



Rating  
**Hold**

North America  
United States

TMT  
Internet

Company  
**LendingTree**

Reuters: TREE.OQ    Bloomberg: TREE US    Exchange: NSM    Ticker: TREE

Date  
2 November 2018

**Results**

Price at 1 Nov 2018 (USD)	250.40
Price target	270.00
52-week range	402.60 - 186.15

# 3Q18 Results: Low Hanging Fruit from the (Lending)Tree

**Key Takeaways**

3Q results were only modestly below Street consensus, but likely better than investor expectations, and 4Q outlook was better than feared, which sparked a relief rally that we think was compounded by short covering. However, it is unclear whether TREE is completely out of the woods yet. Mortgage revenue declined 25% YoY and 17% q/q. The outlook remains challenging, and we expect the revenue to decline q/q again in 4Q for the third quarter in a row. While management said on the call that "*we absolutely expect to grow significantly next year,*" given Mortgage Bankers Association (MBA) expects total originations to decline marginally in 2019, it would be challenging for TREE to increase revenue "significantly" next year unless they improve market share or monetization, or both. Credit Cards rebounded modestly to high single digit growth after an abrupt slowdown in 2Q. The outlook remains tepid, and going forward, the company expects a "*more stable and predictable revenue stream.*" For the remaining 50% of revenues (as of 3Q), Personal Loans continues to deliver robust growth. Three smaller business lines – student loans, small business loans, and deposits – generated 100+% YoY growth, aided by recent acquisitions. The recently closed QuoteWizard acquisition (see note: TREE Branches into Insurance – [link](#)) plugs a significant gap in TREE's portfolio, and along with Personal Loans, could be a key driver of growth in the next year. Variable Marketing Margins were the highest since 1Q15, but the company is likely to continue to prioritize growth over margins as it seeks to maximize Variable Marketing Dollars. **The next catalyst will be the upcoming Analyst Day on Dec. 4, 2018 where we should get a better sense of the opportunity in the Insurance vertical, the new marketing strategy along with how the company plans to leverage its traffic and My LendingTree base to cross-sell higher-frequency products (e.g. Deposits, Insurance, etc), 2019 guide, as well as a 3-5 year outlook for the various businesses. In the meantime, the shares could remain volatile. We continue to believe in the long-term story, but we think for sustained and significant share price appreciation from current levels, at least one of the two largest verticals (if not both) – Mortgage and Credit Cards – likely needs to start delivering strong organic growth once again.** As such, we maintain Hold rating and \$270 TP.

**Valuation & Risks**

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**Price/price relative**



Performance (%)	1m	3m	12m
Absolute	14.7	5.1	-5.2
S&P 500 INDEX	-6.3	-2.6	6.2

Source: Deutsche Bank

**Positives in the Quarter**

**Non-Mortgage** revenue grew 45% YoY to \$142M, and represented 72% of total revenue. More importantly, the Non-Mortgage business represented more than 80% of the Variable Marketing Dollars. **Personal Loans** grew 52% YoY to ~\$39M; the company continues to see increasing demand from newer entrant non-bank

2 November 2018  
 Internet  
 LendingTree



lenders and traditional banks. Several of the smaller businesses – student loans, small business loans, and deposits – more than doubled YoY, aided by recent acquisitions. **Student Loans**, in particular, benefitted from the July acquisition of Student Loan Hero which resulted in broad-based revenue growth of ~230% YoY to ~\$13M. **Variable Marketing Dollars** grew 30% YoY to ~\$77M; Variable Marketing Margins or VMM was 39%, the highest since 1Q15. Nevertheless, we expect margins to decline as the company increases spend on broadcast media to change consumer perception that it is primarily a mortgage comparison-shopping platform. **Adjusted EBITDA** grew 31% to \$45M from increasing leverage on operating expenses, although cost of revenue, excluding the \$3.6M related to advertising inventory sales to third parties, delevered 106 bps YoY on higher call center expenses. The company raised its outlook for the full year across all three metrics – revenue, Variable Marketing Dollars, and Adjusted EBITDA. **The revenue guide** -- up to \$765-\$775M from \$745-\$765M previously – reflects a decline in Mortgage revenue, which is more than offset by the inclusion of 2 months of contribution from QuoteWizard where the acquisition closed on Oct. 31, 2018.

Key indicators (FY1)

ROE (%)	5.9
ROA (%)	3.1
Net debt/equity (%)	-44.2
Book value/share (USD)	24.64
Price/book (x)	10.2
Net interest cover (x)	4.7
EBIT margin (%)	5.4

Source: Deutsche Bank

Stock & option liquidity data

Market Cap (USDm)	2,991,028.0
Shares outstanding (m)	11,945.0
Free float (%)	100
Volume (1 Nov 2018)	280,034
Option volume (und. shrs., 1M avg.)	-

Source: Deutsche Bank

Issues to Consider

**Mortgage** revenue declined 25% YoY on sharp decline in refinance originations (per MBA – [link](#)) exacerbated by a loss in market share. However, on the call, management called out several positives, including 1) "*seeing some signs of life in October that are very encouraging*," 2) mortgage-related traffic re-engaging with TREE on other products, 3) new experience expanded to purchase mortgages. Moreover, although only 6% of the traffic was exposed to the new experience in 3Q, the company has a pipeline of more than 20 lenders waiting to use the new platform. Additionally, the new experience is allowing TREE to engage with new lenders that were not previously active on the marketplace. Nonetheless, Mortgage Bankers Association (MBA) is projecting mortgage originations to decline 7% in 4Q18, down from a more modest 3% decline in 3Q, and refinance volumes are expected to decrease ~39% in the quarter versus 27% decline in 3Q18. **Credit Cards** revenue growth rebounded modestly to 8% YoY growth from 5% in 2Q18 on a more diversified issuer base and better alignment of economics with the issuers. While the company expects "more stable and predictable revenue stream," we think returning to the 30+% pro forma YoY growth that TREE delivered in 2017 and in 1Q18 may be challenging unless issuance of balance transfer cards (which has attractive economics for TREE) picks up again. **My LendingTree** revenue decreased 37 ppts to 68% YoY growth on a 36 ppts tougher comps, which the company attributed to reduced marketing which has resulted in lower traffic.

Valuation & Risks

The shares are currently trading at 2.8x 2020 revenue (versus 17% top line growth), 14.6x Adj. EBITDA (versus 21% YoY growth), and 23.1x Adj. EPS (versus 25% growth). We maintain our TP of \$270, which is based on 3x EV/Revenue on 2020 estimates (previously, we used a 3.5x multiple on a blend of 2019 and 2020 estimates), 15x EV/EBITDA (versus 17.5x on a blended average of 2019 and 2020 expectations), 20x P/E (from 25x on a blended basis), and DCF on 2020 estimates. The key risks to the upside include: 1) increasing digitization of loan processing which can accelerate adoption, 2) growing My LendingTree base for higher LTV, 3) disciplined model which can improve margins when growth is slower, and 4) seasoned management that has delivered on growth expectations and M&A integrations. The primary risks on the downside include: 1) the digitization initiative could entail a difficult transition, 2) slowdown in MyLendingTree monetization levels, 3) competition and continued challenging landscape for Mortgages and Credit Cards, 4) limited visibility into how quickly

2 November 2018

Internet

LendingTree



the newer (and nascent) businesses could scale, and 5) the potential need for additional M&A.

2 November 2018  
 Internet  
 LendingTree



## 3Q18 Results

3Q results came in marginally below our/Street estimates across most metrics.

Figure 1: 3Q18 Results Versus Expectations

LendingTree, Inc. - Actuals Versus Estimates									
(In Millions, except per share values)									
	3Q18A								
	Actual Reported	DB Estimates	Delta VS DB	Street Consensus	YoY Change		Q/Q Change		
					Amount	%	Amount	%	
<b>MyLendingTree KPIs</b>									
# of Members	9,600	9,508	1.0%		3,100	47.7%	800	9.1%	
Net Adds	800	708	13.0%		(800)	(50.0)%	(600)	(42.9)%	
Annualized Revenue per Member	\$7.69	\$8.63	(10.9)%		\$0.80	11.7%	\$(0.78)	(9.3)%	
Revenue Contribution	\$18	\$20	(10.4)%		\$7	68.4%	\$(0)	(0.6)%	
<b>Income Statement</b>									
<b>Revenue</b>									
<b>Mortgage</b>									
Purchase	\$24	\$25	(3.6)%		\$2	7.2%	\$(3)	(11.6)%	
Refinance	31	44	(28.2)%		(20)	(39.0)%	(8)	(21.3)%	
<b>Total Mortgage</b>	<b>\$55</b>	<b>\$69</b>	<b>(19.3)%</b>		<b>\$(18)</b>	<b>(25.0)%</b>	<b>\$(12)</b>	<b>(17.4)%</b>	
<b>Non-Mortgage</b>									
Personal Loans	\$39	\$38	1.3%		\$13	52.0%	\$2	6.6%	
Credit Cards	43	42	0.9%		3	8.4%	4	10.1%	
Home Equity	17	20	(16.4)%		3	20.0%	0	0.3%	
Other	43	32	34.4%		25	131.6%	18	72.5%	
<b>Total Non-Mortgage</b>	<b>\$142</b>	<b>\$133</b>	<b>6.5%</b>		<b>\$44</b>	<b>45.0%</b>	<b>\$25</b>	<b>21.0%</b>	
<b>Total Revenue</b>	<b>\$197</b>	<b>\$202</b>	<b>(2.3)%</b>	<b>\$200</b>	<b>\$26</b>	<b>14.9%</b>	<b>\$13</b>	<b>7.0%</b>	
<b>GAAP Costs &amp; Expenses</b>									
Cost of Revenue	\$11	\$7	64.1%		\$6	147.0%	\$5	79.3%	
Selling and marketing expense	124	129	(3.8)%		6	4.9%	0	0.4%	
General and administrative expense	23	24	(2.4)%		5	28.2%	(2)	(7.2)%	
Product development	7	7	0.8%		2	37.5%	1	10.7%	
Depreciation & Amortization	8	6	18.9%		2	35.3%	2	35.7%	
Other	4	---			2	56.7%	5	(1400.9)%	
<b>Total Operating Expenses</b>	<b>\$177</b>	<b>\$172</b>	<b>2.5%</b>		<b>\$23</b>	<b>14.8%</b>	<b>\$11</b>	<b>6.5%</b>	
<b>GAAP Operating Income</b>	<b>\$20</b>	<b>\$29</b>	<b>(30.7)%</b>	<b>\$28</b>	<b>\$3</b>	<b>16.2%</b>	<b>\$2</b>	<b>12.0%</b>	
GAAP Op Inc Margins	10.3%	14.5%		14.2%					
<b>Adjusted EBITDA</b>	<b>\$45</b>	<b>\$46</b>	<b>(1.1)%</b>	<b>\$46</b>	<b>\$11</b>	<b>30.4%</b>	<b>\$8</b>	<b>22.0%</b>	
Adj EBITDA Margins	23.0%	22.7%		22.8%					
<b>Adjusted Net Income</b>	<b>\$27</b>	<b>\$28</b>	<b>(6.1)%</b>		<b>\$10</b>	<b>64.8%</b>	<b>\$6</b>	<b>27.8%</b>	
GAAP EPS	\$1.86	\$1.26	47.7%	\$1.27	\$1.20	180.6%	\$(1.15)	(38.2)%	
<b>Adjusted EPS</b>	<b>\$1.92</b>	<b>\$2.00</b>	<b>(3.8)%</b>	<b>\$1.79</b>	<b>\$0.75</b>	<b>63.9%</b>	<b>\$0.45</b>	<b>30.5%</b>	

Source: Company Documents; FactSet; Deutsche Bank

### Top Line Came in Towards the Lower-End of the Guide

Revenue for the quarter was towards the lower-end of the guidance range, driven by a 25% decline in Mortgage revenue which was partially offset by a modest rebound in Credit Cards and continued strong growth in Personal Loans. The bears could argue that were it not for the \$3.6M in sale of advertising inventory on two partner publishing networks, revenue would have come in below the range. We agree on the math, but the shortfall would have been superficial (only ~\$1.6M on a guide of \$195-\$205M) rather than suggestive of a major weakness in the business.

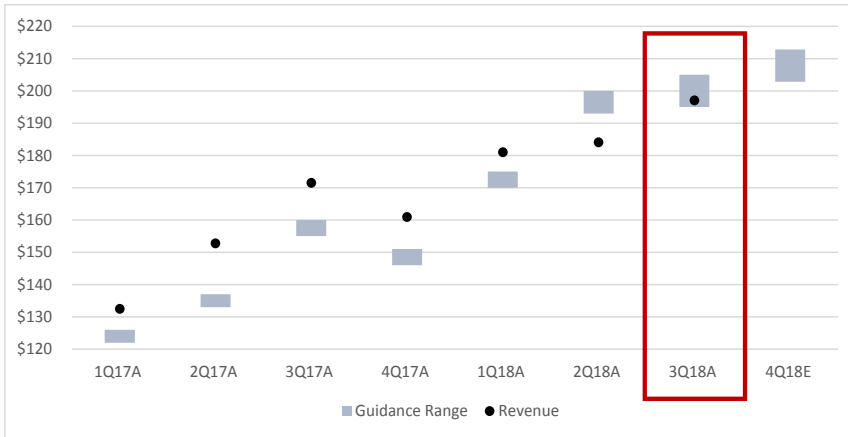
2 November 2018

Internet

LendingTree



Figure 2: Revenue Versus Guidance (In Millions)

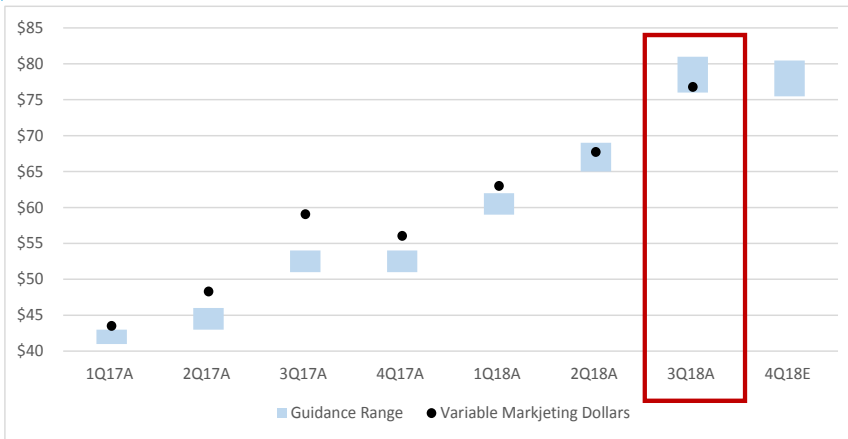


Source: Company Documents; Deutsche Bank

**But TREE is Focused on Maximizing Variable Marketing Dollars**

In any case, the company's stated objective is to maximize the Variable Marketing Dollars, which grew significantly faster than the top line. While Variable Marketing Margins of 39% were the highest since 1Q15, we expect margins to decline as the company increases spend on broadcast media to change consumer perception that it is primarily a mortgage comparison-shopping platform.

Figure 3: Variable Marketing Dollars Versus Guidance (In Millions)



Source: Company Documents; Deutsche Bank



Figure 4: KPIs and Financials Trends Table

LendingTree, Inc. - Key Operating Trends (KPIs) and Financials											
('000s, unless otherwise noted)	1Q16A	2Q16A	3Q16A	4Q16A	1Q17A	2Q17A	3Q17A	4Q17A	1Q18A	2Q18A	3Q18A
<b>Mortgage Industry</b>											
<b>U.S. Home Sales (SAAR)</b>											
Existing Homes ('000s)	5,300	5,503	5,390	5,570	5,620	5,563	5,393	5,593	5,549	5,413	5,357
YoY Growth	6.6%	3.9%	(1.6)%	7.1%	6.0%	1.1%	0.1%	0.4%	(1.3)%	(2.7)%	(0.7)%
New Homes ('000s)	529	565	588	587	619	604	584	655	655	635	633
YoY Growth	2.3%	13.7%	20.5%	15.3%	17.0%	6.9%	(0.7)%	11.6%	5.8%	5.1%	8.4%
<b>U.S. Mortgage Originations</b>											
Total (In Billions)	\$350	\$510	\$561	\$470	\$361	\$463	\$471	\$415	\$346	\$452	\$457
YoY Growth	4%	11%	32%	16%	3%	(9)%	(16)%	(12)%	(4)%	(2)%	(3)%
Purchase (In Billions)	\$185	\$275	\$298	\$232	\$212	\$316	\$320	\$262	\$218	\$334	\$346
YoY Growth	23%	13%	9%	8%	15%	15%	7%	13%	3%	6%	8%
Refinancings (In Billions)	\$165	\$235	\$263	\$238	\$149	\$147	\$151	\$153	\$128	\$118	\$111
YoY Growth	(12)%	8%	72%	25%	(10)%	(37)%	(43)%	(36)%	(14)%	(20)%	(26)%
Refi as % of Originations	47.1%	46.1%	46.9%	50.6%	41.3%	31.7%	32.1%	36.9%	37.0%	26.1%	24.3%
<b>Revenue</b>											
Total Revenue	\$94,713	\$94,290	\$94,558	\$100,841	\$132,515	\$152,773	\$171,494	\$160,954	\$181,035	\$184,101	\$197,057
YoY Growth	86%	71%	35%	29%	40%	62%	81%	60%	37%	21%	15%
Pro Forma YoY Growth					20%	36%	46%	40%	33%	17%	12%
Mortgage products	\$55,016	\$56,032	\$53,523	\$55,400	\$62,938	\$71,515	\$73,756	\$67,700	\$73,462	\$66,948	\$55,300
Share of Originations	2.1%	1.4%	1.2%	1.6%	2.1%	1.8%	1.8%	2.0%	2.4%	1.6%	1.3%
YoY Growth	49%	51%	21%	18%	14%	28%	38%	22%	17%	(6)%	(25)%
% of Total Revenue	58%	59%	57%	55%	47%	47%	43%	42%	41%	36%	28%
Non-Mortgage products	\$39,697	\$38,258	\$41,035	\$45,441	\$69,577	\$81,258	\$97,738	\$93,254	\$107,573	\$117,153	\$141,757
YoY Growth	185%	113%	60%	45%	75%	112%	138%	105%	55%	44%	45%
% of Total Revenue	42%	41%	43%	45%	53%	53%	57%	58%	59%	64%	72%
Personal Loans	\$18,032	\$16,229	\$17,639	\$14,540	\$17,014	\$20,521	\$25,400	\$25,300	\$25,965	\$36,210	\$38,600
YoY Growth	128%	40%	13%	(10)%	(6)%	26%	44%	74%	53%	76%	52%
Credit Cards	\$9,160	\$7,420	\$6,381	\$15,900	\$33,773	\$36,992	\$39,360	\$36,900	\$46,132	\$38,747	\$42,675
YoY Growth	3907%	1755%	139%	22%	37%	43%	43%	35%	37%	5%	8%
Home Equity	\$3,991	\$4,589	\$5,100	\$5,694	\$8,700	\$11,489	\$14,250	\$13,553	\$15,747	\$17,050	\$17,100
YoY Growth	343%	317%	264%	134%	118%	150%	179%	138%	81%	48%	20%
<b>Profitability</b>											
Variable Marketing Dollars	\$34,133	\$33,977	\$36,332	\$36,750	\$43,513	\$48,313	\$59,074	\$56,053	\$63,007	\$67,726	\$76,799
YoY Growth	61%	59%	49%	31%	27%	42%	63%	53%	45%	40%	30%
Var Mktg Mgn (VMM)	36.0%	36.0%	38.4%	36.4%	32.8%	31.6%	34.4%	34.8%	34.8%	36.8%	39.0%
Adjusted EBITDA	\$15,797	\$16,660	\$18,452	\$18,910	\$23,817	\$27,010	\$34,723	\$29,587	\$31,720	\$37,109	\$45,279
YoY Growth	77%	87%	68%	58%	51%	62%	88%	56%	33%	37%	30%
EBITDA Margins	16.7%	17.7%	19.5%	18.8%	18.0%	17.7%	20.2%	18.4%	17.5%	20.2%	23.0%
Non-GAAP EPS	\$0.67	\$0.83	\$0.71	\$0.77	\$0.85	\$0.90	\$1.17	\$0.84	\$1.10	\$1.47	\$1.92
<b>Cash &amp; Liquidity</b>											
Free Cash Flow (FCF)	\$5,920	\$(1,536)	\$20,783	\$1,332	\$15,288	\$29,325	\$14,545	\$36,340	\$14,219	\$(5,702)	\$41,070
FCF as % of Revenue	6.3%	(1.6)%	22.0%	1.3%	11.5%	19.2%	8.5%	22.6%	7.9%	(3.1)%	20.8%
FCF as % of Adj EBITDA	37.5%	(9.2)%	112.6%	7.0%	64.2%	108.6%	41.9%	122.8%	44.8%	(15.4)%	90.7%
Share Repurchases											
Nb. of Shares Repurchased	580	107	4	13	22	10	45	35	46	126	49
Ave. Price per Share	\$69.97	\$71.27	\$100.37	\$85.30	\$118.39	\$147.47	\$236.66	\$327.82	\$360.05	\$277.10	\$230.00
Cost of Repurchases	\$40,584	\$7,598	\$360	\$1,096	\$2,569	\$1,466	\$10,588	\$11,629	\$11,001	\$35,003	\$11,155
Ending Cash & Equivalents	\$174,226	\$159,611	\$176,925	\$91,131	\$105,442	\$355,636	\$345,239	\$368,550	\$346,470	\$293,301	\$265,194
Per Diluted Share	\$13.53	\$12.54	\$13.89	\$7.15	\$7.82	\$26.14	\$25.06	\$30.75	\$23.33	\$20.73	\$19.15
<b>My LendingTree</b>											
Nb of Members ('000s)	3,000	3,300	3,700	4,300	4,900	5,700	6,500	7,400	8,000	8,800	9,600
Net Adds ('000s)	300	300	400	600	600	1,400	1,600	1,700	600	1,400	800
Ann Rev per Member	\$7.30	\$6.90	\$6.12	\$5.30	\$5.79	\$6.57	\$6.89	\$6.38	\$6.09	\$8.47	\$7.69

Pro forma Revenue growth continues to slow down on challenging market conditions in Mortgage and only modest rebound in Credit Cards

TREE's diversification strategy gaining momentum... QuoteWizard acquisition plugs a significant hole in the portfolio and further diversifies revenue

VMM was the highest since 1Q15... while TREE has been more judicious in growth spend, S&M is expected to increase in 2019

TREE continues to buy back stock... ~\$70M repurchase authorization remains

Source: Company Documents; Deutsche Bank

## Outlook – 4Q Guide Higher

The company raised its outlook for the full year across all three metrics – revenue, Variable Marketing Dollars, and Adjusted EBITDA. The revenue guide -- up to \$765-\$775M from \$745-\$765M previously – reflects a decline in Mortgage revenue, which is more than offset by the inclusion of 2 months of contribution from QuoteWizard where the acquisition closed on Oct. 31, 2018. We estimate ~ \$25M of QuoteWizard revenue for the two months, which implies revenue guide could have declined to \$740-\$750M were it not for the acquisition. The increase in outlook for Variable Marketing Dollars and Adjusted EBITDA reflects only the incremental contribution from QuoteWizard for 2 months.

2 November 2018

Internet

LendingTree



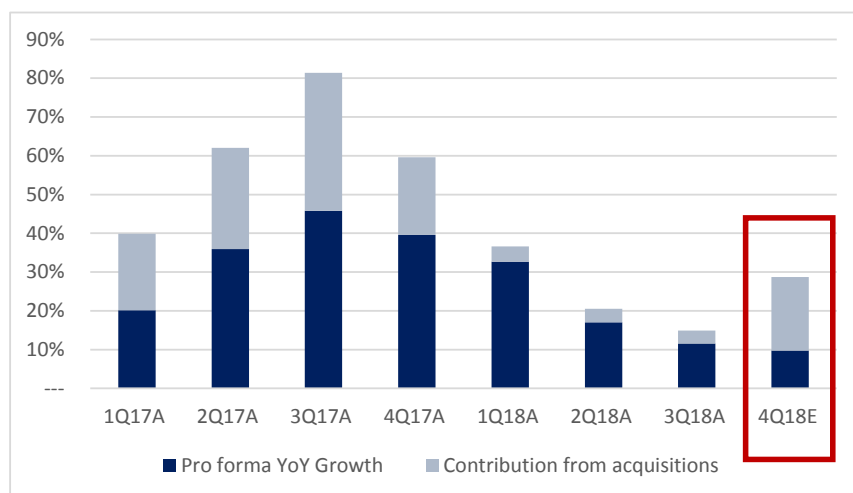
Figure 5: Estimate Changes

LendingTree, Inc. - Estimate Changes													
(In Millions, except per share values)													
	4Q18E				2018E				2019E				
	Current Estimates	Previous Estimates	% Change	Street Consensus	Current Estimates	Previous Estimates	% Change	Street Consensus	Current Estimates	Previous Estimates	% Change	Street Consensus	
<b>MyLendingTree KPIs</b>													
# of Members	10,408	10,316	0.9%		10,408	10,316	0.9%		13,051	12,867	1.4%		
Net Adds	808	808	---		3,008	2,916	3.2%		2,643	2,551	3.6%		
Annualized Revenue per Member	\$7.51	\$7.65	(1.7)%		\$7.44	\$7.71	(3.5)%		\$8.54	\$8.08	5.7%		
Revenue Contribution	\$19	\$19	(0.8)%		\$66	\$68	(3.3)%		\$99	\$93	6.8%		
<b>Income Statement</b>													
<b>Revenue</b>													
<b>Mortgage</b>													
Purchase	\$21	\$22	(3.6)%		\$97	\$99	(1.7)%		\$103	\$120	(13.7)%		
Refinance	29	45	(35.3)%		149	178	(16.0)%		139	169	(17.7)%		
<b>Total Mortgage</b>	<b>\$51</b>	<b>\$68</b>	<b>(24.9)%</b>		<b>\$246</b>	<b>\$276</b>	<b>(10.9)%</b>		<b>\$242</b>	<b>\$289</b>	<b>(16.1)%</b>		
<b>Non-Mortgage</b>													
Personal Loans	\$37	\$35	5.4%		\$138	\$136	1.8%		\$195	\$187	4.8%		
Credit Cards	41	41	---		168	168	0.2%		188	195	(3.5)%		
Home Equity	16	19	(15.2)%		66	72	(8.6)%		76	99	(22.6)%		
Other	62	29	114.2%		151	106	41.8%		363	148	144.4%		
<b>Total Non-Mortgage</b>	<b>\$156</b>	<b>\$124</b>	<b>26.1%</b>		<b>\$523</b>	<b>\$482</b>	<b>8.5%</b>		<b>\$822</b>	<b>\$628</b>	<b>30.9%</b>		
<b>Total Revenue</b>	<b>\$207</b>	<b>\$192</b>	<b>8.1%</b>	<b>\$191</b>	<b>\$769</b>	<b>\$758</b>	<b>1.4%</b>	<b>\$756</b>	<b>\$1,065</b>	<b>\$917</b>	<b>16.1%</b>	<b>\$909</b>	
<b>GAAP Costs &amp; Expenses</b>													
Cost of Revenue	\$8	\$6	20.4%		\$30	\$25	22.4%		\$39	\$30	29.2%		
Selling and marketing expense	138	127	8.1%		512	507	1.1%		726	603	20.4%		
General and administrative expense	24	24	1.0%		95	95	(0.4)%		127	113	13.0%		
Product development	8	7	5.7%		27	26	1.8%		37	32	16.4%		
Depreciation & Amortization	8	7	18.2%		27	24	9.9%		28	27	5.1%		
Other	---	---			3	(1)			---	---			
<b>Total Operating Expenses</b>	<b>\$185</b>	<b>\$172</b>	<b>7.9%</b>		<b>\$694</b>	<b>\$676</b>	<b>2.6%</b>		<b>\$957</b>	<b>\$804</b>	<b>19.0%</b>		
<b>GAAP Operating Income</b>	<b>\$22</b>	<b>\$20</b>	<b>10.3%</b>	<b>\$20</b>	<b>\$76</b>	<b>\$83</b>	<b>(8.4)%</b>	<b>\$82</b>	<b>\$108</b>	<b>\$113</b>	<b>(4.4)%</b>	<b>\$117</b>	
GAAP Op Inc Margins	10.6%	10.4%		10.7%	9.8%	10.9%		10.9%	10.1%	12.3%		12.9%	
<b>Adjusted EBITDA</b>	<b>\$40</b>	<b>\$36</b>	<b>11.2%</b>	<b>\$37</b>	<b>\$154</b>	<b>\$151</b>	<b>2.3%</b>	<b>\$152</b>	<b>\$198</b>	<b>\$190</b>	<b>4.1%</b>	<b>\$193</b>	
Adj EBITDA Margins	19.3%	18.8%		19.5%	20.0%	19.9%		20.1%	18.6%	20.7%		21.2%	
<b>Adjusted Net Income</b>	<b>\$23</b>	<b>\$20</b>	<b>12.8%</b>		<b>\$87</b>	<b>\$86</b>	<b>1.0%</b>		<b>\$123</b>	<b>\$117</b>	<b>5.1%</b>		
GAAP EPS	\$1.02	\$0.86	18.2%	\$0.89	\$8.03	\$7.26	10.7%	\$7.60	\$4.97	\$5.03	(1.2)%	\$5.23	
<b>Adjusted EPS</b>	<b>\$1.67</b>	<b>\$1.44</b>	<b>15.7%</b>	<b>\$1.39</b>	<b>\$6.12</b>	<b>\$5.98</b>	<b>2.3%</b>	<b>\$5.79</b>	<b>\$8.65</b>	<b>\$8.10</b>	<b>6.8%</b>	<b>\$7.38</b>	

Source: Company Documents; FactSet; Deutsche Bank

We expect pro forma revenue growth in 4Q18 to decline to mid-to-high single digits from ~11.5% in 3Q18 (versus 17.1% in 2Q18 and 32.7% in 1Q18) reflecting the challenged industry landscape in Mortgages and Credit Cards.

Figure 6: Pro forma Revenue Growth, Excl. M&A, Has Been Slowing



Source: Company Documents; Deutsche Bank

2 November 2018

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LendingTree



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## Valuation & Risks

We are raising our 2019 revenue estimate to \$1,065M from \$917M to reflect the QuoteWizard acquisition as well as updating the outlook for other businesses. Within revenue, we expect Mortgage and Credit Cards revenue to grow at mid-single digits and for the other Non-Mortgage businesses to grow at ~27% on a pro forma basis. In the process, we expect the revenue contribution from Mortgage and Credit Cards to decline to ~40% in 2019 from ~50% in 3Q18. However, our Adjusted EBITDA estimate increases only modestly to \$198M from \$190M previously to reflect the higher marketing spend that management noted on the call. We expect the company to issue 2019 guidance, and provide 3-5 year outlooks for the key business lines, at the upcoming Analyst Day.

The shares are currently trading at 2.8x 2020 revenue (versus 17% top line growth), 14.6x Adj. EBITDA (versus 21% YoY growth), and 23.1x Adj. EPS (versus 25% growth). We maintain our TP of \$270, which is based on 3x EV/Revenue on 2020 estimates (previously, we used a 3.5x multiple on a blend of 2019 and 2020 estimates), 15x EV/EBITDA (versus 17.5x on a blended average of 2019 and 2020 expectations), 20x P/E (from 25x on a blended basis), and DCF on 2020 estimates.

The key risks to the upside include: 1) increasing digitization of loan processing which can accelerate adoption, 2) growing My LendingTree base for higher LTV, 3) disciplined model which can improve margins when growth is slower, and 4) seasoned management that has delivered on growth expectations and M&A integrations. The primary risks on the downside include: 1) the digitization initiative could entail a difficult transition, 2) slowdown in MyLendingTree monetization levels, 3) competition and continued challenging landscape for Mortgages and Credit Cards, 4) limited visibility into how quickly the newer (and nascent) businesses could scale, and 5) the potential need for additional M&A.



2 November 2018

Internet

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Figure 7: Valuation

LendingTree, Inc. - Valuation						
(In Millions, except per share values)						
	2016A	2017A	2018E	2019E	2020E	2021E
<b>Current Valuation</b>						
<b>GMV Multiple</b>						
Current Share Price	\$250.40		As of 11/1/2018			
(x) Diluted Share Count	14		As of 7/20/2018			
<b>(=) Market Cap</b>	<b>\$3,568</b>					
(+) Debt	248		As of 9/30/2018			
(-) Cash & Equivalents	(326)		As of 9/30/2018			
<b>(=) Enterprise Value</b>	<b>\$3,490</b>					
<b>EV/Revenue</b>	<b>9.1x</b>	<b>5.6x</b>	<b>4.5x</b>	<b>3.3x</b>	<b>2.8x</b>	<b>2.4x</b>
<b>EV/Adj EBITDA</b>	<b>50.0x</b>	<b>30.3x</b>	<b>22.6x</b>	<b>17.7x</b>	<b>14.6x</b>	<b>12.3x</b>
<b>P/Adj EPS</b>	<b>83.9x</b>	<b>66.3x</b>	<b>40.9x</b>	<b>28.9x</b>	<b>23.1x</b>	<b>18.6x</b>
<b>P/GAAP EPS</b>				<b>50.4x</b>	<b>38.6x</b>	<b>30.0x</b>
<b>FCF Yield</b>	<b>0.8%</b>	<b>2.8%</b>	<b>2.4%</b>	<b>3.8%</b>	<b>4.6%</b>	<b>5.4%</b>
<b>Valuation Methodologies</b>						
<b>Revenue Multiple</b>						
<b>Revenue</b>	<b>\$384</b>	<b>\$618</b>	<b>\$769</b>	<b>\$1,065</b>	<b>\$1,244</b>	<b>\$1,439</b>
(x) Valuation Multiple	3.0x	3.0x	3.0x	3.0x	3.0x	3.0x
<b>(=) Implied Enterprise Value</b>	<b>\$1,153</b>	<b>\$1,853</b>	<b>\$2,308</b>	<b>\$3,194</b>	<b>\$3,733</b>	<b>\$4,317</b>
(-) Debt	---	(238)	(248)	(248)	(248)	(248)
(+) Cash & Equivalents	156	433	349	435	543	735
<b>(=) Implied Equity Value</b>	<b>\$1,309</b>	<b>\$2,048</b>	<b>\$2,409</b>	<b>\$3,381</b>	<b>\$4,028</b>	<b>\$4,805</b>
(-) Diluted Shares				14	14	14
<b>Fair Value per Share</b>				<b>\$237</b>	<b>\$283</b>	<b>\$337</b>
YoY Revenue Growth	51.2%	60.7%	24.5%	38.4%	16.9%	15.7%
Implied Multiple-to-Growth Ratio				0.08x	0.18x	0.19x
<b>EBITDA Multiple</b>						
<b>Adj. EBITDA</b>	<b>\$70</b>	<b>\$115</b>	<b>\$154</b>	<b>\$198</b>	<b>\$239</b>	<b>\$284</b>
(x) Valuation Multiple	15.0x	15.0x	15.0x	15.0x	15.0x	15.0x
<b>(=) Implied Enterprise Value</b>	<b>\$1,047</b>	<b>\$1,727</b>	<b>\$2,313</b>	<b>\$2,964</b>	<b>\$3,582</b>	<b>\$4,253</b>
(-) Debt	---	(238)	(248)	(248)	(248)	(248)
(+) Cash & Equivalents	156	433	349	435	543	735
<b>(=) Implied Equity Value</b>	<b>\$1,203</b>	<b>\$1,922</b>	<b>\$2,414</b>	<b>\$3,151</b>	<b>\$3,877</b>	<b>\$4,740</b>
(-) Diluted Shares				14	14	14
<b>Fair Value per Share</b>				<b>\$221</b>	<b>\$272</b>	<b>\$333</b>
YoY Adj. EBITDA Growth	71.0%	64.9%	33.9%	28.2%	20.8%	18.7%
Implied Multiple-to-Growth Ratio				0.53x	0.72x	0.80x
<b>Earnings Multiple</b>						
<b>Adj. EPS</b>	<b>\$2.98</b>	<b>\$3.78</b>	<b>\$6.12</b>	<b>\$8.65</b>	<b>\$10.85</b>	<b>\$13.48</b>
(x) Valuation Multiple	20.0x	20.0x	20.0x	20.0x	20.0x	20.0x
<b>(=) Per Share Value</b>				<b>\$173</b>	<b>\$217</b>	<b>\$270</b>
(+) Cash & Equivalents per Share				30	38	52
<b>Fair Value per Share</b>				<b>\$204</b>	<b>\$255</b>	<b>\$321</b>
YoY Adj. EPS Growth	(38.4)%	26.6%	61.9%	41.4%	25.4%	24.2%
Implied Multiple-to-Growth Ratio				0.48x	0.79x	0.83x
<b>Discounted Cash Flow (DCF)</b>						
Weighted Average Cost of Capital (WACC)				11.0%	11.0%	11.0%
Growth Rate in Perpetuity				2.5%	2.5%	2.5%
Implied Multiple on Terminal Year EBITDA				9.1x	9.1x	9.1x
Present Value of Cash Flows				\$1,090	\$1,079	\$1,034
(+) Present Value of Terminal Value				2,217	2,460	2,731
<b>(=) Present Value of Unlevered FCF</b>				<b>\$3,307</b>	<b>\$3,540</b>	<b>\$3,765</b>
(-) Debt				(248)	(248)	(248)
(+) Cash & Equivalents				435	543	735
<b>(=) Implied Equity Value</b>				<b>\$3,494</b>	<b>\$3,835</b>	<b>\$4,253</b>
(-) Diluted Share Count				14	14	14
<b>Fair Value per Share</b>				<b>\$245</b>	<b>\$269</b>	<b>\$298</b>
<b>Central Tendency of Value</b>						
Revenue Multiple				\$237	\$283	\$337
EBITDA Multiple				221	272	333
Earnings Multiple				204	255	321
Discounted Cash Flow (DCF)				245	269	298
<b>Fair Value per Share</b>				<b>\$230</b>	<b>\$270</b>	<b>\$330</b>
<b>Target Price</b>						
Current Share Price					\$250.40	
Potential Upside						7.8%

Source: Company Documents; FactSet; Deutsche Bank

Figure 8: Income Statement

LendingTree, Inc. - Income Statement														
('000s, unless otherwise noted)														
GAAP Income Statement	2015A	2016A	1Q17A	2Q17A	3Q17A	4Q17A	2017A	1Q18A	2Q18A	3Q18A	4Q18E	2018E	2019E	2020E
<b>Revenue</b>	\$254,216	\$384,402	\$132,515	\$152,773	\$171,494	\$160,954	\$617,736	\$181,035	\$184,101	\$197,057	\$207,138	\$769,331	\$1,064,646	\$1,244,182
<b>Costs &amp; Expenses</b>														
Cost of Revenue (exclusive of depreciation)	\$9,370	\$13,764	\$3,591	\$4,164	\$4,388	\$5,080	\$17,223	\$5,696	\$6,043	\$10,838	\$7,555	\$30,132	\$38,796	\$45,337
Selling and marketing expense	172,849	261,100	93,251	109,141	118,538	111,854	432,784	126,044	123,946	124,400	137,791	512,181	726,181	840,777
General and administrative expense	30,030	37,227	11,547	12,094	17,920	29,980	71,541	22,814	24,759	22,980	24,347	94,900	127,374	148,754
Product development	10,485	13,761	3,623	4,064	4,805	5,433	17,925	6,260	5,967	6,608	7,741	26,576	36,711	42,875
Depreciation	3,008	4,944	1,703	1,808	1,798	1,776	7,085	1,671	1,633	1,895	2,024	7,223	9,992	13,395
Amortization of intangibles	149	1,243	2,609	2,608	3,817	3,958	12,992	3,963	3,964	5,701	5,701	19,329	17,952	15,077
Restructuring and severance	422	122	157	247	---	---	404	---	3	2,328	---	2,331	---	---
Litigation settlements and contingencies	(611)	129	9,150	9,678	2,773	3,048	24,649	(763)	(337)	2,017	---	917	---	---
Asset impairments	---	---	---	---	---	---	---	---	---	---	---	---	---	---
<b>Total Costs and Expenses</b>	<b>\$225,702</b>	<b>\$332,290</b>	<b>\$125,631</b>	<b>\$143,804</b>	<b>\$154,039</b>	<b>\$161,129</b>	<b>\$584,603</b>	<b>\$165,685</b>	<b>\$165,978</b>	<b>\$176,767</b>	<b>\$185,159</b>	<b>\$693,589</b>	<b>\$957,007</b>	<b>\$1,106,215</b>
<b>GAAP Operating Income</b>	<b>\$28,514</b>	<b>\$52,112</b>	<b>\$6,884</b>	<b>\$8,969</b>	<b>\$17,455</b>	<b>\$(175)</b>	<b>\$33,133</b>	<b>\$15,350</b>	<b>\$18,123</b>	<b>\$20,290</b>	<b>\$21,979</b>	<b>\$75,742</b>	<b>\$107,640</b>	<b>\$137,967</b>
Operating Margin	11.2%	13.6%	5.2%	5.9%	10.2%	(0.1)%	5.4%	8.5%	9.8%	10.3%	10.6%	9.8%	10.1%	11.1%
Interest Expense	\$(171)	\$(561)	\$(165)	\$(1,079)	\$(2,804)	\$(2,980)	\$(7,028)	\$(2,988)	\$(2,924)	\$(2,393)	\$(2,393)	\$(10,698)	\$(9,572)	\$(9,572)
Other Income/(Expense)	---	23	---	13	(228)	(181)	(396)	34	(71)	(69)	---	(106)	---	---
Income (Loss) Before Income Taxes	\$28,343	\$51,574	\$6,719	\$7,903	\$14,423	\$(3,336)	\$25,709	\$12,396	\$15,128	\$17,828	\$19,586	\$64,938	\$98,068	\$128,395
Provision for Income Taxes	22,973	(20,366)	1,079	104	(4,292)	(3,182)	(6,291)	23,461	29,721	10,534	(5,484)	58,232	(27,459)	(35,951)
Tax Rate	(81.1)%	39.5%	(16.1)%	(1.3)%	29.8%	(95.4)%	24.5%	(189.3)%	(196.5)%	(59.1)%	28.0%	(89.7)%	28.0%	28.0%
<b>GAAP Income/(Loss) from continuing operations</b>	<b>\$51,316</b>	<b>\$31,208</b>	<b>\$7,798</b>	<b>\$8,007</b>	<b>\$10,131</b>	<b>\$(6,518)</b>	<b>\$19,418</b>	<b>\$35,857</b>	<b>\$44,849</b>	<b>\$28,362</b>	<b>\$14,102</b>	<b>\$123,170</b>	<b>\$70,609</b>	<b>\$92,444</b>
Net Income/(loss) from discontinued operations	(3,269)	(3,714)	(932)	(689)	(1,011)	(1,208)	(3,840)	(4,333)	(2,302)	(2,634)	---	(9,269)	---	---
Net income attributable to Common Stockholders	\$48,047	\$27,494	\$6,866	\$7,318	\$9,120	\$(7,726)	\$15,578	\$31,524	\$42,547	\$25,728	\$14,102	\$113,901	\$70,609	\$92,444
<b>Income (loss) per share from continuing operations</b>														
GAAP EPS from Cont. Ops. (Basic)	\$4.46	\$2.64	\$0.66	\$0.67	\$0.84	\$(0.54)	\$1.63	\$2.97	\$3.61	\$2.22	\$1.10	\$9.89	\$5.62	\$7.33
GAAP EPS from Cont. Ops. (Fully Diluted)	4.09	2.44	0.58	0.59	0.74	(0.54)	1.42	2.41	3.17	2.05	1.02	8.69	4.97	6.49
GAAP EPS (Fully Diluted)	3.83	2.15	0.51	0.54	0.66	(0.64)	1.14	2.12	3.01	1.86	1.02	8.03	4.97	6.49
YoY Growth	357.7%	(43.8)%	15.0%	(12.8)%	27.5%	(212.2)%	(47.1)%	316.7%	459.1%	180.6%	(257.8)%	605.6%	(38.2)%	30.6%
Cash dividend per share	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Shares Outstanding (Basic)	11,516	11,812	11,827	11,965	11,999	11,986	11,945	12,090	12,416	12,799	12,814	12,530	12,565	12,601
Shares Outstanding (Fully Diluted)	12,541	12,774	13,477	13,604	13,774	11,986	13,682	14,848	14,147	13,850	13,865	14,178	14,213	14,249
<b>Adjusted EBITDA</b>														
GAAP Operating Income	\$28,514	\$52,112	\$6,884	\$8,969	\$17,455	\$(175)	\$33,133	\$15,350	\$18,123	\$20,290	\$21,979	\$75,742	\$107,640	\$137,967
Share-based compensation expense	8,508	9,647	2,230	2,900	7,938	10,293	23,361	11,109	11,178	12,097	10,357	44,741	62,040	72,377
Restructuring and severance	422	122	157	247	---	---	404	---	3	2,328	---	2,331	---	---
Litigation settlements and contingencies	(611)	129	9,150	9,678	2,773	3,048	24,649	(763)	(337)	2,017	---	917	---	---
Asset impairments	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Other Adjustments	---	---	822	524	684	404	2,434	154	1,797	862	---	2,813	---	---
<b>Non-GAAP Operating Income</b>	<b>\$36,833</b>	<b>\$63,609</b>	<b>\$19,243</b>	<b>\$22,318</b>	<b>\$28,850</b>	<b>\$13,570</b>	<b>\$83,981</b>	<b>\$25,850</b>	<b>\$30,764</b>	<b>\$37,594</b>	<b>\$32,336</b>	<b>\$126,544</b>	<b>\$169,680</b>	<b>\$210,344</b>
Other Income/(Expense)	828	23	262	276	258	10,283	11,079	236	748	89	---	1,073	---	---
Depreciation & Amortization	3,157	6,187	4,312	4,416	5,615	5,734	20,077	5,634	5,597	7,596	7,725	26,552	27,944	28,472
<b>Adjusted EBITDA</b>	<b>\$40,818</b>	<b>\$69,819</b>	<b>\$23,817</b>	<b>\$27,010</b>	<b>\$34,723</b>	<b>\$29,587</b>	<b>\$115,137</b>	<b>\$31,720</b>	<b>\$37,109</b>	<b>\$45,279</b>	<b>\$40,060</b>	<b>\$154,168</b>	<b>\$197,624</b>	<b>\$283,816</b>
Q/Q Change	---	---	25.9%	13.4%	28.6%	(14.8)%	---	(72.5)%	17.0%	22.0%	---	---	---	---
YoY Growth	87.0%	71.0%	50.8%	62.1%	88.2%	56.5%	64.9%	33.2%	37.4%	30.4%	35.4%	33.9%	28.2%	20.8%
YoY \$ Change	---	\$29,001	\$8,020	\$10,350	\$16,271	\$10,677	\$45,318	\$7,903	\$10,099	\$10,556	\$10,473	\$39,031	\$43,456	\$41,192
EBITDA Margin	16.1%	18.2%	18.0%	17.7%	20.2%	18.4%	18.6%	17.5%	20.2%	23.0%	19.3%	20.0%	18.6%	19.2%
Incremental EBITDA Margins	21.9%	22.3%	21.2%	17.7%	21.1%	17.8%	19.4%	16.3%	32.2%	41.3%	22.7%	25.7%	14.7%	22.9%
<b>Adjusted Net Income</b>														
GAAP Income/(Loss) from continuing operations	\$51,316	\$31,208	\$7,798	\$8,007	\$10,131	\$(6,518)	\$19,418	\$35,857	\$44,849	\$28,362	\$14,102	\$123,170	\$70,609	\$92,444
Share-based compensation expense	8,508	9,647	2,230	2,900	7,938	10,293	23,361	11,109	11,178	12,097	10,357	44,741	62,040	72,377
Restructuring and severance	422	122	157	247	---	---	404	---	3	2,328	---	2,331	---	---
Litigation settlements and contingencies	(611)	129	9,150	9,678	2,773	3,048	24,649	(763)	(337)	2,017	---	917	---	---
Asset impairments	---	---	---	---	---	---	---	---	---	---	---	---	---	---
Other Adjustments	---	1,599	822	524	684	404	2,434	154	1,797	862	---	2,813	---	---
Income tax (expense) benefit	1,138	(4,597)	(8,704)	(9,180)	(5,392)	4,714	(18,562)	(30,095)	(36,681)	(19,081)	(1,364)	(87,221)	(9,683)	(10,199)
<b>Adjusted Net Income</b>	<b>\$60,773</b>	<b>\$38,108</b>	<b>\$11,453</b>	<b>\$12,176</b>	<b>\$16,134</b>	<b>\$11,941</b>	<b>\$51,704</b>	<b>\$16,262</b>	<b>\$20,809</b>	<b>\$26,585</b>	<b>\$23,094</b>	<b>\$86,750</b>	<b>\$122,966</b>	<b>\$154,622</b>
Ave Shares for Adj Income	12,541	12,774	13,477	13,604	13,774	14,282	13,682	14,848	14,147	13,850	13,865	14,178	14,213	14,249
<b>Adjusted EPS</b>	<b>\$4.85</b>	<b>\$2.98</b>	<b>\$0.85</b>	<b>\$0.90</b>	<b>\$1.17</b>	<b>\$0.84</b>	<b>\$3.78</b>	<b>\$1.10</b>	<b>\$1.47</b>	<b>\$1.92</b>	<b>\$1.67</b>	<b>\$6.12</b>	<b>\$8.65</b>	<b>\$10.85</b>
YoY Growth	186.4%	(38.4)%	26.5%	8.0%	64.3%	8.5%	26.6%	28.9%	64.3%	63.9%	99.2%	61.9%	41.4%	25.4%

Source: Company Documents; Deutsche Bank



2 November 2018

Internet

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# Appendix 1

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Disclosure checklist			
Company	Ticker	Recent price*	Disclosure
LendingTree	TREE.OQ	250.40 (USD) 1 Nov 2018	2

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2 November 2018  
 Internet  
 LendingTree



Historical recommendations and target price. LendingTree (TREE.OQ)

(as of 11/01/2018)



Current Recommendations

- Buy
- Hold
- Sell
- Not Rated
- Suspended Rating

\*\* Analyst is no longer at Deutsche Bank

1. 05/30/2018 Hold, Target Price Change USD 290.00 Kunal Madhukar, CFA

2. 08/16/2018 Hold, Target Price Change USD 270.00 Kunal Madhukar, CFA

Equity Rating Key

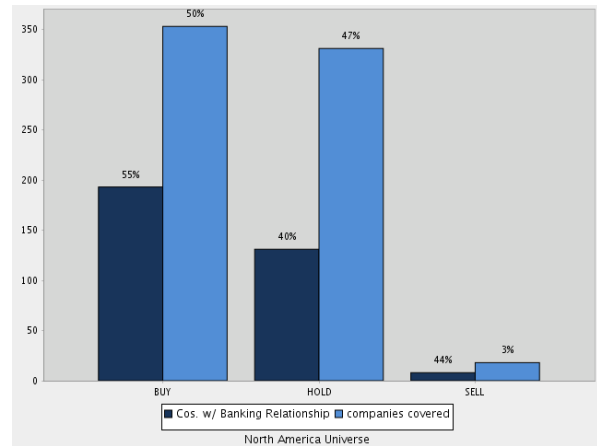
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Sell: Based on a current 12-month view of total share-holder return, we recommend that investors sell the stock.

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Equity rating dispersion and banking relationships



2 November 2018

Internet

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2 November 2018

Internet

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