



LendingTree, Inc.

Ticker: TREE

Recommendation: Buy

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Investment Thesis

Recommendation

LendingTree (TREE) has experienced multiple compression and price depreciation since the beginning of this year. The fundamentals and management strategy of the business have not changed dramatically however, and now represents a great opportunity to purchase a call option for long-term growth and gain unique exposure to the financial sector

Three Key Points

- Product Diversification:** The continued push away from mortgage lending through a string of acquisitions should diversify the business and allow it to grow more consistently through market cycles
- Market Opportunity:** The mortgage business of LendingTree has a lot of opportunity for growth and plenty of room for market penetration. The business has only touched 2% of mortgages in the US. This should increase with improvements in technology and lenders look to become more efficient (reduce their labor cost)
- Product Expansion:** My LendingTree platform also has a lot of opportunity to cross-sell products and build out a relationship based experience rather than relying on merely a transaction experience

Price Target: \$292, representing a **21% upside**

Average Wall Street Price Target: \$301, representing a **25% upside**



Introduction

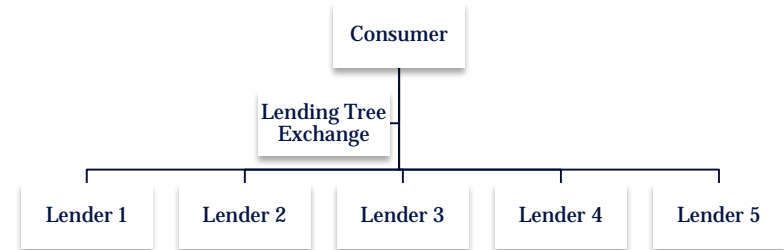
Company Background

- LendingTree is an online lending exchange that connects consumers with multiple lenders, banks, and credit partners. It acts like a broker for loans instead of being a direct supplier
- Founded Pre Fintech Wave: Est. 1996 by Douglas Lebda, current Chairman & CEO
- Mid Cap Status: Market Cap of \$3 billion
- Completely free for customers to use; revenue stream extracted when customers send loan requests to lenders

Stock Data

Current Price	\$230
52 Week Price Range	205.45 - 404.40
200-Day Moving Average	277.61
Beta	1.34
Market Cap (mil)	\$2,950
Shares Outstanding (mil)	13
Average Vol (3 month) mil.	0.23
Insider Ownership	40.80%
Shares Short % of Float	37.72%
LTM P/E	45.16
Forward P/E	32.56
EV/EBITDA	36.88

Marketplace Business Model



Lenders on the platform include regional and national banks, peer-to-peer lending services, and online direct lenders; levels of risk vary across the lenders





Industry Overview

Competitive Landscape

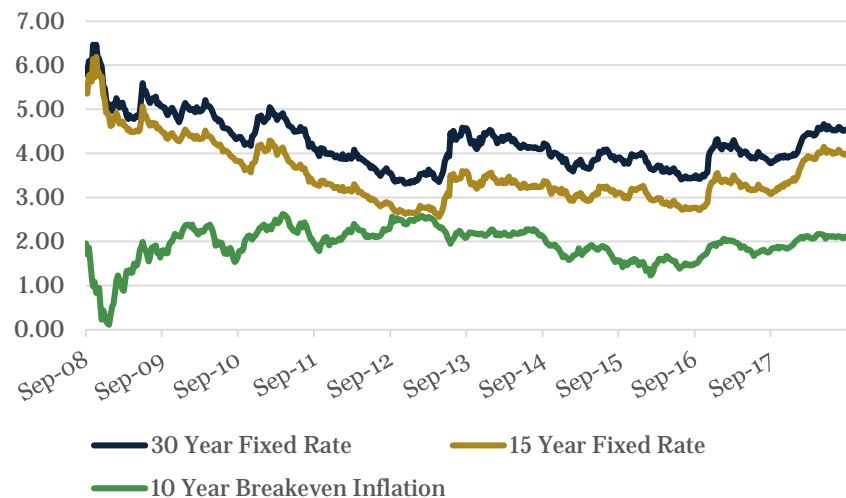
- LendingTree is one of the only public companies that acts exclusively as an exchange lender
- Most of the firms in the space are private aggregators or lenders
- Barriers to entry include assets the company purchases on goodwill: proprietary technology, customer lists, and trademarked names

Market Forces

- A number of factors influence lending markets across mortgages, personal loans, auto loans, etc. including:
 - Aggregate Household Debt
 - GDP Growth
 - Federal Monetary Policy
 - Prime Rate
 - Inflation

	Fintech Comps.	Description
Direct Private Competitors	 	Offering comparable services to LendingTree
Private Peer-to-Peer Lenders	 	Assume more of the consumer risk by taking on loans (underwriting loan loss provisions)

Fixed Rate and Inflation Behavior is Steady

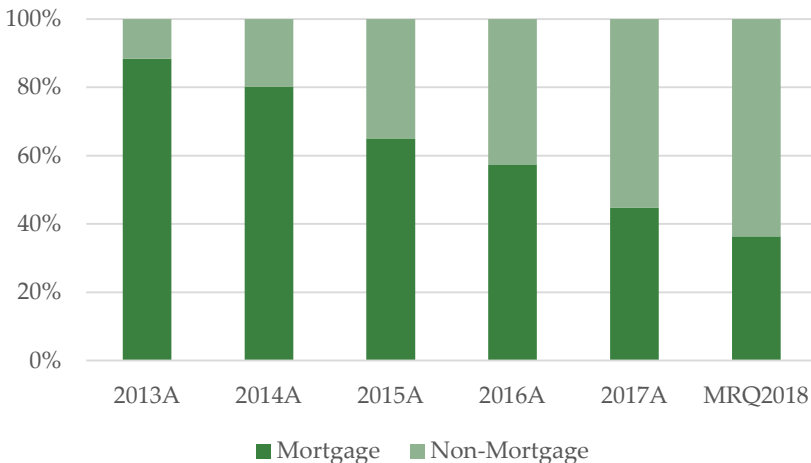




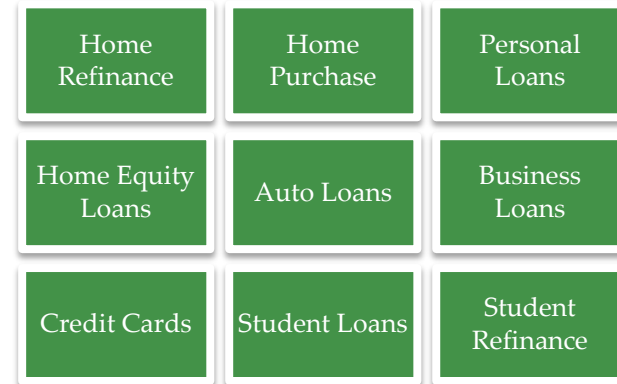
1 Product Diversification

Moving Away From Mortgage

- Over a few short years, TREE has acquired a number of leading media and comparison properties
 - The strategy is similar to that of two major TREE shareholders, Barry Diller and John Malone (27%)
- Mortgage purchases and refinancing used to compose the majority of revenue, now it is only a third of sales
- Although the movement changes the risk profile of the company, it should dampen revenue declines during the next economic downturn as smaller ticket purchases recover quicker



Product Categories



- Additional categories include auto and home insurance, as well as commercial loans.
- CEO Douglas Lebda expressed a continued push into small business loans for continued diversification as well
- Ultimately the company is positioning itself to provide a full service financial experience for customers



1 Product Diversification

Iron Horse Holdings

Credit Card Comparison

November 16th 2016

\$104 million

Camino Del Avion

Consumer Facing Media Company

June 20th 2017



Credit Repair Company

June 11th 2018

Deposits Online

Media facing in the depository industry

June 14th 2017



SMB Online Lender

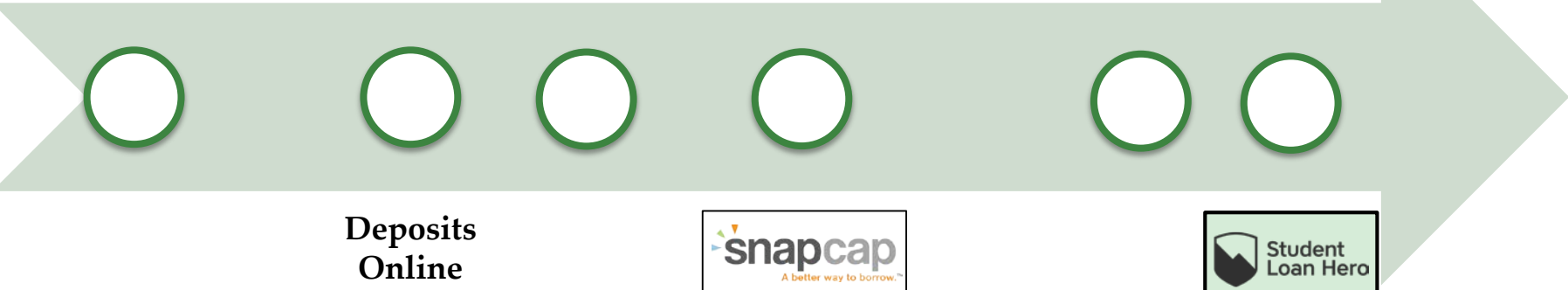
September 19th 2017



Personal Finance Website

July 23rd 2018

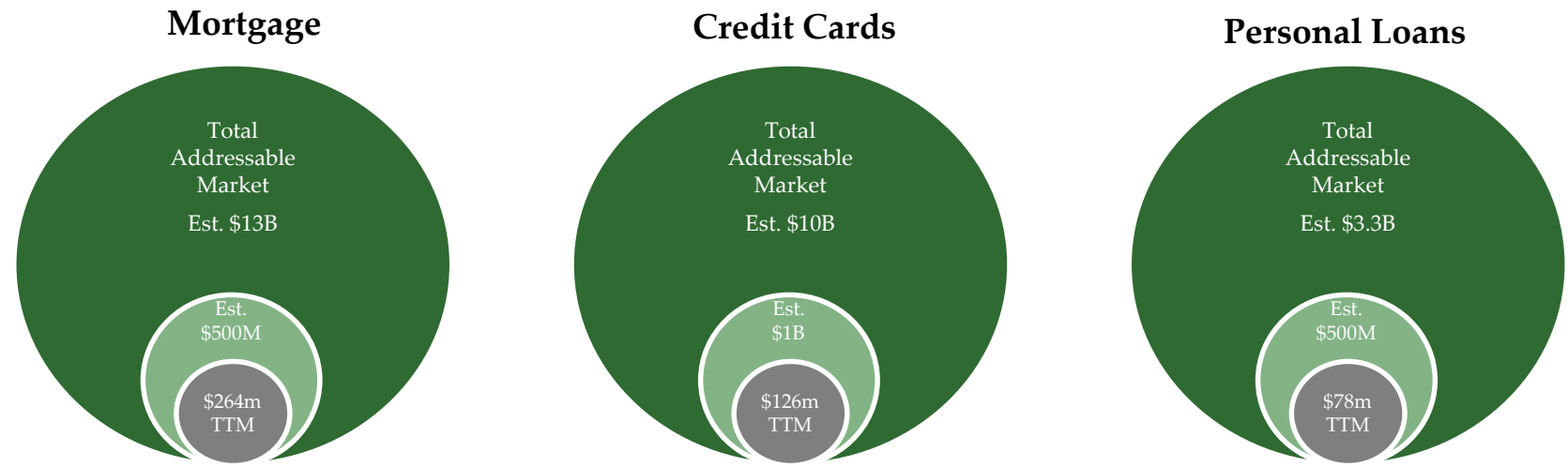
\$60 million





2 Market Opportunity

- LendingTree's positioning in its core markets across mortgage, credit, and personal loan is growing, and the company is taking share; there still remains plenty of opportunity to expand into its total addressable markets



Visible revenue opportunity in core markets served today, not inclusive of acquisitions or new verticals. Digital ad spend in financials expected to hit 20% CAGR between 2014 and 2020, tripling LendingTree's core market

Category	2017 TTM	Current Market Share	Visible Market Share	Estimate Take Rate	Visible Revenue Opportunity (in millions)		
					Low	Mid	High
Mortgage	\$ 264	1.80%	4-8%	0.88%	\$ 600	\$ 900	\$ 1,200
Credit Cards	\$ 126	0.60%	2-4%	\$275	\$ 470	\$ 705	\$ 940
Personal Loans	\$ 78	2%	5-10%	2.50%	\$ 250	\$ 375	\$ 500
Home Equity	\$ 40	2.30%	4-6%	0.80%	\$ 80	\$ 100	\$ 120
Other Businesses	\$ 50				\$ 100	\$ 150	\$ 200
Total Revenue	\$ 558				\$ 1,500	\$ 2,230	\$ 2,960

Source: 2017 Company Investor Presentation, TechCrunch

3 Product Expansion

New Digital Experience

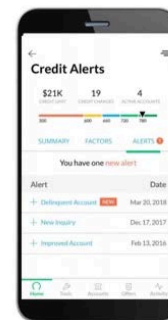
- Added more services in 2017 to address consumer needs, with additions in deposit accounts and savings accounts; improves lifetime value
- Concierge services and higher conversion with SnapCap
- Deposit accounts are getting integrated with LendingTree, and business credit services are developing

The new thing that we are seeing when I mentioned some of these new startup mortgage companies, we've got a mortgage company on our network that literally has no loan officers, 100% technology, very low margins and is experiencing conversion rates right with our top lenders. And I expect those types of things to proliferate. I expect more and more lenders to create fully digital experiences that over time won't need humans. And those are going to be perfect lenders to dial in just like Prosper and LendingClub change the way personal loans does. So I expect that's going to continue to grow.

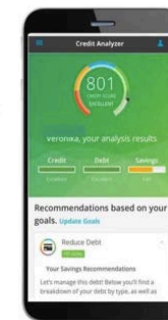
- Doug Lebda, Chairman & CEO, 2Q 2018 Earnings Call

My LendingTree

- Customer familiarity is key, as repeat customers drop promotional costs
- Released My LendingTree, which serves as a personal financial management application
 - Launched in 2014 and now has 8.8 million customers; personal loans is prominent
 - Free credit scores, credit monitoring, and recommendations
 - Ability to lock in customers and accumulate data for personalized recommendations
 - Organic growth can lead to far less promotional spend due to organic customer



Free Credit Monitoring alerts you to changes on credit file



Goals based guidance through Credit & Debt Analyzer

LendingTree's new personal finance management app. (Photo by LendingTree)



Potential Risks

Internal and External Risk Factors

- Increases in interest rates could adversely affect the ability of network lenders to close loans
- Similarly, a decrease in rates could lead to sudden increases in demand, which is actually a negative. The best situation for TREE is steady increases and declines in rates
- Still somewhat dependent on mortgages for growth
- Diversification away from mortgage could change the risk profile of the firm (i.e. move to credit cards)
- The decline in stock prices from competitors such as On Deck Capital and LendingClub could misprice the broader financial technology sector
- The intended benefits of acquisitions from the past and future may not be realized as expected

Mitigants

- Despite well publicized headwinds, TREE has managed this rate environment well
- Although mortgage purchases and home refinancing still compose over a third of revenue, the stated goal of further diversification and an improved environment in 2019 should protect against mortgage headwinds
- Thus far, Tree has been insulated from the collapse in share prices from public P2P lenders like On Deck Capital and Lending Club





Conclusion – Recommendation to Buy

Opportune Time to Buy at Depressed Share Price

- Current prices represent a drawdown of 40% from an all time high in January 2018; business fundamentals have arguably not changed that dramatically

Clear Catalysts

- The growth of the lending marketplace, movement away from mortgage, and increased user experience are all improvements for firm value

Diversification of Club's Portfolio

- Currently underweight financial exposure. LendingTree offers a bridge between the growth of technology and lower beta financial sector

Valuation Assumptions

- Upside case assumed aggressive M&A activity to continue diversifying away from mortgage products
- Base case assumed blend of organic and inorganic growth in near term, with similar long term outlook as upside
- Downside incorporated triggering of risk factors and delay/cessation of acquisitions in the short term

Implied Share Prices

- Upside: 38%
- Base: 21%
- Downside: -14%



Appendix – DCF (Base)

LendingTree Inc.

Discounted Cash Flow Analysis

(\$ in thousands fiscal year ending December 31)

Mid-Year Convention

Y

	Historicals			CAGR (^{'15-'18})	Projections						CAGR (^{'18-'24})
	2015	2016	2017		2018	2019	2020	2022	2023	2024	
Revenue	\$ 254,216	\$ 384,402	\$ 617,736	55.9%	\$ 755,000	\$ 981,500	\$ 1,275,950	\$ 1,658,735	\$ 2,114,887	\$ 2,643,609	23.2%
Revenue Growth		51.2%	60.7%		22.2%	30.0%	30.0%	30.0%	27.5%	25.0%	
Operating Expenses	225,702	332,290	584,603		679,500	883,350	1,148,355	1,492,862	1,903,398	2,379,248	
EBITDA	\$ 31,671	\$ 58,299	\$ 53,210	29.6%	\$ 75,500	\$ 98,150	\$ 127,595	\$ 165,874	\$ 211,489	\$ 264,361	23.2%
% Margin	12.5%	15.2%	8.6%		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Depreciation & Amortization	3,157	6,187	20,077		26,425	34,353	44,658	58,056	63,447	79,308	
% of sales	1.2%	1.6%	3.3%		3.5%	3.5%	3.5%	3.5%	3.0%	3.0%	
EBIT	\$ 28,514	\$ 52,112	\$ 33,133	7.8%	\$ 49,075	\$ 63,798	\$ 82,937	\$ 107,818	\$ 148,042	\$ 185,053	24.8%
% Margin	11.2%	13.6%	5.4%		6.5%	6.5%	6.5%	6.5%	7.0%	7.0%	
Taxes: 21%	-22,973	20,366	6,291		10,306	13,397	17,417	22,642	31,089	38,861	
EBIAT	\$ 51,487	\$ 31,746	\$ 26,842	-27.8%	\$ 38,769	\$ 50,400	\$ 65,520	\$ 85,176	\$ 116,953	\$ 146,192	24.8%
Plus: Depreciation & Amortization	3,157	6,187	20,077		26,425	34,353	44,658	58,056	63,447	79,308	
Less: Capital Expenditures	7,200	31,955	8,000		22,650	29,445	38,279	49,762	63,447	79,308	
% of sales	2.8%	8.3%	1.3%		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Less: Inc./(Dec.) in Net Working Capital	3,000	8,000	14,000		18,875	24,538	31,899	41,468	52,872	66,090	
% of sales	1.2%	2.1%	2.3%		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Unlevered Free Cash Flow	\$ 44,444	\$ (2,022)	\$ 24,919		\$ 23,669	\$ 30,770	\$ 40,001	\$ 52,001	\$ 64,081	\$ 80,101	
WACC	11.3%										
Discount Period	0.500 1.500 2.50 3.50 4.50 5.50										
Discount Factor	0.95 0.85 0.76 0.69 0.62 0.55										
Present Value of Free Cash Flow	\$ 22,431 \$ 26,188 \$ 30,575 \$ 35,697 \$ 39,506 \$ 44,350										



Appendix – DCF (Base)

Enterprise Value	
Cumulative Present Value of FCF	\$ 198,748
Terminal Value	
Terminal Year EBITDA (2022E)	\$ 264,361
Exit Multiple	28.0x
Terminal Value	\$ 7,402,105
Discount Factor	0.52
Present Value of Terminal Value	\$ 3,883,926
<i>% of Enterprise Value</i>	95.1%
Enterprise Value	\$ 4,082,674

Implied Equity Value and Share Price	
Enterprise Value	\$ 4,082,674
Less: Total Debt	244,480
Less: Preferred Stock	
Less: Noncontrolling Interest	
Plus: Cash and ST Investments	293,301
Implied Equity Value	\$ 4,131,495
Fully Diluted Shares Outstanding	14,147
Implied Share Price	\$ 292.04

Appendix – DCF (Downside)



LendingTree Inc.

Discounted Cash Flow Analysis

(\$ in thousands fiscal year ending December 31)

Mid-Year Convention

Y

	Historicals			CAGR ('15-'18)	Projections						CAGR ('18-'24)
	2015	2016	2017		2018	2019	2020	2022	2023	2024	
Revenue	\$ 254,216	\$ 384,402	\$ 617,736	55.9%	\$ 755,000	\$ 830,500	\$ 975,838	\$ 1,219,797	\$ 1,555,241	\$ 2,021,813	17.8%
Revenue Growth		51.2%	60.7%		22.2%	10.0%	17.5%	25.0%	27.5%	30.0%	
Operating Expenses	225,702	332,290	584,603		679,500	747,450	878,254	1,097,817	1,399,717	1,819,632	
EBITDA	\$ 31,671	\$ 58,299	\$ 53,210	29.6%	\$ 75,500	\$ 83,050	\$ 97,584	\$ 121,980	\$ 155,524	\$ 202,181	17.8%
% Margin	12.5%	15.2%	8.6%		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	
Depreciation & Amortization	3,157	6,187	20,077		26,425	29,068	34,154	42,693	46,657	60,654	
% of sales	1.2%	1.6%	3.3%		3.5%	3.5%	3.5%	3.5%	3.0%	3.0%	
EBIT	\$ 28,514	\$ 52,112	\$ 33,133	7.8%	\$ 49,075	\$ 53,983	\$ 63,429	\$ 79,287	\$ 108,867	\$ 141,527	19.3%
% Margin	11.2%	13.6%	5.4%		6.5%	6.5%	6.5%	6.5%	7.0%	7.0%	
Taxes: 21%	-22,973	20,366	6,291		10,306	11,336	13,320	16,650	22,862	29,721	
EBIAT	\$ 51,487	\$ 31,746	\$ 26,842	-27.8%	\$ 38,769	\$ 42,646	\$ 50,109	\$ 62,637	\$ 86,005	\$ 111,806	19.3%
Plus: Depreciation & Amortization	3,157	6,187	20,077		26,425	29,068	34,154	42,693	46,657	60,654	
Less: Capital Expenditures	7,200	31,955	8,000		22,650	24,915	29,275	36,594	46,657	60,654	
% of sales	2.8%	8.3%	1.3%		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	
Less: Inc./(Dec.) in Net Working Capital	3,000	8,000	14,000		18,875	20,763	24,396	30,495	38,881	50,545	
% of sales	1.2%	2.1%	2.3%		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	
Unlevered Free Cash Flow	\$ 44,444	\$ (2,022)	\$ 24,919		\$ 23,669	\$ 26,036	\$ 30,593	\$ 38,241	\$ 47,124	\$ 61,261	
WACC	11.3%										
Discount Period					0.500	1.500	2.50	3.50	4.50	5.50	
Discount Factor					0.95	0.85	0.76	0.69	0.62	0.55	
Present Value of Free Cash Flow					\$ 22,431	\$ 22,159	\$ 23,384	\$ 26,251	\$ 29,052	\$ 33,919	



Appendix – DCF (Downside)

Enterprise Value	
Cumulative Present Value of FCF	\$ 157,195
Terminal Value	
Terminal Year EBITDA (2022E)	\$ 202,181
Exit Multiple	25.0x
Terminal Value	\$ 5,054,533
Discount Factor	0.52
Present Value of Terminal Value	\$ 2,652,142
<i>% of Enterprise Value</i>	94.4%
Enterprise Value	\$ 2,809,338

Implied Equity Value and Share Price	
Enterprise Value	\$ 2,809,338
Less: Total Debt	244,480
Less: Preferred Stock	
Less: Noncontrolling Interest	
Plus: Cash and ST Investments	293,301
Implied Equity Value	\$ 2,858,159
Fully Diluted Shares Outstanding	14,147
Implied Share Price	\$ 202.03



Appendix – DCF (Upside)

LendingTree Inc.

Discounted Cash Flow Analysis

(\$ in thousands fiscal year ending December 31)

	Mid-Year Convention		Y	Historicals			CAGR (^{'15-'18})	Projections					CAGR (^{'18-'24})
	2015	2016		2017	2018	2019		2020	2022	2023	2024		
Revenue	\$ 254,216	\$ 384,402	\$ 617,736	55.9%	\$ 755,000	\$ 1,057,000	\$ 1,426,950	\$ 1,890,709	\$ 2,410,654	\$ 3,013,317	25.9%		
Revenue Growth		51.2%	60.7%		22.2%	40.0%	35.0%	32.5%	27.5%	25.0%			
Operating Expenses	225,702	332,290	584,603		679,500	951,300	1,284,255	1,701,638	2,169,588	2,711,985			
EBITDA	\$ 31,671	\$ 58,299	\$ 53,210	29.6%	\$ 75,500	\$ 105,700	\$ 142,695	\$ 189,071	\$ 241,065	\$ 301,332	25.9%		
% Margin	12.5%	15.2%	8.6%		10.0%	10.0%	10.0%	10.0%	10.0%	10.0%			
Depreciation & Amortization	3,157	6,187	20,077		26,425	36,995	49,943	66,175	72,320	90,400			
% of sales	1.2%	1.6%	3.3%		3.5%	3.5%	3.5%	3.5%	3.0%	3.0%			
EBIT	\$ 28,514	\$ 52,112	\$ 33,133	7.8%	\$ 49,075	\$ 68,705	\$ 92,752	\$ 122,896	\$ 168,746	\$ 210,932	27.5%		
% Margin	11.2%	13.6%	5.4%		6.5%	6.5%	6.5%	6.5%	7.0%	7.0%			
Taxes: 21%	-22,973	20,366	6,291		10,306	14,428	19,478	25,808	35,437	44,296			
EBIAT	\$ 51,487	\$ 31,746	\$ 26,842	-27.8%	\$ 38,769	\$ 54,277	\$ 73,274	\$ 97,088	\$ 133,309	\$ 166,636	27.5%		
Plus: Depreciation & Amortization	3,157	6,187	20,077		26,425	36,995	49,943	66,175	72,320	90,400			
Less: Capital Expenditures	7,200	31,955	8,000		22,650	31,710	42,809	56,721	72,320	90,400			
% of sales	2.8%	8.3%	1.3%		3.0%	3.0%	3.0%	3.0%	3.0%	3.0%			
Less: Inc./(Dec.) in Net Working Capital	3,000	8,000	14,000		18,875	26,425	35,674	47,268	60,266	75,333			
% of sales	1.2%	2.1%	2.3%		2.5%	2.5%	2.5%	2.5%	2.5%	2.5%			
Unlevered Free Cash Flow	\$ 44,444	\$ (2,022)	\$ 24,919		\$ 23,669	\$ 33,137	\$ 44,735	\$ 59,274	\$ 73,043	\$ 91,304			
WACC	11.3%												
Discount Period					0.500	1.500	2.50	3.50	4.50	5.50			
Discount Factor					0.95	0.85	0.76	0.69	0.62	0.55			
Present Value of Free Cash Flow					\$ 22,431	\$ 28,203	\$ 34,194	\$ 40,689	\$ 45,031	\$ 50,553			



Appendix – DCF (Upside)

Enterprise Value	
Cumulative Present Value of FCF	\$ 221,100
Terminal Value	
Terminal Year EBITDA (2022E)	\$ 301,332
Exit Multiple	28.0x
Terminal Value	\$ 8,437,288
Discount Factor	0.52
Present Value of Terminal Value	\$ 4,427,093
<i>% of Enterprise Value</i>	95.2%
Enterprise Value	\$ 4,648,193

Implied Equity Value and Share Price	
Enterprise Value	\$ 4,648,193
Less: Total Debt	244,480
Less: Preferred Stock	
Less: Noncontrolling Interest	
Plus: Cash and ST Investments	293,301
Implied Equity Value	\$ 4,697,014
Fully Diluted Shares Outstanding	14,147
Implied Share Price	\$ 332.01



Appendix - Comparables

Trading Multiples

Company	Ticker	Market Capitalization	Net Debt	Enterprise Value	EV / Revenue			EV / EBITDA			Price/Earnings	
					2017A	2018E	2019E	2017A	2018E	2019E	LTM	2019E
On Deck Capital, Inc.	NYSE:ONDK	\$577	\$681	\$1,259	6.4x	3.3x	2.9x	---	37.1x	28.0x	126.7x	15.5x
LendingClub Corporation	NYSE:LC	1,431	(85)	1,346	2.3x	1.9x	1.7x	---	15.6x	10.1x	---	17.8x
GreenSky, Inc.	Nasdaq:GSKY	1,152	151	1,303	4.0x	3.0x	2.2x	8.7x	6.7x	5.0x	23.9x	22.0x
LendingTree, Inc.	Nasdaq:TREE	\$3,084	(\$49)	\$3,035	4.9x	4.0x	3.3x	35.6x	20.1x	15.9x	45.2x	32.6x
Low		\$577	(\$85)	\$1,259	2.3x	1.9x	1.7x	8.7x	6.7x	5.0x	23.9x	15.5x
Mean		1,053	249	1,302	4.2x	2.7x	2.3x	8.7x	19.8x	14.3x	75.3x	18.4x
Median		1,152	151	1,303	4.0x	3.0x	2.2x	8.7x	15.6x	10.1x	75.3x	17.8x
High		\$1,431	\$681	\$1,346	6.4x	3.3x	2.9x	8.7x	37.1x	28.0x	126.7x	22.0x

Operating Statistics

Company	Ticker	Revenue			Revenue Growth		EBITDA			EBITDA Growth	
		2017A	2018E	2019E	17-18	18-19	2017A	2018E	2019E	17-18	18-19
On Deck Capital, Inc.	NYSE:ONDK	\$197	\$384	\$431	94.8%	12.0%	NA	\$34	\$45	---	32.7%
LendingClub Corporation	NYSE:LC	\$575	\$693	\$809	20.6%	16.8%	NA	\$86	\$133	---	54.7%
GreenSky, Inc.	Nasdaq:GSKY	\$326	\$438	\$586	34.3%	33.9%	\$150	\$196	\$263	30.8%	34.4%
LendingTree, Inc.	Nasdaq:TREE	\$618	\$755	\$916	22.3%	21.2%	\$85	\$151	\$191	77.5%	26.1%
Low		\$197	\$384	\$431	20.6%	12.0%	\$150	\$34	\$45	30.8%	32.7%
Mean		366	505	609	49.9%	20.9%	150	105	147	30.8%	40.6%
Median		326	438	586	34.3%	16.8%	150	86	133	30.8%	34.4%
High		\$575	\$693	\$809	94.8%	33.9%	\$150	\$196	\$263	30.8%	54.7%