Lebda, CEO.

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

Thank you very much, and thank you all for listening and your great questions.

I'd just close with this. 25 years ago, when I started this company, I first spend a little bit of money on advertising and with a simple website and had hundreds of customers filling out the first QFs on the Internet applying for loans. When I turn to the lender side with my co-founder and ready to build interfaces to every financial institution, my first lender said, can you fax it to me? So we had to build a system that we could fax customers to the lenders who would then input that data back several days later.

As we sit here, I never thought that it would take 25 years to get to the place that we are in 2022, where I believe that we are at the cusp of finally having fully digitized loans and fully digitized insurance. And that we have a marketplace right now where you've got public companies in each of those areas who are lending is one of our questioners referred to in personal loans. We've got fully digitized at-scale mortgage companies who are on the Internet. Every single bank in the country is working towards the same goal of acquiring more customers over the Internet. And we think that we are perfectly positioned in that future and here's why.

One, we have a loan and an insurance marketplace machine that works every single day to produce substantial cash flows. We are one of the only companies that I know of that doesn't have a customer acquisition cost problem. Our marketing is very, very profitable. Two, we have a brand that's very, very well known. And with our customer experience improving, it's going to get even better.

Three, we have every significant financial services company in every single category plugged into our exchange and as a client of ours and as a real partner of ours, and those partnerships are getting stronger, particularly now post-COVID, where we can actually go see each other again and really work together again.

Fourth, we have our strategy and all of our key initiatives to revolutionize our customer experience and with that comes direct unit economic improvement. And fifth and most importantly, we have what I believe is the best team we've ever assembled at LendingTree is perfectly ready, has been digging in during COVID, making changes, building the company of the future, and it's a fantastic team to work with, and we are fired up and excited to see where we can take this company from here. Thank you all very much.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.