

LendingTree, Inc. (TREE)

\$302.40 (As of 07/10/20)

Price Target (6-12 Months): **\$318.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 02/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: F

Summary

Shares of LendingTree have outperformed the industry over the past six months. Also, the company has a decent earnings surprise history, beating the Zacks Consensus Estimate in two of the trailing four quarters. The first-quarter results reflected higher revenues, lower expenses and growth in EBITDA. The company has been witnessing rising costs on enhancement of products and advertising-related costs, which restricts the company's bottom-line growth. Also, mortgage-related product revenues are affected by lower supplies of homes. Yet, the company's expansion strategies are likely to drive the top line further. Its commitment to boost revenues by diversifying non-mortgage product offerings and steady capital-deployment activities is commendable. The company remains less exposed to credit risk reflected by its liquidity strength.

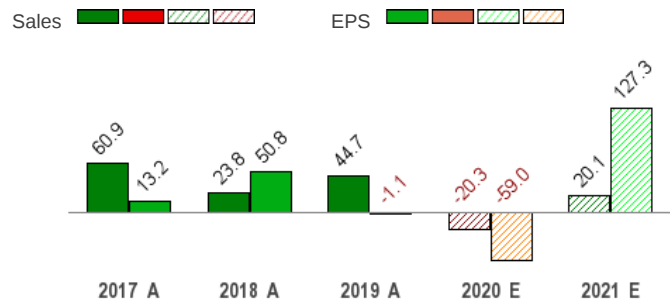
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$434.36 - \$135.72
20 Day Average Volume (sh)	120,852
Market Cap	\$4.0 B
YTD Price Change	-0.3%
Beta	2.22
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial - Mortgage & Related Services
Zacks Industry Rank	Top 32% (81 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	10.1%
Last Sales Surprise	0.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	07/23/2020
Earnings ESP	0.0%
P/E TTM	52.6
P/E F1	130.9
PEG F1	4.7
P/S TTM	3.5

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	278 E	249 E	275 E	280 E	1,059 E
2020	283 A	170 E	204 E	225 E	882 E
2019	262 A	278 A	311 A	255 A	1,107 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.12 E	\$0.74 E	\$1.49 E	\$1.34 E	\$5.25 E
2020	\$1.20 A	-\$0.31 E	\$0.53 E	\$0.82 E	\$2.31 E
2019	\$1.10 A	\$1.18 A	\$2.25 A	\$1.12 A	\$5.64 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/10/2020. The reports text is as of 07/13/2020.

Overview

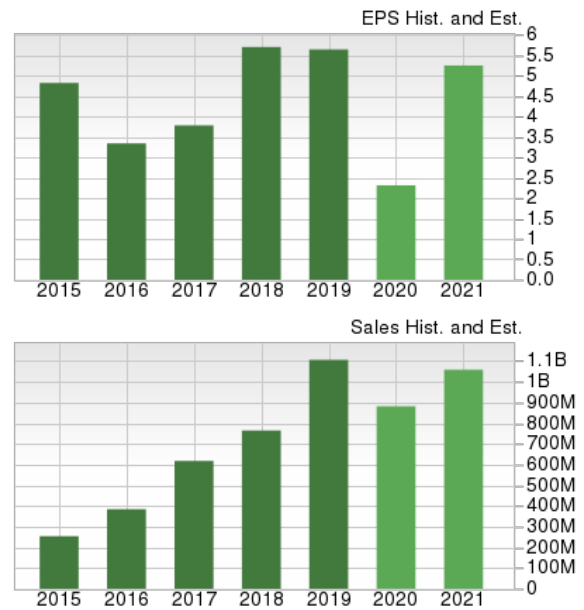
LendingTree, Inc., parent company of LendingTree, LLC, is headquartered in Charlotte, NC and has been operating solely in the United States since July 1998. Its online marketplace provides clients access to product offerings from more than 450 active lenders. In June 2014, the company re-launched My LendingTree, a platform that offers a personalized loan comparison-shopping experience by providing free credit scores and credit score analysis. The company has three reportable segments: Home, Consumer and Insurance. Notably, reportable segments were changed in fourth-quarter 2019.

- **Home Segment** (contributes 25% of total revenues in 2019): The segment provides complete suite of loan offerings including purchase mortgage, refinance mortgage, home equity loans and lines of credit, reverse mortgage loans, and real estate in the United States.
- **Consumer Segment** (46%): The segment includes information, tools and access to multiple conditional loan offers for credit cards, personal loans, small business loans, student loans, auto loans, deposit accounts, and other credit products such as credit repair and debt settlement.
- **Insurance Segment** (26%): This segment includes information, tools and access to insurance quote products, including home and automobile.

Revenues within the Other category (3%) includes revenues from the resale of online advertising space to third parties and home improvement referrals.

Over the past few years, the company has been focused on diversifying its business and sources of revenues through acquisitions. In January 2019, LendingTree closed the acquisition of ValuePenguin.com for \$106.1 million. In 2018, LendingTree completed the acquisitions of QuoteWizard.com, LLC, for the total equity purchase value of \$370.2 million and Student Loan Hero, Inc. for a total cash consideration of \$60 million. Further, it acquired Ovation Credit Services for a total consideration of \$20.75 million.

In 2017, it acquired certain assets of Snap Capital LLC, for about \$21 million and assets of DepositAccounts.com, for a purchase consideration of \$33 million. In November 2016, LendingTree completed the acquisition of Iron Horse Holdings, LLC, for about \$130 million.



Reasons To Buy:

- ▲ LendingTree remains committed to boost revenues by diversifying its non-mortgage product offerings (72% of total revenues as of Mar 31, 2020). Over the last four years, the company has increased its services such as credit cards and widened loan offerings to personal, auto, small business and student loans. Therefore, non-mortgage revenues (consumer and insurance) witnessed a CAGR of 72.9% over a period of three years (ended 2019), with the increasing trend in first-quarter 2020. Such impressive growth and decreasing dependence on mortgage-related source of revenues remain major tailwinds.
- ▲ LendingTree's bottom line has benefitted from its acquisition spree. Over the past few years, the company has enhanced its credit services and credit card product offerings along with strengthening online lending platform through acquisitions. Since 2016, the company has completed 10 deals for a total consideration value of just more than \$1 billion, including potential earnouts. Therefore, strategic initiatives will likely support bottom-line growth further.
- ▲ Amid the coronavirus crisis and its impact on economy, the company holds a debt level of \$398 million and debt-capital ratio of 0.48, as of Mar 31, 2020. With a time-interest-earned ratio of 3.8X (increased over the past few quarters), which indicates the company's ability to meet its debt obligations based on current income, we believe LendingTree carries lower credit risk, and a lesser likelihood of default of interest and debt repayments if the economic situation worsens.
- ▲ LendingTree remains committed on enhancing shareholders' value. The company returns sufficient capital to its shareholders through share repurchases. Notably, in both February 2018 and February 2019, the board of directors announced common stock repurchases programs of up to \$100 million and \$150 million, respectively. As of Mar 31, 2020, shares worth \$179.7 million remained available for repurchase under these authorizations. With favorable debt/equity ratio and consistently improving quarterly performance, the company's capital-deployment activities seem sustainable, going forward.

LendingTree's commitment to expand product offerings beyond mortgage-related products bode well for the long term. Also, inorganic growth strategies will continue supporting its bottom line.

Reasons To Sell:

- ▼ Though LendingTree's Home segment revenues increased in the first quarter, it witnessed a negative CAGR of 8% over the last three years (ending 2019), owing to fall in purchase mortgage, home equity loans and lines of credit, and reverse mortgage products on the gradual rise in interest rates. Though with the recent rate cuts, mortgage business is expected to recover further, we remain concerned following the current economic uncertainty due to coronavirus crisis.
- ▼ Though expenses declined slightly in first-quarter 2020 on a year-over-year basis, LendingTree's cost base has escalated significantly at a CAGR of 34.4% over the period of three years, ending 2019. The increasing trend in expenses was due to persistent product development costs and advertising expenses. We believe continuation of such a trend exposes the company to operational risks and thereafter, is likely to dampen the bottom line.
- ▼ Shares of LendingTree have outperformed the industry over the past six months. Despite this favorable trend, the company's earnings estimate for 2020 has remained stable over the last 30 days. Also, the stock seems overvalued when compared with the broader industry. Its price-to-book and price-earnings (F1) ratios are above the respective industry averages. Therefore, given the above concerns and lack of positive estimates revision, the stock has limited upside potential.

Escalating expenses on product development and impact of relative rise in interest rates on mortgage business are major concerns for LendingTree. Additionally, stretched valuation remains a headwind.

Last Earnings Report

LendingTree Q1 Earnings Beat Estimates, Revenues Escalate

LendingTree reported first-quarter 2020 adjusted net income per share of \$1.20, beating the Zacks Consensus Estimate of \$1.09. Further, the figure comes in higher than the prior-year quarter's \$1.10 per share.

The company's results were aided by higher revenues and lower expenses. Moreover, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) displayed impressive growth. However, reducing consumer revenues on coronavirus woes were on downside.

The company reported GAAP net income of \$19 million or \$1.34 per share compared with the \$0.6 million or 4 cents recorded in the year-ago quarter.

Revenues Climb, Costs Decline

Total revenues jumped 7.9% year over year to \$283.1 million in the first quarter of 2020. This upside primarily stemmed from higher home and insurance revenues, partly offset by lower consumer and other revenues. The reported figure also surpassed the Zacks Consensus Estimate of \$282.5 million.

Total costs and expenses came in at \$262.3 million, slightly down from the prior-year quarter. This decline primarily resulted from fall in cost of revenues.

Adjusted EBITDA totaled \$44.9 million, up 4.4% from the \$43 million reported in the prior-year quarter. Variable marketing margin was \$98.2 million, up 6% year over year.

As of Mar 31, 2020, cash and cash equivalents were \$51.2 million, declining nearly 15% from Dec 31, 2019. Long-term debt inched up 1.3% from the prior-year end to \$267.9 million. Total shareholders' equity was \$423.6 million, up 5.3% from the Dec 31, 2018 level.

Outlook

Concurrent with the March-end quarter results, management issued second-quarter 2020 estimates.

Second-Quarter 2020

- Total revenues of \$160-\$175 million projected.
- Adjusted EBITDA anticipated in the \$12-\$18 million band.
- Variable Marketing Margin projected at \$65-\$75 million.

Quarter Ending 03/2020

Report Date	May 05, 2020
Sales Surprise	0.21%
EPS Surprise	10.09%
Quarterly EPS	1.20
Annual EPS (TTM)	5.75

Valuation

LendingTree's shares are down 0.3% in the year-to-date period and 29.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 18.3% and 19.9%, respectively, in the year-to-date period. Over the past year, the Zacks sub-industry and the sector is down 20.4% and 15.7%, respectively.

The S&P 500 Index is down 0.8% in the year-to-date period and but up 6.3% in the past year.

The stock is currently trading at 9.33X price-to-book value, which compares to 1.6X for the Zacks sub-industry, 2.34X for the Zacks sector and 4.37X for the S&P 500 index.

Over the past five years, the stock has traded as high as 16.34X and as low as 2.8X, with a 5-year median of 9.11X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$318 price target reflects 9.81X forward earnings.

The table below shows summary valuation data for TREE

Valuation Multiples - TREE					
		Stock	Sub-Industry	Sector	S&P 500
P/B TTM	Current	9.33	1.6	2.34	4.37
	5-Year High	16.34	2.76	2.91	4.56
	5-Year Low	2.8	0.85	1.71	2.83
	5-Year Median	9.11	2.03	2.53	3.7
P/S F12M	Current	4.05	1.76	6.04	3.55
	5-Year High	6.92	4.51	6.66	3.55
	5-Year Low	1.37	1.41	4.96	2.53
	5-Year Median	3.43	2.71	6.06	3.02
P/EBITDA TTM	Current	29.44	4.42	13.62	12.71
	5-Year High	119.01	11.03	15.56	13.85
	5-Year Low	13.35	2.4	7.8	8.75
	5-Year Median	40.71	6.74	13.15	11.78

As of 07/10/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Black Knight Financial Services, Inc. (BKI)	Outperform	2
MR. COOPER GROUP INC (COOP)	Neutral	2
Ellington Financial LLC (EFC)	Neutral	5
Enova International, Inc. (ENVA)	Neutral	2
InnerWorkings, Inc. (INWK)	Neutral	3
LendingClub Corporation (LC)	Neutral	4
RealPage, Inc. (RP)	Neutral	3
On Deck Capital, Inc. (ONDK)	Underperform	5

Industry Comparison Industry: Financial - Mortgage & Related Services				Industry Peers		
	TREE	X Industry	S&P 500	COOP	LC	ONDK
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	2	4	5
VGM Score	C	-	-	A	D	C
Market Cap	3.95 B	653.95 M	21.61 B	1.11 B	346.55 M	45.73 M
# of Analysts	6	1.5	14	2	4	5
Dividend Yield	0.00%	0.00%	1.92%	0.00%	0.00%	0.00%
Value Score	F	-	-	A	B	A
Cash/Price	0.01	0.59	0.07	0.78	1.34	3.73
EV/EBITDA	31.64	8.95	12.75	6.24	54.15	9.62
PEG Ratio	4.79	8.24	2.87	NA	NA	NA
Price/Book (P/B)	9.33	1.03	3.01	0.54	0.44	0.21
Price/Cash Flow (P/CF)	29.04	4.38	11.53	2.68	7.13	0.59
P/E (F1)	134.07	8.57	21.07	2.86	NA	NA
Price/Sales (P/S)	3.50	1.67	2.23	0.58	0.49	0.10
Earnings Yield	0.76%	11.67%	4.48%	34.97%	-20.56%	-205.13%
Debt/Equity	0.63	0.81	0.76	2.39	2.03	4.89
Cash Flow (\$/share)	10.41	4.15	6.94	4.49	0.70	1.32
Growth Score	A	-	-	A	F	C
Hist. EPS Growth (3-5 yrs)	2.09%	19.48%	10.90%	NA	NA	NA
Proj. EPS Growth (F1/F0)	-58.98%	-14.63%	-9.99%	10.79%	-5,200.00%	-571.18%
Curr. Cash Flow Growth	-20.30%	-5.20%	5.51%	-63.71%	5.71%	-10.40%
Hist. Cash Flow Growth (3-5 yrs)	55.20%	15.92%	8.55%	143.99%	44.53%	29.10%
Current Ratio	0.64	7.31	1.30	1.77	5.78	18.52
Debt/Capital	38.74%	54.56%	44.46%	70.53%	67.00%	83.20%
Net Margin	2.90%	12.28%	10.62%	-4.65%	-8.36%	-8.24%
Return on Equity	12.16%	12.28%	15.75%	22.68%	-2.94%	-16.41%
Sales/Assets	1.15	0.13	0.55	0.11	0.24	0.34
Proj. Sales Growth (F1/F0)	-20.29%	-0.91%	-2.52%	7.48%	-57.99%	-23.17%
Momentum Score	F	-	-	F	D	D
Daily Price Chg	0.75%	1.45%	1.51%	1.35%	2.69%	5.33%
1 Week Price Chg	9.40%	1.05%	3.66%	-2.32%	5.22%	-8.44%
4 Week Price Chg	14.92%	0.72%	1.85%	5.89%	-4.98%	-23.26%
12 Week Price Chg	57.37%	16.67%	12.57%	61.83%	-32.88%	-37.38%
52 Week Price Chg	-30.22%	-22.34%	-7.10%	49.19%	-69.90%	-79.93%
20 Day Average Volume	120,852	234,421	2,339,510	1,090,046	1,515,329	1,872,492
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	-128.60%	-17.82%	-7.77%	-3.22%	-598.31%	-715.05%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	A
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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