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TREE - Q3 2017 LendingTree Inc Earnings Call

EVENT DATE/TIME: OCTOBER 26, 2017 / 1:00PM GMT

CORPORATE PARTICIPANTS

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

J. D. Moriarty *LendingTree, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Brandon Burke Dobell *William Blair & Company L.L.C., Research Division - Partner & Group Head of Global Services*

Christian Kerrigan Rice *Needham & Company, LLC, Research Division - Senior Analyst*

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

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

Jeffrey Brian Cantwell *Guggenheim Securities, LLC, Research Division - VP and Analyst*

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

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

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

Michael Matthew Tarkan *Compass Point Research & Trading, LLC, Research Division - MD, Director of Research, & Senior Research Analyst*

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

Robert Wildhack

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the LendingTree Third Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, this call will be recorded.

I would now like introduce your host for today's conference, Mr. J.D. Moriarty, Chief Financial Officer. You may begin.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Thanks very much, operator, and good morning to everyone on the phone. Thank you, all, for joining us to discuss LendingTree's Third Quarter 2017 Results.

In my first call as CFO of the company, I'm thrilled to join Doug to speak about this quarter's exceptional performance.

But before I start, I should make 2 acknowledgments. First of all, our Head of Investor Relations, Trent Ziegler, is not with us this morning, because he spent the last 24 hours at the hospital and delivering -- he and his wife delivering their first child. So welcome and congratulations to the Ziegler's birth, Pendleton Ziegler born at 2:00 a.m. Congratulations, Trent, and family.

Secondly, I should start with brief thank you to my predecessor as CFO and our newest board member, Gabe Dalporto. Gabe has been immensely helpful as I transitioned into my new role. Thank you so much, Gabe.

We'll stick to the typical cadence we've been following on these calls, where I'll spend time walking through the quarter's financial results, and then Doug will provide thoughts and discuss our revised guidance.

But before we jump into the numbers, let me provide a quick disclaimer on forward-looking statements.

During today's call, we may discuss LendingTree's plans, expectations, outlooks or forecasting for future performance. Forward-looking statements are typically preceded by words such as we expect, we believe, we anticipate, or other similar statements. These forward-looking statements are subject to risks and uncertainties, and our actual results could differ materially from the views expressed today.

Many, but not all, of the risks we face are described in LendingTree's periodic reports filed with the SEC.

On this call, we will discuss a number of the non-GAAP measures, and I refer you to today's press release available on our website at investors.lendingtree.com for the comparable GAAP measure, definitions and full reconciliations of non-GAAP measures to GAAP.

With that, let's jump in.

The third quarter results were outstanding once again, exceeding expectations across the board and highlighting the ongoing benefits of diversifying the business. The value of the LendingTree platform has never been more clear. The results confirm that we have the right strategy and that we are executing well. The core mortgage business continues to perform incredibly well in the face of industry contraction and has also enabled us to grow in scale in other categories. These new growth engines further reduce any risk of concentration or exposure to interest rates and other macro factors.

In the quarter, we recorded consolidated revenues of $171.5 million, representing year-over-year growth of 81%, and substantially exceeding the high end of our prior guidance. Mortgage revenues grew to $73.8 million in the quarter and year-over-year growth accelerated to 38%.

For context, mortgage originations industry-wide are projected to be down 16%, according to the Mortgage Bankers Association, further evidence that we continue to garner increasing market adoption as lenders look to LendingTree to sustain growth in their business and consumers increasingly begin the mortgage shopping process online.

Turning to nonmortgage. We saw a truly breakout performance, as revenues from our nonmortgage offerings grew 20% sequentially from record levels in Q2. At $97.7 million, nonmortgage revenues grew 138% compared to the prior year and now comprise 57% of total revenue. Further highlighting the value of the LendingTree platform and the strength of our offerings, every single category in nonmortgage reported segments showing sequential growth from the second quarter.

Momentum in home equity business continued, notching 8 consecutive quarters of triple digit growth. Importantly, this vertical is achieving real scale and is now at a run rate of more than $50 million annually. Helping drive this growth, consumer loan requests for home equity products grew nearly 30% from just the second quarter, as we're just beginning to ramp new acquisition channels and the automated home value feature inside of My LendingTree is driving further engagement among existing homeowners.

Personal loan revenue grew $25.4 million in the quarter, up 44% year-over-year and up 24% sequentially. We're thrilled to have this category reemerge as a key growth driver for the company. As the health of the personal loan market continues to improve, we're committed to helping our lenders grow originations at attractive economics.

Revenue from our credit card offerings grew to $39.4 million, with year-over-year growth of 43% on a pro forma basis, adding effect for both CompareCards and MagnifyMoney, the 2 acquisitions. Despite the real concern -- the recent concerns about increasing card losses at major issuers, we remain incredibly concerned -- pardon me, incredibly encouraged about the strength of our card business as we look out to 2018 and beyond.

We still see a number of obvious synergies across the portfolio of brands that we have yet to realize.

Turning not to profitability. Variable marketing margin grew to $59.1 million. At 34% of revenue, margins expanded modestly above the first half, even as we continued to ramp our investment in offline advertising. And while we're not running the digit -- business for margin expansion at present, it is worth noting that incremental margins from Q2 to Q3 came in at 57%, highlighting that there is potential leverage inherent in our model.

Adjusted EBITDA in the quarter grew 88% to $34.7 million, or 20% of revenue, and also substantially exceeded the high end of our prior guidance. What I find especially encouraging about our performance this year is our ability to consistently deliver exceptional revenue and EBITDA growth while also ramping our investment in the business and positioning the company to scale.

For perspective, we've grown headcount at the company 37% year-over-year to 492 full-time employees, and we are accelerating hiring in the fourth quarter as we ramp up for 2018 and beyond. Now we maintained our relentless focus on employee productivity, as evidenced by our results. Despite this rapid addition of new employees and other important investments, we've managed to deliver EBITDA growth north of 50% in every quarter since 2014.

Now looking at GAAP results. We've recorded $10.1 million in net income from continuing operations in the third quarter or $0.74 per diluted share. Items of note on the income statement include $2.5 million charge associated with the increase in the carrying value of our contingent earnout payments. You will also notice a step-up in general and administrative expense, which is primarily driven by an increase in stock compensation expense associated with performance grants to our CEO. These grants were made in July and they were disclosed in our 10-Q for the second quarter. And you can find plenty of details there. So I won't get into specifics, but it's worth clarifying a couple of points.

First, the grants are performance-based, with Doug aligned to drive exceptional total shareholder return, with the performance trigger of 110%. Further, the majority of potential shares do not vest until September 30, 2022. But from an accounting perspective, we're required to recognize the expense associated with the fair value of the grants on a straight-line basis over the course of the vesting period.

Excluding the impact of those charges and other extraneous items, adjusted net income per share, as we've defined in our press release, rose to $1.17, up 62% year-over-year.

Lastly, on the balance sheet, our unrestricted cash position sits at $344 million -- $345 million as of September 30. In addition to continuing to pursue strategically important acquisitions with the purchase of SnapCap in September, we also repurchased $10 million worth of shares at a weighted average price of $237. Given our solid capital position and confidence in our growth outlook, we'll continue to reevaluate share repurchases as an important piece of our capital allocation strategy going forward.

I joined LendingTree this year because I saw an amazing opportunity to help grow and scale an industry leader. As our results today hopefully demonstrate, the opportunity is even better than I expected.

Thank you to everyone on the LendingTree team for making this performance possible. With that, I'll turn it over to Doug.

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

Thank you, J.D., and welcome to your first earnings call as LendingTree's Chief Financial Officer. We're thrilled to have you here. And for those of you on the phone, thank you for joining the call today.

We have a very simple story for Q3, record revenue, record profits and exceptional growth. I'm proud to report that all of our marketplaces are performing exceptionally well, enabling us to continue to diversify, reinvest in the business and focus on executing our strategic plan. This boils down to the flywheel effect. The momentum that we've been building on the past several years and overall of effort, decisions, acquisitions and more, all apply to one consistent strategic direction.

In the third quarter, we saw total loan request from consumers increase 48% compared to the third quarter 2016, and our lender network grew 25% over the same period. In mortgage, 15 out of the top 20 lenders on our network increased spend with us year-over-year with a median spend increase of 46%. This is another example of how well the flywheel is spinning, as lenders allot more marketing spend with LendingTree, it allows us to market to more consumers in high-quality channels, enabling us to match those consumers with more lenders, and so on. On top of that, we're working with lenders to understand their unit economics to ensure that our lenders and partners are successful as well.

This effect extends into nonmortgage as well, where we're able to leverage the strength of the LendingTree brand and product offerings from partners on our lender network. As J.D. mentioned, nonmortgage revenue now substantially exceeds mortgage revenue, although both continue to grow, which is a remarkable achievement for our team.

In home equity, we saw a continued exponential growth as home values improve and more consumers tap into the equity in their homes. Since into the third quarter 2016, request from consumers increased 97%, revenue increased 176%, and we have added an additional 9 lenders to the network. The triple digit revenue growth was once again driven by a combination of strong volume growth and consumer demand, along with match rate improvement.

The credit category continues to scale, fueled in part by the successful integration of CompareCards and MagnifyMoney, with many more opportunities ahead. In fact, revenue from credit cards has surpassed that of personal loans and is now roughly half the size of mortgage. The larger categories in nonmortgage are achieving real scale, and that is incredibly gratifying as it confirms that our strategy is working. But this success should not be overshadowed -- should not overshadow the great contributions from a number of our smaller categories, like student loans, which increased lender spend by 58% year-over-year, and saw a nice lift during the seasonally important third quarter.

Autos, reverse mortgage and small business are all critical to our strategy and mission, which is to advance LendingTree's leadership position in all categories where we compete.

A year ago, we laid out our strategic plan with 4 key pillars: expanding into new categories; strengthening the customer relationship; improving the customer experience; and funnel optimization. I'm once again thrilled to report that we're seeing notable progress in each area.

Let's start with the new categories.

We remain committed to expanding into new categories and gaining scale in all loan types. Let me highlight 2 examples. In September, we announced LendingTree's acquisition of SnapCap, an online platform that takes a unique approach to connecting small businesses with lenders. This acquisition enables us to expand our presence in the small business space, leveraging SnapCap's high-touch approach to helping small business owners find the financing that they need to grow. We've completed the initial integration of SnapCap into our business lending network and we are well into the next integration phase.

Another category we are focused on is helping consumers who aren't eligible for loans at this time. Through growing partnerships in the credit repair and credit counseling space, we've made sure that borrowers who may not qualify for loans have access to the tools needed to improve their situations, and we're beginning to see real traction as we grow this category. This is consistent with our strategic expansion plan, but also key to our mission to help all consumers.

The second pillar of our strategy is to strengthen our relationship with the consumer, and the key part of this is our logged in experience, My LendingTree, where we're focused on driving engagement, enhancing our connection with consumers, and we've seen a 60% year-over-year improvement in engagement through the platform and now have over 6.5 million users on My LendingTree, which represents an increase of over 175% compared to the same time last year. The launch of home value estimates, nearby sales and a redesigned mortgage trade line page have driven significant wins in engagement and added home equity and refinance through the platform.

Additionally, the My LendingTree app now has a 4.9-star rating in the App Store as improvements and new features continue to rollout. We will be announcing additional features in the coming weeks that are focused on further engaging consumers by providing deeper insights, recommendations and savings opportunities.

Our third pillar is reimagining the customer journey. And here, we're focused on providing a consumer experience that meets their specific needs. One area we're focused on is creating a fully digital mortgage experience. We've increased digital integration with the lenders on our network and now have 57 lenders live on the digital mortgage product, with several lenders in the pipeline. The digital mortgage experience allows consumers to review and compare mortgage offers online at any hour and enables borrowers to apply directly online, making the process faster and more convenient. In fact, we've seen the time frame between initial shopping for a mortgage to the loan close decline over the past year. It's a median of 7 days, thanks in part to the digital integration efforts.

Our fourth strategic pillar is to fully optimize the conversion funnel from an ad unit to loan funding, and we continue to see meaningful improvement. Continuous testing is providing a substantial lift in our form conversions and lender closings. Efficiency gains in the LendingTree network flow-through directly to benefit our lenders. We're focusing on lenders' unit economics and cost per funded loan to maximize the value of working with LendingTree, particularly versus our competitors.

Before moving on to our revised outlook for the remainder of the year, I'd once again like to thank the LendingTree team. I continue to be more and more impressed by the caliber of talent we have at this company and that we continue to recruit.

Now turning to our guidance. With yet another consecutive quarter of outperformance, we've -- we're increasing our full year guidance for the third time this year, providing further upside to both revenue and EBITDA.

For the year, we're increasing revenue to $603 million to $608 million compared with our prior guidance of $580 million to $590 million, which now reflects year-over-year growth of nearly 60%.

On variable marketing margin, we're now anticipating $202 million to $205 million, up from $190 million to $195 million, and adjusted EBITDA is now expected to be in the range of $111 million to $113 million, an increase from the prior range of $103 million to $106 million.

As we've discussed in the last call, we do expect seasonality to play a prominent role in the fourth quarter, as it has in years past. That said, our outlook for Q4 has improved materially from just 3 months ago.

Revenue in Q4 is now expected to be 145 to -- I'm sorry, $146 million to $151 million compared to the prior implied range of $140 million to $145 million.

VMM is now anticipated in the range of $51 million to $54 million in Q4. And adjusted EBITDA moves up to $25.5 million to $27.5 million versus the previous range of $24 million to $25 million.

As J.D. pointed out in his remarks, we do intend to pull forward some hiring from 2018 into the current year, and those assumptions are already reflected in these updates. As for our 2018 projections, we're close to finalizing our annual planning process and we plan to provide our 2018 guidance at our Investor Day in December. We'll host that event in New York on December 13, and you could expect more details in the coming weeks.

To wrap up, I'm extremely proud of the progress we've made over the past few quarters. Having consistently outperformed this year, we're well on our way to delivering our third straight quarter of more than 50% top line growth and more than 60% EBITDA growth. The flywheel continues to spin, and I'm beyond excited for what the future holds.

With that, I'll open up for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mark Mahaney with RBC Capital Markets.

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

Great. Just a question on the My LendingTree, that growth of 96%, that's impressive. Could you provide some color behind that revenue contribution? So what's the -- this is the big kind of supermarket kind of cross-sell opportunity for the company. If you get this right, it's probably hasn't done -- been done well in the market to date. So what's behind that? What's most effectively being bundled together or cross sold? Or what products are leading to what other products?

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

Okay, Mark, thank you for the question. So it's basically driven off continuing to improve our alerts. We're still not doing a lot of direct marketing for My LendingTree, but we're -- given the increased application flow of LendingTree or the QF flow of LendingTree, we're able to cross sell that into My LendingTree, get people to sign up for the experience, and they're getting alerts and they love it. I'd encourage everybody on the call to go download the My LendingTree app and give it a shot and tell us what you think.

Operator

And our next question comes from Nat Schindler with Bank of America.

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

You've been at this for more than a dozen years, and despite a lot of great success, particularly recently, you're still at a very small percentage of loans being originated online, certainly versus online travel, which you often compare the business to and there are a lot of similarities. What's holding people back at this point? And what has changed in the last year or so on the consumer side that's causing a real growth that you're seeing across all your product lines?

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

It's basically, as I said, the flywheel, and we can basically market to bring these customers in. So with increased lender demand, we can now go do the marketing to drive them in. We've got a fantastic CMO, a great marketing team. And these guys are able to do it, and as revenue per lead increases, we can basically go market into that. J.D., anything to add?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. Nat, I think it's just scale. I think if you look year-over-year at the individual businesses, that's the notable thing, right? Now on the consumer side of things, we're just getting unbelievable leverage from our brand. As Doug pointed out, right, as we get more coverage from lenders, we can be much, much more efficient on the marketing side. And I think we are, as we all pointed out, we are behind the travel industry on that consumer adoption, but we are certainly seeing a change across all financial products.

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

And just one follow-up. As you look at the growth that you're seeing in online travel, and you gave us some great data about the growth in the number of banks -- sorry, not online travel, online mortgage, as you gave us the number of banks and increase in pricing. But if you have to break it down, obviously, last June, you had Brexit causing a shock to the market and thus the July quarter was a real change and you had a big deceleration, so you do have easier comps. As you look at this Q3 and the acceleration you have now, how much of this is -- are you -- do you think is the counter-cyclicality of this business kicking in or -- versus the flywheel?

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

I think -- so the counter-cyclicality, effectively, you'll see, if you look at our numbers over the years, revenue will move up and down, VMM moves into a straight line up to the right. And it moves in a straight line up to the right because lenders are increasing their bids. Effectively, we're working like a search engine. They increase their bids, they increase their coverage, we get more long-tail coverage, and then we're able to market into that. So we basically make it happen ourselves.

Operator

And our next question comes from Kerry Rice with Needham.

Christian Kerrigan Rice - *Needham & Company, LLC, Research Division - Senior Analyst*

Another great quarter guys, so congrats on that. Maybe to follow up on Nat's question on mortgage. You mentioned the spending going up on the top 15 of 20 pretty considerably. What would you -- what would that be most related to? Is it -- would you say it's conversion? Would you say that they -- maybe they were trialing some things, so they just decided the turn to speak it on more. Is anything more contexts to what you think drove that increased spending for the top 15? And then similarly, personal loans really showed a good strength after kind of a troubling '16 in the industry and some stabilization really now growing again. Was it more just spending from existing lenders? Was there a lot of new lenders added to the platform? Any more context will be great.

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

Very simply, it's growing because it works. If it works for lenders, if they get profits, they do more of it and it's working. The technology that's coming to the industry to help automated pricing, automated loan originations, et cetera. That technology applied to this business helps us. And in personal loans, we're seeing both new lender growth and we're seeing expansion among our existing lenders, and it's just going to continue to happen because they're making money.

J. D. Moriarty - *LendingTree, Inc. - CFO*

We track -- one thing probably worth thinking about is we focus not just on getting people to go through a form, right, but an ultimate conversion for our lenders and ultimately cost for funded loan. That's the metric that we're all tracking. And so I think as we focus on that, we get more lenders to buy in. So I think that's one thing to pay attention to. So to Doug's point, it's certainly working. Personal loans is the area where, when we look at market share, we're probably seeing the greatest growth in market share. And that's what we want to do there. As that market recovers is we want to make sure we own that market. And that's where we're seeing real benefit.

Operator

And our next question comes from Jed Kelly with Oppenheimer.

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

4Q guidance implies a decent revenue deceleration and variable marketing -- variable margin leverage dissipating as well versus the first 3 quarters. Is there any change to the marketing channels you are seeing that is causing you to spend less?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. So a couple of things. One, I think when you look at -- we're always going to be conservative with regard to Q4. And as Doug points out in his comments, we're on a far better place in terms of our view towards Q4 than we were 3 months ago. But there clearly is some conservatism there for a number of very good reasons. In terms of the year-over-year, keep in mind that in last year's Q4, we had the benefit of CompareCards. And so that deceleration is not as extreme as it may appear. In fact, our Q4 last year, not -- if not for the benefit of CompareCards, our Q4 last year would have been down sequentially. So recognize that while we forecast a bit of a sequential decline in Q4, that's off of an extraordinary Q3, but we're also just trying to reflect some seasonal risk in all of our businesses. Further, I should point out, obviously, we've only had real scale in credit card for a short time now. So I think we're appropriately being conservative there. With regard to your VMM comment, I think, Jed, and I saw your note this morning, keep in mind our margin -- or our implied EBITDA for the quarter, the range in your Exhibit 2 actually incorrect relative to our statement. So we're $25.5 million to $27.5 million. That's the range that we reflected for EBITDA. So I think that may be the nature of your question with respect to margin. But -- so we don't see margin degradation in Q4 now.

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

And only thing I would add to that is, in Q4, typically, borrowers are not borrowing. They're focused on spending and media rates go up in the industry, and so, Q4, typically, is a seasonally low quarter for us. And Q4 -- and Q1 typically is our seasonally stronger quarter.

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

That's helpful. And then I just have another question. I think you probably saw the announcement this week, with Intuit combining its Mint and TurboTax data into one product with some pretty large lenders already on board. Can you just talk about the overall competitive environment as some of the largest players start to branch out by utilizing their own data?

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

Sure. So one of the things that we hope to do in that area is we actually think we've got a great opportunity in private labeling and cobranding the LendingTree marketplace and expect to see some deals coming out there where we can basically do that type of deal with other lenders. We do it already with other -- not only other lenders, but also distribution partners. We feel that we are sitting in a great competitive spot because we've got over 500 lenders, which means we have better coverage, which has enabled us to beat Google at this thing twice, Yahoo! once and Microsoft once, and we expect that to continue.

Operator

And our next question comes from John Campbell with Stephens.

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

Great work in the quarter, and J.D., nice to have you at the helm. But just, I've another question kind of related to the changes in the market. And Doug, I think this could probably be a day-long conversation so maybe we can talk about this a little bit more offline later. But just wanted to get your take on the -- like the ongoing automation in the U.S. mortgage origination channel. So I mean, you guys -- we have Rocket Mortgage and Quicken. It sounds like a lot of the large banks are partnering with kind of smaller startups to offer that digital application. So I'm just curious, what does that mean for you guys long term? And then is that helpful for your value prop? Does it create a more of an easier lease delivery channel? Just curious about how are your thoughts there.

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

Automation, it's a great question. Automation always flows to the benefit of the marketplace. So the more lenders get automated with pricing, with one origination systems, with the CRM systems, the more Ellie Mae and other people like -- and other companies like them automate lenders, it makes them more efficient and it makes us able to close more loans with the lenders and make it more productive. Think of it like Google Analytics where Google, over time, was able to put more and more technology inside of their business. And because of that, conversion rates improved, because of that, we increased our spend with Google. The same exact thing is happening with lenders. As they get more automated, the benefit, as I said, completely flows to us.

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

Interesting. And as I think about the process now where lenders are essentially picking the phone and calling in to your customers, is there one day where that could be all a full automated process where you take a consumer online and move him directly into, like, a digital application from a large lender?

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

The answer is absolutely yes. We are -- we had that vision over 20 years ago when we started the company. We ended up having in mortgage somewhat of a phone-based process because that was the technology. The technology is getting better. We've got over 50 lenders that have digital mortgage experiences, and we're going to continue to push that and push the industry. Ask the leader to get more and more lenders automated, makes them more productive and then they up their bids with us and increase their spend.

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

Okay, and then last quick one for me. I mean, mortgage has, I would say, defied logic this year. It's been a fantastic performer. Just curious, and I know this is probably impossible to know now with accuracy, but if you had to guess, how long do you think it would take you to double up that mortgage business, to get it to $0.5 billion of revenues?

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

I'm going to look to J.D. on that one.

J. D. Moriarty - *LendingTree, Inc. - CFO*

I look forward to the day-long discussions at our Investor Day on December 13 because -- no, seriously, one of the things that where we spend a lot of time is looking at how big can we be. And I mentioned market share earlier. And what we're driving toward is market share. Now that's -- we obviously have the best data on our market share and mortgage, and it's a really easy way to look at it to say, "Okay, we're approaching 2% of mortgage originations, how quickly can we be 4%?" We've made meaningful progress this year, but you pointed out the headwind that we made progress against. So I think a couple of things have to happen. I think your question is very much tied in to Nat's, which is consumer adoption, which will be driven by technology, as Doug points out. All the stuff that you see going in digital mortgage, which, by the way, we're doing today, okay, we're experimenting today with a number of our lenders, all of that is beneficial to us gaining market share. I think the kind of doubling of our mortgage business is a -- it's not a -- it's a 2- to 3-year reality I think that can occur, but we have to have a couple of things align. I think we have to have consumer adoption, we have to have the implementation of technology, and we have to have the right macro environment. The good news is that's probably the business where we have the biggest moat. And what we're seeing is that, that business with a great moat around it, where we're taking market share, is naturally facilitating us getting real scale in other areas and enabling us to become more efficient in marketing. So I think that's the time frame, and we'll discuss it in greater depth at our Investor Day.

Operator

And our next question comes from Mike Grondahl with Northland Securities.

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

Yes, and congratulations on the quarter. Just curious, what was the biggest surprise in the quarter or what outperformed the most, Doug?

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

I'm going to let J.D. give the financial answer. I think -- I don't think we're actually surprised. We are very, very good at forecasting the business. We can see lender demand coming in. We can actually forecast it in advance. We know what lenders want, they're putting in orders and they're increasing their orders. So I don't think we were actually surprised. I think we're pleased and thrilled with the growth of credit card business. I would say we're really happy about the mortgage growth because I think it proves the business model that we're not dependent on interest rates or dependent on whatever mortgages are going to do. I think the personal loan growth, despite everything that people have -- that happened in the past, like that continues to be great. And I don't feel surprised.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. It's a little bit of everything in the quarter. I think more interesting is looking at the year-over-year comparison. Looking at our revenue in 2016, where we had extraordinary year-over-year growth, but we didn't really have sequential growth. In this year, every quarter, we've had sequential growth. Now we pointed out our guide for Q4 does not reflect that. There's some conservatism there, as we've talked about. But what we really benefited from the third quarter was kind of out of the businesses working well together, and I think the most notable thing is the scale that we're now achieving in these nonmortgage areas, where I think our offering is just simply more competitive than every one of them.

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

And the only thing I'd add to that is that our team has done a phenomenal job at not only buying the right companies with the right people, but integrating them in a way that makes their business better, where they can basically leverage the LendingTree brand, leverage all of the skills that we have and bring new skills to the table. The acquisitions have definitely been a very positive thing for us.

Operator

And our next question comes from Michael Tarkan with Compass Point.

Michael Matthew Tarkan - *Compass Point Research & Trading, LLC, Research Division - MD, Director of Research, & Senior Research Analyst*

Just on the personal loan side, how much of that growth is coming from volume versus pricing increases? Or is it coming from both? And then, second question is on the buyback and capital allocation. How are you thinking about buying back the stock versus looking for more deals or more bolt-on acquisitions like we've seen this year?

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

So we're seeing both price and volume increases, so it's both, and we don't get into the specific disclosures of how much, but we're seeing growth across the board. Lenders are increasing bids for price, they're increasing volume, and importantly, they're increasing coverage, which means they're able to take different credit scores, different states and expand their coverage with us. On the second question?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sorry, repeat the second question, I apologize.

Michael Matthew Tarkan - *Compass Point Research & Trading, LLC, Research Division - MD, Director of Research, & Senior Research Analyst*

Yes. Just on capital allocation, I noticed the buybacks start up again this quarter, and I'm just wondering how you think about the stock versus more of these bolt-on acquisitions?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes. So listen, we're obviously optimistic with regard to our stock. We've got a healthy capital position. The acquisitions that we're making, we're very clear when we raised money with the convert is that the -- we wanted to have a cash balance that was a competitive advantage with respect to M&A, but you shouldn't expect large transactions. You should continue to expect small bolt-on transactions. With respect to buying back our stock, we intend to be disciplined about it. We generate a good amount of free cash in every given quarter. We're always going to look at what we think the implied IRR is of buying our stock, and we're going to use repurchase to offset future dilution, as we should. And so we just looked at a general construct as to an amount of our free cash that we might use in any given quarter as we look at what we think our stock is worth. It certainly does not impair our ability to do deals. We've got plenty of cash to do the bolt-on transactions that we've been doing, and we're obviously generating cash. So it's -- we're going to be opportunistic with regard to share repurchase and -- opportunistic and disciplined.

Operator

And our next question comes from Hamed Khorsand with BWS Financial.

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

First off, did you disclose what the revenue contribution from My LendingTree is?

J. D. Moriarty - *LendingTree, Inc. - CFO*

We did not disclose it. It's about 9% of total revenue and continues to increase the percentage of total revenue.

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

And let me just point out, Hamed. We look at My LendingTree as being -- it's the log-in experience of LendingTree. It is very much tied to our CRM channel. And so it's really hard to parse it and say directly how it's impacting or what revenue is responsible for. We think it's a holistic way to look at our interaction with the consumer and increasing engagement with the consumer. So it's going to candidly become more challenging to parse that out over time. And just, we're happy to go through any type of metrics with you on it, but it's something that's going to become more ingrained in our business over time.

J. D. Moriarty - *LendingTree, Inc. - CFO*

And the great thing for us, Hamed, on this one is, obviously, we've got then a lifetime value effect. And we can also take the money from My LendingTree the expected value that we're getting from those customers and add that effectively back into the bogey that our marketing team goes and hits every day. So anytime we can increase expected revenue, that only helps the marketing side of the equation.

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

And just a follow-up on that before I ask another question. Can't you just match a customer's name and email address off My LendingTree with a product they might purchase through your online platform versus the mobile platform? Could you do that?

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, we absolutely can. The reality is that you may have somebody who signed up for My LendingTree 3 months ago and comes back in, and is a customer engagement that we have, but they don't actually access the product through My LendingTree. So today, we would give credit to My LendingTree for a part of that revenue. That's an internal accounting issue, right, in terms of the way that we handle it. But certainly, getting that person to sign up for My LendingTree increase their engagement with us. So there are different ways to look at that. But that's how we're trying to track engagement is to say, "Over a period of time, shortly thereafter, becoming My LendingTree customer, did they transact, did they engage with us?"

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

And one other thing to add to that. I am thrilled with the ratings that have come out on the new My LendingTree app. It's remarkable and it's great to see that we're actually -- the consumers love it.

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

And my last question is, what's driving your sales and marketing increase? I mean, it's now above 6% to 9% of revenue.

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

We basically spend marketing up to the point where lenders -- where we can be profitable. And the more money we can spend in marketing, the better. Into our marketing team all the time, I want to be spending a lot more money than we are. Because for us, marketing dollars is fuel to the business and it's showing that lenders actually have demand. When you see our TV ads running, you know that the business is healthy. And when you see those individual products, that's one of the ways I always gauge the business, is seeing how many ads we have on TV. Because I know if TV is working, then everything else is working and lender demand is up.

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

Is there a number that we should have in mind as far as your peak spend as a percentage of revenue?

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

No. And I would say, always focus on the dollars, not the percentages. We want to maximize the VMM dollars of the business, which is net revenue. And if we do that, we maximize cash flow, which is what we focus on.

Operator

Our next question comes from Brandon Dobell with William Blair.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Global Services*

I just want to focus on My LendingTree for a second. How do you guys think about what the right, I guess, right metrics are to measure consumer engagement? I know there's traffic, but what else should we think about that you guys are paying attention to in order to gauge if that business is going the right direction for consumers? And how do you think about improving those metrics the next 10 full quarters?

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

So for reasons, because obviously there are some competitive products out there, we actually don't disclose those engagement metrics. I would wait a couple of months, and we will have a lot more data on My LendingTree to show you the experience, to show you the numbers at our Investor Day.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Yes, right now, Brandon, I would just say, right now, it's pretty simple, right? It's -- we're looking at kind of cross-sell, we're looking at ARPU. I think, as you think about My LendingTree, think about where -- what we're going to roll out in '18. That's why Doug is hesitating to talk about it. We think from a -- we intend to roll out a number of engagement kind of products effectively through it that will drive engagement in '18. And we think we're just kind of scratching the surface there. But ultimately, we're going to be -- we think it will contribute overall to our Net Promoter Score as well, but it's really going to be about where My LendingTree is a year from now, not where it is in the quarter.

Brandon Burke Dobell - *William Blair & Company L.L.C., Research Division - Partner & Group Head of Global Services*

Got it. And I guess, the follow-on question to that would be, given it sounds like you're getting at least internally some metrics around kind of the test and repeat, the iterations around different programs, different campaigns. Combined with what you're seeing in My LendingTree, does that give you a different view about what other kinds of adjacent markets or how deep in particular products you guys could go now, as opposed to what you thought was going to be possible, if I'd asked a question 2 quarters ago or 4 quarters ago?

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

So what I would say to that is there are other opportunities, likely ones would be insurance and then you could also go into the assets that underlie the loans. So it would not be creating to have -- be sending customers to realtors, which we did for over 15 years with realestate.com. And you could see -- you could do something in the auto space, et cetera. But the key thing for us, there's plenty of opportunity just in the loans, because everybody in America is going to take out multiple loans in their life. And that's the main focus for us.

Operator

And our next question comes from Jeff Cantwell with Guggenheim.

Jeffrey Brian Cantwell - *Guggenheim Securities, LLC, Research Division - VP and Analyst*

It seems to be a hot topic, but can just talk to us a little bit about conversion rates, particularly in credit card? Just trying to better understand how you're driving improvement over time, and what can we expect going forward in terms of your conversion rates in card?

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

The credit card business, the conversion -- when you say conversion rate, I'm assuming you mean that consumers who click on something can actually close, is that correct?

Jeffrey Brian Cantwell - *Guggenheim Securities, LLC, Research Division - VP and Analyst*

Flow through, yes, correct. Correct.

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

Got it. Basically, what you do is you just continue to optimize the funnel. It's one of our 4 key pillars of our strategy. We got a team that literally just sits there every single day, every minute and maximize the conversion funnel. If we can get really 3 parts to the equation, right, you got the consumer side, we've got a great marketing team there who can drive volume. We've got the lenders side, which is increased demand, and then you have the conversion rates in the middle. We do that both through analytics, and importantly, working with our lenders to not only give them the data, but help them improve conversion rates. It's been a major focus of the company since we started over 20 years ago.

Jeffrey Brian Cantwell - *Guggenheim Securities, LLC, Research Division - VP and Analyst*

Appreciate that. And then I think you mentioned this earlier, but I apologize if I missed it. But what was the breakout in terms of your nonmortgage products revenue? I'm just trying to figure out what were the biggest contributors to growth in nonmortgage product revenue this quarter.

J. D. Moriarty - *LendingTree, Inc. - CFO*

Sure. In order credit card, personal loan, home equity. And the 3 of them make up a good amount of it. I think, importantly, and Doug pointed this out, credit card is now about half the size of mortgage, which is excellent for us. But we think there's still the ability for us with Compare and Magnify to take share there. It's pretty evident to us that we've been doing that when you consider the macro environment for card. But those are the 3 main engines. We're also, though, really happy about the smaller products. Those are smaller, but the -- in terms of contribution, right now, but (inaudible)

Operator

And our next question comes from Rob Wildhack with Autonomous.

Robert Wildhack

We've touched on it a bit, but I was hoping you could give us some more color on the acquisitions done this year and how the integrations are progressing. And longer term, how do you envision these businesses growing and contributing over the next kind of 1, 3, 5 years?

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

Sure, absolutely. So of the acquisitions, first of all, we talk a lot about CompareCards. We also, last June, made an acquisition in student loans. We're very happy with the progress there. It's smaller. We made 2 acquisitions in June in Magnify and deposits, and most recently, SnapCap. Now the last 3, we can give you kind of how we feel about our progress. We didn't disclose any financials with those. So let me just say how we think about them. Deposits, we think can be a really big business for us over time. We think we bought it at exactly the right time. As you think about the online lenders looking to grow their deposit bases, we're seeing great traction there. Magnify, we know is contributing to our success in card, and we think, over time, it can contribute our success in our products as well. We also think that it will contribute to our margin profile over time, and we're extraordinarily happy with the results there. Early days on SnapCap, but the signs there are really encouraging in terms of what -- just the ability to integrate that business into LendingTree. These all have something in common, right, which is, they get to our platform and they accelerate. CompareCards has essentially doubled as part of LendingTree. And that's kind of the goal, as these are businesses that are benefiting from being part of our platform. Every deal we've done since -- all 3 of the deals we've done since have had that in common. Deposits is obviously diversification in terms of products; Magnify in terms of channel; SnapCap, while we were in the small business space, this gives us real scale there. Just as I pointed out before, we look at the nonmortgage businesses, look at personal loans, look at credit card, look at home equity. The biggest difference this year is that those businesses are of real scale. And I think a year from now, we hope to be talking you about small business being at real scale as well. And so that's the way that we think about them. That's the way that you should think about them kind of going forward. That's our philosophy with regard to acquisition. We're going to be disciplined in bolt-on things that can really benefit from the platform.

Robert Wildhack

That's great. When you say CompareCards has doubled as part of LendingTree, how does that performance compare to the expectations you had last year when you closed the deal?

J. D. Moriarty - *LendingTree, Inc. - CFO*

They have dramatically outperformed their expectations, and I think it gives us a lot of confidence that the brand works, and that by bringing in these bolt-ons as part of LendingTree, we can leverage the brand. We have the people and we can go for it. And I also want to say that these acquisitions are bringing phenomenal talent to LendingTree, who actually know their -- who know their businesses very, very well and are incredible entrepreneurs.

Robert Wildhack

Got it. And if I can just get one more on the user experience, can you talk about, conceptually, the kind of push and pull between user experience and conversion? Obviously, you want a seamless experience for borrowers, but lenders also need the ability to follow-up and convert loans. So I'm interested to hear about how you're thinking about the balance.

J. D. Moriarty - *LendingTree, Inc. - CFO*

So what we try to do always is find the intersection of what's good for the lender, what's good for the customer and what's good for LendingTree. And if we can get the intersection of those 3 circles, that's dead-on how we do product. And you actually don't need to compromise one with the other. You can actually do both at the same time with very good product development.

Operator

And I'm showing no further questions at this time. I'd like to turn the call back to Mr. Doug Lebda for closing remarks.

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

Very good. I just want to thank all of our investors again. We are thrilled to have you as part of our team. We view you as owners. We're owners ourselves, every employee at this company is an owner.

I want to thank our lenders who importantly have increased conversion rates and are really focusing on the channel, and we want to keep working with them.

Obviously, our customers, consumers who continue to adopt the platform, we're very focused on them.

And the last thing I would want to say is, thank you to our board who's hung in there and really seen us since we spun off over 10 years ago, and they've helped lead the company and guide us.

And lastly, just the team. It's a phenomenal team here. The new talent that we're bringing in is great, and it's mixed with a lot of great talent that's already been here. We've got the process in place and I've never seen a team at LendingTree like this that we can actually scale this business.

So with that, I'd love to -- we welcome all of your questions, we welcome any contacts that you have with us, and we look forward to talking to you next quarter.

Operator

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