

LendingTree, Inc. (TREE)

\$241.44 (As of 03/17/20)

Price Target (6-12 Months): **\$254.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 02/12/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: F

Growth: A

Momentum: D

Summary

Shares of LendingTree have outperformed the industry over the past three months. Yet, it has a disappointing earnings surprise history, beating the Zacks Consensus Estimate in one of the trailing four quarters. Fourth-quarter results reflect higher expenses, partly offset by elevated revenues and adjusted EBITDA. The company's expansion strategies are likely to drive the top line further. Moreover, its commitment 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. Moreover, its mortgage-related product revenues are affected by lower supplies of homes. Stretched valuation also remains a concern.

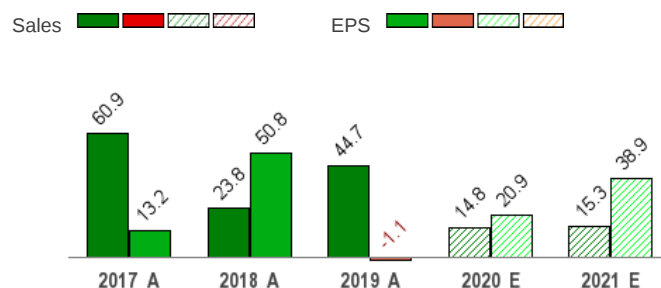
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$434.94 - \$211.65
20 Day Average Volume (sh)	224,013
Market Cap	\$3.1 B
YTD Price Change	-20.4%
Beta	1.86
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Financial - Mortgage & Related Services
Zacks Industry Rank	Top 7% (18 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-20.0%
Last Sales Surprise	-2.9%
EPS F1 Est- 4 week change	0.6%
Expected Report Date	04/24/2020
Earnings ESP	0.0%
P/E TTM	42.7
P/E F1	35.4
PEG F1	1.3
P/S TTM	2.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	340 E	363 E	406 E	336 E	1,466 E
2020	299 E	322 E	356 E	296 E	1,271 E
2019	262 A	278 A	311 A	255 A	1,107 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021					\$9.47 E
2020	\$1.11 E	\$1.46 E	\$2.39 E	\$1.68 E	\$6.82 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 03/17/2020. The reports text is as of 03/18/2020.

Overview

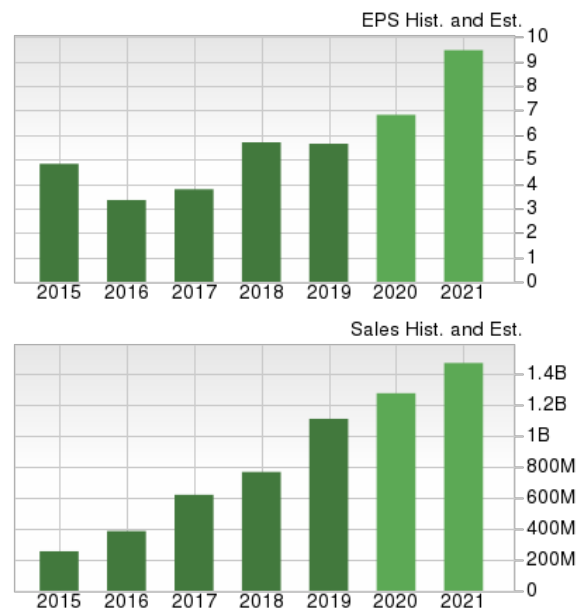
LendingTree, Inc., parent company of LendingTree, LLC, is headquartered in Charlotte, NC and has been operating solely in the United States since July 1998. Its online marketplace provides clients access to product offerings from more than 450 active lenders. In June 2014, the company re-launched My 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 (75% of total revenues as of Dec 31, 2019). 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). 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.
- ▲ 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 Feb 18, 2020, shares worth \$179.7 million remained available for repurchase under these authorizations.
- ▲ Shares of LendingTree have outperformed the industry over the past three months. The company's earnings estimate for 2020 has been slightly revised upward over the last 30 days. Therefore, given the strong fundamentals and positive estimates revision, the stock has upside potential.

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:

- ▼ LendingTree's Home segment revenues 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.
- ▼ 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.
- ▼ 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.

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 Q4 Earnings Miss Estimates, Costs Escalate

LendingTree reported adjusted net income per share of \$1.12 in the quarter, lagging the Zacks Consensus Estimate of \$1.40 in fourth-quarter 2019. Further, the figure comes in lower than the prior-year quarter's \$1.22 per share.

The company's results were adversely impacted by higher expenses. However, revenues and adjusted earnings before interest, taxes, depreciation, and amortization (EBITDA) displayed impressive growth.

The company reported GAAP net income of \$1.5 million or 10 cents per share compared with the \$0.3 million or 2 cents in the year-ago quarter.

For 2019, adjusted net income was \$82.4 million or \$5.64 per share compared with the \$80.3 million or \$5.70 per share witnessed in 2018.

Higher Expenses Partially Muted by Revenue Growth

For 2019, total revenues were \$1.11 billion, up 44.7% year over year. The revenue figure came in line with the Zacks Consensus Estimate.

Total revenues jumped 26% year over year to \$255.2 million in final-quarter 2019. This upside primarily stemmed from higher home, consumer and insurance revenues. The reported figure, however, missed the Zacks Consensus Estimate of \$262.9 million.

Total costs and expenses came in at \$246.2 million, surging 23% from the prior-year quarter. This upswing can primarily be attributed to rise in almost all components of cost.

Adjusted EBITDA totaled \$45.9 million, up 16.5% from the \$39.4 million reported in the prior-year quarter. Variable marketing margin was \$93.8 million, up 19.3% year over year.

As of Dec 31, 2019, cash and cash equivalents were \$60.2 million, plummeting nearly 42.7% from Dec 31, 2018. Long-term debt was up 5.4% from the prior-year end to \$264.4 million. Total shareholders' equity was \$402.3 million, up 16.2% from the Dec 31, 2018 level.

Outlook

Concurrent with the December-end quarter results, management issued first-quarter and full-year 2020 estimates.

First-Quarter 2020

- Total revenues of \$296-\$306 million projected.
- Adjusted EBITDA anticipated in the \$43-\$46 million band.
- Variable Marketing Margin projected at \$97-\$104 million.

Full-Year 2020

- Total revenues of \$1,250-\$1,300 million estimated, up 13-17% year over year.
- Adjusted EBITDA anticipated in the \$225-\$235 million band, up 14-19% year over year.
- Variable Marketing Margin projected at \$450-\$470 million.

Quarter Ending **12/2019**

Report Date	Feb 25, 2020
Sales Surprise	-2.92%
EPS Surprise	-20.00%
Quarterly EPS	1.12
Annual EPS (TTM)	5.65

Valuation

LendingTree's shares are down 20.4% in the year-to-date period and 28.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 31.1% and 32.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 27.3% and 28.3%, respectively.

The S&P 500 Index is down 25.8% in the year-to-date period and 16.5% in the past year.

The stock is currently trading at 83.84X forward 12 months earnings, which compares to 5.22X for the Zacks sub-industry, 10.15X for the Zacks sector and 13.87X for the S&P 500 index.

Over the past three years, the stock has traded as high as 153X and as low as 34.51X, with a 3-year median of 66.07X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$254 price target reflects 88.19X 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	83.84	5.22	10.15	13.87
	3-Year High	152.96	19.09	16.21	19.34
	3-Year Low	34.51	5.22	10.15	13.87
	3-Year Median	66.07	8.72	13.97	17.45
P/S F12M	Current	2.39	2.73	5.99	2.55
	3-Year High	6.92	4.51	6.64	3.43
	3-Year Low	2.22	2.54	5.39	2.55
	3-Year Median	3.68	3.36	6.06	3.15
P/EBITDA TTM	Current	24.9	3.75	8.04	9.27
	3-Year High	119.01	11.03	15.2	13.87
	3-Year Low	23.04	3.75	8.04	9.27
	3-Year Median	51.76	8.07	13.23	12.21

As of 03/17/2020

Industry Analysis Zacks Industry Rank: Top 7% (18 out of 253)



Top Peers

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

Industry Comparison Industry: Financial - Mortgage & Related Services				Industry Peers		
	TREE Neutral	X Industry	S&P 500	COOP Outperform	LC Neutral	ONDK Neutral
VGM Score	C	-	-	A	F	A
Market Cap	3.15 B	597.83 M	17.72 B	595.91 M	801.98 M	75.44 M
# of Analysts	7	2	13	1	4	4
Dividend Yield	0.00%	0.00%	2.51%	0.00%	0.00%	0.00%
Value Score	F	-	-	A	F	A
Cash/Price	0.02	0.65	0.06	0.83	0.61	0.80
EV/EBITDA	25.47	7.04	10.97	6.31	74.17	9.15
PEG Ratio	1.19	0.98	1.54	NA	NA	NA
Price/Book (P/B)	7.80	0.91	2.39	0.27	0.88	0.25
Price/Cash Flow (P/CF)	23.19	4.00	9.36	1.46	12.96	0.79
P/E (F1)	33.21	5.11	13.98	1.50	30.58	2.66
Price/Sales (P/S)	2.85	1.30	1.87	0.32	1.06	0.17
Earnings Yield	2.82%	15.42%	7.13%	66.51%	3.22%	38.10%
Debt/Equity	0.66	0.69	0.70	2.37	1.98	3.09
Cash Flow (\$/share)	10.41	3.60	7.01	4.49	0.70	1.32
Growth Score	A	-	-	C	D	B
Hist. EPS Growth (3-5 yrs)	6.51%	16.65%	10.85%	NA	NA	NA
Proj. EPS Growth (F1/F0)	21.00%	4.23%	5.38%	14.47%	1,375.00%	16.18%
Curr. Cash Flow Growth	-20.30%	-0.11%	6.15%	-63.71%	5.71%	-10.40%
Hist. Cash Flow Growth (3-5 yrs)	55.20%	14.61%	8.55%	143.99%	44.53%	29.10%
Current Ratio	0.82	6.43	1.24	1.80	7.79	15.35
Debt/Capital	39.66%	51.48%	42.57%	70.32%	66.43%	75.83%
Net Margin	1.61%	17.20%	11.57%	-5.68%	-4.05%	6.33%
Return on Equity	13.08%	12.98%	16.74%	20.89%	0.25%	5.73%
Sales/Assets	1.13	0.17	0.54	0.10	0.24	0.35
Proj. Sales Growth (F1/F0)	15.28%	0.00%	3.33%	20.23%	5.61%	7.35%
Momentum Score	D	-	-	B	F	A
Daily Price Chg	-4.90%	2.79%	5.62%	12.37%	13.32%	-9.48%
1 Week Price Chg	-12.56%	-16.04%	-11.01%	-29.31%	-10.86%	-38.77%
4 Week Price Chg	-27.16%	-30.69%	-28.54%	-54.66%	-31.46%	-73.75%
12 Week Price Chg	-17.54%	-29.03%	-25.74%	-47.55%	-30.02%	-74.45%
52 Week Price Chg	-28.25%	-27.57%	-18.88%	-46.70%	-40.27%	-81.64%
20 Day Average Volume	224,013	291,772	3,651,283	864,811	1,189,884	639,550
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.61%	0.00%	-0.58%	74.00%	-48.25%	8.43%
(F1) EPS Est 12 week change	0.61%	0.61%	-1.18%	74.00%	-48.25%	16.88%
(Q1) EPS Est Mthly Chg	57.14%	0.00%	-0.77%	206.67%	NA	0.00%

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	D
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.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.