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TREE - Q2 2016 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree Incorporated second quarter 2016 earnings conference call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will follow at that time. (Operator Instructions) As a reminder, this conference call is being recorded. I would like to introduce your host for today's conference, Mr. Gabe Dalporto, Chief Financial Officer. Sir, please begin.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Thanks, operator. And thanks to everyone for joining us today for LendingTree's second quarter 2016 earnings conference call. As is the typical cadence, I'll quickly walk through the quarter's financial performance as seen in today's press release and turn it over to Doug for his perspective on the business and our outlook for the back half of the year. But first, a quick disclaimer. During this call, we may discuss LendingTree's plans, expectations, outlook, or forecast for future performance. Forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate, we are looking to, or other similar statements. These forward-looking statements are subject to risks and uncertainties and LendingTree's actual results could differ materially from the views expressed today.

Many but not all of the risks we face are described in LendingTree's periodic reports filed with the SEC. On this call, we will discuss a number of non-GAAP measures and I refer you to today's press release available on our website at investors.lendingtree.com for the comparable GAAP measures, definitions, and full reconciliations of non-GAAP measures to GAAP. With that, we'll get into the results. Today, I'm very pleased to be discussing another fantastic quarter for LendingTree and our fourth consecutive quarter of record adjusted EBITDA. What makes these results even more impressive is that we delivered in the face of some challenging industry headwinds in the case of personal loans as well as expected seasonality in credit cards. We believe this is further proof of the amazing resilience of our diversified business model along with the power of a team executing at the highest levels.

Now, let's talk about specific numbers. We delivered $94.3 million of total revenue, up 71% over the second quarter last year. Revenue from mortgage products grew to $56 million accelerating to year-over-year growth of 51% and continuing the trend of market share gains. During the same comparable periods, mortgage originations industry-wide grew only 4% according to a survey of industry estimates. Moving to our non-mortgage products, revenue increased 114% year-over-year, moving from $17.9 million in Q2 2015 to $38.3 million this quarter. However, we did see a sequential decline primarily due to well publicized industry headwinds in the personal loan segment and it's worth taking a moment to discuss personal loans in more detail and how we were able to successfully navigate these challenges.

At a high level, we have to acknowledge that several personal loan marketplace lenders faced temporary funding challenges in late Q1 and Q2 causing them to pause or significantly reduce their marketing budgets across the board including with LendingTree. At the same time, other positive factors entirely mitigated the impact to the VMD contribution of our personal loan segment. We expanded margins while generating materially more volume at lower acquisition costs. We grew our lender network with six new lenders including the top online lender in a major US Bank. By the end of the quarter, we began to see increasing budgets and a return to normal for some of these lenders. The net result is that we generated more VMD from our personal loans business in Q2 than in Q1 bringing more dollars to our bottom line.

Furthermore, we continued to make substantial progress in many of our other non-mortgage categories including home equity and autos with each demonstrating double-digit sequential growth. Moving on to variable marketing margin. We delivered $34 million, which exceeded the high end of our prior guidance by $0.5 million. Our plan heading into the quarter was to expense the production of a new round of television commercials and we did that to the tune of $500,000 and those spots are now in market. Moving down to adjusted EBITDA, we delivered a new record of $16.7 million and improved margins by 100 basis points sequentially to 18% of revenue. In terms of GAAP net income, we recorded $9 million from continuing operations in the quarter or $0.71 per diluted share. Adjusted net income per share, which excludes certain items expensed under GAAP, grew 46% year-over-year to $0.92 per share.

It's worth noting that our tax provision in the second quarter was lower than one may have expected. Our effective tax rate in the quarter was 28% versus the 40% we previously guided to. The tax provision includes an approximate $1.5 million benefit related to a federal research and development tax credit for which we've been deemed eligible. Moving to our balance sheet. We repurchased 107,000 shares of our stock during the quarter at a weighted average price of $71 per share for an aggregate consideration of $7.6 million. We expect to continue to opportunistically repurchase our shares while also being mindful of our cash position as we evaluate relevant and attractive acquisition opportunities. As of June 30, our unrestricted cash position was $160 million and approximately $45 million in share repurchase authorization remaining.

With that, I'll pass it over to Doug.

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

Thank you, Gabe, and thanks everyone for joining the call today. Now that Gabe's walked you through a financial results, I'd like to provide you with a bit more context on our performance alongwith updated guidance and our outlook for the remainder of the year. As you can see from our results, LendingTree had yet another exceptional quarter. I can proudly say our team has performed phenomenally well and has once again proven to the market and to our shareholders that we have the ability to recover from upsets within the industry and thrive in various macroeconomic and market conditions. In a challenging quarter, we optimized our business to expand margins and delivered record profits. It's clearer than ever that this business backed by this exceptional team is poised to scale and is perfectly positioned to capitalize on the industry's online transformation.

In our mortgage business, we produced another record quarter of revenue. This is the fourth consecutive quarter where LendingTree has outpaced the overall mortgage industry. Notably, 63% of our lenders actually increased their spend this quarter and we successfully launched our new CRA product bringing new lenders and satisfying an underserved need of many existing lenders on our network. Revenue from our second exchange grew 26% over the first quarter alone primarily due to improved conversion. Very late in the second quarter and moving into Q3 we've seen mortgage rates drop materially. As I'm sure you've heard me say many times in the past, when rates drop we're flooded with volume and our CPLs meaning our customer acquisition costs fall. At the same time, lenders see an increase in their own organic volume and therefore tightened filters and tightened capacity with us.

Because of this, we expect revenue to be only modestly higher in Q3; but with greater marketing efficiencies, our margins will expand and we'll be able to contribute more to the bottom line. In non-mortgage, the biggest story was in personal loans, which Gabe already described. The key takeaway and a point I want to emphasize is that profit contribution was actually up quarter-over-quarter in personal loans. In addition to adding new lenders, several of which have incredibly stable funding models, we also have a number of lenders that began offering new financing solutions. Because of this, our match rate in personal loans which had plateaued to about 50% has now improved over 60% as of June. Given the improving fundamentals and the strong lender pipeline, we're more confident than ever in the stability, profitability, and growth opportunity of our personal loans business moving forward.

In short, we expect to see sequential growth in Q3 and a return to normal heading into 2017. In credit cards, the second quarter brought some expected seasonal softness, however, we are making progress on multiple initiatives on the credit card marketing front and we're particularly excited about the success in generating inquiries from our My LendingTree customer base. In home equity, we added another six new active lenders and now have four of the five largest banks partnering with us. Home prices are up 38% since bottoming in 2012 and are only 8% below their all-time peak in 2007. As home values continue to improve, customer demand follows which is evidenced by the fact that home equity requests are up 48% over the first quarter alone and up more than 140% year-over-year.

Moving on to My LendingTree where we continue to roll out new features and improve the customer experience across the board. In the second quarter we revamped 26 alerts, added another 20 that are brand new, several of which are primarily focused on improving credit scores. By doing so, we're able to improve customers' lendability and increase the users' engagement on our platform. What I'm particularly excited about is the positive feedback we're receiving from consumers. We've started to collect NPS scores on the My LendingTree experience and it's roughly 50 basis points higher than the traditional LendingTree experience. All of this contributes to a significant year-over-year increase in revenue contribution and solidifies our confidence in the success of this innovative product.

Finally, we expect to have a major new release for our mobile app in Q3, at which point we plan to test marketing in the mobile app as a standalone acquisition channel. With that context in hand, I'd like to give some color around our expectations for the third quarter and our revised outlook. Revenue for the third quarter is expected to grow to $96 million to $99 million reflecting continued sequential growth in mortgage and a rebound in non-mortgage. More importantly, variable marketing margin is expected to grow to $35 million to $36.5 million. As a percentage of revenue, our margin profile is expected to improve this quarter and adjusted EBITDA is anticipated to be $16.5 million to $17.5 million reflecting year-over-year growth of 50% to 59%. For the full year, we expect revenues to remain in the range of $380 million to $390 million.

And for VMM we are increasing guidance again to $137 million to $139 million, up from the prior figure of $134 million to $137 million. On adjusted EBITDA, we are lifting the range from $62 million to $65 million to $64 million to $66 million passing through to investors the upside of our Q2 outperformance. As I mentioned previously, there are scenarios where we can grow the business by aggressively growing the topline and there are scenarios where it makes sense to grow the business through expanded margins. In the near term we're taking the latter approach, but at the end of the day we've just navigated substantial headwinds to deliver a record quarter and we're now committed to better results than we promised just three months ago.

With that, operator, we're happy to take questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Peck, SunTrust.

Robert Peck - *SunTrust Robinson Humphrey - Analyst*

Congratulations. Doug, you talked about only seeing a modest benefit for mortgage as rates have been declining. How can we think about the antithesis of that? As we head towards maybe a rising rate environment in 2017, what sort of impact should we see to the mortgage line? And then just a quick follow-up.

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

The way I would think about mortgage is what basically happens is rates fall, volume floods in and at the same time lenders cut back. So that's why we've been able to survive the mortgage industry declining and basically at the end of the day, it really comes down to share and we're facilitating a couple points to share in the mortgage business. And Gabe, why don't you add to that?

Gabe Dalporto - *LendingTree, Inc. - CFO*

So, think of it like a gas station. So when oil prices go up, the price of gas goes up, but then the gas station charges more for gas and cars come in and they make the same amount of profit. And oil prices go down, gas prices go down, cars come in, they make the same amount of profit. And that's kind of how our mortgage business works. So as rates drop, you have exact same phenomenon as Doug described and as rates rise, we would expect to see more lender demand, higher revenue per lead, our cost per lead goes up, and we should be in a relatively similar place. Did that answer your question?

Robert Peck - *SunTrust Robinson Humphrey - Analyst*

Yes, that's helpful. And then my second question was more on Doug, you spoke about a challenging quarter for personal loans, you actually saw a sequential growth in profit. Could you just give us a little more color around that and what you expect for the rest of the year?

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

And I'll let Gabe chime in on the numbers. But basically what happened in personal loans, it was interesting because a lot of investors thought that we were going to have a lousy quarter because of some of the change in the personal loan industry. It turned out to be the opposite because as demand from a couple of key clients fell, the cost to get those customers also declined at the same time and then profit improved. Now that those lenders are coming back on and have come back on, now we can step on the marketing gas again and we can continue to grow the personal loans business through this and again it comes back to market share in personal loans and we're facilitating roughly 2% of all the personal loans in the United States.

Gabe Dalporto - *LendingTree, Inc. - CFO*

So, just to build on that. We grew personal loan volume 23% quarter-over-quarter and we spent less marketing dollars to acquire them and so the net result was we just made more money. And so if the exchange model is we're not tied to any one lender, but also it's really just a marketplace and there is a marketplace demand for our leads, but also marketplace demand for media buying. And so as the cost to acquire those customers went down, (inaudible).

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

And at the end of the day, the thing that I was thrilled about with personal loans is that the exchange model really works. We are adding significant value to lenders, lenders want more volume, improvement on the marketing side as well that we can make it happen there. As volume goes up in the industry, we can capitalize on that better than any of our competitors. And if lender demand falls, we can adjust immediately to that inside of a quarter and our escape velocity at the end of the quarter was absolutely fantastic.

Operator

Mark Mahaney, RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

On the personal loans to the extent to which you think that -- can you talk about that whether you've seen a full recovery in demand for personal loans and liquidity in the personal loans marketplace currently or is it on the road to recovery? Secondly, could you disclose what percentage of revenue comes from the My LendingTree network? And then third, any other data points you could give on the liquidity of each of the marketplaces? I think that you said that there were six new lenders in personal loans. Are there any updates on some of the other verticals in terms of the number of new lenders added to each of those networks? Thank you.

Gabe Dalporto - *LendingTree, Inc. - CFO*

So first on the personal loans characterization of the industry, I would say we probably saw rock bottom in personal loans in May. The slide started maybe mid to late Q1, hit rock bottom in May, and by June we started to see some firming up. We've had some information of some positive securitization successes in the market and we've had some lenders that had pulled back pretty materially come back on. It is now on the road to recovery, but I think that there is still relatively decent road ahead of us and so we would expect sequential improvement in the market through Q3 and Q4 and probably things back to full normal in Q1 of next year. So, that's the personal loans business. On the My LendingTree side, we're growing about 6% of our revenue from My LendingTree. And in terms of lender growth, we did see good growth in personal loans from the network side. We added net new lenders on the mortgage side. We added pretty substantial net new lenders in home equity and we are now doing business with four of the five top national banks in home equity, which is a huge success for us. And just recently, we've seen some success also on the reverse mortgage side.

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

And then the only other thing I would add is the market at least that we heard was expecting significant delinquencies from personal loan securitization. That has not borne out to be the case. So, I think this business is doing just fine. In addition to that, we're actually seeing great growth in home equity and also in reverse mortgage.

Operator

Nat Schindler, Bank of America Merrill Lynch.

Nat Schindler - *Bank of America Merrill Lynch - Analyst*

Is it true to characterize what's going on in the personal loan space as an effectively shrinking of the gross profit that they could generate in that business between what they could fund money at and sell money at? And if that's the case, wouldn't your revenue in that category and your profitability or what they would pay would correlate highly with that? And secondly, if you could also characterize if you go through the customer group in that space, how many of them would you say are part of this new or what percentage of that business is part of this new Fintech world or marketplace business similar to a lending club as opposed to more traditional entities?

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

So, the first thing I would say their gross profit is relevant but is immaterial to us because really for us, it comes down to conversion rates. If you take a lender who can convert at let's say 1% meaning they're converting one out of every 100 customers into a closed loan and then you turn

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them into a 10% converting lender, they'll probably pay out eight times more for that customer. So, it really relates for us than the conversion. The company needs to be thought of much more as a search engine than really talking about the average profit on the personal loans and there are huge advances to make in conversion rates in personal loans. In terms of the number of lenders, it really comes down to like a percentage of revenue and it's roughly half and Gabe can comment more. But quite frankly, it doesn't actually matter because all of the technology that's going on inside of the new non-traditional lenders is now making its way into the banks. And over time every bank if they want to make personal loans will have a highly automated underwriting machine where they can do personal loans in an automated fashion and the more automated they get, the higher our conversion rates go. Very similar to what happened when Efficient Frontier or Automated didn't happen on Google. It's the same effect that we're seeing.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Just to put a finer point on the percentage of revenue from marketplace lenders. We've been pretty successful adding non-marketplace lenders to the network, marketplace lenders now represent about 40% of our revenue in personal loans.

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

And the key thing for us again is as technology happens, conversion rates improve; as conversion rates improve, lenders bid up the value of LendingTree volume and then it's really down to us versus a couple of competitors as to who could be a better marketing machine and I think we've proven that one.

Operator

Eric Wasserstrom, Guggenheim.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Gabe, I appreciate the commentary you made around the profitability dynamics of purchase versus refi. But can you just give us then what the actual split between the two products was in the period and how that's trended over the past let's say four or five quarters?

Gabe Dalporto - *LendingTree, Inc. - CFO*

We don't really break out the purchase versus refi mix. But what I can tell you is that there's often a substitution effect between the two and so when rates are rising, lenders will take all of our refi and then will take a bunch more purchase than they normally do because that's to feed their loan officers. When rates are declining like they are today, lenders will maybe pull back a little bit on purchase and focus in on refi because they can just close more of them faster. So, it's really a pretty dynamic market between the two and really they act as a very good hedge against each other. So, that's a general dynamic.

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

And just to accentuate that, I would like to use my chicken versus steak analogy. If you're a mortgage loan officer or you're a mortgage lender if you can eat steak all day long, you're going to eat steak which is refi; but if you can't eat steak, you're going to eat chicken. And so lenders will switch over to purchase or they'll switch down to lower loan amounts or they'll switch to other [states]. They'll effectively expand their filters. It's the long tail analogy with Google, we can get all of our volume from mortgage rates are low and that key word, the so-called hedge term will take it all day long. But if that query volume declines, then you open up your filters and you take more. It's the same thing that we do with Google, same thing the lenders do with us.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

But I guess what I'm trying understand and what your revenue trend would suggest is that units continue to increase and I'm just trying to understand that in the context of tightening filters as banks become flooded with volume from their more traditional channels?

Gabe Dalporto - *LendingTree, Inc. - CFO*

You bring up a really good point, which is that if you look at our consumer loan requests over the last couple of years, what you've seen is very consistent loan requests in aggregate volume increases and we saw year-over-year loan request volume increase about 84% and we saw sequential loan request increase about 15%. And so the unit inquiry rate continues to grow and that trend is intact even though our revenue bottomed a little bit. And so what you're kind of seeing in Q2 and maybe a little bit in Q3 and Q4 is that we anticipate to continue to grow unit inquiries and the only reason that revenue isn't following quite as quickly is because number one, low mortgage rates and as mortgage companies work through their backlog and hire more loan officers, that will come back and then some short-term personal loans bottoming out. And so you can imagine what's going to happen when those two industries return to normal, there will be an acceleration of revenue. So, fundamentally we believe that the trend is impact on the volumetric and share gain side and we just have a couple of really short-term industry dynamics that ultimately will put them in our favor.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

But Gabe, just to clarify when you talk about inquiry, you're talking about top of the form, correct, on the consumer side?

Gabe Dalporto - *LendingTree, Inc. - CFO*

We're talking about loan requests so that a lead, a call, or any credit card to click out.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

But I guess I'm asking how about the bottom of the funnel dynamic?

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

Share's increasing.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Share's increasing and that will just flow.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

And just last question from me. Doug, as you highlighted, there's this favorable dynamic between volume and margin. But how do we think about it from what we've witnessed in this period and the sequential change, how do we sort of contemplate what the secular margin is as you move through this accelerated non-mortgage growth period?

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

Clarify that for me, Eric.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

So in other words, you have these growth channels and those will continue certainly for some period of time. But as you move to let's say a secular growth rate within those product areas, how do we contemplate what you view as sort of the secular EBITDA?

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

I think we need to give you guys a better long-term view of EBITDA, but if you think about this, we are 2% of the US consumer loan business. We are going to be 10%, 15%, 20%, 30%, hopefully 50% of the US consumer loan business. We'll spend roughly the same percentage of our revenue on marketing and we'll keep our fixed cost roughly in line. And as that happens and as we see that growth accelerate, obviously it will follow the EBITDA margin line. I think for this year, we feel really, really good about our guidance, but everything that I'm seeing is showing us that we go from 2% to 3%. That means our revenue goes up by 50%, marketing costs go up roughly on the same percentage, and the rest falls to the bottom line. And the EBITDA numbers and the cash flow numbers get so astronomical that wouldn't have any credibility, but if we pull it through, we've got a tiger by the tail here.

Gabe Dalporto - *LendingTree, Inc. - CFO*

And what we've been able to as we scale topline and variable marketing margin, we've seen expanded EBITDA margin. So, 18% this quarter. We have said historically that we can see that being in the mid-20%s and we have over a long periods of time had a pretty consistent VMM margin profile.

Operator

Kerry Rice, Needham.

Kerry Rice - *Needham & Company - Analyst*

Just one more question on the personal loans, you added six new lenders to the platform. How do I think about the ramp of that spending, how quick? And that kind of relates to the headwinds from someone like a lending club and a Prospers. If those decline, how fast can you offset it as new lenders are added to the platform? The second question is around the upwardly revised EBITDA. How much of that incremental EBITDA comes from just the lower customer acquisition costs versus maybe a more conscious effort to pull back on spending given some of that macro headwinds? And then finally on credit cards, you missed a little seasonal softness in Q2, you guys have the major issuers on the platform. How do we think about the trends to get that next step up in marketing spend from those issuers? What do you have to do to get that? Thanks.

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

So on the personal loan front, I would say by the end of the quarter it was effectively back to the run rates of the beginning; won't say it's entirely there, but effectively back. And with a great pipeline that we think it'll continue to accelerate. Now I would also caution that it's not just about personal loans, this Company is about everything. It's sort of like asking Google about like how are your mortgage related keywords working. But personal loans are effectively back and quite frankly we expect it to continue to accelerate. The second question was what?

Kerry Rice - *Needham & Company - Analyst*

It was around the incremental EBITDA in the upwardly revised EBITDA guidance. Is that driven or maybe can you parse out how much of that is driven just by that lower customer acquisition costs you're seeing versus maybe just a conscious effort to pull back on margins in some way?

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

This really gets to the core fundamental way that we operate the business which is, and I'm a pretty big shareholder as you guys know, I want to make as much money every month, every day, every quarter as we can and also make sure that we can invest for the future. So, we don't consciously like try to hold back anything if we can make more money. So if lenders are demanding volume, we're on the gas; if lenders are not demanding volume, we're pulling off the gas and every month, every quarter we're trying to make as much every day, pretty frankly every hour we're trying to make as much money as we can. And then on the card front, we've now got all the issuers. The biggest thing that's going to get card going is we've got to make sure that we can do new marketing channels. We got to do direct deals with clients, we've got to go figure out search, and all of that stuff is in process and then we should be almost as big as every other card provider out there.

Gabe Dalporto - *LendingTree, Inc. - CFO*

On cards as well, one thing I would add to Doug's comments is we've seen some really nice traction with My LendingTree and our customer marketing efforts. I don't know how much you know about Credit Karma, but they built a massive business just growing customer marketing and we're starting to see some green shoots there and really pleased with the progress. And we've also got some really good partnerships that are starting to come to fruition. So, those are two really exciting channels for us.

Operator

Hamed Khorsand, BWS Financial.

Hamed Khorsand - *BWS Financial - Analyst*

Hi, good morning. Just the easy one is how many users did you have on LendingTree?

Gabe Dalporto - *LendingTree, Inc. - CFO*

3.3 million.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. And then, do you feel constrained in anyway with the lower spending driving bottom line?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Not at all. No, it's just the exchange dynamic and volume is up by way, like volume is up materially.

Hamed Khorsand - *BWS Financial - Analyst*

Yes. But I mean, before it felt like you guys want to spend more -- we're willing to spend more to drive growth and now, you're willing to spend less, but still seeing growth. So I'm just trying to understand that.

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

Yes. You spend every single day, every single second, we are spending as much money on marketing to drive volume in as lenders are demanding. Right now, the good news is, great news is in our industry, because of the previous marketing, consumers are flooding in and we are trying to clear that volume of lenders. That means our marketing costs go down and we need to make sure that lenders can scale and can get to that and can handle all of that. That's a great dynamic and the customer inquiries are up. And over time, the lender demand picks back up as well.

Hamed Khorsand - *BWS Financial - Analyst*

Yes. So what I'm trying to understand is going forward, can you sustain this profit rate (multiple speakers)?

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

Yes. Oh! God. Got you. I mean, it's going to expand. As our share expands, it's going to go directly in parallel.

Hamed Khorsand - *BWS Financial - Analyst*

Alright. And my last question is, is there a single product coming off of My LendingTree that you're seeing a lot of demand for?

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

It starts off with cards, but it's really everything. And I'm thrilled that it's 6% of our revenue and thrilled with the new alerts and I would encourage people to download the product. The feedback that I've heard, not only from myself, but from investors, from shareholders and from friends who use it is all fantastic. The NPS scores are great. We think that's a game changer for our Company going forward.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Yes. And I totally agree, we're very happy with the product and I would encourage everybody at the end of August, there will be a press release, [where we've] got a major release of the product heading out at the end of August and as Doug mentioned, we're going to start paid marketing and against that app, we think it's so good.

Hamed Khorsand - *BWS Financial - Analyst*

Thank you.

Operator

John Campbell, Stephens Inc.

John Campbell - *Stephens, Inc. - Analyst*

Hi, guys, nice work navigating the personal loans storm in the quarter. You thought that profit flow-through is pretty impressive, but just unpacking some that mortgage growth, can you guys maybe just give us a sense for some of the drivers there, just with respect to just existing customers versus newer customers?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Most of it from existing customers and can give you more detail. And that's just because they've already figured it out, but there is a -- and that's normal, the way our lender normally works with LendingTree is you start off with a small budget and then you grow from there. So a lot of that's from existing customers, but the beauty of that is, it means that this actually works.

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

Yes, and specifically 85% of the growth in mortgage came from existing lenders.

John Campbell - *Stephens, Inc. - Analyst*

That's great to hear. So some of the newer, larger customers. I think you guys might have talked about a little bit in the past. Are they still just kind of mostly purchase heavy?

Gabe Dalporto - *LendingTree, Inc. - CFO*

No, it's a mix, but would go back to 60% of our lenders actually increased spend in the quarter, which means that it's working for them and as it works for them, they're going to do more of it and then what we're trying to do is to grab more of their wallet share of what their marketing budget is compared to where they're spending it in other sources, and the beauty of it is we're consistently gaining that share and stealing share from our competitors.

John Campbell - *Stephens, Inc. - Analyst*

Okay, that's helpful. And then, on the call center, I mean I think clearly that was helpful for you guys in winning some of the larger lenders. Where do we stand in that build out? Do you guys have plans to [extend] you ramping that?

Gabe Dalporto - *LendingTree, Inc. - CFO*

It's built out and it will ramp and it just ramps linearly with volume and that has caused some lenders to increase their spend with us four and five times because we can handle those initial mortgage calls and then their loan officers can focus on other things they can do best.

John Campbell - *Stephens, Inc. - Analyst*

Okay, that's helpful, thanks again, guys.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Thank you.

Operator

Michael Tarkan, Compass Point

Michael Tarkan - *Compass Point - Analyst*

Thanks. Most of my questions have been answered, but I'll have something different, just from a capital allocation standpoint. I know the buyback came down a bit this quarter, but how are you thinking about that versus M&A at this point and from an M&A perspective, what kind of deals or capabilities you're looking at [potentially]?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Great question. So I would say on capital allocation, what we do first off on the buyback is we're always buying or not buying based on the stock price. So we put a plan in place effectively every quarter that's based on volume and price and then we put that in the market. The nice thing is, I don't think we have a capital allocation questions, because there's plenty of cash to both buy back our stock at attractive prices as we've done. And there's plenty of cash or debt capacity quite frankly if we wanted to go back and go by competitors or go by company. And on the acquisition front, we've done a couple little acquisitions, nothing major yet. I can tell you that it really comes down to valuation and we're very smart on valuation and we're not going to do something stupid. So we don't see anything in the market that we quote-unquote need to own. The question is when we build it, we buy or we partner to get things done. And when valuations are right, we will jump out.

John Campbell - *Stephens, Inc. - Analyst*

Okay. As a follow-up on that, would this be adding or would you look at a new lending category, would you look to get bigger in an existing category, some sort of technology, just any kind of thoughts there?

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

I think it would be either smaller cap lending categories or getting deeper inside the tech stack, so that we can help lenders improve conversion rates.

John Campbell - *Stephens, Inc. - Analyst*

Okay, thanks. And then, last one, give an update on -- sorry, go ahead..

Gabe Dalporto - *LendingTree, Inc. - CFO*

Okay. And to build on that, the only other thing I would add to that would be adding some competency to our organization.

John Campbell - *Stephens, Inc. - Analyst*

Okay. Last one from me is, give an update on sort of how the small business or student channels are trending for you guys (inaudible)?

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

Students going -- student is a low base and very seasonal, but is growing. And small business, Gabe, I don't know --

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Gabe Dalporto - *LendingTree, Inc. - CFO*

Small business is actually doing pretty well for us. We spent quite a bit of time understanding that industry building out the product. We had some pretty significant product releases in Q1 and Q2. And that's now starting to come to fruition in terms of Q3 growth, both topline revenue and volumetric and bottom line. So, business loan seems to have turned the corner for us and we're pretty excited of the new products.

John Campbell - *Stephens, Inc. - Analyst*

Thank you.

Operator

Neil Doshi, Mizuho Securities.

Neil Doshi - *Mizuho Securities - Analyst*

Great. Thanks, guys. On the new mobile app for My LendingTree, what is your expectations for user growth and how should we think about that in terms of flow through to revenue?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Yes. So there are two ways to think about that. Number one is, it opens up some new marketing channels for us, so number one, app installs] is like just an incremental marketing channel. But then, once we get those app installed, we can send push notifications as the user's device and then that's an incremental customer marketing channel. And so, we will be launching late August, we will be starting testing at the launch and through the end of the quarter and then we will start to scale that up over time, but we're really excited about the fact that it opens up acquisition channel as well as a customer marketing channel.

Neil Doshi - *Mizuho Securities - Analyst*

Great. And then, any more color you can provide on the new lenders that you added in the personal loans segment? I know that I think Goldman even announced on their earnings call that they're interested and moving into the segment. Is there more of an opportunity for you guys to take share from traditional lenders who are considering moving into this segment?

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

So we're not going to give -- unfortunately, as much as I would like to give color, we're not going to give color around the exact lenders although with a little bit of research, they can try to be found on our website. But we just don't like to do that, but what I can say is that you've got a combination of returning new platforms, so-called peer-to-peer guys and you've got a big resurgence or I should say initiation of more traditional lenders who are coming into that space who we were seeing it as an attractive way for them to lend money and if they need to lend money, they need to find customers and if you need to find customers, we are the place to find customers.

Neil Doshi - *Mizuho Securities - Analyst*

Okay. And Doug, we're starting to see a number of small business loan products hit the market like AmEx Working Capital, [Score Capital, Hippocredit], et cetera, and these products seem to be gaining scale, are these opportunities for you guys or are these new products really targeted at their existing business customers? How should we think about that opportunity for LendingTree?

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

I think that's a fantastic question. I think my answer would be this. Any automation will ultimately be an opportunity for us. So if lenders want to lend money and they do it an automated fashion, they are clearly going to target their own customers, but they're also going to want new customers and if they want new customers, we're going to have them and I would say other than marketing to your own existing customer base, LendingTree is always a more efficient marketing channel than you going and doing it yourself.

Neil Doshi - *Mizuho Securities - Analyst*

Great, thank you.

Operator

Mike Grondahl, Northland Securities

Mike Grondahl - *Northland Securities - Analyst*

Yes, thanks guys. Just two quick questions. One, I get the sense that the quarter ended pretty strong in June. Can you speak to trends in July and kind of how that fits in to the September quarter guidance? And then maybe, secondly, just talk from a high level the progress on home equity?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Sure. And so, yes, the quarter definitely ended on a high note, there is no doubt about it. And that I would say characterize that as that did carry over into July. So we're feeling really good about not just last quarter, but this coming quarter. Feeling really good about the business and frankly we feel phenomenal that and we navigated a pretty difficult situation and came out really well on the other side. So I think it's a testament to our team. I would characterize the team at LendingTree is by far the best that I've ever worked with and really hats off to them for executing so well and we do have momentum carrying into Q3.

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

And on the home equity front, it's basically only just begun. I comment in my prepared remarks around that, but it wouldn't -- when Home Equity hits ramming speed, I promise you, it's going to be epic because it was epic in 2005, 2006 when it was over a $50 million revenue business for us that was highly profitable.

Neil Doshi - *Mizuho Securities - Analyst*

Would you predict ramming speed late next year or how far are you away from it?

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

It depends on -- it will -- I don't know because it depends as lenders want demand because if lenders have demand for new customers, we go step on the marketing gas and we step on it and the more they widen their demand, which again will start off small, because they'll start off pretty conservatively. But then, the more they expand into what I had characterized earlier as the long tail, then the more that business will take off.

Neil Doshi - *Mizuho Securities - Analyst*

Got it. Thank you.

Operator

(Operator Instructions) Blake Harper, Topeka Capital.

Blake Harper - *Topeka Capital - Analyst*

Thanks. I had most of them answered too, but just wanted to ask you, Doug, about some of the market share in the mortgage market with some of the mortgage brokers and the [top picks]. I know you historically had couple of the mortgage brokers as we [talk] customers and you've had some customer concentration. Just want to (multiple speakers) the banks have become a larger part of your business, but again just speak just some of the market share with them and kind of your customer concentration?

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

So there are two ways of thinking about that. There is some mortgage, there's aggregate mortgage market share and then -- which splits between purchase and refi and I won't be too specific, but one is literally 2.5% and one is 2% roughly, which is up roughly double from several years ago. So LendingTree is absolutely expanding share. When you get to customer concentration, the thing to understand here is that when you had another lender, you don't necessarily improve like your sales. And over the years, LendingTree has actually had pretty concentrated customer concentrations inside of mortgage, because the winners do more. So it's not going to be a surprise, because (inaudible) Loan Depot are among our largest customers and I'm allowed to say that from them. At the same time, what I can tell you is when, for example, one discover home loans completely shut off their business and at that time, they were our largest customer, LendingTree did not see a blip at all, because there are 100 other lenders behind them who would love to get that volume and that's the dynamic that we've always seen. So, I feel good about customer concentration, I feel good about the advance in technology and I feel really good about how our leading lenders are doing and it's working for them, so they're increasing their buys with us.

Neil Doshi - *Mizuho Securities - Analyst*

Alright. Thanks, Doug.

Operator

Thank you. At this time, I'm showing no further questions. I would like to turn the call back over to Doug Lebda for closing remarks.

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

Fantastic. Thank you all for being here and thanks everybody at LendingTree for just another phenomenal quarter. I would only close with this. Literally 20 years ago, right around this time, I founded LendingTree. We've made it through some significant challenges, if you think about it. We made it first through the dot.com bubble where everybody said that we were going to fade away after we went public in 2000. We then made it through the financial and housing crisis in 2008, and we just made it through the so-called personal loan prices that were supposed to derail our Company. We've made it through them all. It's taken a lot of hard work, but it also shows that this industry is moving on line, that lenders are moving on line. And the most important thing is, we are literally beating our competitors. And if you look at what we're doing versus our competitors, this market is shaping up exactly like Global Search did, which where we have one major competitor or one major winner there in Google, it's shaping up like travel where there's a couple major winners, where there used to be a lot more. And then, the online lending search business, it's LendingTree and we're proud with our results. We're thrilled with them and we look forward to many more great quarters. And thank you all very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone have a great day.