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TREE - Q1 2017 LendingTree Inc Earnings Call

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree First Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded. I would now like to introduce your host, Mr. Gabe Dalporto, Chief Financial Officer. Sir, you may begin.

Gabriel Dalporto - *LendingTree, Inc. - CFO*

Thanks, operator and thanks, everyone, for joining this morning for LendingTree's First Quarter 2017 Earnings Conference Call. On today's call, I will discuss the quarter's financial results as seen in today's press release and turn it over to Doug, who will discuss some operational highlights for the quarter as well as our revised guidance.

But first, a quick disclaimer. During the call, we may discuss LendingTree's plans, expectations, outlooks or forecast 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's actual results could differ materially from the views expressed today. Many, but not all, of the risks we faced 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.

Now onto the results. In the first quarter, we continued the trend of consistent growth marking a fantastic start to the new year. We once again notched record level of revenue, variable marketing margin and adjusted EBITDA. The mortgage business exceeded expectations in the face of an industry slowdown. And our credit cards business continues to impress as we work to optimize that business across both the LendingTree and CompareCards brands. We're executing well against the strategic priorities laid out in December and Doug will expand on our progress there after I walk through the numbers. Starting at the top, consolidated revenue of $132.5 million represents year-over-year growth of 40% and exceeded the high ends of our previous guidance on strengthen mortgage, home equity and credit cards. Mortgage revenue of $62.9 million grew 14% year-over-year primarily driven by strength in purchase which was up 38% in the same period. We are seeing a sharp uptick in purchase activity from both lenders and borrowers. And despite mortgage interest rates remaining elevated throughout the quarter and a 10% decline in industry refinance originations our refinance revenues also grew year-over-year. Non-mortgage revenue of $69.6 million was up 75% versus the first quarter of last year and comprised 53% of total revenue. The first time non-mortgage revenue has represented more than half of the business as we continue down the path of diversification. The strength of our non-mortgage businesses continue to come from credit cards and home equity in the first quarter. Credit cards revenue grew to $33.8 million, reflecting 269% year-over-year growth or 37% on a pro forma basis. We continue to be delighted with the synergies we're seeing as we integrate the CompareCards business.

Finally, home equity revenues grew 118% year-over-year. We added nearly 30 new active lenders to the home equity platform during the quarter as we partnered with traditionally refinance focus originators to open up new channels for them.

From a profitability standpoint, we grew variable marketing margin dollars to $43.5 million in the quarter, up 28% versus prior year. At this point, it's worth reminding everyone how our mortgage and related businesses respond to a rising rate environment and why we are largely hedged against rising rates. When mortgage rates rise, fewer consumers stand to benefit from a refinance and industry originations drop. The demand for mortgage prospects materially increases and lenders are willing to expand the profiles of consumers they take from LendingTree and often increase the price paid per match in order to get more prospects. That translates into more budget and higher revenue for lending. LendingTree then reinvest a substantial majority of that spend into marketing to drive more refinance customers. At the same time, our cost per lead tends to increase reflecting the lower number of consumer shopping. The net result is refinance by itself is somewhat (inaudible) hedged. The good news is that lender demand for complementary products like purchase in home equity soars and we're able to drive substantial incremental volume, revenue and VMM from these products. The net results is that when rates rise we are well hedged against our refinance, purchase and home equity products taken as a whole and we saw this on full display in Q1 as these businesses performed exactly as expected. Which is to say, outsize revenue grew -- growth in variable marketing dollars in line with expectations.

Shifting gears to the bottom line, we grew adjusted EBITDA to $23.8 million, up 51% over the prior year and exceeded the high end of our previous guidance with favorable operating expenses. It's worth noting that hiring was slower than planned and we had fewer people on seats than we had hoped resulting in expense favorability. We expect to catch up to our staffing plan over the next few quarters and the OpEx lines should continue to increase in line with our plans as we scale the business.

In GAAP terms, the company recorded $7.8 million of net income from continuing operations or $0.58 per diluted share. There are 2 notable items running through the income statement that are worth discussing. The first is a charge of $8.7 million reflecting an adjustment to the contingent consideration liability associated with the earnout of the CompareCards deal. As discussed in our 10-K, we attributed to the purchase price a fair market value for the earnout of $23 million versus a total potential payable of $45 million over the next 2 years. As the probability increases, that more or all of the earnout will be achieved we'll record the adjustment through net income. This is actually very positive indicator as it is a reflection of the solid performance of the acquired business. The second item is our adoption of ASU 2016-09 which corresponds to the accounting treatment for stock-based compensation, especially as it pertains to excess tax benefit or deficiencies arising from differences in stock comp expense and the amount deductible for tax purposes. Previously recorded in shareholder equity on the balance sheet, these differences are now recognize through earnings. In the quarter, we recognized a $3.8 million tax benefit in relation to the standard more than offsetting our standard income tax charge. As a result of these changes, we've slightly modified our definition of non-GAAP EPS to reduce the volatility associated with these items and to provide a more meaningful per share measure. Please see the revised definitions and full reconciliation of the trailing five quarters in today's press release. Under the new presentation, adjusted earnings per share of $0.85 represents growth 27% compared to the prior year.

Finally, moving to the balance sheet and our liquidity position. Our unrestricted cash balance increased to $105 million as of March 31 from $91 million at December 31 primarily driven by cash flow from operations of $17 million. In addition to $105 million in cash on hand, we maintain the untapped $125 million credit facility and we continue to evaluate interesting M&A opportunities. And with that, I will turn it over to Doug.

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

Thank you, Gabe, thanks to all of you for joining the call today. Simply stated, our first quarter results were fantastic and these have laid a solid foundation for the remainder of the year. Our strategy to diversify the business mix has been successful which is evidenced by our sustained growth and record financial performance. As Gabe mentioned, I'd like to use my time on this call to discuss our performance in the context of our multiyear strategic plan that we laid out in December and to discuss our outlook for the rest of the year and beyond.

Since our Investor Day, you've heard us talk about our strategic plan to advance LendingTree's leadership position in all categories where we compete. This plan has 4 primary initiatives. First, to expand into new categories while growing market share in our existing categories. Two, to strengthen the customer relationship between LendingTree and our consumers. Three, to reimagine the consumer (inaudible) particularly in mortgage. And four, to fully optimize our conversions from -- all the way from ad unit to the actual loan funding.

Let me first address the expanding into new categories. We successfully launched a partnership this quarter with Answer Financial bringing LendingTree's comparison shopping experience to home and auto insurance. Early results have been very promising and we actually planned to implement paid marketing for these products already in Q2. Another area of expansion is our focus on helping customers with less than perfect credit to improve their situations. By connecting these consumers with debt settlement and credit repair programs, we're not only able to engage in new segment of customers, we're also improving LendingTree experience in creating a pathway back to LendingTree through their alerts as credit scores improve. In Q1, we helped over 1200 customers avoid bankruptcy through debt settlement and helped over 2000 customers through catered repair. We also launched a small scale paid marketing campaign in 2 channels and we expect to increase our paid marketing in this category in Q2.

Now let me shift gears to our second initiative. Strengthening LendingTree's relationship with customers. In addition to customers who haven't been matched, we're also improving our relationship through My LendingTree where we're seeking -- where we are continuing to see increased enrollments. In the first quarter alone, enrollments in My LendingTree's grew 42% over the first quarter of last year and 27% over Q4. Revenue contribution grew 25% in the quarter alone. Additionally, we're seeing sequential growth in revenue per user versus Q4 and we continue to enhance the alerts and savings recommendations within My LendingTree. In the next few weeks, we'll be adding free home valuations in addition to what we've got already and this new data source will enable alerts for mortgage and home equity loans. Even though home equity volume is already up 67% year-over-year, we expect that this new feature will help fuel the increased demand we're seeing from lenders, particularly on the purchase side. Our third strategic pillar is reimagining the overall consumer experience particularly in mortgage. The LendingTree's history of the simultaneous web and phone-based interaction with our customers, this is loved by some, it leaves others with wanting a fully digital experience and we are in the process of making that possible. We set out our initiative with the goal of simultaneously helping customers have a better experience helping lenders improve productivity and thus profitability and helping LendingTree because if we help our lenders improve they simply do more business with us. And while we grind away on the substantial leap in our business, we're still rolling out continuous improvements in our customers experience. And these improvements yield better monetization which creates the ability to drive more volume to our lenders and of course, the flywheel continues as you've heard me say many times before. Obviously, we can't reveal too many product specifics in this area since these seem to be rather quickly "emulated" by some of our competitors, I'm very excited by our progress, many of the early visions that I had of LendingTree 20 years ago can now actually be fulfilled with the technology of today.

Our fourth and final strategic objective is to fully optimize the LendingTree conversion (inaudible). All the way beginning from an ad unit to a fully funded loan transaction. At each and every step, clicking on an ad, completing fields in our form, viewing offers and many more features, there are things that we can do to encourage customers to continue their process with LendingTree. As we've talked about many times before, very small changes in our conversion percentage at each step yield many times more in revenue with stretch goals and a dedicated team fully focused on this initiative we are already seeing results. Again, while we can't give out specifics you're seeing these results and those from our other initiatives in our growth trajectory that far outpaces the industry and our competitors.

In light of all that we've discussed, we are once again increasing our outlook for the rest of the year. For the full year, we're increasing our revenue guidance to $535 million to $545 million, an increase from prior guidance of $500 million to $520 million. On variable marketing margin, we're now guiding a $100 million to $185 million increase in the low end of this range from $175 million and reflecting a modestly lower margin profile as we continue to drive marketing and fulfill our increased lender demand. And as you've heard me say many times before, as we drive our business lower variable marketing margins are actually a very good thing for us. We've also adjusted our adjusted EBITDA guidance which we're now expecting it to be in the range of $95 million to $99 million, up from our prior guidance of $93 million to $97 million. Consistent with the full year guidance, our second quarter outlook also reflects sequential growth. (technical difficulty) $133 million to $137 million reflecting year-over year growth of 41% to 45%. Comparable marketing margin next quarter we expect to be $43 million to $46 million and adjusted EBITDA we expect to be between $23.5 million and $25 million. We are clearly pleased by our continued growth and I suspect you are as well. And with that, let's open the call up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from the line of Nat Schindler with Bank of America.

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

Doug, is there any -- could you give us a little bit more detail on the interplay between volume and price across your mortgage. But in particularly, as we look at what happened in refi everybody knows that the volumes have been down across the industry. How does that then get affected in price for you guys?

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

Sure. It's actually -- it's a fantastic question. What essentially happens is volume goes down and good proxy on industry volume is actually Google search queries for refinance related keyword trends which are down, I believe, 40% or 50% since the couple of quarters ago. Essentially, what happens as volume goes down, not necessarily with LendingTree but in the industry, lenders obviously need more volume from us. They express volume or they express that demand in price, as you say, but also the increased quantity of matches that they want and also by expanding out their coverage. So all three of those things are important. Increasing bid pricing essentially happens in real-time, that's one of the ways lenders get more volume. So inside, what we call, your existing filter settings or Google will call inside of your existing keyword settings, if you up your bids you will get more volume, we have some tools in place to help lenders do that. And that basically happens in real-time as lenders are toggling their own volume mix.

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

Great. And just one other question on the guidance. Good job on the quarter and raising the guidance both -- we see you above street in Q2. Looks like about -- on EBITDA about $2 million above in the quarter and about $2 million above in Q2 but you are raising guidance for the year on EBITDA by $2 million. So is that suggesting you see something weakness in the back half that you didn't see before or is that simply conservative and built-in?

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

So it's a little -- I won't say it's necessarily conservatism, built-in, I'd say there's certainly some, but there's certainly nothing that we are seeing in the back half. What I would say as we got a history of trying to over-deliver and then reinvest what's left back in this longer-term growth initiatives not that we don't want to over-deliver but for example, anytime things are trending in the right direction we can also spend more on marketing to continue to see more volume, continue to do some testing. So the short answer is we always try to set a mark with our shareholders that is acceptable and then reinvest some of that back in the business.

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

Great. And also I didn't want to imply that a bid in raise was somehow a negative, but I am an analyst, so I had to search for the absolute or all the way around tertiary way could be a negative.

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

You know what, we certainly appreciate your diligence and digging in and we can be more thrilled at the moment.

Operator

And our next question comes from the line of Kunal Madhukar with SunTrust.

Kunal Madhukar - *SunTrust Robinson Humphrey, Inc., Research Division - Associate*

Two, if I may. One on lending -- My LendingTree. How much of the growth, the revenue contribution from My LendingTree came from credit cards? And second, given the strength that you're seeing on lender demand for leads, how much more confident or how does that kind of impact your 2020 outlook that you just gave like 4 months ago?

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

So first off, on credit cards and My LendingTree, we can't give due to competitive reasons the number of our competitors who have somewhat similar project -- products or nearly 100% line in credit cards we don't like to give that type of information. And on the out year outlook, we're going to revise that once a year. So every year, at Investor Day we'll roll out a new 3-year outlook and we're just going to keep you waiting on that and I want to keep you, hopefully have you as excited for it as we are.

Operator

And our next question comes from the line of Mark Mahaney with RBC.

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

Got 2 questions. The first one is I think last quarter you talked about your hope of reaching high single-digit growth for mortgages for the full year even in a rising rate environment and in this quarter I think your mortgage growth was -- revenue growth was 14%. Do you think that's in -- the visibility is enough to maybe make you want to bump that up to low double digits, your mortgage revenue growth outlook for the year?

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

We are really pleased with our mortgage business this quarter. Certainly performed extremely well. We have explained how the dynamics in the industry were -- in a rising rate environment they played out exactly as we expected. Which is to say, we have a lot of winter demand. There's tremendous growth in the purchase business which we're excited about and if you think about the longterm, that's super sustainable. We're still less than 2% market share in the industry and I think we are executing pretty well. So we are still pretty positive about the mortgage business as a whole. Now part of the revenue growth as you know is going to depend on our execution and part of it is going to depend on what happens with the interest rate environment. So I think all that's to say, we feel pretty good about how we are executing. We think we can continue to execute like that but if rates drop then that can affect the trajectory and if rates rise that can affect the trajectory a little bit but our VMM dollars versus what we really focus you on is more or less fully (inaudible) and that will continue to grow in line with our long-term growth expectations.

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

So sounds like keep your options open high single digits and if things go okay, the balance of the year could be higher than that?

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

It can definitely be higher. And I want to emphasize that but it partially just depends on the right environment.

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

Got it. And then the second question Doug, you talked about I think it was the first strategic initiative expanding into new categories. And I think you said you're specifically focused on maybe putting new marketing dollars behind I think it was auto loans and student loans and introduced a little -- if I got those 2 categories right, but you did talk about putting new marketing dollars behind it. So could you maybe spend a little bit more time on that opportunity? Are those new areas that you haven't put paid marketing dollars into in the past and your thought about how soon you could figure out, is it 6 months, a year whether those -- the paid marketing dollars behind those categories are really working for you or not? What's the length of time it'll take before you realize whether it's working for you or not?

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

That's a really interesting question. So first off, there's 3 areas that -- in particular insurance as well we talked about which actually we're very surprised that already we could put paid marketing behind insurance. In the pre-prime space, which is also what I mentioned which our customers with tough credit by recommending them the services that can help them out of that problem and give them ongoing alerts once they -- once we help them get better. That's an area where we're also profitable and we can do marketing. And then, the biggest and most important is home equity where in the past we've been able to -- we've put marketing against home equity now that we are starting to see home prices rise again the home equity customers those really looking for cash which we can also do through a cash out refinance. And there's paid marketing behind all 3 of them. The answer in terms of the payoff time we know now that paid marketing works for these products. We test our way into it and once we are confident to tell you guys that we're launching paid marketing that means we're really confident. And that means it's already working.

Operator

And our next question comes from the line of Kerry Rice with Needham.

Christian Kerrigan Rice - *Needham & Company, LLC, Research Division - Senior Analyst of Internet and Digital Media*

Maybe just another question on the mortgage business. Obviously this is very strong, as you think about maybe the upside in that business for Q1. Would you say that it was driven both by purchase and refi, was refi -- the increase in refi was a little bit more surprising, any kind of context on kind of where it surprised you? And then Gabe, as you talked about looking forward at mortgages and it depends...

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

So we're seeing a couple of more questions in the queue but we haven't heard.

(technical difficulty)

Christian Kerrigan Rice - *Needham & Company, LLC, Research Division - Senior Analyst of Internet and Digital Media*

Hello, can you hear me. Hello, can you here me. Hello.

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

I think we might be having a -- Kerry, we are having a problem hearing you. I'm not sure if it's on our end or it's on Kerry's end.

Gabriel Dalporto - *LendingTree, Inc. - CFO*

So maybe we can hop to -- operator maybe we can hop to the next question to see if the technical issue is on our end or your end?

Operator

Okay. Perfectly fine. Our next question comes from the line of John Campbell from Stephens.

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

Very strong mortgage results. Just back to the commentary around expanding on those new categories. It seems like obviously, you guys faced two choices, either you build that out organically with marketing or you get a big head start with an acquisition like you did with CompareCards. So you guys obviously continue to generate solid free cash flow, you're building your war chest, you've got an untapped revolver. So I think what seems like a pretty good opportunity in the M&A market. So Doug, anything you can provide around the pipeline, whether it be kind of acquiring something into those new channels or just generally curious about your upside for deals over the next year or 2?

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

Absolutely. So first off, let me expand on new categories. The interesting thing is you actually -- so first off we can -- we launch every new category pretty much organically unless we don't have an offering. So with the credit card we actually launched on our own and then made an acquisition really around increased modernization and marketing capability that those folks add. They've done obviously a great job of executing. So in most new verticals, but merely by putting it up there and working on the conversion form, once the monetization gets high enough then we drive the business through marketing and it's important to obviously if they remember I know you know that the marketing is not an expense but it's really gas to drive the business. And what was your other question?

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

Just curious about the general pipeline...

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

Yes, the M&A pipeline. So, I would say it remains robust. We're just actually reviewing yesterday with our board the interesting thing was the ratio of the number of deals we've turned down with the one that we've done. We've obviously got pretty good success track record so far at least we're two for two. And although, early there's a lot of things there. We've obviously hired a new head of Corporate Development which we're really looking forward to him starting and stay tuned.

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

That's helpful. And then, I know for competitive reasons, you don't want to get too into the underlying drivers and mortgage business but as I think about I guess just both purchase and refi, can you talk about just general trends around the match rates? And I know that's kind of a gauge of lender appetites on whether it's kind of opening that credit box. But just kind of curious about that what you're seeing there thus far?

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

So the reason we can grow despite interest rate -- despite the interest rate environment and again, it really just comes back to share. We're definitely seeing transmit rates up as lenders are opening up into new categories. And we're also seeing transmits per up, obviously, it all happens particularly in purchase as lenders move from refinance over to purchase. In the mortgage business alone, we don't really give too much -- I don't mind talking from a competitive standpoint there because we're the clear leader. We are digging into -- we keep digging into wallet share and quite frankly, we feel great about mortgage. I think now actually I never felt better in the mortgage business in 20 years. It seems stable from the standpoint we got liquid secondary markets, lenders are profitable but hungry. Some of them as we've seen in the industry of course are going to have problems in this environment. But the great thing at LendingTree we're hearing is that lenders are obviously making money from our business, that they are continuing to expand with us and that they're continuing to shut down other channels and expand with LendingTree and that just -- that's why we continue to take share.

Operator

Our next question comes from the line of Mike Grondahl with Northland Securities.

Michael John Grondahl - *Northland Capital Markets, Research Division - Head of Equity Research and Senior Research Analyst*

Could you go into a little bit more detail on home equity? Clearly that business is picking up traction and kind of getting back to where it was several years ago. Just demand, pricing, kind of some granular trends?

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

Yes. We won't go too granular. I'll give you the overview and then have Gabe filling on some numbers. But home equity business is approaching kind of where it used to be, but honestly, I think we're going way beyond where everyone been for an home equity, I believe. This is a perfect product for the Internet. It's easy to get very close to closing online but frankly, it's more like a personal loan, in many instances it's like a mortgage. And the other great thing about home equity as we -- as I mentioned before is that people who are looking from home equity requests can also be fulfilled by cash out refinance offers too. So our lenders really like to do that. We're seeing out lenders respond very, very positively and we are seeing home equity growth across the board both with big banks but also with the circle with our corresponding clients who are shifting in that business as well. Gabe, some numbers?

Gabriel Dalporto - *LendingTree, Inc. - CFO*

Yes. As we mentioned, the revenue is up 118%, I think volume was up 67%, 68%. So the great news here is that number one, consumers are very interested in home equity. Organic consumer demand from home equity is increasing and we're starting to tap into that marketing channel and I think we can drive a lot more marketing channels there. So we're only scratching the surface on the marketing side, the consumer demand generation side. As Doug mentioned on the lender side, we added, I think, 30 home equity lenders. There's just tremendous lender demand which is fantastic. And it is a pretty good consumer experience. So we like the product very much all around and if we think that there's something we can market across all bunch of different channels. And frankly, it's a great substitute for (inaudible) lot of people equity in their home. They got to pay off the credit card debt, they got to get their kids to college and often times instead of refinancing that 3.5% mortgage into a 4% mortgage makes a lot more sense to get a home equity loan.

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

And the last thing I'd add on home equity, it's been a while since most consumers have had home equity or equity in their homes. And so we expect we're going to keep pushing this when -- but it's an easy one to alert consumers because it's got very, very high conversion rates for our lenders which mean that's very profitable for us as well.

Michael John Grondahl - *Northland Capital Markets, Research Division - Head of Equity Research and Senior Research Analyst*

Good to hear, good update. Anything new in personal loans?

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

Just continued steady growth, sure Gabe will have some other thing to add, new lenders. We're seeing new lenders coming on be very, very successful. I'll leave some names out but it's wonderful and our prediction comes true this is just an example one where it's not just a prediction but quite frankly a great execution of our team has made it come true. Lenders are coming on board. The secondary markets are liquid. We are seeing, as I said, new lenders and we're also seeing some of the or many of the lenders who've been on a while do very well also.

Gabriel Dalporto - *LendingTree, Inc. - CFO*

Yes. I think the important thing -- a couple of great notes for you, number one, we had pretty good sequential growth in personal loans when you're all time highs in revenue, I just missed that. And also we're seeing revenue from leads come up for the first time frankly in over a year. And that's the thing I'm personally kind of excited about. A lot of that in the prime space, so there's really robust demand in the prime space. We're also seeing some -- starting to see some progress in the subprime space and some of those lenders operationally execute a little better. So it's a -- it was a rough year in personal loans last year and we're definitely seeing some positive trends there and hopefully that business goes into not just sequential growth which we're seeing now but year-over-year growth as well as you get in the back half of the year.

Operator

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

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

Could you just try to explain what your guidance is for Q2 given what you're saying? So you're guiding for VMM to essentially be flat to up slightly but you're also spending a little bit more on for new opportunities. So it sounds like you're not expecting that to be profitable or generating kind of revenue?

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

I'm not sure I would read that. I think the way to think about Q2 is sequential improvement across all fronts and to the extent that we are exceeding and we can continue to either seize new opportunities or frankly, I think you have to understand the mortgage industry we're pretty -- we're hedged not all of our lenders are and so it's really incumbent upon us to drive them the volume they need to be successful. And so we are spending pretty aggressively into the mortgage business to make sure we can fulfill their demand. So think of this as us investing in the business excess profit and making sure we can satisfy our lenders and their demands, they are using the (inaudible) rates.

Gabriel Dalporto - *LendingTree, Inc. - CFO*

And Hamed, the only thing I would add is you know it's well enough to know that except for some testing, everything we do is profitable. So we keep the discipline and making sure our margin is profitable and that's what we're doing. So we're doing it up across all fronts, and I think Q2 is going to be good.

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

And then just a different point is on My LendingTree. Could you give the subscriber number? And also could you provide some details as to what you're seeing when you said you're seeing more revenue per user. Is that coming because you added credit cards? Or is that just part of the formula and there's other products people are buying?

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

So first off on enrollment numbers, I don't have in front of me, but we'd happy to -- I think it's about $4.9 million and then we got it substantially in the quarter which I talked about and revenue per user's really up -- it is up, new product certainly up but actually ongoing optimization is a bigger deal as alerts continue to come online and due to competitor read that's much that I want to say..

Operator

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

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

On credit card revenue. Can you give us a breakdown between the revenue from CompareCards and legacy LendingTree? And then with credit cards as it becomes a larger part of your business, how should we think about the seasonality in that segment?

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

I'll let Gabe take the second one on credit card. The important thing -- so you can't really tease out CompareCard and LendingTree markets. Quite frankly, CompareCard and LendingTree are running effectively the same business with two brands and so those 2 are a blend right now. So many of the deals for example that we have on LendingTree we're now running with CompareCard products and vice versa and so that business is really one business.

Gabriel Dalporto - *LendingTree, Inc. - CFO*

And what was the second question, seasonality, is that right?

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

Yes, the seasonality in credit cards.

Gabriel Dalporto - *LendingTree, Inc. - CFO*

Yes. So January is a huge month for example balance transfers and I think Q4 is probably the most seasonally weak credit card quarter and then Q1 to be big because of January and then Q2 and Q3 are -- they are okay. So really the -- there's no seasonality that we can figure out working with

--looking at the Goggle trends data, looking at our historical data, looking at CompareCards and sort of data and Q4 is the weakest quarter. And the others are kind of blended, Q1 I think is generally the strongest but the drop off is Q4.

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

And the thing that I am just thrilled with is from be able to enter from almost a standing start, working great with the CompareCard team integrated in the LendingTree team, the fact that we're now probably the #3 credit card marketplace. We are thrilled with and I'm thrilled with the growth and we see nothing but full steam ahead.

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

And then one more. I guess, we've starting to see some of the online lenders offer mortgages less than 20% down and no PMI. Are you seeing any type of benefit from some online lenders loosening credit standards?

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

It's all baked into the cake, so to speak. Definitely, those -- I won't say loosening credit standards, it's really (inaudible) back towards some standard of normalcy but yes, lenders it's not only lenders reducing the down payment amounts but it's also really increased service as well that's definitely helping.

Operator

Our next question comes from the line of Blake Harper from Loop Capital.

Blake Thomas Harper - *Loop Capital Markets LLC, Research Division - Analyst*

I want to ask a bit about the credit cards. When does the -- now that you have CompareCards in there if you could -- and just given your discussions with some of the credit card issuers and some of them reporting earnings recently what do you think about the overall size of the market opportunity and also kind of near term some of the shifts to -- on their end to more digital marketing and some more of the near-term trends that are going on with the credit cards?

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

Sure. So in terms of issuers doing their own marketing, obviously, we would welcome that. LendingTree has somewhat of an advantage over a single lender in marketing which is why lenders can sometimes do business with us which is any individual lender only wants a fraction of the overall consumer population and they can toggle up and down. So lenders will do what makes them profitable and get some more volume and we certainly welcome that in terms of the market size it's only just begun. We are not only going to be stealing shares but this is a billion-dollar comparison shareholderop in the marketing credit cards alone. And so we're going to grow -- we're stealing share from competitors. We're going to continue to grow share but clearly we think that particularly for credit cards, the online channel works perfectly but we think that the credit card history really is a direct marketing based industry and that sets itself perfectly for online origination.

Blake Thomas Harper - *Loop Capital Markets LLC, Research Division - Analyst*

And one follow-up if I could on the credit card. Doug, you had talked when you had CompareCards that they had a pretty impressive level of monetization in pricing with those issuers. Were you able to translate that to the rest of the business now? Or do you still see some potential lift in pricing for the -- for your organic credit card business?

Gabriel Dalporto - *LendingTree, Inc. - CFO*

Yes. There is certainly -- this is Gabe, there's certainly differences. The issuers think of each domain as kind of a unique business. I think the beautiful thing about the CompareCards business and our business and the fact they are combining is CompareCards have tremendous relationships with issuers. The issuers are starting to see that and I think over time, as we deliver great quality from both demands the pricing will converge. The issuers, I think, in general, going back to the previous question, everything we are seeing in the market is they're still pretty bullish on growth of the industry and investment in our digital channel. So we feel like industry is in a pretty good place and our position is only getting stronger with our relationship with the issuers. I got to say that the CompareCards team does a lot of really custom work for the issuers and they appreciate that and build great relationships there.

Operator

Our next question comes from the line of Rob (inaudible) for Autonomous Research.

Unidentified Analyst

You talked about M&A earlier but going back to broader capital allocation, no share repurchase in the quarter. Is there anything we should read into that?

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

No I won't read anything into it. We put a sort of 10b5-1 like share repurchase plan in place. It's in every quarter and obviously, the stock was higher than where we were. I would expect -- we're getting in terms of overall capital allocation, so definitely do not read anything into it. We remain incredibly bullish and if you look at multiples related to growth rates, we'll leave that you guys' expertise but it feels pretty good I think you should take from that but there is a pretty decent pipeline out there where we can grow very, very accretively. We just want to take our time and be very diligent.

Operator

And our next question comes from the line of Kerry Rice with Needham.

Christian Kerrigan Rice - *Needham & Company, LLC, Research Division - Senior Analyst of Internet and Digital Media*

May be going back to mortgages again briefly. Was there anything that surprised you in mortgages, it was stronger than I think we expected. Was it refis that kind of accelerated as interest rates kind of dipped after the Fed raised rate, was that surprising or was it just as you expected and maybe just a little stronger on both? And then maybe the second part of the question is when we think about the future or 2017 have you -- what's your assumption around Fed rate increases? Is it 3, is it 4? As we think about those rates continuing to come up in your new guidance any additional context on what you kind of are building in there. And then one follow-up question.

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

Sure, Kerry. I have been at this now 20 years and in addition you never know what rates are going to do. I can also tell you, I'm definitely not smart enough to tell you what the Fed's going to do, but I can also tell you the trend over the last several years is quite frankly I don't care what they do. As long as we have a liquid secondary market, at least for our business, I care broader -- more broadly and about our country but even for our business we're growing right through any interest rate cycle and the only thing I think you'll see from us in terms of margin differences is the story of last year and when you had a refi boom, was higher variable marketing margin percentages and you had your lower top line revenue growth because it didn't make sense for us to market into our demand and now obviously you're seeing faster revenue growth, still very good EBITDA growth that you're going to see obviously percentage VMM margins. They're down even as dollar VMM goes up which is obviously while we've been encouraging people to focus on that. And what you need to read from that is that is a tale of 2 markets. But as Gabe said, we are hedged, what do you mean by that is with regards to the interest rate environment originally put in the real-time bidding which we copied right from the search business or we emulated from search business, we obviously feel that we're a search engine for money. We are essentially seeing that adjust in real-time regardless of what the market does.

Christian Kerrigan Rice - *Needham & Company, LLC, Research Division - Senior Analyst of Internet and Digital Media*

Okay. And then maybe my follow-up question is -- and you mentioned margins on the mortgage side. Can you talk a little bit about maybe margin -- product margins in the non-mortgage side, credit card versus personal loan, maybe home equity whatever context you can provide hierarchy maybe which is higher, which is lower, any other details there?

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

So. Yes, I don't want to give product margin on, maybe Gabe will be a little more enticing. Really, it just doesn't make sense to focus on percentages. And because it really doesn't matter with every single day we're marketing for the last profitable dollar in every single product, and quite frankly, if we could do incremental deal at a couple of points of margin it's pretty consistent across the travel industry and things like that when you run your search business and your online marketing business as fast as you can and as hard as you can and -- but percentage margins honestly, I can't tell you what they are because I don't look at them. So they really don't care much. Gabe, do you have anything to add?

Gabriel Dalporto - *LendingTree, Inc. - CFO*

I think there's a real competitive nature to margins by product and we really don't want to be sharing. We can say X product is 50% margin, well then everybody and their brothers are going to go jump into that segment, so frankly I think we like to keep it at a little higher level.

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

So keep in mind Kerry, if I'm running a -- if we run a home equity ad up there on pick a website and we say, hey we are running a home equity business XYZ margin and people know what lenders pay for, they can back into what we're paying for the advertising cost. You can back into what the rev share is on a publisher deal and we don't get into that kind of thing. We don't think -- I don't know other companies talk about at that level. We just like I said, everybody is shooting at us because we are the leader and the one gaining share and so we just have to be careful at what we put out there other than what shareholders hopefully need to know which is we're going to keep putting up rate and increasing and growing earnings and cash flow.

Operator

And this concludes our Q&A session. And now I'd like to turn the call back to Mr. Douglas Lebda for any further remarks.

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

Thank you all very much and just to wrap up first off, obviously, we want to thank our shareholders for their continued support and we plan on paying that back with significant shareholder returns. We are extremely proud of fact that we are one of top 3 performers in the last 5 years on NASDAQ. While you can't be in the top 3 forever, we certainly plan to keep outsize growth and hopefully, over time to be one of the core Internet holdings in many of your portfolios. I also want to thank our employees who are just a relentless execution machine. It's just a joy to work with everyone of them everyday. And last but not least in an environment like this I really want to thank our lenders. Their partnership, their willingness to stick with us, their willingness to share information and it is a true partnership, we don't make money unless they make money. And they don't make money unless we can work together and drive the business. We're committed to their success for 20 years. They helped us obviously succeed in a environment where things are choppy and certainly changing their ability to change and this industry's ability to change and adapt is wonderful and I thank them all very much. We will talk to you again next quarter. Hope to put up some continued great growth and thanks again for your time today.

Operator

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