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TREE - Q4 2014 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree fourth quarter 2014 earnings conference call.

(Operator Instructions)

As a reminder, this call is being recorded.

I would now like to introduce your host for today's conference, Alex Mandel, Chief Financial Officer. Sir, you may begin.

Alex Mandel - *LendingTree Inc. - CFO*

Thanks, operator. Thanks to everyone for joining us today for LendingTree's fourth quarter 2014 earnings conference call.

First, a brief disclaimer. During this call, we may discuss LendingTree's plans, expectations, outlook or forecasts for future performance. These 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.

We're delighted to share with you our results for the fourth quarter and full year 2014 today. The fourth quarter was our strongest quarter to date since the sale of our former mortgage origination business. We made important strides in our business, achieved record performance across our key financial metrics, and exceeded our prior guidance.

Our mortgage products revenue in the quarter grew at 5% year-over-year to $33.2 million, which also reflected sequential growth of 4% over the third quarter of 2014. Mortgage originations industrywide contracted by 18%, year-over-year, implying a ninth consecutive quarter of share gains for our mortgage products business.

As part of this, we saw improvements in the monetization of our mortgage leads in the quarter, through both efficiency of matching our lead volume with lenders, as well as pricing gains. I mentioned in the last quarter's call, the lead quality initiative we had implemented in Q3, and the improve monetization in Q4 is a reflection of that initiative.

Mortgage products revenue for the full year 2014 totaled $134 million, up 9% over full year 2013. Revenue growth from our non-mortgage products accelerated, achieving a record $10.7 million in the quarter, up 128% year-over-year, and marking the fourth consecutive quarter of triple digit year-over-year growth.

Our non-mortgage products revenue now comprises a record 24% of total revenue, up from 13% in the year ago quarter. In 2014, every one of our non-mortgage lending businesses grew revenue year-over-year in every quarter. This includes home-equity, reverse mortgage, personal loans, auto loans, and credit cards.

Revenue from personal loans comprised over half of our non-mortgage products revenue in the quarter, and grew by nearly tenfold year-over-year. In the quarter, nearly all of our existing personal loans lenders increased their spend with us, and we added new lenders to our marketplace. For the full year 2014, non-mortgage products revenue totaled $33.2 million, representing growth of 114% over full year 2013. All in, consolidated revenue of $43.9 million in Q4 and full-year revenue of $167.4 million, were up 21% and 20% respectively over there prior periods, and both exceeded our guidance ranges.

From a profitability standpoint, the Company achieved a record $17.5 million of variable marketing margin in Q4, reflecting a 40% margin. We maintained a more active investment approach to television media the quarter compared with a year ago, as we sought to drive awareness of our new MyLendingTree free credit score offering and our personal loans marketplace.

On a year-over-year basis, reported VMM grew by 7%. However, you may recall, I noted on last year's Q4 earnings call, that VMM had benefited from an approximate $600,000 reversal of certain accruals at year-end. If those reversals had not occurred, VMM would have grown approximately 11% year-over-year. On a sequential basis, we achieved growth in VMM, while maintaining a consistent margin as we scaled.

For the full year, we achieved of the VMM of $65.2 million, reflecting year-over-year growth of 11% and a margin of 39%. Adjusted EBITDA of $6 million in the quarter was also a record, and reflected a margin of 14%. This represents 2% year-over-year growth in adjusted EBITDA.

However, Q4 2013 adjusted EBITDA of $5.9 million included the $600,000 VMM benefit I just discussed. Representing 10% of the Q4, 2013 comparable, and this benefit obviously was not present in Q4, 2014.

For the full year adjusted EBITDA total of $21.8 million, or 13% of revenue and reflected 17% growth. Our adjusted net income from continuing operations, which is reconciled in our earnings release and which excludes certain amounts expensed under GAAP, as well as certain one-time items, was $5.7 million or $0.47 per share.

This metric reflects the favorable tax profile of our Company, presently. Relative to NOLs and other tax attributes, we do not anticipate the Company will pay taxes at normalized rates prior to 2017, although it may be subject to certain state taxes and federal alternative minimum taxes in the interim.

From a balance sheet perspective, we are very pleased to report that our working capital position, which we calculate as current assets, including unrestricted and restricted cash, minus current liabilities, including our loan loss reserve, improved by $17.6 million, or $1.46 per diluted share, to $81 million at December 31.

This improvement was achieved in large measure by a material reduction of the loan loss reserve at our Home Loan Center subsidiary. During the quarter, we completed a global settlement with HLC's largest investor, to which it had sold loans while we were previously in the mortgage lending business. The settlement covered all existing and any future losses on loans sold to the investor.

The impact on our estimate of the remaining loan loss exposure was to reduce our reserve by $19.6 million, to $8.75 million at December 31. Further, this settlement also removes uncertainty as to the ultimate outcome of this matter, and triggers a contractual release of $12.1 million of our restricted cash in December of this year.

In sum, we are very pleased to be able to report a record results in our business as well as fortification of our balance sheet.

I'd like to turn to Doug, for him to share our progress on important businesses initiatives that we anticipate will drive continued growth in our business in 2015 and beyond.

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

Thanks, Alex. And thanks to everyone for joining the call today.

Since Alex gave you the details on the financials, I will share my perspective on the quarter's results briefly, and spend some time on what we've accomplished in 2014, but most important, give you an update on several key strategic initiatives and how they are doing for us, and then obviously I will also discuss our outlook for Q1 and the rest of the year.

Put simply, the fourth quarter was hands-down our best quarter since we sold LendingTree Loans in Q2 of 2012. We delivered our highest levels to date of revenue, variable marketing margin and adjusted EBITDA, and we dramatically strengthened our balance sheet by freeing up approximately $18 million of working capital, which is almost $1.50 per share. In our mortgage business, we resumed year-over-year growth, as revenue of $33.2 million was up 5% versus Q4 2013, and up 4% sequentially in a market where industry-wide originations were down 18% and 13%, respectively.

There are a few notable factors helping drive that growth. First is our increasing ability to serve different types of lenders other than call center-based correspondent mortgage companies. As we've stated previously, our local introduction product, our Loan Explorer product, which is our rate table, and our call transfer product are enabling us to sign up lenders that haven't traditionally been able to work with LendingTree. These efforts are having enormous success.

Of the top 50 mortgage originators in the United States, 22 are current clients, and another 12 are in discussions with us. We are able to deliver volume at scale, and with very solid conversion rates, and we see these companies allocating increasing budgets to LendingTree, because quite simply, our partnership works.

And from a product perspective, we're not resting on the mortgage product either. We recently launched a completely revamped purchase mortgage product in beta with several lenders. This product does several things that we believe will substantially improve conversion rates and customer satisfaction for people buying homes.

What this product does is facilitates communication between the consumer, realtor, and loan officer and also leverages the profiles of loan officers from our lender directory product, which by the way we believe can, over time, become the trip advisor of the mortgage industry. And we also integrate with an industry-leading CRM system, so that we know the status of the borrower throughout the entire loan process up until closing.

That data will be the foundation of alerts to lenders, consumers, and realtors to help the consumer get through this very complicated transaction. Moving into our non-mortgage products, we continued to make great strides, as we grew revenue from these products 128% versus the prior year, as Alex noted, and is our fourth consecutive quarter of triple digit growth rates. Our personal loans offering continues to scale and grew 56% sequentially, versus the third quarter.

The great thing about this business is that we've said before, is that unlike mortgage, there is virtually zero capacity constraints, and lenders can close loans at significant scale. As long as we can continue to expand lender coverage across the credit spectrum, and profitability market into demand, there's plenty of runway ahead. We've added three new lenders to the personal loan network, bringing us to a total of 14, and have a very robust sales pipeline.

In autos, revenue was up 22% versus the prior year, as we added more lenders and thus were able to profitably grow the consumer base. In credit cards, we're in the final stages of building and launching our own credit card search engine, transitioning from the partner we've used for the last year. We've already signed five of the seven largest credit card companies to our marketplace, and expect that business to scale meaningfully this year.

In small business loans, it's still early, but we're up to 13 lenders participating in our exchange, more than double where we were in Q3. And in student loans, we've launched our own technology there, too, instead of the partner solution that we've been testing with previously, and will have two lenders live by the end of the week, with more in the pipeline.

All told on the lender front, we are showing the value of the LendingTree marketplace to lenders of all sizes, and specializing in all types of loans. Whether our clients are a major national blank or a local loan officer, we're helping our clients materially improve their business by working with us. The trend of lenders moving online is only accelerating, and when they want to do so, LendingTree is perfectly positioned.

Because we've seen increases in lender demand, in quantity, depth of coverage, and pricing, our monetization improved in Q4, and is doing so into Q1. Given this, we were able to spend more marketing dollars in Q4 more profitably than prior years, which helped us drive our great quarter. That trend continues into Q1, where despite rates falling and volume increasing across the board, our exchange has plenty of capacity, which is a key reason we can increase our forecast for Q1 and 2015.

And our marketing machine continues to get more and more efficient across all channels from search to social media to TV. Importantly in marketing, we're starting to see real success with our syndication strategy, where publishers, from small sites to very large ones, can have a co-branded LendingTree experience integrated within their user experience.

We've signed over 20 partnerships in the past year, and now help power the lending experiences for sites including Yahoo Homes, CNN, Realtor.com, and many others. We've proven to partners that we can help them monetize better than our competitors, and we are winning business every single week that we used to lose.

And finally bringing it all together is MyLendingTree. Since our update in November, we've grown our user base from approximately 200,000 users to more than 600,000 today, and user growth continues to accelerate, as we are now adding more than 5000 users per day.

We started marketing into this offering online in October, and launched a free credit score with a brain TV spot in November. While the membership growth is important, what's even better is that our alerts are now being sent to consumers, and they are working even in the early days.

We send about 1 million savings alerts to consumers via email each month, and see them opened at a rate that's 60% higher than an email that is more generic, and the revenue from these alerts is double that more generic email. The MyLendingTree brain will keep getting smarter, as we rollout alerts across all more products, and as our new mobile at begins to scale.

In summary, I'm thrilled with what we've did in Q4. We're executing on marketing to drive new customers, with lenders expanding our network materially, while continuing to strategically invest in product development to make our experience even better for consumers and lenders.

Now, moving into Q1, and the rest of 2015. The continued scaling of our business and decisions we made in 2014, around product and marketing have set us up exceedingly well in 2015 in both mortgage and non-mortgage products. We anticipate revenue in Q1 to be $46-$48 million, an increase of 15% to 20% over Q1 2014.

Variable marketing margin is anticipated to be $19 million to $20 million, up 25% to 31% versus the prior year, and adjusted EBITDA is expected to be between $6 million and $7 million, representing growth of 24% to 33%. Clearly, low mortgage rates and a resulting increase in refinance volume are helping those results, but unlike years past, when we would see a reduction in monetization in lender capacity, we didn't see that nearly as much this time around. Lenders continue to expand their business with us, and we believe it came at the expense of our competitors.

Based on the trends we're seeing in Q1, we're also providing substantial upside to our full-year outlook, relative to our previous guidance. On the topline, we're now anticipating revenue to be $192.5 million to $200.8 million, representing growth of 15% to 20%, up from previous guidance of 12% to 15% growth.

Variable marketing margins anticipated to be $76 million to $80 million, up from previous guidance of $73 million to $77 million. And adjusted EBITDA is now expected to be in the range of $27-$29 million, 24% to 33% ahead of full year, 2014 figures, and up notably from our prior guidance of $25 million to $26.5 million.

With that, I'd love to turn it back to the operator to take questions.

QUESTIONS AND ANSWERS

Operator

Thank you, sir.

(Operator Instructions)

Our first question comes from Terry Rice of Needham & Company. Your line is now opened.

Terry Rice - *Needham & Company - Analyst*

Thank you.

A great quarter, guys. Great guidance. Two questions, if I may.

One on the personal loans. You had indicated that lenders are spending more on the platform with you guys. I don't know if you can give any framework of thinking about what levels those are? What levels you think they can get to? And I don't know if there is any unit economics you can provide.

And then on MyLendingTree, mentioned 600,000 enrollees now. How do I think about the monetization of that, and when that kicks in? Maybe any contribution in 2015? Thank you.

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

All good questions. On personal loans, and unfortunately, you're not going to be too happy with our disclosure on most of these because we want to keep some of this stuff pretty close to the vest.

What I can say on personal loans is that lenders will spend as much as they can, up to whatever their normal cost per funded loan goal is. For companies like Lending Club and Prosper, that's actually publicly available and we can hit those guys' cost per funded loan goals. And some lenders will pay more and some lenders will pay less.

The real value, though, is in adding new lenders, where we can really increase coverage. In round numbers, probably still 40% or more of consumers have very, very challenged credit, and therefore we can't even get them offers. So as we can match people with more than one lender, particularly in the subprime areas, and then get wider coverage, that's really what fuels the unit economics, which then gives us the gas to be able to go market.

On my LendingTree, what I can say on the monetization is we see it, generally speaking, come in extra monetization within the first 45 to 60 days, and then it kinds of achieves a normalized level. I can also say that our marketing cost to get those customers is more than paid for in roughly the first 60 days.

So, I would expect that we'll have a lot more on monetization of this at our investor day in March, as we look to roll it out. But it's far exceeding our plans.

In terms of how it bakes into this year, it's all baked in the cake of our guidance. So, with additional free monetization from MyLendingTree, it basically enables us to go spend more money on marketing to drive more volume to the extent we have capacity, and capacity is not a problem right now.

Terry Rice - *Needham & Company - Analyst*

Maybe just one quick follow-up. You mentioned that you had 14 lenders for the personal loans on the platform.

Do you have any sense, or can you give us a sense of what's the population out there? Is there 30 lenders? Is there 20? Is there anyway you can size at least the numbers of partners you can sign up on the platform for that type of product?

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

Gosh, I would say its at least double where we are now. We've got big major companies like Spring Leaf and One Main, who are owned by city, and Spring Leaf's obviously an independent company. Or public company.

We've got all the new platforms like the Prospers and the Lending Clubs, and then also really good ones like Avant Credit, based out of Chicago, and interestingly, I think every venture capital shop on the planet is trying to launch another one of these. And so, we are getting inbounds all the time.

We're also starting to get inbounds from investors who have invested on some of these other platforms and put money to work on them, and they want to come directly, and that's interesting as well, too. So I think you can easily double it.

In addition to that, we're starting to see some early signs that the retail banks will come back into this. Really what's happened in personal loans is, essentially new types of credit models other than FICO score and automated underwriting and processing, there's no reason banks can't do that, too.

Banks haven't been in this product for several years, just because of the crisis. But ultimately, the banks have the lowest cost to capital, and they can automate and do underwriting as well as any startup can.

Terry Rice - *Needham & Company - Analyst*

Great. Thank you very much.

Operator

Thank you. Our next question comes from John Campbell, of Stephens. Your line is now opened.

Unidentified Speaker - - *Analyst*

Hey guys, this is Hayden, sitting in for John. Just had a couple of quick questions.

First on the MyLendingTree platform. Are we starting to see any pull-throughs there into the personal loan category from those guys who have signed up for that credit monitoring service?

And then, what are the conversion rates look like from the existing MyLendingTree customers into the loans that they are applying for? Is that differing materially from just a customer that you are acquiring in other ways?

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

Very good question. I think it's safe to say, yes, in MyLendingTree. And I it's not necessarily -- The effect is what you said, it's not necessarily because of the market. I think it's more what we are doing.

Having -- it's very easy to get your credit card rates from your credit report. And because of that, if we know we can get you a personal loan to consolidate those credit cards, that is an easy alert, and that is one of the first alerts we did. So right now, personal loans is the largest source of monetization from MyLendingTree.

And I can say that anything converting out of my LendingTree is going to have a higher conversion rate, on average, than leads or customers coming from other channels. And the reason being, very simply, there's a extremely high chance that you can save money and you're opting in for it.

So think you're getting an email that says, Hayden, we think we can save you 50 bucks a month with a personal loan by paying off your credit cards, would you like it? You're clicking a button saying yes. You don't need to fill in that information again, and so, yes, and that conversion rate affect by the way, will help to drive the other parts of the business, because if conversion rates go up on average for a lender, they are willing to spend more with us across really all of their volume.

Unidentified Speaker - - *Analyst*

Got you. Yes, thank you for that.

And then I guess secondly, on the number of lenders that you're working with in the personal loan category. Are you finding that some of these new lenders are more specialized than, say, a Lending Club or a Prosper who are maybe more focused on that lower end of the credit spectrum, or are people generally still looking for the higher quality customers, and I guess kind of linked with that is, you said 40% or more of your consumers have challenged credit.

Does that mean that you're not able to match 40% of the leads that are coming through, or does that mean in general 40%, of consumers have challenged credit, and it's difficult to match them?

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

Yes, when I said that 40%, roughly, those are people that we can't match at all. They'll have credit expectations that are -- or they've got credit that's lower than what lenders are looking for. That number, we've obviously been chipping away at that number.

There's going to be some amount that is -- that we can just never do, but the neat thing is, more and more lenders are coming into the space, doing more and more -- who are willing to go down to lower and lower segments. Obviously those rates are going to be a lot higher.

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In some instances, you can pay 50% APRs in some of these products, but sure as heck beats 98% from your local check-cashing place. So what -- another really neat thing we're seeing in the personal loans space, which is just seeing a marketplace work, we're seeing that lenders are competing more aggressively.

We've seen the average spread between the low rate and the high rate in personal loans go from 500 basis points down to less than 100 basis points. And we've seen the average rates that the consumers are getting also go down, so the consumers are getting a better deal and lenders are competing on price, obviously, as well as service.

That's a great for the consumer, obviously. It's good for the lenders, that they can do it, and as it also improves their conversion rates. And in many instances you can actually get lower rates on LendingTree than you can get on some of these individual sites. Which we just think is great.

In general, I would say most new personal loan lenders are still at the quote, unquote higher end of the credit spectrum. The higher end in personal loans is going to be lower than, let's say, mortgages and things like that, because many times a personal loan borrower is more of a credit seeker.

But as I said, we're getting new types of lenders with new types of credit models, and the risk-based underwriting should help to give solutions to more borrowers over time.

Unidentified Speaker - - *Analyst*

Got you. Thanks for the questions, and congrats on the quarter.

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

Thank you.

Operator

Thank you. Our next question comes from Hamed Khorsand of BWS Financial. Your line is now opened.

Hamed Khorsand - *BWS Financial - Analyst*

Hi. First off, can you just talk about the competitive landscape? Lending Club is now talking about approaching banks as lenders more aggressively. How does that play into your business model, as far as pricing goes? Let's just start from there.

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

Yes, I think, at least as I understand it, there are a number of companies that are basically going to the banks and saying -- hey, why don't you leverage our technology to do your own loans?

And we think that's great, because the sooner that an institution gets automated, and if somebody uses lending club's technology, or Orchard Financial's technology, or anybody else's technology, that's another lender that's going to be looking for volume, and when they are looking for volume, we're going to be able to give it to them.

So we think that's a similar -- we think that will be a similar theme to what's happened in, let's say, mortgage where you have -- where over time lenders automated the CRM systems and their underwriting systems, and that just brought more lenders the party, and as LendingTree wants to be the search engine for money, the more lenders there are competing to get that customer's business and the richer our marketplace is, the better. So, we think that's a great trend.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. And then the other question is, can you leverage the business any further? We are talking about partial basis point improvements in EBITDA margin in [Q1 2015 versus 2014], and you would think there would be greater scale, given that non-mortgage is supposed to grow at a faster pace than mortgage revenue.

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

Yes. And I would expect to see that, as I think you know. We try to balance our approach between EBITDA growth and continued re-investment.

We are not going to be a Company that is going to tell you we're not going to have earnings, and we're just going to invest in product and marketing. That is not in our DNA. We like to have very robust earnings growth.

At the same time, we think it's strategic that any time we do have good news above a certain threshold, we are going to make opportunities to reinvest. So, we're going to spend more money on marketing, and we're going to test more types of marketing in those times, so that we deliver what we promise to you and more, but then above that number, we're going to reinvest back in the business, and we like to call those things out. But, for example, we are looking at new TV spots right now.

We're running new campaigns, we're looking at radio, et cetera. Now, we are going to obviously always perform, I wanted that to be very clear. Certainly going to do our very best, but we do look for reinvestments to speed the growth rate, if we can, above that threshold.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. My last one is, what changed in your assumptions, or in the business to make your assumptions change for the guidance within four weeks?

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

Just seeing -- becoming more and more confident in the trend that we were seeing. Obviously, Q4 we've -- we saw Q1 came out of the gates great, and Q4 really built into Q1, and we wanted to see whether late in the quarter some of these trends were going to stick, or whether we were getting a momentary -- getting some wind at our back.

I did call out some wind to our back, but we're just increasingly confident of everything we're seeing. As we see lenders increasing budgets, we hear very good things from the lenders as marketing. And it's just all working, and then we are just -- we see it, and we are more confident.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. Great. Thank you.

Operator

Thank you. Our next question comes from Jim Fowler, of Harvest Capital. Your line is now opened.

Jim Fowler - *Harvest Capital - Analyst*

Hey, Doug. Alex. Good afternoon.

You ended this year with mortgages, mortgage as a percent of total revenue at about 75.6%. What do you think it will end, 2015? If you look at the growth that you're projecting for mortgage and non-mortgage, what will mortgage be as a percentage of total revenue at fourth quarter 2015?

Alex Mandel - *LendingTree Inc. - CFO*

Hey, Jim. It's Alex. Are you asking about the fourth quarter, or so to the full-year picture, overall?

Jim Fowler - *Harvest Capital - Analyst*

Well, I kind of like the fourth quarter, because I know we're going to have some level of heightened mortgage activity here in the first couple months of this year. I'd just like to see where it's going to be at the end of the year.

Alex Mandel - *LendingTree Inc. - CFO*

Sure. And I don't think we're giving very precise views of this metric on a guidance basis, but if we're sort of approaching a quarter of the business, at the end of the year, if we were in the zip code of a third of the business, I think that would be meaningful. And if we could do better than that, then that's great, too.

Jim Fowler - *Harvest Capital - Analyst*

Okay. So non-mortgage about a third by the end of the year, is what -- approximately what you would expect?

Alex Mandel - *LendingTree Inc. - CFO*

It's early in the year, but that feels right at this point.

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

And one thing I would just want to highlight is, the supply and demand economics of these are both different. So obviously we're not trying to get to a certain percentage.

Nothing would make me happier if mortgage does very, very well. If you think about all these products from some kind of a percentage of transactions that we are doing, we are still doing less than 2% of all the mortgages in the US.

So as we move -- as we capitalize on the shift to moving online, we hope that the mortgage business is going to grow very robustly as we gain share, and obviously we hope the other ones are going to grow as well, and it's fun watching our salespeople and our product people, who focus on different products try to win the race against each other, if you will.

So, particularly purchase mortgage, if we see -- if our new purchased product really starts to grip, we could see good growth in purchase mortgage, as opposed to refinance, and that would be great.

Jim Fowler - *Harvest Capital - Analyst*

I was going to ask about two aspects of that. If it does hit a third by the end of the year, in that one third, do you, are you thinking that there's going to be a substantive change in being able to match the 40% of the non-prime borrower, now? Or is that third not inclusive of any improvement in that non-prime borrower?

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

I would say it's all baked in the cake. We would assume -- what I would say is this: we assume sort of the business -- every time we budget and make assumptions, we assume sort of steady progress, but very specific progress.

But the other thing I can tell you is, we did our internal budgeting and planning in November. We're already running ahead of that. We have to now have a monthly goal setting process to keep raising the bar on ourselves. Just to hold ourselves accountable to ever increasing growth just because we're beating what we thought we'd be doing in November. So, I think there will be some amount of monetizing, that call it the 40ish%.

But the other thing to think about is you get tremendous increases in unit economics by matching the consumer more. So if, in the sort of mid-prime space, you'd match maybe one or two times today if we can match three and four times, that obviously significantly increases our revenue.

Jim Fowler - *Harvest Capital - Analyst*

Got it. And then, just one last thing if I might. I was interested in your comment that investors are calling you directly. Could you clarify exactly what's happening, there?

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

Yes, what we are starting to hear are rumblings of our money managers, asset managers who invest in these online platforms, and obviously there's some pretty substantial fees that go along with that, where the intermediary takes that fee, and we are starting to hear that they're setting up entities to go originate consumers directly.

If you think about that, really, what do you need to do? You need a credit model, and you need a servicing platform, and you need a technology. And increasingly there are companies that will sell you that technology and help you rent or develop a credit model so that somebody who today invests in buying whole loans, could actually make those loans directly.

Jim Fowler - *Harvest Capital - Analyst*

Great. Okay. Thanks, Doug. Congratulations. Bye.

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

Thank you.

Operator

Thank you. Our next question comes from Josh Goldberg, of G2 investment partners. Your line is now open.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Hey, guys. Congrats on the great results.

Just a couple things. I guess first on MyLendingTree, obviously great improvement on the number of subscribers.

Just curious, embedded in your guidance, how much are you planning on spending on the marketing for my LendingTree? And where is it in the income statement? I know you break out exchange marketing to get to the VMM. I don't know if this is part of exchange marketing, or a new product, maybe, in your other marketing line?

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

No, It's absolutely in the exchange marketing, and we will market up to a -- we don't really have an amount we spend on marketing, because it's all based on how efficient the marketing is in the revenue. So for example, if we just using and making -- using hypothetical numbers, if we were getting $20 of monetization off of this under normal VMM thoughts, we probably spend half to maybe a little more on a unit basis to get that, and if we can go and get more, we will go do it.

I hope we spend a lot, because anything we spend with by definition, be profitable but we don't have that specifically baked in. It's in our forecast, but we don't break it off separately.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Right. And the $20 or whatever that hypothetical number you name, is that a yearly number you're looking at?

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

No, I'm not --

Josh Goldberg - *G2 Investment Partners Management - Analyst*

I know it's not the number, but I'm just saying --

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

(multiple speakers) -- hypothetical, I was just trying to use that for illustration. We will, we want to keep the monetization of MyLendingTree very close to the vest for a period of time while it develops for competitive reasons, and then we'd look to reveal that some time later in the year.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay. Great. In terms of making it a little more of a robust offering in terms of credit cards and other products, how far are we in terms of developing that?

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

Early days, I would expect that over the next six months we would have a lot more alerts, and it would be a lot smarter.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Got it. Which should only increase the monetization?

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

Absolutely.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay.

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

The other thing, by the way, just I highlighted, for example, credit card. Working with a partner, by definition we're licensing somebody else's technology, which means they got roughly 20% of the revenue. It made it difficult for us to go market, to do paid marketing when you're cutting somebody else a pretty big slice of your revenue.

Now that we've got direct relationships with the issuers, they pay us more. And we will pick up margin improvement in credit card, which will start to free us up to go advertise that. And obviously, if you look at lots of the other competitors in that space, that is a very large comparison-shopping business online, and we think we deserve to get our fair share.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay. Just two more quickly, if it's okay. I guess first is, consistent with sort of Hamed's question, you guys, gently, are very conservative, and kind of near the end of the year, once you see how the year is developing, you raise your guidance.

I've followed you guys for a while; it's surprising that you would raise your guidance so early in the year. Is it something that you're seeing both on the real estate and the non-mortgage side? That whether it's some new customers that have signed on, some commitments that you're getting? That you're getting a lot more confident about that gives you this ability to be so positive so early.

For people who don't know you guys, I mean, you're very conservative in general. So even these numbers, I think you want to hit them pretty nicely, so to raise your numbers so quickly, I'm just curious if there something kind of underneath the hood that's going on that is getting people excited at LendingTree.

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

So I guess a couple things I'd say, and you can look at this both ways. I would say in general, we are fairly conservative, but that gives us room to typically reinvest. Obviously as I mentioned, low rate environment in Q1 has certainly helped a little bit, because that's sticking, but at the same time, from a confidence in the year?

I mean if I just sit here, and I look at where we think Q1 is and I take it times four, that's kind of where we said the year is. And that's not -- I don't feel like it's that much of a stretch, give or take, but I think it gives us opportunity for reinvestment and we also hope to get more growth, and we don't have -- that could certainly be upside.

Any -- this is for us, I think the year of conversion rates. Any improvement in the consumer experience in conversion rates should show up directly in what lenders are willing to pay us, and if that happens, that enables us to go spend more on marketing.

So, we believe in our guidance. We think it's conservative, at the same time, we'd hope to be able to improve upon it like we always do, but wouldn't take it to the bank.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay. Last question. I guess on the balance sheet. Obviously great sign that the current assets minus the current working capital has improved, and you were buying back stock this past year and you had few some of these agreements, which cost you some cash.

My hunch is that you should generate a good amount of cash here in 2015. What will be some of the things that will hold you back from not generating the cash similar to what your EBITDA would be in 2015? Thanks.

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

yes, generally speak -- over the long-term, except for our accountants making us capitalize some software costs, over the long-term, EBITDA and cash flow should converge. Ish.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay. So there's no other kind of settlements or earn outs or considerations that you feel have to be paid in the next four quarters?

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

I think we might have a small earn out on a very, very little acquisition we did. It's not material, that is obviously lawsuits and things. We've got a couple little litigation things that are kind of still hanging out there, but they're immaterial. You can read about them in the Q.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay.

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

You know there's some -- so, yes, there's some legal stuff, which will kind of hang around here a little bit, but other than those types -- but yes, they'll start to trail off.

Alex Mandel - *LendingTree Inc. - CFO*

And Josh, this is Alex. Just to be clear that any cash that paid in respect of any potential settlements for the home loan center business, flow through discontinued operation cash flow, so when you look at our cash flow statement and you see cash flow from continuing operations that--

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Josh Goldberg - *G2 Investment Partners Management - Analyst*

Right. One last one for me, just so I make sure got that right. Did you say that your personal loan businesses was up 56% sequentially in the fourth quarter?

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

Yes.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay. So, obviously no signs of a slowdown there. That's very encouraging.

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

Yes, you can't -- you start lapping tougher comps. You know the next leg, I think, comes from conversion rates and new lenders. I can't grow 56% quarter over quarter forever, but we are going to -- we are doing our damnedest.

Josh Goldberg - *G2 Investment Partners Management - Analyst*

Okay. Great. Congratulations, guys.

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

Thank you.

Operator

Thank you, our next question comes from Howard Rosencrans of Value Advisory. Your line is now opened.

Howard Rosencrans - *Capital Growth Financial - Analyst*

Hi, guys. Incredible, stellar, stellar quarter.

I'd like to focus a little bit more on the mortgage side, as opposed to the non-mortgage side. You certainly did a great job, but obviously the mortgage environment is a lot more challenging, and [re-fi] if not now, will soon be pretty much dead. The -- what I'd like to understand is, I know your view is you will continue to capture share on the mortgage side, but I did want to ask you if you'd throw your hat in the ring, and just give some more comment, generally on the mortgage market, broadly.

The credit environment is opening up. Everybody is lending more aggressively. On a personal basis, LendingTree, Prosper, all the new institutions, all the stuff you've talked about.

I'm curious on the housing side, whether or not you think that lending the mortgage business -- against with housing as the collateral will open up more so?

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

Great. All very good questions.

I think there's a couple things that will help the mortgage business continue. First off, the way a lender things about their business, just like, really, any company. They think about what is their marketing cost to get a deal. To get a deal closed.

And, every lender's different. Some lenders target very low cost per funded loan. Other lenders have very higher cost per funded loan bogeys, and that really depends on the type of products they are going after, and how broad they are. So, generally speaking, as long as we are working for the lender, as long as the marketing cost is working for them, they will do more.

And that -- so that's fundamentally where it is. So that's how we can continue to grow. So over the long-term, by improving the conversion rates and the customer experience, that lender is willing to pay more per lead or per match, because their cost per funded loan is effectively going down. So, the lenders when they want more, they have to pay more. Round numbers.

A couple things though that are helping are obviously rising home values, and I think we're still at the early days of seeing that, but one -- as your home value increases, obviously your loan-to-value goes down, and therefore there's more room to actually borrow. So that helps.

And it also is going to start -- we are starting to -- I've talked about the green chutes in home-equity, that they're starting to get greener and longer in the second mortgage product, which can -- which will open that up. And then, you're also starting to see some private securitizations kind of starting to happen again. In the non-QRM space. And Fannie and Freddie and the FHA are making it a little easier on lenders, as well.

By the way, rising home values not only adjust loan-to-values, but it gives lenders more confidence that they're not going to have loan buybacks, because the home is more valuable, and so that further enables them to open themselves up. So long as it's working for them, they'll keep doing it, and we think there is a lot of just huge opportunity in mortgage, particularly purchase.

And that's the biggest problem in purchase, has always been lenders give you a quote, many times a consumer is 90, 120 days away from actually getting a transaction, and that's why integrating with these CRM platforms in the loan origination systems is so important to us, because we are now getting signals back that, let's say the consumer got approved for the loan or it went and got pushed into underwriting, or maybe that they got denied for the loan and now we can introduce them to another lender.

So, that ongoing communication and dialogue throughout the process we think could be a real game changer for purchase mortgage.

Howard Rosencrans - *Capital Growth Financial - Analyst*

Just -- that was very helpful. Just a bigger picture question. If you wanted to speculate on the home market a little more.

Do think the absence of housing starts, the absence of inventory, is what's holding back home purchases? Because what you said there is that the environment is getting better for the homebuyer, but do you think that's what needs to change in the question?

I know this is a bigger picture than you than Tree, specific.

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

Yes, I will freely confess to not be a good or accurate prognosticator of the housing market itself. We -- I don't think this is going to be -- housing's going to continue to get better, probably not at the rates it was, but if I could predict that, I could go be a real estate investor. I think for us, it's really about the unit economics of the mortgage for the lender, and the lender's appetite to lend money.

Basically, think of us like a search engine. If lenders want to lend money, we're here to help them lend it, if consumers want to borrow, we are here to help them borrow it and make a market. So I don't think we're indexed to the overall housing market in that way.

Howard Rosencrans - *Capital Growth Financial - Analyst*

Okay. Don't go be a real estate lender or do anything else. Stay right here, Doug, for us, we are real happy with it. Thank you.

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

I will do it. Thank you.

Operator

Thank you, and at this time I'm not showing any further questions. I'd like to turn the call back to Management for any further remarks.

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

Thank you all again for your time, today. I think it's safe to say that we are sitting at a very, very interesting time for online lending in general. And LendingTree is obviously perfectly positioned to capitalize in it.

Lenders of all types are coming online, they need targeted volume, and we are the perfect solution for them. Consumer credit standards are loosening appropriately, and thus we can facilitate more offers to more consumers, which improves our monetization. Our improvements in technology and product are making the consumer experience better, which further increases conversion monetization.

Although this company's been around since 1998, I can honestly say I've never experienced a time like this before, where consumer behavior, lender behavior, and technology have come together so perfectly for us. And we plan to not only capitalize on these trends, but help to accelerate them.

Thank you all very much.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program and you may all disconnect.

Everyone, have a wonderful day.