LendingTree, Inc. (TREE)

$313.70 (As of 01/14/20)

Price Target (6-12 Months): **$267.00**

Long Term: 6-12 Months	**Zacks Recommendation:** **Underperform**
	(Since: 01/13/20)
	Prior Recommendation: Neutral
Short Term: 1-3 Months	**Zacks Rank:** (1-5) **5-Strong Sell**
	Zacks Style Scores: VGM:D
	Value: F | Growth: A | Momentum: C

Summary

Shares of LendingTree have underperformed the industry over the past three months. Earnings estimate have remained stable ahead of the company's fourth-quarter results. Further, it has a disappointing earnings surprise history, beating the Zacks Consensus Estimate in only one of the trailing four quarters. The company's expansion strategies will likely further boost its top-line growth. Moreover, committment to boost revenues by diversifying non-mortgage product offerings and steady capital-deployment activities remain commendable. However, the company has been witnessing escalating expenses on enhancement of products and advertising-related costs, which restricts the company's bottom-line expansion. Further, its mortgage-related product revenues are affected by lower supplies of homes. Stretched valuation also remain a concern.
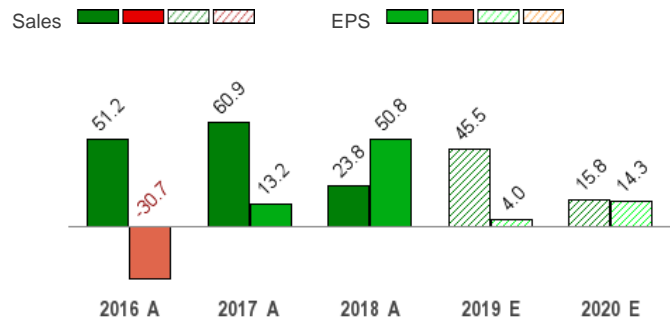
Price, Consensus & Surprise

Data Overview

52 Week High-Low	$434.94 - $257.00
20 Day Average Volume (sh)	106,308
Market Cap	$4.1 B
YTD Price Change	3.4%
Beta	2.06
Dividend / Div Yld	$0.00 / 0.0%
Industry	[Financial - Mortgage & Related Services](#)
Zacks Industry Rank	Top 46% (116 out of 254)
Last EPS Surprise	34.7%
Last Sales Surprise	5.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/25/2020
Earnings ESP	0.0%
P/E TTM	54.6
P/E F1	46.3
PEG F1	1.7
P/S TTM	3.9

Sales and EPS Growth Rates (Y/Y %)

Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2020	306 E	325 E	358 E	301 E	1,289 E
2019	262 A	278 A	311 A	263 E	1,113 E
2018	181 A	184 A	197 A	203 A	765 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	$1.14 E	$1.26 E	$2.18 E	$1.56 E	$6.78 E
2019	$1.10 A	$1.18 A	$2.25 A	$1.40 E	$5.93 E
2018	$1.10 A	$1.47 A	$1.92 A	$1.22 A	$5.70 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 01/14/2020. The reports text is as of 01/15/2020.

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 including mortgage loans, home equity loans and lines of credit, reverse mortgage loans, auto loans, credit cards, deposit accounts, personal loans, student loans, small business loans and other related offerings. Also, it offers tools and resources, including free credit scores that facilitate comparison shopping for these loans, deposits and other credit-based offerings.

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.

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, expected to be accretive to adjusted EPS in 2019. In October 2018, LendingTree completed the acquisition of QuoteWizard.com, LLC, for the total equity purchase consideration is $370.2 million. In July 2018, the company completed the acquisition of Student Loan Hero, Inc. for a total cash consideration of $60 million. In June 2018, it acquired Ovation Credit Services, a leading provider of credit services with a strong customer service background for a total consideration of $20.75 million.

EPS Hist. and Est.

Sales Hist. and Est.

In September 2017, it acquired certain assets of Snap Capital LLC, a tech-enabled online platform, for about $21 million. In June 2017, the company acquired assets of DepositAccounts.com, a leading consumer-facing media property in the depository industry, for a purchase consideration of $33 million. In November 2016, LendingTree completed the acquisition of Iron Horse Holdings, LLC, which operates under the name CompareCards, for about $130 million.
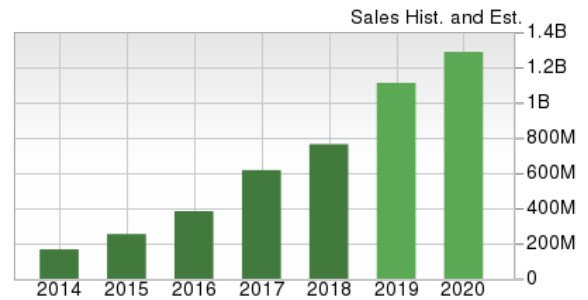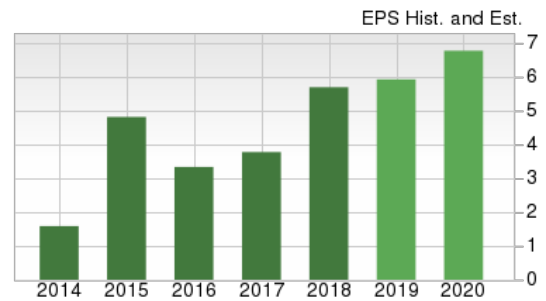
Reasons To Sell:

▼ LendingTree benefited from being one of the leading U.S. mortgage lender, which resulted in mortgage product revenues witnessing a CAGR of 4.9% over the last three years (ending 2018), with some annual volatility. Since mortgage loan originations and refinancing activities are linked to interest-rate levels, demand remained high in the prior years due to a low rate environment. However, with the gradual rise in interest rates, slowdown in mortgage business was witnessed, as mortgage rates became expensive. Though with the recent rate cuts, mortgage business is expected to revive, mortgage revenues declined in the first nine months of 2019.

▼ LendingTree's cost base has escalated significantly at a CAGR of 46.4% over the period of four years, ending 2018. 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, will likely dampen bottom-line growth. Notably, expanses escalated in the first nine months of 2019 as well.

▼ Shares of LendingTree have underperformed the industry, over the last three months. The company's earnings estimate for 2019 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.

Risks

- LendingTree remains committed to boost revenues by diversifying its non-mortgage product offerings (81% of total revenues as of Sep 30, 2019). Over the last four years, the company has increased its services such as credit cards and widened loan offerings to personal, home equity, reverse mortgage, auto, small business and student loans. Therefore, non-mortgage revenues witnessed a CAGR of 78.3% over a period of three years (ended 2018), with the trend continuing in the first nine months of 2019. Such impressive growth and decreasing dependence on mortgage-related source of revenues remain major tailwinds for LendingTree.

- 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.

- 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 Oct 21, 2019, shares worth $180.9 million remained available for repurchase under these authorizations.

Last Earnings Report

LendingTree Q3 Earnings Beat Estimates on Higher Revenues

LendingTree reported a positive earnings surprise of 34.7% in third-quarter 2019. Adjusted net income per share of $2.25 outpaced the Zacks Consensus Estimate of $1.67. Further, the figure comes in higher than the prior-year quarter's $1.92 per share.

The company's results were driven by higher revenues, with major contribution from non-mortgage products revenues. Also, adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) displayed impressive growth. However, rise in expenses was a major drag.

Quarter Ending	09/2019
Report Date	**Oct 30, 2019**
Sales Surprise	**5.22%**
EPS Surprise	**34.73%**
Quarterly EPS	**2.25**
Annual EPS (TTM)	**5.75**

The company reported GAAP net income of $24.5 million or $1.67 per share compared with the $28.4 million or $2.05 recorded in the year-ago quarter.

Revenue Growth Partially Offset by Higher Expenses

Total revenues surged 58% year over year to $310.6 million in the third quarter. This upside primarily stemmed from higher non-mortgage product revenues as well as mortgage revenues. Furthermore, the reported figure outpaced the Zacks Consensus Estimate of $295.2 million.

Total costs and expenses came in at $279.4 million, flaring up 58% from the prior-year quarter. This upswing primarily resulted from rise in almost all components of cost.

Adjusted EBITDA totaled $63 million, up 39% from the $45.3 million reported in the prior-year quarter.

As of Sep 30, 2019, cash and cash equivalents were $50.5 million, slumping nearly 52% from Dec 31, 2018. Long-term debt was up 4% from the prior-year end to $261 million. Total shareholders' equity was $389.3 million, up 12.4% from the Dec 31, 2018 level.

Capital Deployment

During the quarter, 1,079 shares of common stock were repurchased under the stock repurchase program.

Outlook

Concurrent with the third-quarter results, management issues revised full-year 2019 estimates.

Full-Year 2019

- Total revenues of $1,100-$1,115 million predicted, up from the previous projection of $1,080-$1,100 million.
- Adjusted EBITDA anticipated in the $197-$205 million band, up from the prior forecast of $195-$205 million.
- Variable Marketing Margin projected at $395-$405 million, up from the earlier estimate of $390-$405 million.

Recent News

LendingTree Issues Encouraging Guidance for 2020 - Dec 11, 2019

Ahead of its 2019 Analyst and Investor Day, LendingTree issued its full-year 2020 guidance.

For 2020, the company expects revenues in the $1,250-$1,300 million range, up 13-18% from the mid-point of the 2019 revenue guidance of $1,105 million. Further, variable marketing margin is likely to be in the range of $450-$470 million. Additionally, the company expects adjusted EBITDA in the $225-$235 million band, up 12-17% from the mid-point of the 2019 adjusted EBITDA figure of $201 million.

"2019 has been another monumental year at LendingTree, and we are thrilled with the progress we've made across the platform," said Doug Lebda, chairman and CEO. "It is becoming increasingly clear that there is a vast opportunity to leverage our diversified portfolio of businesses to become the destination consumers select for choice, education, and support in all of their financial decisions. Today, we look forward to introducing our outlook for 2020 and discussing areas of strategic importance throughout the company," Lebda further noted.

Valuation

LendingTree's shares are up 13.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 23.3% and 12.9%, respectively, over the past year.

The S&P 500 Index is up 24.7% in the past year.

The stock is currently trading at 134.8X forward 12 months earnings, which compares to 7.95X for the Zacks sub-industry, 14.95X for the Zacks sector and 19X for the S&P 500 index.

Over the past three years, the stock has traded as high as 153X and as low as 31.47X, with a 3-year median of 63.74X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our $267 price target reflects 114.58X forward earnings.

The table below shows summary valuation data for TREE

Valuation Multiples - TREE		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	134.8	7.95	14.95	19
	3-Year High	153	19.09	16.21	19.34
	3-Year Low	31.47	6.49	12.38	15.17
	3-Year Median	63.74	9.51	14.31	17.71
P/B TTM	Current	10.48	2.15	2.84	4.49
	3-Year High	16.34	2.76	2.89	4.47
	3-Year Low	5.31	1.65	2.2	3.36
	3-Year Median	10.15	2.17	2.6	3.89
P/S F12M	Current	3.14	2.99	6.53	3.52
	3-Year High	6.92	5.48	6.61	3.52
	3-Year Low	2.43	2.2	5.39	2.76
	3-Year Median	3.68	3.42	6.06	3.15

As of 01/14/2020

Industry Analysis Zacks Industry Rank: Top 46% (116 out of 254)

Top Peers

Black Knight Financial Services, Inc. (BKI)	Neutral
MR. COOPER GROUP INC (COOP)	Neutral
Ellington Financial LLC (EFC)	Neutral
Enova International, Inc. (ENVA)	Neutral
InnerWorkings, Inc. (INWK)	Neutral
LendingClub Corporation (LC)	Neutral
On Deck Capital, Inc. (ONDK)	Neutral
RealPage, Inc. (RP)	Underperform

Industry Comparison Industry: Financial - Mortgage & Related Services   Industry Peers

	TREE Underperform	X Industry	S&P 500	COOP Neutral	LC Neutral	ONDK Neutral
VGM Score	D	-	-	B	F	A
Market Cap	4.08 B	752.84 M	24.31 B	1.19 B	1.09 B	293.15 M
# of Analysts	7	1.5	13	1	3	4
Dividend Yield	0.00%	0.00%	1.76%	0.00%	0.00%	0.00%
Value Score	F	-	-	A	F	A
Cash/Price	0.01	0.38	0.04	0.53	0.45	0.38
EV/EBITDA	42.52	9.25	14.12	7.29	-62.77	10.85
PEG Ratio	1.65	1.39	2.05	NA	NA	NA
Price/Book (P/B)	10.48	1.30	3.34	0.67	1.22	0.98
Price/Cash Flow (P/CF)	23.69	6.77	13.66	1.05	18.22	2.90
P/E (F1)	46.27	9.90	18.82	5.24	21.75	8.87
Price/Sales (P/S)	3.87	2.16	2.64	0.78	1.45	0.66
Earnings Yield	2.16%	9.09%	5.29%	19.10%	4.60%	11.27%
Debt/Equity	0.67	0.69	0.72	3.13	1.97	2.74
Cash Flow ($/share)	13.24	2.97	6.94	12.41	0.68	1.41
Growth Score	A	-	-	F	F	C
Hist. EPS Growth (3-5 yrs)	11.57%	18.87%	10.56%	NA	NA	NA
Proj. EPS Growth (F1/F0)	14.30%	2.11%	7.49%	-27.54%	17,200.17%	21.05%
Curr. Cash Flow Growth	141.80%	17.08%	14.83%	575.33%	-355.03%	109.27%
Hist. Cash Flow Growth (3-5 yrs)	84.74%	17.59%	9.00%	236.04%	45.27%	118.54%
Current Ratio	0.73	3.28	1.23	1.85	5.93	16.50
Debt/Capital	40.13%	52.86%	42.99%	75.79%	66.34%	73.58%
Net Margin	1.20%	18.73%	11.08%	-21.46%	-5.91%	7.43%
Return on Equity	14.58%	13.38%	17.16%	8.81%	-1.02%	9.25%
Sales/Assets	1.10	0.15	0.55	0.08	0.23	0.36
Proj. Sales Growth (F1/F0)	15.95%	8.99%	4.23%	14.53%	12.87%	7.53%
Momentum Score	C	-	-	C	D	B
Daily Price Chg	-0.10%	0.04%	0.73%	-4.94%	2.56%	1.24%
1 Week Price Chg	0.27%	0.34%	0.39%	9.87%	-2.94%	-0.98%
4 Week Price Chg	9.99%	2.44%	1.84%	2.19%	-4.32%	2.00%
12 Week Price Chg	0.04%	1.37%	6.48%	7.83%	-3.88%	12.71%
52 Week Price Chg	18.04%	22.11%	23.15%	-5.08%	-17.88%	-43.10%
20 Day Average Volume	106,308	132,672	1,578,594	440,434	462,727	368,457
(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	-39.41%	2.52%	-0.48%	11.11%	42.50%	0.00%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	0.00%	0.00%	NA	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	C
VGM Score	D

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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