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RATE - Q3 2016 Bankrate Inc Earnings Call

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CORPORATE PARTICIPANTS

Katie Yates *Bankrate, Inc. - VP, Corporate Communications*

Ken Esterow *Bankrate, Inc. - President & CEO*

Steve Barnhart *Bankrate, Inc. - SVP & CFO*

CONFERENCE CALL PARTICIPANTS

Operator

John Campbell *Stephens, Inc - Analyst*

Andrew Jeffrey *SunTrust Robinson Humphrey - Analyst*

Dae Lee *JPMorgan - Analyst*

Heath Terry *Goldman Sachs - Analyst*

PRESENTATION

Operator

Good day, ladies and gentleman, and welcome to the Q3 2016 Bankrate, Inc. Earnings Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. (Operator instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ms. Katie Yates, Vice President of Corporate Communications. Ms. Yates, you may begin.

Katie Yates - *Bankrate, Inc. - VP, Corporate Communications*

Good afternoon, everyone, and thank you for joining us for Bankrate, Inc.'s third quarter in 2016 earnings call. Here with me in our New York office is the Company's President and CEO, Ken Esterow; and our Senior Vice President and Chief Financial Officer, Steve Barnhart.

Let me take a moment to review the call's format. First, Ken and Steve will deliver brief prepared remarks. Following the remarks, the lines will be open for Ken and Steve to take some questions.

We remind you that some of the statements made in this conference call, including those regarding the Company's future prospects, growth, future revenue and profitability, and our ability to successfully implement strategic initiatives, constitute forward-looking statements. These forward-looking statements reflect our current views with respect to future events and financial performance that are not guarantees of future performance and are subject to numerous uncertainties and risks related to the Company's operations and business environment, which may cause the Company's actual results in future periods to be materially different from those contemplated in such forward-looking statements.

While we cannot anticipate all of these uncertainties and risks, we have identified some important factors currently known to us in the press release that preceded this discussion and we encourage you to read our reports filed with the SEC, including the discussion under Cautionary Statement Concerning Forward-Looking Statements and Risk Factors in our Annual Report on Form 10-K for the year ended December 31, 2015, as updated in our quarterly reports on Form 10-Q which are available on the SEC's website.

A reconciliation of certain of the non-GAAP referenced in this call can be found in the back of the press release with the financial statements. We also posted a presentation with supplementary information and metrics on Bankrate's Investor Relations website at investor.bankrate.com.

So with that, I'll turn the call over to Bankrate's President and CEO, Ken Esterow.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Great. Thanks, Katie. Good afternoon, everyone. Thanks for joining. As we announced this afternoon in our earnings release, I'm pleased to highlight that, for Q3 2016, Bankrate, Inc. generated both revenue and adjusted EBITDA that significantly exceeded our guidance. The quarter's results reflect strong execution in our cards business and the anticipated progress in banking. Steve will cover the quarter's financial results, so I'll move right into business performance.

In our flagship Credit Card segment, a number of positive elements came together in the quarter. First, as planned, the NextAdvisor business took over content marketing for CreditCards.com. We're quite pleased with the early results in applying their proprietary content marketing know-how to our CreditCards.com brand. Second, our focus on extending consumer acquisition beyond organic search continues to drive performance. In the quarter, our credit card marketing spend more than doubled versus the prior-year quarter. And this ramp in marketing was achieved at positive contribution margins.

Investors may recall the strategy I outlined at the start of 2016 to create a virtuous circle in Credit Cards. Our leading site authority, conversion and monetization enable us to drive profitable revenue growth through marketing. In turn, our marketing creates higher consumer awareness and engagement for cards. This further improves our site authority, reinforcing our brands and supporting our organic foundation.

We're also pleased to have played a small part in an issuer's successful launch of a new card product. These sorts of launches don't occur every quarter, unfortunately. But I have to say, I'm really proud that our cards business was one of the small group of partners picked by this issuer. Our teams across CreditCards.com and The Points Guy stepped up in a big way to execute at a terrifically high level for this issuer.

Finally, social platforms such as Facebook are a key to establishing an ongoing relationship with our audience. Facebook likes have become akin to SEO authority. And our owned and operated cards sites hold three of the top five cards related spots on Facebook, with more than 1.5 million combined likes. The social footprint becomes an important asset as issuers look to target specific audiences with card launches and with their ongoing marketing efforts.

Moving now to our Banking segment, we delivered our fifth consecutive quarter of year-over-year mortgage revenue growth. Moreover, our value-based pricing is now completely automated. This means our CPC pricing will automatically adjust to changes in consumer demand and traffic quality.

Next up in terms of mortgages are: one, adding a cost per lead product; and two, enabling mortgage providers to bid for premium [with] top positions in a rate table listing. These initiatives will allow us to match advertiser ROI with price even more closely. Though, even as we look to significantly improve monetization and advertiser ROI, we strongly believe that over the long term, consumer experience takes priority. Today's always connected consumer is looking for transparency to be able to shop for a mortgage, a credit card or a deposit product much as they would for a set of headphones on Amazon or for hotel on Orbitz, with a broad roster of providers and consumers' driving choice. So our efforts around monetization and advertiser ROI will be due to this consumer-first lens.

Deposit advertiser demand remains muted for both consumer inquiry and display. Large advertisers in the category are still seeing strong deposit inflows, even with reduced marketing expenditures. However, in the quarter we did post a sequential increase in our deposit consumer inquiry revenue. We're also now fully deployed with our value-based pricing for deposits to make sure we're matching price with advertiser ROI.

And finally one bright spot in the ongoing secular and deposit challenges in display is the growth of programmatic ad revenue. We're adding to our programmatic tech stack, increasing private marketplace arrangements, and working with additional ad exchanges.

In our Senior Care segment, the number of participating communities hit all-time high, up some 38% versus the third quarter of 2015. I think it's important to note, there is often a couple of months lag between the time we add a community to when we'll start seeing move-ins and revenue coming from this community. That said, the growth in our network of participating communities should position Caring to start growing again in

2017. We've also moved forward with our in-home care offering. In the quarter, we launched a Cost per Lead for providers. Moving to CPL will allow us to flex a bit of marketing muscle to extend into this natural adjacency for Caring.

With that, let me now turn the call over to Steve, who'll cover our financial results for the quarter.

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Thanks. As Ken said earlier, Bankrate reported Q3 revenue of $128.8 million, up 29% versus the prior year. GAAP net income was $10.7 million and included a non-cash impairment of the goodwill for our Quizzle business that I'll discuss a little later. Adjusted EBITDA of $38.5 million was 9% higher versus the prior year and significantly exceeded the guidance of $23 million to $25 million that we provided in August.

Moving on, in our Credit Card segment, we posted revenue of $98.3 million, up 50% year-over-year. Revenue growth was primarily driven by a full quarter impact of NextAdvisor, our continued investment in paid marketing, and the successful launch of a new card product by an issuer. Credit cards adjusted EBITDA of $39.2 million was 19% higher than prior year, while adjusted EBITDA margin was 10.3 percentage points lower. Consistent with the trends we discussed on last quarter's call, lower margins are caused by: one, a higher mix of revenue generated through paid marketing; and two, increased investment in product and technology, which will have a longer term return. As mentioned on our call in August, the mix of consumer inquiries coming from paid marketing continues to increase and in fact this mix has increased five consecutive quarters on a sequential basis. We expect this trend to continue as we further ramp our investment in paid marketing and benefit from the expertise gained through the acquisition of NextAdvisor. One additional item to note on cards EBITDA. We estimate that the impact of the new card product launch, that I mentioned earlier, drove $9 million to $11 million of EBITDA in the quarter.

In the Banking segment, total revenue of $26.1 million was 9% lower versus the prior-year quarter. Consumer inquiry revenue totaled $17.7 million in Q3, down 4% year-over-year. Within consumer inquiry revenue, mortgage grew 35% year-over-year on 31% higher consumer inquiries, benefiting from the value-based pricing initiative that we implemented in Q3 of last year. We are also implementing these strategies in the deposits vertical but as Ken said, the macro bank deposit environment remains challenging. Display and other revenue of $8.4 million in Q3 were down 18% compared to the prior year, driven in large part by continued weak demand from deposit advertisers. As discussed in previous quarters, several of our largest deposit CPC advertisers supplement their rate table participation with display advertising, and the same factors that cause them to reduce their CPC advertising also caused them to reduce their display ad spending. Adjusted EBITDA for the Banking segment in Q3 was $6.4 million, down $1.3 million from Q3 2015. The decline in adjusted EBITDA was mainly due to lower revenue. Our Senior Care segment generated revenue of $5.9 million during the third quarter and was a little better than breakeven in the quarter.

In our corporate segment, expenses before costs associated with governmental investigations and related matters and excluding depreciation, amortization, and stock-based compensation were $7.2 million in the third quarter, up $1.5 million versus the prior year. The largest portion of the increase in corporate costs stem from investments from finance capabilities. We expect the level of corporate costs to be lower in Q4 as projects are completed.

During the quarter, we also recorded a non-cash impairment charge of $4.2 million, which reduced the goodwill associated with our Quizzle business. Also during the quarter, we moved Quizzle from the Corporate and Other segment to the Banking segment to align with an updated management structure. Operating cash flow for the third quarter was approximately $20 million and we ended the quarter with nearly $136 million in cash.

With that, I'll turn the call back to Ken to wrap up.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Thanks, Steve. And I'll close the call, as I typically do. I always like to thank the entire RATE team for their hard work and their intense focus in returning the business to sustainable top and bottom line growth. This quarter's results were an important step forward.

Turning to guidance, we're reflecting this third quarter strong results by raising our full year guidance. Full year revenue is expected to be in the range of $438 million to $443 million and full year adjusted EBITDA is expected to be in the range of $114 million to $116 million. In terms of the fourth quarter, the trajectory we outlined on our Q2 call remains on track, that means for the fourth quarter we are expecting revenue of $117 million to $122 million and adjusted EBITDA of $30 million to $32 million.

And with that, I'd like to turn the call over to your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) John Campbell, Stephens, Inc.

John Campbell - *Stephens, Inc - Analyst*

Congrats on a great quarter. It does seem like this quarter is about the exact opposite feeling of the 4Q results back in February. So, again Ken and Steve, congrats to guys for getting the train firmly back on the track. Very impressive. Just curious about the cards business. Can you guys provide us with any kind of update around maybe just kind of traffic trends or issuer pricing through October?

Ken Esterow - *Bankrate, Inc. - President & CEO*

So, you want to talk about pricing and I'll take on trends?

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Sure. John, we continue to see a very competitive market out there and I don't think any big dislocations in pricing trends, but still solid demand. As we see issuers participate in our -- kind of in a monthly process. So, I don't think any big changes in pricing trends but continued positive demand.

Ken Esterow - *Bankrate, Inc. - President & CEO*

On volume, volume is ticked up with increases in our marketing activities. So, as we spread out beyond organic search to include SEM, or a ramp in display marketing, obviously the content marketing has been led by the team in NextAdvisor. We've also done a fair bit more on the offline side with direct response TV, real focus on driving positive contribution margin from those efforts.

I'm actually just looking at a metric sheet. From a pricing perspective, our revenue per consumer inquiry in the third quarter, in the aggregate across all of our cards properties, looks like it's up some 15% year-over-year; and similarly, sequentially. So pricing continues to be positive. And then if you actually look on a longer term basis, 2014 into 2015 to 2016, there's been a steady trend with respect to favorable pricing. I always like to highlight on that question that we don't set pricing in our Credit Cards business. Pricing for all intents and purposes is set through a monthly auction process that the issuers participate and we have very sophisticated issuers who are making informed marketing decisions with matching their advertiser demand and program requirements with placement on credit cards, and that seem to work very well for us and we believe it works well for issuers in terms of matching pricing to their ROI targets.

John Campbell - *Stephens, Inc - Analyst*

Okay, that's very helpful. And then I know you guys kind of outlined that $100 million or so run rate paid marketing spend. I also saw in the release you guys said that you've doubled marketing expense sequentially. So, are you getting close to that kind of $25 million per quarter or so run rate?

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Yes, we're still on track for that. So, we had given that as a number we thought we would hit in the fourth quarter this year, and the trend lines from where we are have us on track to get there.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Just to add a little on that, that is now inclusive of our NextAdvisor. So, early in the year when we called that number out, it was build versus buy and we made the decision to buy. And with the NextAdvisor team and Erik and Angelo and Colin, and everyone else out in Burlingame, they're doing a terrific job and that will be included in our ramp in paid marketing.

John Campbell - *Stephens, Inc - Analyst*

Okay. That's helpful. And then last one from me, on the corporate expense, I know you guys had mentioned earlier this year that it would be coming down a bit. And Steve, I think, in your prepared remarks, you said that you do expect that to come down, but could you maybe help quantify that a bit for the run rate?

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Yes, we had said -- well, I'm (inaudible) in previous quarters, but we expected to -- we expect to come in relatively consistent with what we -- the guidance we gave previously. I don't have the numbers right in front of me.

Ken Esterow - *Bankrate, Inc. - President & CEO*

And just the initiatives that are driving that, one is a one-time step-up in terms of a financial systems migration, we've taken four plus different accounting systems and deployed everything onto a common cloud-based system called NetSuite, and we made a number of significant process changes in our financial closing process. Many of those costs will be one-time and start rolling off beginning in Q4, and we think we'll have a better processes, a better result, and a better environment to support our financial close process.

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Yes. And John, I was just -- I think $6.5 million was, I believe, about where we pegged it on earlier calls, stepping down from where we were earlier in the year. So, we still think we'll step down into that range in the fourth quarter.

Operator

Andrew Jeffrey, SunTrust.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Ken, it sounds like you had some share success in cards. I just want to make sure I have this right. I think you said the new product launch was $9 million to $11 million of EBITDA. If that's in the quarter -- if that's correct, could you just kind of parse how much of that might have been a signing bonus or one-time fee, how much of it was volume driven, and then whether or not you view that as Bankrate to taking share on the issuer side, which would be sort of an increment, I guess, to the story as we've heard in the last couple years even?

Ken Esterow - *Bankrate, Inc. - President & CEO*

Yes. So, let me answer -- it's a great question. Let me try to break it down. So, the issuer that we worked with -- we worked with a select group of other sites, so this is not exclusive to us. There are some really good competitors who have a key part of their product launch. And the reason we called it out is these product launches do come up from time to time, but we're not expecting, for example, to repeat in Q4. The way we look at it is, opportunity comes to the well prepared and we have got a great platform. And when an issuer comes to us and helps in -- is looking for us to support that launch and be part of a broader rollout, we can really make a difference, but I wouldn't view that number particularly relating to share.

The way we view share, and I think I've talked about this in previous calls and certainly some conferences, is there is somewhere between $60 million and $70 million general purpose credit cards issued every year, that's for Equifax and some of the other credit bureaus. And we have, based on our approvals on our owned and operated sites, call it 2% of that number. So the addressable market is huge. I'm really not obsessed with whether we've got 2% and the guy next to me has got 2.1% or 1.9%. This market is really favorable for many players. You have a macro environment supporting offline timeline marketing, increased spend per card as cash is displaced by credit, you have the rise of mobile wallets spurring additional marketing activities. The increased complexity of credit card offers making marketplaces like CreditCards.com, that can help consumers making a firm decision, becoming that much more important. We also like the way we work with our issuers, because we're aligned with them in terms of meeting their ROI objectives. They set the price in terms of this auction process. So, the macro-dynamics are really favorable and if

And if you look on an extended basis, whether be a 20-year window or even I went back to CFPB report that 48 years, the macro trends with respect to card issuance, credit outstanding purchase volume is really up into the right with one outlier being the financial crisis in a way. So we like the space, we like the macro environments, we like our platform. We have very good competitors who we compete with. But we like our chances to be successful.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

And so, with regard to -- maybe this question for Steve, with regard to EBITDA contribution from this new product, is it -- are we sort of at a new baseline going forward or is there something sort of one-time that contributed to the third quarter?

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Yes. In terms of the new product launch, I think, as Ken was saying, these things they don't happen every quarter. So it's not something that is sort of you would roll into the baseline. Obviously, we kept our Q4 guidance the same. We're not anticipating this rolling into that quarter. There was good promotional activity in other prior quarters, but this was certainly one of the stronger, at least in my time of the space, strongest launches I've seen. So, no, I wouldn't consider to change the baseline.

Ken Esterow - *Bankrate, Inc. - President & CEO*

I'd also call out that even with the one-time card promotion at least for this quarter, we were still well on track to exceed the high-end of our guidance, both in revenue and EBITDA, which is why we wanted to call it out. So we've made that clear.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

And then one more, just if I may, can you describe this virtuous cycle which makes a lot of sense? Have you begun to see that play out in terms of more low cost or organic traffic or is that something you're anticipating as you look forward? I'm just trying to figure out where you are in that process.

Ken Esterow - *Bankrate, Inc. - President & CEO*

We have started to see play out. There is definitely an interrelationship or an intersection between the step-up and paid marketing and the feedback loop into organic. Folks who have listened to a number of these calls may remember the step-down associated with the Google search results -- search display changes that added a couple of additional paid ads and had the organic ads come underneath that. And off of that lower baseline, we've seen good steady progress on organic. And we believe, based on our tracking and some of the advanced analytics, that some of that, not all of it, but some of it is supported by our paid marketing activity.

And this iterative process where someone sees the display ad, sees the content marketing ad, comes to the site, may or may not convert, but does another search. And through the strength of the organic footprint, it begins to resonate. And over time, it's going be harder and harder for us to break out paid versus organic because of the overlap. So if someone sees the display ad, but they don't click on it. A day later, they come to CreditCards.com having direct typed it in and we're able, through some tracking analytics, to know that there's a high probability the reason they typed in CreditCards.com is because they saw the display ads and we're able to do, AB testing and multivariate testing at a pretty granular level that will confirm that our investment in paid marketing is in fact driving the expected result not only a paid marking basis but supporting organic.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

Got it. Okay, thanks.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Probably more than you wanted to know, but.

Andrew Jeffrey - *SunTrust Robinson Humphrey - Analyst*

No, it always helps me to get more educated. I appreciate it.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Thanks, Andrew. We'll see you guys later in the week, next week.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Just wondering if you could give us your sense of how much of the outperformance this quarter was driven by budget increase from your customers just than simply spending more across the ecosystem versus Bankrate taking share within the -- in the ecosystem and to the extent that it's taking share? And clearly, at least to a degree, it is. How much of that you feel like is coming from the incremental marketing spend versus some of the investments that you've been making in technology through things like myBankrate.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Sure. So in terms of the broader issuer community who announced typically a few weeks before we do, what we've seen is low-single digit to some high-single digit growth in new accounts. So, relative to their overall card acquisition efforts, we think we're gaining share or fairly confident we're gaining share. Part of that is a direct relation to the shift in offline to online marketing. Some of the money center banks actually call that out

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specifically in their metrics, and I'll let folks to go to their results and track that. In some of that, we believe based on some indicators is a reflection of outperformance relative to our peer set, but many of our competitors are private and tracking that with a degree of precision that we'd be comfortable talking about it. Externally, it's hard to do. But we like our results, we like our position. And issuers are becoming increasingly confident that marketplaces like CreditCards.com, can move the needle for them and meet their marketing goals in a meaningful way, quarter in and quarter out.

Operator

(Operator Instructions) Doug Anmuth, JPMorgan.

Dae Lee - *JPMorgan - Analyst*

Hi, this is Dae Lee in for Doug. Thank you for taking my questions. My question is on the consumer inquiries growth. It seems like you guys saw a very strong growth in all three segments. Could you kind of give us more color on what drove that growth in the consumer inquiries?

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Sure. So, in the card side, we certainly think that our additional marketing activities have been successful in driving a lot of consumer demand. And in addition, the new product launch and our participation in that certainly helped drive that. In the banking side, we've been quite successful for a number of quarters now in terms of our mortgage product and that's continued to support strong growth in consumer inquiries in that space. I think those would be two of the things we'd look to.

Dae Lee - *JPMorgan - Analyst*

Okay. And then as a follow-up, could you give us an update on the Banking segment website improvement progress today?

Ken Esterow - *Bankrate, Inc. - President & CEO*

Sure. Great question. So, to remind everyone, we outlined early in the year that we're planning a complete overhaul of the banking website, both what consumers see and what advertisers see, top to bottom. The first elements of that have actually been rolled out in terms of our content actions. We would expect to deploy other pieces throughout the rest of the fourth quarter, with a hope that we'd probably fully deployed early in Q1. I think we're about six, eight weeks behind where we wanted to be.

One of the things that we're mindful of in a redesign like this is making sure that not only do we get the consumer engagement we're looking for but it also works for advertisers and that we don't put at risk some of our gains in SEO authority. So, we're moving a bit more cautiously than perhaps we may have early in the year, in part because some of the traction we're getting on the Bankrate business side, gives us a bit more and I'll caveat that with the word bit more breathing room to make sure we get it right. And ideally, we'll have a similar or we'll see a similar benefit that we saw when we updated the card site back a little more than a year ago.

So Scott Kim and Simon in the Bankrate team are feverishly working, but they're being thoughtful about a stage deployment to make sure we don't break anything.

Dae Lee - *JPMorgan - Analyst*

All right. And then just one last one for me. It seems like you guys saw a good improvement in the segment EBITDA in the -- EBITDA margin in the Banking segment. Could you just talk about what drove that and if we should expect the same going forward?

Steve Barnhart - *Bankrate, Inc. - SVP & CFO*

Yes. So in the quarter, we certainly benefited at the bottom line from the card promotional activity. Ken -- I think Ken made the right point earlier, which is the business executed at a very high level. We're pleased with the prudence on paid marketing, pleased with prudence in NextAdvisor. But in terms of that, that [increment up] on margin, the additional revenue we receive from that card promotion was very high margin and drove a lot of the margin upside versus the EBITDA margin we had in the prior quarter.

Operator

(Operator Instructions) This concludes today's Q&A session. I would now like to turn the call back over to Ken Esterow for closing remarks.

Ken Esterow - *Bankrate, Inc. - President & CEO*

Thanks, operator, and thanks everyone for joining. As I said, we're pleased with the quarter's results. We think we're set up for a strong Q4. We've got a lot of work to continue to do, but we're really excited about our progress and we look forward to updating you with our year end results in 2017. Thank you, operator.

Operator

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