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TREE - Q2 2019 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the LendingTree, Inc. Second Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to your host, Mr. Trent Ziegler, Head of Investor Relations and Treasurer. Please go ahead, sir.

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

Great. Thanks, operator, and thanks, everyone, on the phone for joining this morning to discuss LendingTree's Second Quarter 2019 Financial Results. I'm joined here today by Chairman and CEO, Doug Lebda; and Chief Financial Officer, J.D. Moriarty.

Before handing the call over to J.D. to walk through the quarter's results, I want to remind everyone that during today's call, we may discuss LendingTree's plans, expectations, outlooks or forecasts for future performance. Forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate 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.

And with that, I'll turn it over to J.D.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Thanks, Trent, and thanks to everyone for joining this morning. I'll take a few minutes to walk through the Q2 financials and how both our strategic decisions and the first half results impact our outlook for the second half of this year.

Speaking specifically to the second quarter, results were solid across the board as is evident in this morning's press release. Total revenue in the quarter was $278.4 million, above our guidance, and up 51% over the second quarter of 2018. In mortgage, we are happy to report that revenue of $54.6 million grew 19% sequentially, and this puts us on pace to resume year-over-year growth in the second half of the year, consistent with the initial outlook for 2019 that we've provided back in December. In nonmortgage, insurance was once again the star as revenue of $71.9 million grew 73% over the prior year on a pro forma basis. The combined QuoteWizard and ValuePenguin team is executing incredibly well, and carrier demand for our leads remains robust.

The credit card team extended their strong performance from Q1 with $56 million revenue in the quarter, up 45% year-over-year. The continued strength in credit cards remains a function of improved issuer integration and partnership and in turn pricing, thanks to our ability to deliver high-quality volume at scale. And as an additional sign of increased relevance to major issuers, we're in the early stages of building APIs to enable integrated prequalification of applicants.

Lastly, we did see some pressure in our personal loans business in the quarter. While $41.1 million of revenue and 14% year-on-year growth is nothing to apologize for, the deceleration in this product is adversely affecting our overall margin profile relative to our original outlook for 2019. As we said before, personal loans is among our higher-margin products primarily because it is the largest beneficiary of the My LendingTree user base and enjoys both organic and repeat traffic. However, as it becomes a smaller piece of the overall mix and particularly against our original outlook, there are real margin implications for the quarter. And as we guide for the remainder of the year, we need to evaluate this contribution relative to the decisions we are making in the rest of the business.

For the second quarter, total variable marketing margin of $93.8 million was solidly within our prior guidance and represents growth of 39% over the prior year, which is terrific given the stage and scale of our company. That said, at just shy of 34% of revenue, the slowdown in personal loan growth is adversely affecting our overall margin profile. While it remains a very high-margin business for us, its contribution to the overall mix relative to our initial outlook for the year helps in part explain why the revenue upside we're seeing is not necessarily translating into margin.

Beneath variable marketing margin, we posted adjusted EBITDA of $46.3 million in the quarter, up 25% year-over-year and in line with our prior guidance. Our fixed expense base was in the quarter and should continue to be a source of operating leverage.

Looking at GAAP profitability, we reported net income from continuing operations of $13 million or $0.87 per diluted share. On a non-GAAP basis, adjusted net income in the quarter was $17.6 million or $1.18 per diluted share. Our diluted share count increased considerably in the second quarter primarily driven by appreciation on our stock price and the corresponding dilutive effect of our outstanding convertible bonds. For context, our diluted share count increased from 13.6 million at the end of the year to 14.9 million in Q2, almost entirely due to the stock price and its effects on the convert. So there's definitely some noise in our adjusted EPS.

Now let's shift to our updated guidance. There are several moving pieces driving our revised outlook. On the one hand, we do have some margin headwinds relating to the slowdown in growth in our personal loans business. On the other hand, as evidenced by our revenue growth, we clearly see pockets of opportunity across many of our businesses. We know that we can grab market share and wallet share even if they were lesser margin, and we believe those are opportunities we should absolutely capitalize on. As such, we're increasing our full year revenue guidance from a range of $1.060 billion to $1.090 billion to a range of $1.080 billion to $1.1 billion, an increase of $15 million at the midpoint. Accordingly, for VMM, we're reducing our full year outlook to $390 million to $405 million, a decrease of approximately $10 million at the midpoint.

While we're clearly seeing some momentum and positive top line trends, we're facing some pressure on margins in certain products as discussed. And we also want to preserve some flexibility to invest in My LendingTree and in other specific marketing initiatives to continue market share growth across categories.

It is important to note that the incremental investments we have planned are not necessarily isolated to brand or TV spend. While we continue to be pleased (technical difficulty) to date, we also want to commit real dollars to growing new channels and adding new lenders in mortgage. We want to continue to drive outsized user growth through our personal loans funnel. We obviously want to double down on My LendingTree, and we have increasing conviction in the metrics around all of the above.

Consistent with the decline in VMM, we're decreasing our adjusted EBITDA guidance for the full year to $195 million to $205 million, which still implies roughly 30% EBITDA growth on the year.

For the third quarter, and consistent with our full year guidance, revenue was anticipated to be in the range of $290 million to $300 million. Variable marketing margin is expected in the range of $104 million to $109 million, and adjusted EBITDA is expected to be in the range of $55 million to $60 million.

We feel very strongly that it's prudent to take advantage of the favorable top line trends we're seeing and to give ourselves the opportunity to invest in the brands, technologies, people and processes that will take this company to the next level while still delivering exceptional results for shareholders. And we believe this outlook appropriately balances those goals given what we're seeing in the market.

With that, I'll hand it to Doug for his perspective.

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

Thanks, J.D., and thanks, everyone, for joining the call today. I want to take the time to provide some high-level thoughts on what we're seeing across the business and some of the key initiatives we're executing against.

First of all, our second quarter results were once again terrific. Our insurance business led by the QuoteWizard team continues to execute flawlessly. The credit card business has emerged as a bright spot throughout the first half of the year, and we achieved our stated goal of sequential growth in mortgage by growing that business by nearly 20% over the first quarter. As we look across the business, our diversification continues to be a real asset as it allows the ability to continue investing in key strategic priorities despite challenges in any given area.

Now with J.D. already having discussed the specifics, I want to put further context around our revised guidance. As evidenced by the top line outperformance exhibited throughout the last 2 quarters and the subsequent increase in revenue guidance announced this morning, we're clearly seeing pockets of opportunity across the various businesses to lean in and grow market share. And as I'll tell you, we're capitalizing on those opportunities. So what's reflected in our revised guidance is the fact that we're consciously choosing to forgo some near-term margin in the back half of the year in exchange for market share gains and improved competitive positioning in several key areas.

In mortgage, we've spoken at length about the dynamics of lender behavior in the context of interest rates with the upshot being that the favorable interest rate environment we find ourselves in today is only favorable to us as our lenders rebuild capacity. The capacity constraint really only applies to our mortgage business, but it is a constraint to grow in the current environment. For context, our volume of mortgage increase in Q2 was up more than 40% over just the first quarter, but our average revenue per lead declined 16% because existing lender capacity simply couldn't support the surge in volume. So one option for us would have been to simply pull back on marketing to preserve margin, and you've seen us do that before. However, we continue to view the mortgage opportunity as a massive one, and thanks to the diversified portfolio of businesses we're now managing, we view this favorable rate environment as an opportunity to gain share with both consumers and lenders. We are adding new sources of traffic. We've begun to see some incremental capacity wins late in the quarter and into July, and an increasing percent of our mortgage volume is now being served through various selection-based consumer experiences as opposed to our traditional phone-based experience. This is not just what we previously described as RULO but a variety of curated experiences based on early signals and intent at the top of the funnel.

To summarize this, we have a great new mortgage experience that's taking on a variety of forms that has a much higher Net Promoter Score and is very different than our current experience but still gives the consumer choice and empowerment. Our new mortgage experience is also now integrated into My LendingTree, and the Net Promoter Score from the new mortgage experience is simply outstanding. As a result of these trends, we plan to lean into marketing as a new experience like we do with all of our emerging businesses and effectively break even. And as we are increasingly confident in our marketing cost attribution, we are willing to market to get users that will monetize over time instead of simply on the first product.

In personal loans, we are taking a similar posture. In Q2, our personal loans products saw compressed margins for reasons we talked about in Q1. Our clients are being appropriately smart about their underwriting. And drilling down, we are seeing more banks moving into the prime personal loan space at lower rates than the early entrants, pushing those online players into more mid-prime and subprime segments. While this is great for the overall competition in the marketplace, competition among lower-priced lenders in the prime segment limits pricing upside, and margins in the subprimes -- and margins in the subprime segment are structurally lower.

However, there is a hidden lifetime value story here as well. Personal loans are the single most popular product within My LendingTree representing approximately 60% of our My LendingTree revenue. Instead of milking this business for margin, we continue to invest in marketing that pays off over multiple months and in the case of My LendingTree, even longer. Additionally, personal loans produces over 60% of My LendingTree subscribers. And behind My LendingTree and the new mortgage experience, this product has our highest Net Promoter Score.

Finally and most importantly is My LendingTree where progress has been fantastic. A few weeks ago, we launched the latest version of our My LendingTree app, which moves the value proposition beyond free credit score and beyond loan alerts to giving consumers a holistic picture of their financial health. We are now incorporating monthly cash flows, savings and investments. Our credit services business is also now integrated with a tool to help users dispute errors on their credit reports online.

On the B2B front in My LendingTree, we've signed 5 new co-brand deals in the second quarter to add to the 2 that we've previously announced. These include large publishers and performance marketers, financial services firms and credit bureaus. And our B2B pipeline continues to build with over 15 prospective partners in the queue. Additionally, Phase 1 of our insurance product is integrated into My LendingTree as well, and we are working on some very exciting insurance features that are all still in our pipeline for the rest of the year.

On My LendingTree metrics, I'm thrilled to report that we have increasingly solid and extremely encouraging developments. One, we now have a solid model to scale My LendingTree marketing. We will continue to refine the model with further testing, but we're confident enough that we can now market LendingTree -- My LendingTree profitably. Two, we are equally confident about our monetization. While an acquired subscriber breaks even over a much shorter period of time, we are seeing ongoing engagement and revenue 50-plus months from their initial sign-up. Taken together, what this means is that we are increasingly confident in our marketing costs, our monetization and thrilled with our customer response across the overall platform.

In June, progress was exceptional, with new customers on the platform growing 17% over the prior year while organic repeat customers grew a remarkable 36%, demonstrating the momentum we're seeing across marketing and product. Because of that, in the back half of 2019, we are going to increasingly lean into acquiring new customers while we also focus intently on building on these wins so we can grow even more aggressively in 2020 and beyond. Longer term, I can see us completing the strategic pivot that we've talked about to a subscriber-led, savings alert-centric product that surrounds the customers with savings across all products and engages, monetizes and delights customers over their entire lifetime of financial transactions.

In conclusion, I'd say that I continue to be incredibly encouraged by our prospects. This market opportunity continues to be huge and underpenetrated, and competitively, no one is better positioned to capture the opportunity than we are. This company has a long established track record of meeting shareholder commitments and delivering results as promised, and we will continue to do so going forward. Our ability to now grow with confidence as a platform is a true competitive advantage for LendingTree.

And with that, we can open the call for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Mark Mahaney with RBC Capital Markets.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Two areas, if you could please drill down on the other nonmortgage segment. I don't know, fell a little bit sequentially. I know there's a lot of different elements in there, just if you could call out what growth dynamics you're seeing in there. And then secondly, on the insurance, revenue seems to be growing really well. Just talk about the sustainability of that growth rate.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Absolutely. Mark, it's J.D. I'll start on the first question, which is simply you're absolutely right. That other category that we've talked about, those tend to be very high-margin businesses for us. And there are 2 businesses there that are basically getting the negative consequence of this rate environment. One of those is home equity, and we started in Q1 with actually some strength in home equity, but as rates have dropped, lenders are increasingly focused on refinance opportunities and are getting lots of organic volume. So home equity is in that other bucket, and that lagged a bit in the quarter. Similarly, deposits, which as you know, we acquired our deposits business in the middle of '17. It's been exceptional story for us, but as you can imagine, lenders -- banks are not exactly clamoring for deposits given what's happened to rates this year. So those 2 things did contribute to that other category not growing as fast in Q2 as it had in Q1, and clearly those businesses have great -- Mark, now there are other businesses in there that are doing well. Our small business offering, for instance, is doing exceptionally well. But in aggregate, those 2 certainly did drag on, on Q2.

As it relates to insurance, and I'll let Doug speak to this as well, we continue to be really encouraged by the end market there, effectively the increasing diversification of the carriers that our team is operating with and the competitive wins that they're getting in the marketplace diversifying the carrier base but also just getting increasingly integrated with carriers and offering them different products and better volume at scale. So I don't know, Doug, if there's anything particularly in insurance.

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

Yes. The only -- I'll only add a couple other things. One -- and we'll have more specific market share and wallet share at Investor Day for insurance as you will definitely be drilling down on that. But it's still very, very underpenetrated. Carriers are doing a lot obviously of their own advertising, both on TV and on the Internet. So as they increasingly can move spend to aggregators like us, we think that works. This company has -- I just continue to be impressed and just thrilled with the performance of this team. They've got wonderful, wonderful relationships with carriers. The carriers and the QuoteWizard team trust each other. We also -- which is sort of not just directly related to their business, but they gave us a fantastic group of people who are very, very entrepreneurial, who I think are going to have a great impact on our business. Also opened this up to the Seattle market, which we love, and that's a group we're going to really build around. There's the wonderful management team, a great group of people who just execute like crazy.

Operator

The next question comes from the line of Youssef Squali with SunTrust.

Youssef Houssaini Squali - *SunTrust Robinson Humphrey, Inc., Research Division - MD & Senior Analyst*

Just 2 quick questions for me. Can you actually just share with us what the organic, I guess, pro forma growth was this quarter? I think in Q1, it was around 15%. And on the VMM percentage, the -- I know you're not guiding to 2020, but how should we think about the trajectory of VMM margins as you kind of go through the second half of the year, increase your TV spend and brand, increase the investment that you were talking about? Are we looking at 2020 as a potentially another step down? Or are we seeing 2020 as a potential data point to get back to that 35% to 40% long-term target that you guys have spoken about in the past?

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

Let me take the second one. We're actually digging up the number here as well too on your organic question. On VMM margin, right now, I would say that the way we look at the business, I think, is the way you guys should look at the business, which first is you look at what is the business doing sort of at its core going forward, regular growth, what you sort of know plus what's -- plus initiatives that you can kind of see. And then after that, we bolt things on.

So right now I would say that you could see a scenario where we do invest more heavily in marketing that is profitable but profitable over time. However, when we do that, we'll be able to call it out. So we could say to you, but for this spend of x in this quarter, it would have been y. We're seeing the My LendingTree marketing paying off in about a little over a year. I don't want to get really specific. And that's with just today's monetization, and forecasting not -- pretty conservative monetization growth going forward. And what we're going to do the rest of this -- in the next 4 and 5 months, as I said in my prepared remarks, we're going to continue to test, continue to get tight on our numbers, continue to improve the customer experience, continue to integrate things, get more integrated with insurance, try to drive that monetization up, and then as that goes up, we can then lean into marketing.

The other thing that I would say too, this also helps relieve your mortgage capacity problem too because as you move to a selection-based model, lenders see fewer leads but they get -- but they're getting them deeper down the funnel. And that enables them to obviously be much more efficient.

J. D. Moriarty - *LendingTree, Inc. - CFO*

So Youssef, on -- your first question was on organic, is it revenue that you're getting at there? Because it's a little bit noisy with mortgage. Recognize mortgage quarter -- year-on-year is down 18%. That's relative to down 37% in Q1. That's clearly dragging on the core. Let me give you some piece parts so that you can come up with -- looking at aggregate. Credit card is up 45% now. That -- obviously, last year's second quarter, if you remember, that was a challenging quarter for card. Personal loans up 14%. We talked about other -- we don't disclose the scale of things like small business and credit services and other ones. But the other business that I've neglected to mention when answering Mark's question, is reverse. That's a business that's down considerably just because of what's going on in the end market there. That's down 48% year-on-year, and so that's just not a healthy end market. So it's not something from a marketing perspective we're spending a lot of time on right now.

But when you try to get to a comparison year-over-year, last year, other -- as Mark points out, in Q2 of last year, other represented 23% of our $184 million revenue, it's 19% of our $278 million today. So that other has compressed as a percent of the total partially because of what we talked about each of reverse, home equity and deposits not faring particularly well in this rate environment. It's fairly understandable. There's nothing we're concerned about -- other than reverse, there's nothing we're concerned about in these end markets.

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

And on the organic traffic front, we -- while we didn't disclose the quarter, we'll -- we can get that for you as a follow-up if you'd like. One number that I mentioned in my prepared remarks was that organic repeat customers grew 36%, and that repeat business is obviously all organic and is obviously all free. As a broader thing that we're trying to do is not only not -- be able to reduce our paid marketing over time as you sign up for My LendingTree but also to be able to reduce any intermediaries that we have to pay for advertising online who obviously take a significant percentage.

So as we grow that My LendingTree volume, it just flows right to the bottom line. And My LendingTree revenue this quarter was 17% of our total lending revenue.

Operator

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

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

Just going back to margins. Can you sort of break it down into buckets? And sort of like how much is it just on an increasing competitive environment? How much is it being driven by personal loans? And then how much would you say are some of these business initiatives that are marketing into products with a longer payback period?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. Jed, it's J.D. I'll start there. As we look across the business, the only business where we're seeing in competitive exchanges really rising costs is personal loans. We're definitely seeing more competition there. And so that -- while we grew that 14%, I think it's fair to say that we're not seeing the same contribution from it. As we look across the other businesses, we've seen some rising costs but that's been able to be absorbed by the marketplace on the other side. The lenders in those scenarios are willing to pay for it, and we've got good dynamics with respect to RPLs in those businesses.

So we don't -- honestly, the rising costs are basically in personal loans and, to a lesser degree, in student. Those are the 2 businesses where I would isolate that we see that cost dynamic, and we're working through that. Now as Doug points out, personal loans is the business that is most aligned with our longer-term platform strategy, right, of getting new customers and getting repeat customers. So we're going to continue to lean into that, and we're not going to pull back on the marketing because it's core to our strategy overall.

So effectively, what we're doing is looking at a business that's not delivering the incremental contribution this year that we would have thought of at the beginning of the year. It was growing 50% last year at a very high margin, and we want to make sure that, that -- one, we want to continue to grow that business for the strategic reasons that we mentioned; but two, we don't want that to dictate the strategy in other products. So for instance, in mortgage, we're trying to take market share in a good market environment. The mortgage business should not have its strategy impacted by personal loans. And that's -- we're really trying to stay true to what's the right thing for each individual business and then also true to the longer-term strategic goal of growing the platform.

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

And then I guess following up on personal loans. I mean this quarter was your toughest comp. How should we view that business in the back half of the year? And then on the new mortgage experience, can you just give us an update on how the consumer throughput is trending?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. Let me start with the personal loan question. We just -- we started to see -- the dynamic that Doug talked about in terms of banks coming into the personal loan space, that really began in the fourth quarter of last year in earnest. It has continued throughout this year. As a result, we definitely are seeing RPLs across the business be lower. The -- that's fine. Eventually, that market will sort itself out. We're going to continue to grow market share in that product. And yes, you're right, this was the most difficult comp for us throughout the year, but we have confidence in that business for the back half of the year. We just are going to accept the fact that it's probably operating at a slightly lesser margin than we've historically enjoyed there.

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

And on the new mortgage experience in terms of throughput, I'm not going to give you everything just from a competitive standpoint, but I can tell you some things. One, what we're doing -- as opposed to in the past where I've said, hey, we're putting x percent of our mortgage traffic through this, different thing over here then over here, we're actually taking a different approach that is working much better, which is we're actually segmenting where the traffic goes based on marketing channel, which is a measure of intent. And so we're just getting much -- and because of that, we're getting better data on which users should be where and what type of marketing and what type of form works with different experiences, and we're also blending elements of our old mortgage experience with our new mortgage experience together, particularly in the CRM world. So suffice it to say, there is a lot more traffic that is not being serviced via phone calls. And two, it's working for consumers. And three, it's working for lenders. And four, even on just a pure comparative basis, the monetization continues to improve. And then the last thing is the customer experience that I mentioned, the latest NPS scores are so high that I want to retake them again just to make sure. But it's just -- it's great to see that thing get to where we are.

And then when you move to marketing, which is -- you talked about the allocation. I want to kind of drill down on that a little bit. So first off, in the core way that we have traditionally measured marketing, if you went back years, we measured it on a last click basis, and we wanted to make sure that we were immediately profitable on the first transaction and we never -- and because of that, we were, a, very disciplined about our marketing; but, b, what we missed were a lot of opportunities to go get more revenue because we weren't as focused on the back-end CRM of driving repeat business.

So what we've done is we've gotten much more smart -- much smarter about our data and our revenue over time. Two, we're able to put people into an immediate lifetime value product where the alerts just work, which is My LendingTree, which obviously consumers like, too. So you move from last click to doing different levels of attribution, and then you can either do it on the first transaction or on a lifetime basis. And we are getting better at both attribution and tracking lifetime value. So all of our marketing is profitable. It's just a -- but now we are loosening up a little bit to say, it's okay to make money over a few months. We're not yet ready to say, it's okay to make money over a year, so jam on the gas. But that could happen, and when that happens, it will be a great day. And for all of shareholders out there, this is actually a very good thing for the company to be doing because any time we're able to lean into marketing, it means that -- and lean into product development, it means that we're optimistic. When we're cutting marketing, it's because we can't clear those leads, the lenders don't want them or we're not being able to market effectively. And the fact that we're leaning into it is a positive thing. Sorry for the long answer.

Operator

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

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

So to me, it sounds like a lot of the kind of near-term margin pressure, that is mostly driven by voluntary spend. And J.D., I think you provided some pretty good color around the kind of spend per channel, but I just wanted to better understand some of the moving parts with the softer rent spend. So first, if you guys could just maybe talk to the broadcast spend, what that was in the quarter and then maybe expectations for the full year. And then secondly, you guys have some pretty upbeat commentary on My LendingTree. You feel like that's at a point where you can really lean into the marketing now. So if you could maybe shed a little more light on the level and the kind of degree of step-up with spend around My LendingTree as well.

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

Let me take the second one first, and I'll let J.D. talk about numbers. I would say we're not going to step on the gas massively this year. We're going to continue testing. We're going to market more, particularly around getting the app downloaded, but we're not going to go crazy. J.D. will talk in a minute. We did have legitimate margin pressure in personal loans predominantly, as J.D. said, because that business really grows a lot off of lifetime value in CRM. So as you try to grow with incremental marketing, obviously that happens at decreased margins. But on My LendingTree, you could see us -- let me drill down on that one a little bit more, too.

So over time, particularly once we do step on the My LendingTree marketing, you'll start to see us talk about subscribers or members. And we'll be talking about new subscribers, how long subscribers are staying on, what is our revenue per subscriber and what is our cost to acquire. And those will be the types of numbers that we're going to be talking about like you do with other subscriber-, member-led businesses. And all of those things -- and obviously, engagement, all of those things are moving in precisely the right direction, and I can't wait to like unveil them but we can't for competitive reasons. J.D., on the margins?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. John, on the offline and brand spend, it was a total of $8.1 million, of which $6.4 million was on print -- on TV. Okay. So that's the breakdown there. Now obviously, that's considerably higher than where we were a year ago. We're happy with the results. Those -- in the quarter, they were primarily focused on mortgage and on personal loans. And as we look at the back half of the year, we'll continue to spend money there. It will be mostly testing in My LendingTree. It's probably where we'll spend more dollars. But as Doug points out, as we think about incremental marketing investments in the back half of the year, it's not necessarily just if you see us spending on TV. I wouldn't -- I just wouldn't think about it that way.

We're actually seeing greater diversification in terms of channels that work, channels that have been success stories for us this year. Social, which was a real struggle a year ago, has been a really good story this year for us. Display in certain pockets has been a good story for us. And so the more we can diversify the overall marketing mix and find success there and match it up with our business, we're going to do that.

I would just continue to emphasize what Doug was talking about, the way that we're thinking about this in terms of new customers and organic, that -- organic repeat. That is really the formula that we're focused on. And so as long as that organic repeat is growing faster than our new customers, that's obviously core to our strategy, and we're seeing great signs of strength there in June and we're going to continue to lean into that in the back half of the year.

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

Sounds good. And then just one little quick add on, I just wanted to make sure I understand the vernacular here. Doug, I think you've mentioned My LendingTree is 17% of lending revenue. Is lending revenue just basically everything outside of insurance?

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

Yes.

Operator

Your next question comes from the line of Eric Wasserstrom with UBS.

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

You've provided a lot of great information about end market conditions, but if I could just follow up on, one, what's the current dynamic within the card space? Obviously, the -- I think the key dynamic over the past year was sort of the transition to rewards cards and how that influenced you guys. But any update on what's occurring in that product area?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, Eric, it's -- obviously, we're encouraged when we look at the bank results and how the consumer and the card businesses are doing for them. I will say we're definitely seeing a better spend environment than we were a year ago. There is not a clear back to balance transfer movement. That's not what's driving this. That would be incremental to the gains that we had this year. What we're seeing is basically the benefit of us being able to deliver more volume for issuers and getting into better pricing tiers. So a lot of our -- I mean, there's clearly a better end market in card. People are spending -- issuers are spending money, and that's great. But I think that where we're benefiting is basically just increasing relevance for them. And we've talked about efforts to integrate better. I think in the last quarter, somebody asked, what does that mean? Well, that's really the feedback loop that we try to build with all lenders. And increasingly in card, we're trying to automate more and more with our lenders. And I think you're seeing the benefit of that in the quarter. We're just really happy with the progress, the execution in our card business, but I think some of it is unique to LendingTree in that we're just taking market share and increasing relevance for those issuers.

Eric Edmund Wasserstrom - *UBS Investment Bank, Research Division - MD & Consumer Finance Analyst*

Great. And then if I may just have one follow-up, just sort of stepping back. Over time, you guys have often articulated this concept of compressing margins through accelerated marketing to realize the benefits over a longer-term horizon. But is anything that's occurring now -- does anything that's occurring now change sort of your longer-term expectation about the run rate profitability of LendingTree in terms of EBITDA margin?

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

J.D. can answer it as well. Let me give you my opinion. I think -- hopefully, it will be the same. I think the answer to that is a very clear no on the downside. Over time, it may be better on the upside. And that's just because you've got your marketing costs upfront, your product costs upfront, but as I said before, we've got cohorts that are making money over 57 months since they've signed up and like the paleolithic days of My LendingTree many years ago, over 4 years ago. So the fact that we're seeing that continued engagement just gives us a lot of confidence that once you get a member, we can continue to engage them over a long, long period of time in a way that delights them. And if we can get somebody and get them paid off from a marketing basis in a year and they're going to make money for us for the next 4 years, that's a beautiful thing.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. I would just say, Eric, is that over time, clearly, if we can migrate to a platform orientation -- lifetime value orientation, that structurally will change our margins to the benefit. That is very clear, and we're finally really seeing signs of that. In order to see signs of that, you've got to see the combination of effective marketing and effective product, meaning you got to have -- get people in the door but then you got to keep them and you got to get them to repeat. And we're finally seeing signs of that. So actually, in a quarter in which you're seeing the impact of one business, one, really just kind of -- and actually, it's for personal loans, and then as Mark pointed out at the beginning of the call, kind of the typical contribution from other not being as strong. In a quarter in which you're seeing that weigh on our margins in the short term, we're actually ironically seeing signs that should point to a better margin profile over time. It's just got to take time to play out. You're not going to see it in any one given quarter or year. Ultimately, we've got to grow that member base and we've got to grow that repeat traffic, and we're seeing signs that -- we're seeing signs of that and we're going to lean into that.

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

By the way, a very good analogy. And I can put a person's name on it, not that he's the only one who does it. But when we hired Sushil Sharma as our Head of Products from Match, part of that was we viewed the go-forward strategy very much in the analogy of how Match evolved and grew massively over time and continue to grow the category by getting subscribers, being very smart about pricing, being very innovative about the customer experience and using a lot of actually the same product features that you do in a log-in experience on a platform like Match. Some of those same things correlate to the lending world. And as I said, Sushil is not the only person, but that's the business model of My LendingTree, which is get a subscriber, make them happy, engage with them and delight them over time.

By the way, the other thing that I would add that hasn't -- a dog that hasn't begun to fight yet is taking our great content business, which today is used to go generate customers into the so-called lead gen business, and focusing that as well inside of our subscriber base to engage them with great content that relates to their financial -- to their exact financial health. We haven't -- that's one of the things on our docket. And that too we'll -- that and many other things, we'll just continue to grow that.

Operator

Your next question comes from the line of Mayank Tandon with Needham & Company.

Mayank Tandon - *Needham & Company, LLC, Research Division - Senior Analyst*

Doug and J.D., if I could just dig into insurance a little bit more. Could you talk about growth by category in terms of how much is auto and what are some of the emerging areas like health care and rent carriers and commercial contributing to growth? And also just in general, the outsized growth in insurance, is that a function mostly of just the accelerating spend shifting to digital channels by carriers? Or is that also a combination of some share gains versus your competition in the market?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. It's J.D. I'll start. At the time when we -- at Investor Day when we talked about QuoteWizard, we referenced 79% of QuoteWizard business is in auto. Health care is clearly an area that will grow. But the general composition of it today is still the same, meaning it's primarily auto. Doug referenced some BD interest on the part of carriers. We are sort of uniquely positioned to help them with unique marketing propositions because of our mortgage funnel and because of our proximity to home and consumers in that regard. So we do think that home will grow, but it's not going to be something that manifests itself really in a material way in 2019. And health care will grow in 2019, but in the grand scheme of things, the auto business is growing so nicely that you're not going to see it really shake out the numbers in a discernible way that's materially different than when we bought QuoteWizard last fall.

In terms of what is driving the growth. There are 2 real things going on here. One is it's absolutely what you referenced, meaning the shift to digital spend. And you're seeing that with carriers. And as we've talked about in the past, the most forward leaning of those historically has been progressive. I think what you're seeing is other carriers catch up with them or try to catch up with them in terms of benefiting from digital marketing channels. And so relative to when we were looking at QuoteWizard a year ago, you just have a healthier marketplace where it's not as dependent on progressive, you're seeing other carriers try to step up and compete with them, and we are a beneficiary of that. I think importantly, as Doug points out, the team is executing exceptionally well in a very strong market. But you basically have -- you want to compare insurance to credit card, you've got to shift from offline to online and digital spend that is going on, much as it did in card. Card is just a more mature market, and you're seeing that, that's really where we're seeing strength.

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

All right. I'd only add on a couple of things on, one, you referenced a category which was medical. That is one, for example, we are very small in and could be a very great growth opportunity for us, and you could see the size of some of the other businesses in that category and there's no reason we can't play. Two, in some ways, insurance is almost better for a transition than even mortgage and some of the other products. And that's because there's been such a legacy for the past decades of insurance companies spending massive marketing dollars in a very, very direct marketing-driven way to go acquire new consumers. That is not necessarily the same in, for example, the mortgage space at the same level. And the insurance companies have also built either their agent networks or their in-house brokerages and their call centers, they built conversion machines that really work. So they know their numbers. If it works, they want more. If it works, they want more and they see the world in a very direct marketing way. And so if you treat them well, you give them profitable volume and you treat your customers well, there's no reason we can't grow the heck out of that. And then as J.D. said, you mirror up with LendingTree and then the 2 just add more fuel to the fire.

Operator

Your next question comes from the line of Chris Gamaitoni with Compass Point Research.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

As you more -- move more into the lifetime value concept through My LendingTree, I think you noted 60% of My LendingTree's users come from personal loans. I was wondering if you've done analysis studies on how applicable that borrower base is to other financial products. Like do they translate well into the demand profile for credit cards or for mortgage loans?

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

Yes. Yes, they -- I mean, that is -- it's -- honestly, it's everything. So you might come in through a personal loan and you sign up for My LendingTree and you typically will -- as your credit score improves, the typical path of those borrowers is that they refinance those personal loans. You might come in for a student loan refi, and then over time, you want to buy a house and then you're going to get a mortgage. You might come in for a mortgage refinance, and then now you're going to get alerts to -- when it's time to refinance again. You don't need to think about it. We just say, would you like to save money with this lender, click here and the refinance process moves on. And so it's really across the board, across all the different products. And then now with expanding it into financial health, it brings much more vividly into the deposits business, which we haven't really begun to fight on that one yet on My LendingTree, but talks about your assets. And then if you use it to input sort of net worth data, et cetera, that opens the door to starting to do investment-type products. And -- or like a robo advisor, for example. So there's lots of opportunities there to add on products in there.

J. D. Moriarty - *LendingTree, Inc. - CFO*

So Chris, the only thing I would add, we -- to answer your question, did we do a study? Yes, the -- we did a study on our user base and who our typical customer is in the back half of last year, that actually -- that study, in some ways, influenced the -- essentially the evolution of My LendingTree to be about more than just a free credit score. And that's why we're taking this financial wellness orientation, which we think is differentiated, right? We're trying to -- but in your question as you ask about personal loans, it's just -- part of it is, it's not that we -- the only customer we want is the personal loan customer. It's the nature -- the repeat nature of that product drives reengagement with LendingTree, and the NPS score is high as well. And it's a very response-oriented product. So it's been very helpful to us as we try to demonstrate value with consumers and borrowers to drive them in and then get them to see the broader suite of products, right? So it's a very good initial product, and that's why it's been very helpful to us.

Edward Christopher Gamaitoni - *Compass Point Research & Trading, LLC, Research Division - MD & Head of Research*

That's super helpful. And I know you won't give us exact details, but is there any way to think about margin mix between the products as the revenue mix shifts differently over time?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. Well -- yes, what I've done typically is given an orientation as to like highest margin to lower margin, and we've typically said that mortgage was one of our lower-margin products overall, and personal loans being of the big products. The other category that was mentioned at the beginning of this call, those are products where we enjoy across the portfolio very high gross margins, very high VMMs, right? Those are, in some cases, 50% and 60% margin products.

Among the big products, personal loans is the highest. Typically, we've said that mortgage is the lowest. In light of the growth initiatives in mortgage right now, it's fair to say that in Q2, we operated in mortgage opportunistically and deliberately at lower margins than we would historically because we're trying to garner market share. But that's the -- as you go through them, I would say personal loans, insurance, card and then mortgage in terms of high to low of the big products from a gross margin perspective.

Operator

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

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

Wanted to follow up, I guess, on that last question. I mean, can you just maybe help us think through the impact from the revenue mix shift away from personal loans on the profit guidance? One, how much has your revenue outlook for personal loans changed relative to prior guidance? And then you talked about it just a little bit there, but two, at a high level, how big of a differential is there between the margin profile in personal loans versus some of the other categories?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. We're probably not going to disclose individual business margins, Stephen. So that's not one that we're willing to answer for competitive reasons. I think you can probably understand that. In terms of the growth rate, personal loans has grown 50% last year. We went into the year expecting revenue growth in the 30% to 40% area for personal loans. Obviously, we just went through a quarter where it grew 14%. That ripples through. And so we're going to continue to lean into that product. By the way, we have very good evidence that in both Q1 and Q2, we're taking market share in that business. And so that is good on the lender side, but it's also good on the member orientation of LendingTree, as we talked about.

So we're going to continue to lean into that business. But if it's going to grow less than the overall business, that's going to drag our margins, that influences our guide to a certain degree. We're trying to make sure that what's going on in that business isn't making us make bad decisions in other businesses where we see great opportunities. And that's really what you're seeing with the guidance.

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

And we've hit on some of this before. One thing to add here on personal loans. J.D. hit on the fact that personal loans is our biggest CRM/repeat business and also very prominent business inside of My LendingTree. Because of that, if you look at the "margin profile" of personal loans, you have obviously paid marketing to go drive in those customers, but you're also benefiting the personal loan margin from all of that free traffic that is coming in through repeat business. If you -- so that's obviously 100% margin. And then you look at the paid marketing side, and that is obviously a different margin. But the reason -- if you think about personal loans, that growth that we experienced is actually -- shows what we can do in these other businesses.

So the reason personal loans was able to grow so fast in the organic and repeat business category, there's a couple of reasons. Number one, the lenders had a great conversion product. So when we send somebody to a Prosper or LendingClub, et cetera, they're able to convert very easily online. Two, there's obviously a great customer proposition. They can save money right away, and obviously our alerts work very well. They work well there -- work very well there as well. So as we -- then third, we're better at CRM and we're better at alert. So as we get better at doing that in the other verticals, that is going to add to our organic volume across the board.

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

Got it. That's helpful. And then I guess on insurance. Obviously, great trends there this quarter, and you gave some color earlier. I was curious if there's been any notable change in the type of leads that have been in demand with insurance participants between clicks, forms and calls. And I'm asking that in the context of kind of their level of sophistication with being able to convert consumers that are earlier in the funnel versus mostly paying up for the most likely to convert leads.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. Well, the unique thing about insurance that was the case when we did the diligence on QuoteWizard and remains the case today is that different carriers want different products. So there are some who value clicks more than leads. There are some who are integrating -- increasingly integrating with us on calls. I don't see anything in Q1 or Q2 that tells me that that's changing. There's not some great trend line there. I think in the click space, that was probably most -- in the click space, we probably just see more competition, and that's more competition for our volume, which is -- which obviously we benefit from because that's a bidded marketplace. And so it's probably most profound in clicks. But honestly, the growth in insurance has been diverse across the platform.

Operator

Your next question comes from the line of Nat Schindler with Bank of America.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

I think all the quarterly-oriented questions have probably been asked at this point. So I'm going to go into a larger theme-oriented question. Doug, can you walk us through how in an environment where rates seem to be coming down, or at least the thought about as such, when rates fall, how does that fall affect your business in each of your main categories of lending revenue? And specifically, what's the real timing? Because obviously, if it falls quickly, organic goes up at banks and they don't need you, but eventually the total volume is high so they do need you. So can you walk through where the timing across the different products close out?

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

Sure. And I'll -- let me add mortgage and then some of the other ones. Mortgage is obviously the one with the most profound impact because the refinance business is so tied to it. The other ones are less sensitive to rates, quite frankly. And so let me tell you mortgage in 2 different phases. In the good old days of about 2 years ago and earlier, we used to say that the mortgage business basically offset each other at the VMM line. So we would say that as rates fall, that lenders don't need you as much. So they pull back on their bids, our marketing costs go down and the 2 things effectively even out. And then as rates go up, our marketing costs go up on a unit basis, but our revenue per unit goes up so you see higher revenue, lower VMM margins but still growth in the VMM dollars line. And that's the normal trade-off in the mortgage business that we've talked about for years.

That happened right up until probably a year ago when lenders started taking capacity offline. And I've always said like that relationship holds until they take the planes off out of the air, they're taking -- they're shutting down a factory, et cetera. When capacity goes offline, at some point as -- well, at some point as rates fall, which we're experiencing right now, you need the lenders to put the capacity back on. So you have this little sort of momentary squeeze where you're getting a lot of volume in, but you're not getting the throughput that you experience to lenders and then they -- so they're cutting their bids, more dramatically slowing down on their volume. That's why the transition over to a mortgage experience that's not phone call intensive is incredibly important to us because it opens up a lot of capacity at the lenders. I wish we were right now able to be 100% there because we would be absolutely flushing it in this environment because it will open up -- it opens up massive, more mortgage capacity, but we're not there yet. And -- although we're getting there. But -- and so that's how it works.

So right now we're waiting for lenders quite frankly to get conviction that rates will stay low for some period of time and rehire. We're seeing some signs of that, but it's not widespread. And then the other thing that happens, in your marketplace, you have a number of very large correspondent lenders. You don't know who they are, you can read about them on our 10-Q. Those people have maintained their capacity and then they win sort of a disproportionate share through that normal mortgage experience, but that doesn't help your bids if you don't have all of your lenders opening up effectively. So that's a long-winded way of saying that normal relationship doesn't hold until lenders put back on their -- open up their factories and put the planes back in the air again.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Now the only other part of your question, you were asking -- I mean, as Doug explained, right, it's a multi-quarter, multiyear phenomenon with respect to capacity, right? Essentially, you build up capacity over many years and then it gets cut out of a system very, very quickly in a tough environment for them as we saw last year. You also asked, however, about how it impacts other businesses for us, right? So obviously, in a declining -- in a rapidly declining rate environment, what we've seen in deposits as an example is not only are the deposit rates not as attractive as they were last year to the consumer, but the bank interest in acquiring deposits has greatly diminished, right? So that business slows down, not surprising. In a rapidly declining environment, home equity probably suffers relative to refinance. Refinance is what the traditional base of mortgage lenders market aggressively in a rapidly declining rate environment because it's probably the easiest sale for them and perhaps profitability.

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

And from a consumer standpoint, don't take out a second mortgage if you can refinance your entire first mortgage at a really low rate, you'll save more money.

J. D. Moriarty - *LendingTree, Inc. - CFO*

So -- and then in card, I would say we haven't necessarily seen as much of a discernible pattern between rates and interest in driving card volume. It's been much more a function of what the banks want to do on the consumer side of their business. It's a bit more independent of rate despite the fact that those are loans, right? At the end of the day, we're seeing a declining rate environment, we're seeing banks certainly want to grow their card portfolio this year. And then away from that, I'm just trying to think what other businesses are worth pointing out.

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

Specifically, personal loans.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Well, in personal loans, there's obviously -- I think what we're going through there is more a function of competition in the marketplace and banks stepping into personal loans, which is more of a multiyear thing. I wouldn't necessarily think of it as directly correlated to the rate shift this year.

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

And there's a nuance to that too there that's really important as you shift into My LendingTree. Some of the U.K. companies similar to us have experienced declining with competition, almost competing themselves out of margin. In the My LendingTree scenario, you can help your lender health by helping them preserve margin, by giving them a savings. But what you're seeing in personal loans, as J.D. said, in some ways, the increased competition actually hurts your monetization because you've got new lenders coming in who can profitably make loans at lower price points, and then they push the higher rate guys out of the market and they can -- they bid lower because they're doing lower margins and obviously they can. And they can still close the business. So that's great for the overall health of the business.

The other thing, though, that -- but it can pinch margins in the short run, which is why you need that lifetime value. The other great thing, though, about declining rates, lender health across the board is fantastic. So mortgage companies start making money again. Credit card companies make more money, et cetera, et cetera, et cetera. And over the long term, that's how they build back capacity.

Operator

Your next question comes from the line of Kunal Madhukar with Deutsche Bank.

Kunal Madhukar - *Deutsche Bank AG, Research Division - Research Associate*

Couple if I could. One relates to My LendingTree and a great analogy to Match and to Tinder. In terms of demographics of the My LendingTree base, how do you see -- in terms of like prime, subprime and also in terms of like age group, so what does the age -- by and large, how does the My LendingTree base kind of break out into by age?

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

Very, very good question, and I'm -- unfortunately -- well -- or fortunately, it's literally the same as the LendingTree demographic because probably 85%, 90% of our traffic is coming from people who sign up through our normal LendingTree form. So it's everywhere we can profitably market any other loan product. And so it's every state, every geography, every credit score. And I used to say, and it is true too, it breaks down just like the U.S. population. And I just got a statistic here. It is extremely widespread, but just for example, 20 -- and this probably is the -- I don't know if this is population, now 25 to 40 -- age 25 to 40 is 40% of the population. It probably breaks down just like the online population, I'm guessing.

J. D. Moriarty - *LendingTree, Inc. - CFO*

All I was going to add to that, Kunal, was that recognize we've not spent marketing dollars aggressively against it. So it's really grown through opt-in in other LendingTree forms. As we spend marketing dollars on it or as we spend in the app store, for instance, it will likely start to skew a little bit younger because it's going to be a younger demographic responding to an app download. But today, it's going to mirror the LendingTree user base to a degree just because of that form fill opt-in aspect.

Kunal Madhukar - *Deutsche Bank AG, Research Division - Research Associate*

Great. And the follow-up then is like as you look at your marketing spend and especially given the younger demographic kind of skews away from TV and more into like social and digital and what have you, how are you thinking about marketing strategy going forward?

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

So it's a great question. First off, we do all types of marketing, but recently in mortgage, for example, we are having very, very good success with social and display marketing, for example. So I think our marketing mix will continue down that path. The one difference that you'll see us is moving much more to download the LendingTree app. And while I'm pitching, please tell all of your customers to go download the LendingTree app and then they can get a good read on how well we're doing, and it will also help us all generate more revenue. So it is a fantastic product. It works great. I think you're going to love it just like everybody else does. And that's the future. So instead of -- most of our traffic obviously is mobile like every other Internet company, but the nice thing about the app also is you don't have any more paid marketing. So you've -- people have heard me say for many years that one of the happy frustrations you get in the world is you get to go buy your own brand name inside of search engines for people who type LendingTree inside of a search box instead of into a browser address, and then we get to pay tens of millions of dollars every year to go get our own traffic back. If you've got an app, obviously we don't need to do that.

Operator

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

Hamed Khorsand - *BWS Financial Inc. - Principal & Research Analyst*

Just 3 quick questions here for you. As insurance revenue goes up, how much capacity do you have to handle that amount of traffic before you invest more? And are you at that capacity now? Second question is how much are you expecting education loans to increase in Q3 as far as the guidance you're providing since it's a peak quarter? And lastly, on the mortgage, are you seeing any lender capacity increases that you were referring to earlier in your comments? Is that happening yet?

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

I'll take one and three and give two to J.D. In terms of insurance capacity, the nice thing there is you don't have -- we don't have capacity constraints either at our carriers or at the company. So that is a highly, highly -- sort of what I referred to before, I guess one part I missed, it is a highly automated and online process, and the infrastructure to take customers from us and get them over really doesn't require much, and a call center support isn't a big deal. And QuoteWizard -- so QuoteWizard has plenty of capacity to scale, and our carriers have a lot of capacity to scale, and obviously we have new categories to go into.

On mortgage capacity, yes, we are slowly seeing lenders opening up capacity. We are definitely seeing lenders moving into our new mortgage experience, which opens up capacity on that. So that is a big win for us. And it is tight. However, it is coming back, and after 22 years of doing this, I can pretty much tell you it will come back. These mortgage companies operate with an eye towards profitability, and they know the times to make money and the times that they got to tighten up. And I'm not hearing any pessimism about the mortgage business going forward because right now margins are coming back. They're -- keep in mind, these got -- many mortgage companies have lived for over a year of losing money. And a lot of these things are private companies owned by successful entrepreneurs, and they're refilling the coffers and then they'll step on the gas again.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Hamed, the second part of your question, you referred to the education loans. The student business, just for everybody's context, we -- previously, prior to last year when we acquired Student Loan Hero, we had a very third quarter-dependent student business. And to give you some context, while we do not break out the student business, it's part of that other category. The third quarter last year represented 65% of full year '18 revenue. And that's inclusive of Student Loan Hero, which was -- which helped us in the fourth quarter of last year. So recognize that prior to Student Loan Hero, our student business was basically a third quarter business, didn't do a whole lot in 3 out of 4 quarters of the year. What Student Loan Hero has done for us is diversify the business throughout the year where there's at least a business there in Q1, Q2. It's also a pretty good indicator of Q3. But for conservatism, in terms of modeling year-on-year growth in student, we've modeled it very conservatively in light of some of the cost challenges that I mentioned earlier. And in fact, that implied growth rate, I'm not going to break it out specifically, but it's a mid-teens growth rate that we're expecting in student year-on-year, to give you some sense, we've modeled that very conservatively in our view from a revenue perspective.

Yes, and student -- I'd just add one thing, student was -- third quarter was 65% last year. We expect it to be roughly 50% this year of revenue. So what we've done is insulated ourselves from that third quarter dependency through the Student Loan Hero acquisition.

Operator

Your next question comes from the line of Jamie Friedman with Susquehanna.

THOMSON REUTERS

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

I want to go back to sub, and Doug, you said in your prepared remarks about the mix of the personal loans. You were commenting on some of the characteristics between prime and subprime and the one in the middle, mid-prime. So could you -- what was that about, Doug? Like how is that impacting -- how is that mix shift, if that's what you're saying, impacting LendingTree?

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

Yes. So let me try, and then J.D. can add on. So early days of personal loans, lenders move in mostly online platforms, we all know the so-called marketplace lenders, and they're in the prime space. Market's not necessarily that competitive because they're competing against the age-old personal loan lenders who are mostly branch-based, margins are high, et cetera, et cetera. As that market has developed and we have now -- I don't know the exact number of lenders but we'll probably have it here in a minute, you've got more and more lenders and you've got more and more traditional financial players. Those traditional financial players can come in. The market is more developed. We have about 40 on the personal loan lenders. So those banks move in, as J.D. and I talked about. They can price lower. And therefore, they're pricing lower, they're operating at thinner margins, they did less for the volume, but because they close it, we give the best deal to the consumer. Obviously, they start to win. What does that do? That pushes some of the other players down the credit spectrum, but they have to do that, as I said, intelligently as they move down or they have to move into smaller loan amounts, but they have to move into the periphery of where the market that everybody can just underwrite easily. And in those areas, then they have to learn those jobs and they have to make sure their underwriting models work, et cetera, et cetera, et cetera, and typically, those operate on a lower margin for them.

Now over time, as subprime gets better, that will be an emerging new market. But that basically is what then reduces your revenue per lead on personal loans, which then, as I talked about, the 2 types of marketing, the free marketing and obviously the paid, that inhibits your ability to go step on the paid marketing gas. So then the way you grow personal loans over time is through repeat marketing, through My LendingTree, through our CRM platforms and through cross-sells from other loan types.

J. D. Moriarty - *LendingTree, Inc. - CFO*

And Jamie, the only thing I would add to that is compared to mortgage where we get paid entirely on match fee, okay, everything is upfront and so then the match fee is a function of conversion rate, right? You're only going to pay for a match if it's converting for you. And that's a much more direct relationship with conversion rates, right? We know what it's worth to them.

In personal loans, we have -- across those 40 lenders, we have -- obviously, would we like some simplicity in terms of pricing models? Yes, we would. But in personal loans, we have many hybrid contracts. You have some lenders who operate with us entirely on a cost per funded loan basis, okay? So they -- on a closed rate basis, I should say. So they're only paying us on the back end. Many lenders who are paying us an upfront fee and the back-end fee.

So ultimately, think about subprime for a second. If the early entrants in that market are now operating in mid- and subprime, clearly, the conversion rate in mid- and subprime is going to be lower than in prime where they are inclined to close every one of those loans that they can see. So ultimately, conversion rate is going to influence it, it's just not as clear of a reaction like we have in mortgage. And you have to recognize that there's a back end in that business. It makes it a little bit harder to model.

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

Yes. That makes a lot of sense. And then I wanted to follow up, J.D., with what you had said. In terms of the card market, I didn't hear you use the language that I heard you in the past about the reward versus balance transfer narrative. Where are we in that journey now? What are the banks looking for in a low rate environment with that dynamic?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. Sure. Absolutely. I think maybe it was Youssef's question before where he asked about this. We've not seen some massive pickup in balance transfer, okay? So that was what was driving the market in '17 -- in 2017, was clearly -- in '16 and '17, it was balance transfer. We've not seen that. So that would be incremental to the growth we're seeing now. We're just seeing more interest in working with us from lenders. Now to be clear -- from issuers. To be clear, we also are well aware of the fact that some of our competitors in this space are also doing well, okay? In the card market, you're definitely seeing interest in growing card base among issuers, but we're not seeing some -- everybody goes Student Body Right towards balance transfer cards. That would be incremental to the growth that we've seen thus far.

Operator

And your next question comes from the line of Rob Wildhack with Autonomous Research.

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

I wanted to go back to the discussion on the marketing strategy. As you kind of shift the hurdle from immediate profitability to profitability over a few months, how much does that expand the base of consumers or borrowers that you're willing to target?

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

I don't have a specific number for you except obviously it's more because you're -- you have a higher expected value or expected revenue, so it's definitely higher. And that helps to not only offset some of the other pressures we've talked about but obviously expand. And J.D., do you have any more specifics on that?

J. D. Moriarty - *LendingTree, Inc. - CFO*

I really don't. Unfortunately, I don't have a target there. Over time, as we align more products with My LendingTree, recognize that about 60% -- 55%, 60% of our My LendingTree revenue is attributable to personal loans. Over time, as we expand more products, it will clearly expand the base of consumers that will be logical to market to. That's one of the reasons why we're so excited about insurance over time. But I don't have a target for you there in terms of what level of expansion.

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

Yes. And I'll make it a point to get you a follow-up. We'll definitely talk about it in the next quarter. What we're going to -- what I want to -- what we're going to find out is what's the expected value of a customer, the first transaction versus over 3 months and what's the percentage lift of that in terms of not only monetization but audience. I know it's higher, I just don't have the specifics sitting here in this room.

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

Okay. And then just quickly, we heard a bit that (inaudible) are actually leaning pretty heavily on AdWords for customer acquisition. Are you seeing any impact from that on your business?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Rob, we're getting a bad signal on your end. So we heard you say AdWords, that's about all we heard. So you said people leaning, who leaning heavily on AdWords?

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

Sorry. We've heard that the direct banks or the neobanks are leaning pretty heavily on AdWords. Are you seeing any impact there?

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

Not really, and that's happened on and off over the last 20-plus years and that gets back to why they'd rather be on LendingTree. So typically, if you're -- now it might have an effect on the deposit business or could theoretically have a business impact on the deposit business. But on the lending business, sort of by definition because, a, we're great search marketers; b, because our brand has been built up in Google so well so long, we've got a very high quality score and therefore can bid aggressively; and then, c, because we can monetize better by definition than any individual one lender, we get a marketing advantage. So if they go say, great low rates for loans, they get everybody and then they turn down half the people who come in. And with LendingTree, we can approve a lot more people and get a lot more people over to lenders. So we see banks move in and out from time to time, and the good news is they usually raise the white flag and then join the network.

Operator

I am now showing no further questions. I would now like to turn the conference back over to Mr. Doug Lebda.

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

Thank you all for being here in what I think has been one of LendingTree's longest ever conference calls. Want to also say welcome to Trent for his first LendingTree conference call as well. I just want to give some context that many of you have heard before, but for those who are new to the story, I just want to trace kind of some history.

Beginning in 2008, we talked about how we had to rebuild the business around a search business. We had to, one, move our pricing mostly upfront except in the personal loan space. Two, we had to put in dynamic bidding so that we could see as conversion rates improve and lenders got more efficient, we got direct benefit to that on our revenue. Three, we had to build a great marketing machine and retool our entire marketing. And then fourth, we had to leverage our brand and be able to execute with online advertising. We have now done that, and that continues to advance and that work continues to get better and we continue to become better marketers and better salespeople.

However, in the background, as we've also talked about and I've talked about today, we've been moving the business to more of a platform business and more of a subscriber business. And you could look at leading companies like Amazon and Netflix or you could look at any other subscriber business with the same dynamics. It's both an online logged-in experience for all of our products. So once you get your offers, you get them online, we engage you online even if you don't put in your personally identifiable information and sign up for your free credit score. But then if you do and you do give us PII, then you move into our CRM system, the alerts, all the contact and customer care that we can give you and the content and surrounding yourself around every transaction. So expect to see us in the future continue to migrate down that path. Many, many successful Internet companies have made that transition. What you've seen with us over the past many years has been a disciplined approach to our strategy being very clear out to where we go, making very strategic bets as we did with diversification but making sure that we make the right moves in a very disciplined manner. And that's how we plan to finish off the transition and then the rapid growth that will accelerate as this transition commences. But we know this. We are tight on our numbers. We know exactly where we're going, and I've never been more thrilled about the opportunity and where we're going and more determined that we can get there and more certain of the numbers and the initiatives that are underlying what we're doing going forward. And with that, thank you for being here, and we look forward to talking to you in 3 months.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation, and you may now disconnect.