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TREE - Q3 2016 LendingTree Inc Earnings Call

EVENT DATE/TIME: OCTOBER 27, 2016 / 1:00PM GMT

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to The LendingTree, Inc. third-quarter 2016 earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Mr. Gabe Dalporto, Chief Financial Officer.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Thanks, operator, and thanks, everyone, for joining this morning for LendingTree's third-quarter 2016 earnings conference call.

On today's call I will quickly discuss our third-quarter results as seen in today's press release and turn it over to Doug, who will provide his thoughts on the quarter and the rest of 2016. But first a quick disclaimer.

During the 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, we are looking to, or other similar statements. These forward-looking statements are subject to risks and uncertainties and LendingTree actual results could differ materially from the views expressed today.

Many, but not all, of the risks we face are described in LendingTree's periodic reports filed with the SEC. On this call we will discuss a number of non-GAAP measures and I refer you to today's press release available on our website at investors.lendingtree.com for the comparable GAAP measures, definitions, and full reconciliations of non-GAAP measures to GAAP.

With that, let's get into the results.

Today I am pleased to be discussing another terrific quarter for the Company. For the fifth consecutive quarter, we delivered record levels of adjusted EBITDA, growing that measure 68% compared to the prior year period and eclipsing 20% of revenue for the first time since the Company spun off from IAT in 2008.

Once again the quarter's results reflect -- highlight the flexibility in our model. Even as we dealt with short-term challenges in a couple segments, namely mortgage and credit cards, we optimized our marketing efforts to close another record quarter.

Taking a closer look at revenues, all-in consolidated revenue of $94.6 million represents year-over-year growth of 36%, notably revenue from every lending category grew a double-digit clip compared to the third quarter of 2015. Our non-mortgage products produced record revenue of $41 million, up 60% versus the third quarter of last year. Led primarily by small business loans, a seasonally strong quarter in student loans, and a return to sequential growth in personal loans category, the majority of non-mortgage category showed sequential growth.

Our mortgage products recorded $53.5 million of revenue, up 21% compared to the third quarter of 2015, though down slightly from the second quarter of this year. As we discussed on the last call, mortgage interest rates dropped precipitously after the Brexit decision in late June and have remained at depressed levels. The average mortgage rate throughout the third quarter was 3.45% according to Freddie Mac, down from 3.59% in the second quarter and at levels we hadn't seen since late 2012.

The rate environment drove a surge in refinance activity in the third quarter with Freddie Mac projecting refinance originations to jump 13% sequentially. The sharp uptick in refinance activity caused many of our mortgage lenders to temporarily reduce their demand for our consumer introductions as they worked through the backlog. However, LendingTree also benefited from the surge in refinance activity as the number of refinanced consumer loan requests from organic sources jumped 10% quarter over quarter, contributing to substantially higher margins.

Total company variable marketing margin dollars in the quarter grew to $36.3 million, up 49% from the year-ago period and a new record. At 38% of revenue, VMM percent improved approximately 240 basis points compared to the second quarter. We translated robust VMM into record adjusted EBITDA of $18.5 million, up 68% compared to last year and substantially ahead of our prior guidance of $16.5 million to $17.5 million. We continue to show operating leverage as adjusted EBITDA margins have now reached 20%.

In GAAP terms, the Company recorded $7.3 million of net income from continuing operations. Note these results include a $6.7 million income tax provision in the quarter, representing 48% of GAAP pretax income, which is higher than we would normally expect. That's because during the quarter the state of North Carolina announced a reduction in its corporate income tax rate from 4% to 3%. As a result, we reported an incremental $1.1 million charge in the period to reflect a reduction in the value of the deferred tax assets on our balance sheet.

Finally, on a per share basis, adjusted net income, which excludes certain items expensed under GAAP, registered at $0.80 per share, while GAAP earnings from continuing operations came in at $0.57 per diluted share. Both GAAP and adjusted earnings per share figures reflect the full $6.7 million tax provision in the quarter.

Moving to the balance sheet, our unrestricted cash position grew to $176.9 million as of September 30, up from $159.6 million at June 30.

With that, I will turn it over to Doug.

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

Thanks, Gabe, and thank you all for joining this call today. Now that we have heard Gabe's take on our numbers. I would like to provide some context on the business overall and on the results and outlook for each loan type.

Overall, I am very proud of our performance in the third quarter, particularly because we have now shown again that we can operate marketplaces in many different loan types, optimizing the returns of each while still providing a quality comparison shopping experience to consumers, and helping lenders meet and exceed their individual profitability and growth goals. It is not an easy task to benefit consumers, lenders, and shareholders simultaneously, but we are doing it.

With the perspective of 20 years in the industry, I've seen plenty of companies that help lenders make money at the expense of a great customer experience and vice versa. I've also seen plenty of companies minimize short-term profits at the expense of long-term sustainability and others who make short-term, quote-unquote, investments with the promise that that spending will pay dividends in the future.

At LendingTree, we have always tried to be different and this is another quarter where we have proven our ability to execute to the benefit of consumers, lenders, and shareholders over both the short and long term. The brand we have built, the depth of our relationships with our lenders, and our exceptional team are not only unique but also sustainable competitive advantages for our future.

Our competitive position has never been stronger and the migration of lending from offline to offline puts us in the perfect place to leverage our strengths in a growing market, all of which makes me incredibly optimistic about our future as a company. Plus, our financial position enables us to make smart acquisitions and capitalize on any short-term volatility in both the financial markets and our industry.

Specifically in Q3, even though the macro environment presented some challenges not unlike things we've seen many times over 20 years, our company adapted minute by minute and day by day at a level I have, quite frankly, never seen before. As a result, we delivered our fifth consecutive quarter of record-adjusted EBITDA, while still maintaining revenue and growing wallet share and improving the customer experience. I am, simply put, thrilled.

Since we have many more shareholders today than we have in the past, I will go into more detail than normal about each individual loan type so that everyone understands our industry, our business model, and has context around our results.

In mortgage, as Gabe mentioned, rates continue to fall in Q3. On one hand, organic volume flows to our site and thus our acquisition cost of customers decreases.

On the other hand, lenders also see increases in their organic volume and reduce demand with us and our competitors, which is articulated in our metrics through price, volume, and filter changes to narrow the population of consumers they desire. More specifically, our cost to get every customer decreases and our revenue from lenders for each customer decreases as well.

Despite this environment, which was similar to Q2, we are able to grow VMM from our mortgage products. And as more consumers move online for mortgage financing, we are testing new features like a cognitive messaging tool and call scheduling in Q4 to improve the customer experience as well as conversion.

Additionally, our conversations with the lenders indicate that they want to continue to grow next year and LendingTree is their preferred source for growth. We are planning right now to help our lenders achieve their 2017 plans and I'm incredibly optimistic about those conversations.

Now let's move on to personal loans. To put our results in context, I would like to go over a bit of history because it very much informs our present and our future. Personal loans have been around longer than LendingTree, but were traditionally done through branch-based finance companies.

Then about a decade ago so-called peer-to-peer companies started online. Capital to lend came from individuals who were looking for better returns than savings accounts in banks. Borrowers were the same borrowers as before except now they could get credit online.

These early peer-to-peer businesses struggled because they had to both attract borrowers and attract individual lenders. About three years ago these, quote, peer-to-peer companies began attracting larger pools of investment capital from the capital markets, which solved half the equation, but they still needed borrowers, which they found through direct mail, online advertising, or comparison-shopping sites like LendingTree.

Unfortunately, several of these peer-to-peer companies ran into challenges when investors didn't meet their return expectations, when those investors pulled back capital and demanded higher returns. In turn, the peer-to-peer companies then pulled back their marketing spend with companies like LendingTree. You might remember us talking about this around Q2.

Now fast-forward to today. The online lenders have, for the most part, stabilized their sources of capital to lend, tightened their underwriting standards to a more appropriate level, and are operating solidly, albeit at a smaller scale. And technology to underwrite, process, and service loans more cheaply, more accurately, and faster is making its way into traditional financial institutions.

From LendingTree's perspective, this all bodes extremely well for the future. More lenders are entering the lending space, which help us increase coverage; better underwriting models are giving investors more confidence to lend money or buy loans from online platforms. The personal loan industry online is now smaller, but much more healthy and much more sustainable than I have ever seen, and I expect it to grow significantly from here.

What this means to LendingTree is that many lenders who had paused or pulled back early in the year are back on our platform and lending responsibly. In Q3, our revenue and profits from personal loans were back to where they were in Q1, but the quality of that revenue and earnings is very much higher. And I have zero doubt that we can leverage our marketing advantage and our lender coverage to win this space, just like we have with mortgage and other loan types.

Although we are now seeing seasonality in Q4, like the overall industry, and a few short-term operational transitions with some lenders who are merging or buying others or doing other things, we are also seeing current lenders expanding, new ones entering, and consumers increasingly becoming aware that personal loans are a great option for that.

Now I will shift to credit cards. Like other areas of our business, we sit between the supply of borrowers through marketing on our customers gains and demand from lenders for those borrowers. There is one additional factor that matters in cards though: the rates which credit card companies are willing to pay sites like ours varies with the passage of time, the ability to prove volume levels, and the ability to prove credit quality. Here is where we stand on each one of these variables.

On customer experience we're as good as anyone. Frankly, other than slight differences in site optimization, all of the credit card comparison-shopping sites look basically the same and there is little, if any, sustainable advantage on this aspect to the business. On payouts, we believe we are competitive and with the passage of time and providing high-quality customers, we will be getting top-tier payouts. We think we're about 85% of the way there and are working like crazy to get to the last 15% or 20%.

On marketing, the good news is that there are a variety of channels to reach customers, including SEO, SEM, display, TV, partnerships, and native advertising, among others. At the end of Q2 we had a preliminary injunction issue which limited our ability to use certain third-party content marketing partners in the native advertising channel, which of course impacted revenue in Q3.

While we disagreed with the ruling and will continue to defend this matter vigorously, we have since focused our marketing efforts on the remaining channels, which continue to grow nicely for us. And we remain very confident in our ability to compete and scale in this vertical.

I am completely confident that our Q3 performance in cards is a new base from which investors can expect significant growth and profit. While I can't predict the timing of our success, I am highly confident that we could be the number one player in one or more of the credit card marketing channels just like we have done in mortgage.

Moving to small business, which performed exceptionally well in the third quarter. We surpassed a new milestone having facilitated now over 5,000 business loans or nearly $200 million in originations and saw the biggest quarterly growth since our launch at the end of 2014.

Based on all of my personal and the Company's research, I think small business lending over the internet is a massive opportunity for LendingTree for the following reasons. First, there are more startups coming online with solid funding. Not only funding of the business, but more importantly, the funding to actually make loans. This will help us broaden coverage and increase our RPLs, or our revenue per customer, through competition and coverage.

Second, these emerging lenders not only have great technology, there are many -- they each have a different view of credit risk models, which further benefits LendingTree because the benefits for comparison shopping are even greater the more the different companies see risk differently. Finally, technology from the startup world is now being licensed into traditional banks, so we expect to see them enter the market as well where they have not been in the past.

All of that on the lender side means we have significant monetization, and coupled with the LendingTree brand advantage and consumer benefit, we are seeing excellent traction in this business.

In anticipation of growth in this industry, we have built a new API that will allow lenders to easily integrate into our site, along with a small business resource center. Moving forward, we will be adjusting our matching algorithm to match the right customer to the right lender and I will be testing new marketing channels in Q4. All told, we expect small business to be a significant growth driver in the years to come.

With all of that context, let me provide some context on our guidance. For the full year we expect revenue to be between $370 million and $375 million. Obviously, down slightly from our prior guide, but up 46% to 47% from last year and in keeping with the macro trends we've described in this release and presentations to investors. We expect full-year VMM to be between $134 million and $137 million, respectively, which is up 41% to 44% from last year.

I am most pleased with our expectations around adjusted EBITDA. We are holding our full-year to between $64 million and $66 million. While we have significantly outpaced even our expectations for the first three quarters of the year, we are now one month into a slow lending season, particularly in cards and personal loans, where we don't have the years of history to rely on.

We are presenting our 2017 plan to our Board of Directors in the coming weeks. At our investor day in December we will present not only the plan for next year, but also a longer-term model that we believe is more than achievable. For now, here's what I can say about 2017.

In going through the planning process and looking at the initiatives we have lined up for next year, I am confident that we will remain among the top tier of internet growth companies, especially given the groundwork we have laid in 2016. In total, I am simply humbled by what this guidance implies for our team's achievements in 2016.

We started the year expecting to make between $50 million and $52 million of adjusted EBITDA, after making $40 million of EBITDA last year. This year we are going to land between $64 million and $66 million, even with strong headwinds in personal loans, the credit card setback, and then all the vagaries in mortgage that we've described.

Additionally, we made significant progress on what is a huge part of our future, My LendingTree, which contributed 6% of the total revenue in Q3, and that we've introduced new features to improve the experience, like adding more intelligent and monetizeable alerts. And we have also kicked off paid marketing for My LendingTree in late September and have a very good read on what our cost of customer acquisition is for that product.

So we now sit here near the end of 2016 and have more certainty around lender stability, sustainability in personal loans. We have proven that the LendingTree brand is still a competitive advantage and we know that lenders want to spend more money with us.

In addition, we want to buy the success of concrete initiatives across our business; have a full M&A pipeline with attractive targets at fair prices; and for the first time in a long time, we have a metric and initiative-based long-range plan that this management team believes in with all of our hearts. We hope that all of you will be able to attend our investor day on December 13 and welcome your toughest questions so that we can hopefully have you leave that room as fired up as we are.

With that, we will open it up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Robert Peck, SunTrust.

Robert Peck - *SunTrust Robinson Humphrey - Analyst*

Thank you very much. Just one question. Doug, I was wondering if you could expound just a little more on the refi side of things. How big is that backlog now and how long do you think that takes to work through the system so that LendingTree can capitalize on it? Thank you so much.

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

That's a good question. I'm actually going to turn that to Gabe because he drew a beautiful chart for me yesterday talking about the backlog and the frontlog, if you will. Is that okay?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Yes, absolutely.

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

And then I will add more to it.

Gabe Dalporto - *LendingTree, Inc. - CFO*

Great. The way to think about the -- we talk ad nauseum about what happens when rates rise and rates decline. There's a subtle timing impact of that and so when rates move down suddenly, typically what you see is a surge of volume in the industry, which comes to us and others. It takes a couple weeks for a lender to realize their pipelines are totally clogged and then they start to pullback capacity at that point.

During that couple of weeks, we're sitting here with tons of low-cost volume and really good monetization and we get a short-term windfall over that couple-week period until revenue per lead reflects the fact that lenders' pipelines are all jammed up.

The opposite is also true. There is a short-term impact when rates rise. It takes a while for lenders to realize that their loan officers are starving and to clear out their pipelines and so you start to bid up capacity and expand filters and increase our revenue per lead. And so that's a short-term headwind.

Those two factors are true. On the way down, it's probably two weeks, max three, and on the way up it's more -- maybe a little bit longer, four or six weeks, something like that.

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

The only other thing I would add is that a sort of slight tailwind happened well before Q3. It was in Q2 or it was certainly earlier than this quarter, and this is all baked into our guidance.

The only thing I would add is that I'm hearing lenders really want to grow for next year. We signed yesterday a couple million dollar deal, which I won't go into the lender or the timeframe, but we are seeing lenders significantly increasing their buys for next year because they want to grow despite what's going to happen with interest rates.

Robert Peck - *SunTrust Robinson Humphrey - Analyst*

Thank you very much.

Operator

Nat Schindler, BofA Merrill Lynch.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Nat Schindler, Bank of America Merrill Lynch. Sorry.

Can you help me out? Two questions; one, obviously great job pulling back on marketing spend and adjusting. And I know that Gabe mentioned that you had more inbound or organic traffic, but also was there any change in how you looked at longer-term spend -- brand, TV -- which you have more control of and can react to on the quarter? Or was this all more on the direct side that drove it?

And then I had a second question I wanted to go on to.

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

Sure. Even on all of our marketing spend, we don't put anything into -- first off, let me say it slightly differently. We believe that all spending in marketing needs to make money. If it happens to be on TV, it still has to make money. If it happens to be an ad, it talks more about LendingTree and has a smaller -- a shorter call to action, which somebody might call a brand ad, it still has to make money. And we can still buy and sell all of our ads very, very flexibly as well.

The only difference with TV and online is you spend money today and the lag effect sort of builds and you also have to make sure your attribution is right. But any company who says, oh, don't worry about my ad spending because it was on brand; some other marketers might disagree. I personally think it's a complete copout.

We are able to go in and out of whatever market makes us money. TV drives a much higher intent customer, but is also much more expensive, obviously, to run. And if you are running SEO traffic it's obviously free but drives the lower intent traffic. So that's how we think of everything. And it was all -- you can call it all direct I think and we can toggle it back and forth.

The good news for us is it's beginning -- it's been happening for a while almost automatically and it's getting better all the time. For example, we are seeing lender demand coming in and knowing what it is on price, quantity, and the coverage across each loan type, we translate that into a revenue per liter, RPL. Then that immediately goes to our marketing side who has cost per -- CPL bogies and also certain customers they need to drive.

For example, in personal loans the lenders reduce their underwriting standard or tighten their underwriting standards, that impacts what we would call our transmit rate or what Google would call the longtail. Because they are pulling in their customers, only the ones that are easiest to underwrite. You pull in transmit rates, you reduce our RPL, and then we go and reduce our market.

So our RPLs were probably too high if you go back a year, because lenders just wanted volume at -- any volume. And right now they are probably a little bit too low, because lenders, like everything, sometimes you overcompensate and we are adding new subprime lenders.

Keep in mind, OneMain and Springleaf just completed their merger; they are a major customer of ours. Now that that merger is complete, for example, I expect them to continue to grow. And we're adding other lenders just like them.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Great. And a second question and I think it actually kind of relates to what you added there. But was wondering if you could kind of break down a little bit on the mortgage business; if there were any particular categories of either borrowers or lenders where you saw weakness.

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

Nothing at all in particular. No categories at all. If anything, in mortgage you are somewhat -- remember demand can be price, quantity, and coverage. You can say I want 100 of these customers. I'll pay you $50 a pop and I want to cover these segments. So a decline in any one of those, or an increase, would cause the corresponding effect that we have to our funnel.

In mortgage, it's really, quite frankly, purely a volume gain. We're not seeing lenders saying, oh my gosh, I need to reduce -- make my underwriting standards tighter and therefore cutting filters. We're not seeing them saying I want to pay you less, although that will happen at the margin because obviously if they can cut their bids they will. Just like if we can cut our bids in Google get the same volume, we will too.

But what we are really seeing is more something like a lender saying -- and I'm short-handing this -- hey, you are sending me 500 new customers a day; I can only handle 300. Cut back my cap. And so when we cut back their cap and leave everything else alone -- then they will typically say after that, but please, please, please, tell me if I'm just doing this for a few months that it's not going to hurt me when I'm coming back on again because I still need to grow 50% next year over this year.

And so the reality is demand goes down, but the demand there is purely a matter of volume. And I'm hearing lenders open up call centers, hire new people. If I have -- we get calls all the time saying I want to open a new call center next year; I'm adding 300 more loan officers, etc., etc., etc. All of which bodes extremely well for long-term demand in mortgages.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Great, thank you.

Operator

Mark Mahaney, RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thanks. I just wanted to ask about the variable marketing margin going forward; Doug, your thoughts on your ability to sustain the levels that you currently have. I think you had one of the highest levels in the September quarter.

Is that -- leaving aside the December quarter fluctuations, is there a new level here that you can sustain -- the business can sustain going forwards?

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

Do you mean on a percentage basis or on a dollar basis?

Mark Mahaney - *RBC Capital Markets - Analyst*

Percentage basis.

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

Got it. So on a percentage basis, as much as I would love to just give you the easy answer and say, yes, they are going to stay high quite frankly, they will probably get lower again. Because some of the high net -- some of the fact that those margins are so high is the effect that you are seeing in some of our products where lenders have pulled back, as I said, and therefore we have a higher mix of free volume in our mix.

And as I have said, I got to be true to some investors I've said before, which is also true, which is if I could spend $1 billion on advertising in a quarter at a 10% margin, I would make $100 million and everybody would be really happy about it. So I wouldn't say this is a level that we -- because again we don't focus on percentages; we focus on dollars. The percentages this quarter are result of maximizing dollars in this environment specifically and that's what people need to keep getting about this business.

It's how well we are doing in this specific environment. In this specific environment in personal loans lenders were adjusting underwriting standards, even as they were coming back on the network, etc., which obviously affected our monetization and caused us to slow down the advertising, which caused our VMM to go up -- percentage to go up.

So I'd encourage everybody to focus on the dollars, which is where we focus, and that number will bump around. I would say, all things being equal, we would expect to see them improve, but all things being equal, would have to be supply and demand being equal as well.

When one of those things changes -- for example, we step on the marketing gas -- the percent goes down but the dollars goes up. We have to up our bids in Google and everything else. Does that make sense?

Mark Mahaney - *RBC Capital Markets - Analyst*

Yes, it does. Thanks, Doug.

Operator

Eric Wasserstrom, Guggenheim Securities.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Thanks. Maybe just to follow-up on that last point, Doug, could you just help maybe create a little bit of a framework about what it is you are managing the business to in terms of financial metrics and the interplay between revenue growth and margin? Because I think clearly that was the battleground issue heading into this quarter and I'm not sure that the results have really resolved that in the mind of the market.

Could you just talk about how you think about the interplay of those two things?

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

It's a great question. So after doing this for 20 years and trying to target lots of different things, we manage the business every day, hour, and minute to maximize -- within some constraints, which I will explain -- cash flow flowing into the business. And that is it purely and simply.

The best proxy for making cash flow is variable margin dollars, not percentages in anyway. Literally, our marketing people are sitting there every day saying buy this placement, turn this one off, adjust that, let's try these 50 new ads. They're going against a bogey that they know where their profit breaks, where their breakeven point is, and they've got a number of -- which is an amount of volume that they want to hit of a particular loan type or a particular deal based on the demands that are lenders have told us. So that's it.

I will tell you I have had people at the Company sometimes, who thank God don't work here anymore, who have said to me things like, hey, Doug, do you know we could pull back on marketing this quarter and make $2 million less, then that will give us an easier comp for next quarter. My reaction to that is are you actually telling me to make $2 million real dollars less? Our job is to maximize value for shareholders and I'm not going to play games like that.

It's much easier to run a company when you say every day wake up, make as much money as you can, except for a couple things. There are times when to keep lenders -- when lenders are demanding more than would be naturally showing up, where we will spend more than we would like to because we don't want to be out of faith with our lenders. But that's completely at the margin.

The other constraint, I would say, is quality and this is where you get into revenue. We can produce customers from a variety of different sources, from paid TV, Google paid search, Google organic search, Bing search, run-of-site banner ads, email banner ads, and a million other ways.

But one thing we will never do, which you've seen happen with a number of our competitors, is anytime I wanted to we could ramp up the cheap stuff, if you will, at low quality and send it on to our lenders and mix it in. In our industry it's called putting celery in the chicken salad.

We don't do it for one particular reason, because it -- well, it can goose your numbers in the short run or it can up your revenue without really increasing your profit. It takes your clients about a month or two to figure it out and then they cut their pricing and you have completely lost trust with them. This is why people have had problems in the insurance business, etc., etc., because they try to play games with their clients.

We don't play games with our clients. The quality constraint is a very, very key constraint and the reason is because our clients are expecting a certain type of customer coming in that they can actually convert it.

The way I have said this before -- I'm sorry to go on so long -- it's like oil refining. If our lenders are oil refiners and they make jet fuel, they can make jet fuel from sludge or they can make jet fuel from like Saudi Arabian sweet crude that you can put a straw in and it starts spewing out. They both make jet fuel, but sludge is cheaper per pound than light sweet intermediate. But you can't sell sludge and call it light sweet intermediate; that's basically what we can't do.

So that quality metric is a real important one. We wake up every set day and say VMD, VMD, VMD, which is variable margin dollars, and that's what we work on.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Maybe just to follow-up on that -- and thank you for that answer. I imagine you are going to address this in December, but as we think about heading into next year, when again we are facing a transitional environment in several respects -- the transitional rate environment, what it means across the different product categories, and certainly changes in lender dynamic -- how should we think about again that interplay between those two issues of revenue growth and VMM as it relates to EBITDA?

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

Let me try that and then let me have Gabe add some color. At a high level, at the end of the day this comes back to market share of what we can get from -- it really comes back to demand for lenders.

And I would love nothing more than to have a metric that I could give you around demand for lenders, like our lenders demanded this many customers this month. Like Google would say how many search queries they had or how many search queries went unmet. The problem is in our industry anything I give you -- the one thing we have to watch for is competitive intelligence because we are one of the few public companies out there in our space.

So roughly speaking, I know demand from lenders will increase a lot next year. And then, because I'm talking to them -- now I can't really quantify a lot -- I know demand will go up. It will go up in price, it will go up in quantity, and it will go up in coverage because lenders will widen their filters to get more stuff. So I know demand is going up next year.

Then you move over to our marketing side and the question will be well, okay, if demand goes up -- pick a number -- 50%, hey guys, can you produce that at a level -- can you produce that extra 50% bump up in volume profitably across all of your marketing channels? And that's where you get into the different vagaries of different loan types.

In mortgage, where we are a dominant position in marketing across every channel and we've been doing it forever, since our marketing team was rebuilt five years ago, the answer is absolutely yes. In credit card, as I mentioned, without the use of native advertising, which is what we, unfortunately, now aren't allowed to do, we have to grow through other channels, through either acquisition or some other way.

So I know demand is going up. I have every confidence that our marketing capability will keep up with it. Some will happen faster and sooner than others will. But if we can't -- we always stay focused on this, too. If we can't fill that demand, somebody else will, so we always try to find a way to do it.

Gabe Dalporto - *LendingTree, Inc. - CFO*

I totally agree with Doug and I will just build on it a tiny bit. If you think about where we are today on the revenue side and where we think we will be next year, we are kind of at troughs in three verticals right now.

On the mortgage side, there's just been low rate, which has driven a lot of organic volume so that's put a cap on lender demand. Lenders are hiring new loan officers and we expect rates to go up next year, so that should really remove that cap and we should be seeing additional mortgage demand going into next year.

Personal loans, everybody is well aware of what is happening in the industry. We've gone from over exuberance to probably irrational the other way and we expect that market to be continually improving over the next year.

And then credit cards, we just -- obviously we had the injunction setback, but there is other channels that we are growing and we are focusing very much on those. And we think we can grow off a new normal.

So I think just from a fundamental perspective, where we are set up for pretty good revenue demand as we go into next year, which is really restating what Doug said.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

And this is my last point and I will just get off, but with respect to that revenue demand, whatever that delta of change is would you expect VMM to move linearly with that change in top line?

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

Not quite. I would say mostly us except, for example, there are some areas where you will, quite frankly, cap out. So there's some sections of borrowers where we could match 15 lenders in the same way that Google has three paid search links, behind there are 100 more that would like to be there, we cap at five. So in some segments only the top five are there and there might be 100 who want that segment, so that's the reason that demand may not move linearly.

However, that itself creates a good thing because it's sort of like Google. If you can't get it on the head terms, you'd better figure out how to get it on the longtail if you want to advertise in Google. And then our lenders have to say, okay, maybe I have to learn how to maybe buy lower loan amounts or maybe different states.

We, through our analytics machine, can actually go tell them where to go target because there's a lot of places that are -- where there's a lot of opportunity.

Eric Wasserstrom - *Guggenheim Securities - Analyst*

Great, thanks very much.

Operator

Kerry Rice, Needham.

Kerry Rice - *Needham & Company - Analyst*

Thanks a lot. Maybe just to maybe summarize this, it looks like, based upon guidance, mortgage will probably come down in Q4. But based upon what you've said on the call, is it fair to think of Q4, at least for the mortgage revenue, as a trough quarter? That's the first question.

The second question is -- I know you probably can't talk a lot about the litigation with NextAdvisor but could you give us an update on timing of the next steps? And then the third question is, on personal loans, I think you added Goldman at least recently or you're adding them recently. Is there any other large new lenders to the platform or maybe just number of new lenders you are adding to personal loan platform? Thanks.

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

So let me take them in reverse order. Goldman Sachs is not up on our platform, although we certainly hope they will be and as I see no indication that they wouldn't be. I shouldn't really comment about what their intentions are, but they are not live yet.

Other lenders, I'm going to get you a list here while I answer your other questions. I believe we have added about -- I just got the answer to that -- somewhere between four and six this quarter.

Remember the number of lenders don't help us as much. We really need there some people to fill in coverage and coverage particularly in subprime. That is an area where right now OneMain Springleaf, who is a phenomenal company and a great client of ours, they are playing there almost solo and we are trying to get some other lenders to fill in that space.

And what was your first and second question again?

Kerry Rice - *Needham & Company - Analyst*

So the NextAdvisor update I know you probably can't disclose at lot just maybe (multiple speakers).

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

Sure. Q4, and this is one of them, I almost laugh at this about LendingTree every 20 years. Every single year we explain Q4 as a slow quarter and every single year people forget by about Q2.

Now sometimes we've been able to grow through it because, for example, we are launching a new product or you might kick off a refi boom or something might happen. But all things being equal, in Q4 consumers are spending not borrowing. It's just like gym memberships aren't great in Q4, but they go crazy in Q1.

It's the same effect; you are spending and you are not borrowing. You are not focused on cleaning up your financial house. And the third thing is the media rates go up, because you are competing against every retailer on the planet selling Teletubbies or whatever the latest toys are.

In addition to that, on the other side, lenders are taking vacations. They are cleaning up their year. People are taking their accrued -- for companies that do this --their accrued vacation time so they don't lose it and so they slow down; and so they are pulling back. So Q4 is always a seasonal trough.

Now to NextAdvisor I do not know the timing right now of anything, but I will check, if you want, and I will get back to you. The thing I will say about that, there are so many other ways to go to market: credit cards, online.

Listen, we have figured out how to do native on our own, unlike what they say in their thing. But you know what? We can figure out how to do other things, too.

We can figure out how to do search and TV, etc., etc., etc., and I have every confidence we will. We can get there through acquisition and that will be faster. We can get there through organic growth, which will be slower. But I have every confidence in our ability to grow our credit card with those other channels.

Kerry Rice - *Needham & Company - Analyst*

All right, thank you.

Operator

John Campbell, Stephens.

John Campbell - *Stephens Inc. - Analyst*

Good morning. I know you guys have an analyst day coming up and just kind of back to the mortgage question though. I guess we do expect some better directional numbers next year, but just at a high level, do you guys think that mortgage revenue can grow next year? I know the MBAs I think their latest forecast was calling for like 14% down. Do you guys think you can grow over that?

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

I was going to make a tongue-in-cheek response to that; Gabe won't let me. And not because of you.

But mortgage revenue will 100% absolutely grow next year. And I guess I have to hedge it with something because some lawyer will tell me that was the wrong way to state it, but if mortgage revenue doesn't grow next year, please vote me out of my job. But that would be yes; short answer is yes.

John Campbell - *Stephens Inc. - Analyst*

Okay, that's helpful. Then on capital allocation, I think you guys ended the quarter at $177 million or so in cash. I'm just curious about that -- by that appetite and then M&A. And then, Gabe, if you can remind us how much is remaining on the buyback authorization?

Gabe Dalporto - *LendingTree, Inc. - CFO*

I think there is about $48 million remaining on the buyback authorization and, yes, we think about what the most effective way to deploy our capital. Certainly -- the reason we have that much cash on the balance sheet and the reason we raised that cash and the recent we put a revolver in place is to give us financial capacity for action to be opportunistic on the M&A side primarily.

We think that there is very good opportunities out there. We want to deploy that capital responsibly. We're not going to overpay for any acquisitions, but if we can find something that strategically aligns with what we are doing at a very attractive price and multiple then certainly we are very much interested in those types of deals.

So our hope is to be able to deploy that capital in a way that really benefits our shareholders and over time, if we can't, then we will probably give it back to our shareholders. But for now we think there's a pretty good pipeline out there and we hope to find something that is attractive that works for everybody.

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

The only thing I would add to that, which is really agreeing, is as one of your fellow shareholders if we can't figure out what to do with it, we are giving it back to our shareholders. And I can also tell you we are finding things that we can do with it.

We had to wait till these companies that walked in here and said that they invented something completely brand-new. They've got $9 million of revenue and their valuation needs to be 98 times 2022's earnings -- or I'm sorry, revenue. And oh, by the way, the way they are getting there is like flat for eight years and then magically in the ninth year it goes up.

Now that we can actually have a real conversation with real companies with real earnings, now we can evaluate their competitive position and, if it makes sense, we will buy them. I think -- I love our pipeline now because it's based on reality and it's based on entrepreneurs who are going to make hopefully -- well, I know they are going to make good money, but they are going to want to come and join an organization where they can take the LendingTree brand and do even better.

Those are the kind of people we want in the Company. Those are the kind of companies we are looking at and I can tell you honestly we are having very, very good success and our pipeline is very full.

So full, in fact, I'm starting to hear squawks of like how are we going to handle all the time to do due diligence and things like that if some of these -- if a couple of these dominoes fall. By the way, that's a happy complaint and we will figure that one out.

John Campbell - *Stephens Inc. - Analyst*

Great. Thanks, guys.

Operator

Mike Grondahl, Northland Securities.

Mike Grondahl - *Northland Securities - Analyst*

Thanks, guys. Two quick questions. One, what was the revenue contribution from a student lending acquisition? Then, secondly, under what macro scenario would it be challenging to grow mortgage revenues? Do you see any scenario out there, Doug?

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

On student lending, I actually don't know the answer to the question of how much came from the acquisition because their revenue was so small. The big benefit came really from our brand and being able to use our brand applied to their business.

But if that's an important question to you, please email Trent afterwards and we will let you know. And if it is considered material, we will let everybody know. I believe we also put more information in the Q about that, so stay tuned.

Let me tell you where mortgage doesn't grow. And I used to joke with my -- not joke, but I would talk to my former boss, Barry Diller, about this. As long as lenders want to lend money and borrowers want to borrow money, LendingTree is fine. The minute borrowers stop borrowing or lenders stopped lending, we've got ourselves a problem. They could also not -- then you would see declines or flattening out.

The good news is nothing kills us anymore because our timing of our marketing expense and our revenue is exactly timed. So the minute we see a change in either supply or demand, we are adjusting.

You could -- I guess theoretically some competitor could magically get a brand name and be better at search than we are and steal share there. Or I guess theoretically one of our competitors could magically go from providing lower quality, converting customers to our lenders to higher-quality ones and just beat us in the market.

And if they did that, by the way -- and we have had that before. Keep in mind; we have beaten Google twice and Microsoft once over 20 years in this exact same business. But all of those reasons would be the reason, and absent some financial crisis, mortgage growth based on our market share we can penetrate inside of it.

Mike Grondahl - *Northland Securities - Analyst*

Got it, okay. Thank you.

Operator

Hamed Khorsand, BWS Financial.

Hamed Khorsand - *BWS Financial - Analyst*

Good morning. First off, can you talk about how you are not able to manage VMM in Q4 to a certain degree; you are guiding it down?

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

I'm sorry --

Hamed Khorsand - *BWS Financial - Analyst*

Your VMM guidance, you gave out full-year VMM guidance and we only have one quarter left, so if I do the math it's a significant step down from Q3.

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

Sure, because it comes back to demand, right? So think about it; lenders are going to have less demand in Q4 because of all the reasons I mentioned. Consumers are going to have less, if you call them demand, they will have less supply and the net result of that is you have a smaller Q4 than you do the quarter before. It happens every single year absent some exogenous factor, like personal loans coming online for the first time or rates going really low and you get some refi boom spike or something else.

This is -- Q4 is normal seasonality with one slight difference from -- which is now reflected. Personal loan seasonality, because we was guiding this one a couple years ago in a big way. We did not see -- necessarily see that as much as we are seeing it now.

Everybody I've talked to in the industry says it happens. Everybody I've talked to in consumer marketing says it's normal. I have personally gone in myself and looked at Google Analytics search queries and you can see the queries related to personal loans are going down in Q4.

It's just the normal phase of life. It's why Santa suits don't get sold in March. People don't want a personal loan as much in December and so our guidance is reflecting less lender demand, less consumer supply, and higher advertising rates because everybody is advertising Teletubbies.

Hamed Khorsand - *BWS Financial - Analyst*

I understand that to a certain degree, but I'm going back all the way to 2012 and each quarter Q4 VMM was up sequentially. You've managed it pretty well.

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

And I guarantee in every one of those quarters -- if you want to I'll go back and look at all six, I guarantee in each one of those we highlighted something to the effect of, hey, despite that this was -- Q4 is normally a seasonally down quarter, this happened or that happened. Because honestly -- well, I don't need to say honestly; we are always honest. But we will give you the good news and the bad news or we will just give you the news and you guys can interpret it.

Q4 is always seasonally weaker unless something happens and the last few years something has happened. I am going to run down what it's been the last four years and maybe we will put out another release on it and things like that, but that's essentially what it is.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. Then outside of the mortgage business (multiple speakers).

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

By the way, if we get surprised -- sorry, one last thing to add. If we get surprised and we don't have seasonality in Q4 this year, then I'm going to go start digging around to and make sure that I haven't been saying the wrong thing for the last 20 years.

Maybe there isn't really seasonality and my guys are just sandbagging me, except I doubt it. Because I've seen it myself and I talked to the lenders myself. But that will be an upside surprise. Q4 is pure dead on seasonality.

Gabe Dalporto - *LendingTree, Inc. - CFO*

I would encourage everybody to go to Google Trends and look at some of the search query volumes for some of the top mortgage keywords, some of the top credit card keywords, and some of the top personal loan keywords. It is extremely clear what happens with consumer demand in Q4. It's a very real phenomenon and there's hard data for you right there.

Hamed Khorsand - *BWS Financial - Analyst*

Okay. My last question is on non-mortgage. Are you seeing any kind of disparity as far as pricing goes? Are lenders pushing back as far as rates or anything like that?

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

Lender pricing, you mean pricing to the consumer or what lenders pay us?

Hamed Khorsand - *BWS Financial - Analyst*

The lenders pay out.

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

The answer is no, I'm seeing no pressure. And the reason is, no matter what you pay us on -- clicks, called, leads, or closed loans, or any combination thereof -- all you care about -- I can't say all, but most of what you care -- take out volume for a minute, you care about your cost per funded loan.

We will get pushback because lenders are seeing conversion rates -- if a lender is seeing conversion rates fall, they are going to say hey, you're not hitting my cost per funded loan goal. Then we go in there and we help them dig around and find out why their conversion rates are going down.

Sometimes -- this happened for one of our lenders recently, some compliance guy told them they weren't allowed to call their customers in a certain loan type. And once they convinced that person they could, they are going to start calling again. Of course, when they didn't call somebody, their conversion rates went down. So they fixed the problem.

The other -- as lenders are moving conversion rates up, they typically -- we typically -- they don't call us and say, hey, I'd like to pay you more. But what they do, just like we do with Google, is they go in and they up their bids and they broaden their campaigns and they up there volume requests. That's how we see the increase.

Hamed Khorsand - *BWS Financial - Analyst*

Okay, thank you.

Operator

Michael Tarkan, Compass Point.

Unidentified Participant

Thanks for taking my questions. This is actually Andrew on for Mike. Just on the personal loan side, can you break out the quarterly revenue trend growth that is coming from traditional versus marketplace and sort of how we should think about it moving forward?

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

We can't because I don't know it and I don't think we would anyway for competitive reasons. What I can tell you is the trend is certainly shifting from markets, so-called marketplaces to others, but the so-called marketplaces are growing as well. It's basically because you are getting new non-marketplace platforms coming in.

Unidentified Participant

Okay, thanks. That's helpful. Just on small business, so appreciate the growth callouts but can you give us a little bit of color to how big it is? Is it a meaningful contributor to revenues yet? Just anything there would be helpful.

Gabe Dalporto - *LendingTree, Inc. - CFO*

It certainly doesn't hit our 10% materiality threshold, but it is starting to become a good contributor to growth. It had a really nice impact on our Q3 growth.

Hats off to the business loans team. They have taken that name from scratch and actually got it to the point where it's actually running really well (technical difficulty) going really well and there's really great opportunities. They've done a really nice job there.

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

By the way, beginning I believe with this year's 10-K, we are going to be reporting for segments -- for products that are over 10% of revenue we are actually going to be reporting some more individual things about each of those loan types thanks to a request from our friends at the SEC. So expect to see some more detail there.

And by the way, we are happy, generally happy to tell you anyway. The only reason we ever breakout or not in the past a given loan type was to really illustrate a point. Going forward, as they are all getting larger, they're all getting more robust -- and quite frankly, revenue tells part of the story but not the whole story -- we're going to try to give the most fulsome disclosure we can about every product.

With the risk of that being that when -- then you have nine different things that somebody can either love or complain about as opposed to one or two. Because somebody could say, oh my gosh, mortgage went up, but personal loans. And then you're explaining it's personal loans or vice versa or whatever.

It's sort of like asking -- it would sort of be like sitting on the Google call or Google conference call and saying we've noticed that the monetization of keywords in your pharma category has decreased. Why is that? They would probably tell you to be quiet, but that's basically what our business is like among all those loan types.

Lenders set up their orders; like you buy a keyword campaign inside of Google and if you think -- it doesn't take much to abstract. A QF that you fill out is simply a search request and the display that you see at the end is simply a search engine results page with lenders listed according to our algorithms. And that is why we are kind of -- I use a lot of analogies there because that playbook is -- it's an almost perfect parallel.

Unidentified Participant

Thank you, that's it for me.

Operator

Neil Doshi, Mizuho.

Unidentified Participant

This is Hassan in for Neil. A couple questions. We were curious to know how often are your typical touchpoints with a specific lender. In other words, whether they are scaling back or scaling up marketing spend, how often are they doing that with you?

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

So touchpoints for a large lender -- our large lenders we are talking to every day. We've got a couple who actually have a dedicated account manager against them.

They typically -- we allow them to increase what we call caps or filters, increase their demand pretty much any time, but typically we hold them to changes once a week. The reason for once a week is we need some level of stability to go plan out the market.

So if you called me tomorrow and said, hey, I want to buy more from you, we're going to find a way to make that happen. If you called and said, hey, we're going to need to buy less from you, we're going to plan that out for next Thursday so that we know how to respond to the marketing. But we are talking all the time and at all levels.

The only other thing I would add is that Neil Salvage, who is our Chief Revenue Officer, has run huge sales teams at IAC and before that; is just doing a fabulous job with this. It's getting better, but --. I probably talked to our -- I talked to two lenders yesterday in the midst of this whole -- in the midst of preparing for earnings. So it's normal for me to be talking to them, too.

Unidentified Participant

Okay, great. That's helpful. Two final questions are the strong 68% growth rate in loan requests in the third quarter; can you just remind us how that compares to last year? And then final question is are there any additional engagement metrics you can share with My Lending?

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

Sorry, you were breaking up there a little bit.

Unidentified Participant

Okay, sorry. The second question was the loan request of 68% in the quarter; can you remind us how that compares to last year? And then if there's any additional engagement metrics you can share with My LendingTree users.

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

I'll take My LendingTree and we're trying to run down that number on the first one. I can tell you engagement in My LendingTree is getting better. I can tell you monetization is getting better. I can tell you we are more certain than ever about our numbers and I can tell you, just because I have the product, it's very good.

Unfortunately, I can't give out any more information than that because, in addition to Credit Karma, other people try to benchmark off of what we have. And if I start giving out those numbers, they can reverse engineer why and I just can't let that happen yet.

I'm hoping they go public at some point and then we can all have all of our numbers out there. Then you guys can judge us even better. But until then, it's just too competitive.

Unidentified Participant

Sure, fair enough.

Gabe Dalporto - *LendingTree, Inc. - CFO*

So loan requests were up 68% year over year. I'm not sure I totally understand the question. I think what you are getting at is where is the volume?

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

No, what was it last year? 68% this year; what was it last year?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Well, you see the math; it was $2.5 million.

Unidentified Participant

Oh, no. What was the growth rate last year?

Gabe Dalporto - *LendingTree, Inc. - CFO*

Versus the previous year? I'm looking at a table that actually doesn't go back that far.

Unidentified Participant

Got it, okay.

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

We'll get that number to you offline. We don't have it at our fingertips, I apologize.

Unidentified Participant

Sure, no problem.

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

If anybody wants this, shoot Trent an email; we will give that to you too. I don't consider it something that's material nonpublic and I also think we put it in our Ks every year. I think you can calculate it too, but we will get you the number.

Unidentified Participant

Great, thank you.

Operator

Thank you, this concludes today's Q&A session. I would now like to turn the call back over to Doug Lebda for closing remarks.

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

Thank you very much. For new shareholders, thank you for being here. For those who've been here for a while, thank you for sticking with us.

As I said before, we are very, very proud of our results. I know it appears from looking at screens that some people are less proud than others, but let me tell you I've never felt better about this business and where we are. Never felt better about our competitive position, the M&A pipeline.

I'm happy people are now going to understand, hopefully for the first time, Q4 seasonality. I can't wait for December to hopefully meet you -- all of you in person and many more of you. We are really thrilled about next year. So thanks again for your time and attention. We will talk to you soon.

Operator

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