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RATE - Q4 2016 Bankrate Inc Earnings Call

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PRESENTATION

Operator

Welcome to the Q4 2016 Bankrate Incorporated earnings conference call.

(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. Ma'am, you may begin.

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

Thanks operator. Good afternoon, everyone, and thank you for joining us for Bankrate, Inc.'s fourth-quarter and full-year 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 briefly review the call's format. First Steve Byrne will cover the quarter's financial results before turning the call over to Ken Esterow, who will update you on business highlights and provide guidance for Q1 2017 and the full year of 2017. Following the remarks, the lines will be open for Ken and Steve to take some question.

A reconciliation of certain of the non-GAAP measures referenced in this call can be found in the back of the press release with financial statements. We also posted a presentation with supplementary information and metrics on Bankrate's Investor Relations website at investor.bankrate.com. We remind you that some of these statements made in this conference call, including those regarding the Company's future prospects, future revenue and profitability and our ability to successfully implement strategic initiatives, constitutes 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 relating 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 risk, 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 statements concerning forward-looking statements and risk factors in our annual report for 2015, as updated in our quarterly reports as well as in our annual report for 2016, which are or will be available on the SEC's website. With that, I will turn the call over to Bankrate's Chief Financial Officer, Steve Barnhart.

Steve Barnhart - Bankrate Inc. - SVP and CFO

Thanks, Katie. I'll start with our consolidated financial results. In Q4, Bankrate earned revenue of \$113.6 million, up 21% versus the prior year. GAAP net income was a loss of \$4.1 million while adjusted EBITDA of \$30.4 million was 7% higher than the prior year and in line with guidance of \$30 million to \$32 million provided during the Q3 earnings call.

In our Credit Card segment, we generated revenue of \$83.7 million, up 32% year over year, a record for the fourth quarter. Consumer Inquiry revenue of \$66.2 million was up 37% year over year ; consumer inquiries were up 15%, driven by our continued investment in credit cards marketing and the full year's results for NextAdvisor.

Revenue for consumer inquiry was up 19%. Q4 in the Card segment was slightly regular lower than we expected, as momentum from the very successful new card launch we discussed in Q3 allowed the issuer of that card to reduce the marketing spend for it by up to 75% during Q4. Credit cards adjusted EBITDA of \$28 million was 3% lower than prior year, with an adjusted EBITDA margin of 33%.

Consistent with the trends we discussed on last quarter's call, lower adjusted EBITDA margins are a result of, one, a higher mix of revenue generated through marketing and two, increased investment in product and technology to drive ongoing growth. We reached a notable point in the fourth quarter with approximately half of consumer inquiries directly attributable to marketing.

In the Banking segment, total revenue of \$26.2 million was 6% higher than the prior-year quarter, a return to growth for the first time since Q3 of 2015. Higher revenue was driven by a 33% increase in mortgage revenue while our value-based pricing initiative allowed us to outpace a slowdown in overall mortgage originations.

This growth was partially offset by lower revenue from bank deposits with the macro environment continuing to be challenging, as described on previous calls. However, as of last quarter, deposit revenue was flat sequentially. Adjusted EBITDA for the Banking segment in Q4 was \$7.8 million, up \$2.4 million from Q4 2015.

Our Senior Care segment generated revenues of \$5.4 million and adjusted EBITDA of \$700,000 during the quarter. Revenue was down slightly from \$6.3 million in the prior-year quarter, while adjusted EBITDA quarter was up \$800,000 versus the prior-year quarter.

In our Corporate segment, adjusted -- excuse me, expenses before costs associated with governmental investigations and related matters and excluding depreciation, amortization and stock-based compensation was \$6.1 million in the fourth quarter, down \$1.1 million sequentially from Q3. Net cash provided by operating activities for full-year 2016 was \$80 million and we ended the year with \$177 million in cash.

Before turn the call over to Ken, who will cover Q1 and full-year guidance, I want to highlight three factors that investors should keep in mind as they think about quarterly growth in 2017.

First, is the acquisition of NextAdvisor. The acquisition closed near the end of June 2016 so it will benefit year-over-year growth in Q1 and Q2. Second, we are continuing to invest behind what we believe are great opportunities in credit cards.

This includes investments in people and tools, or technologies in marketing as well as marketing dollars going into new areas that we are developing for profitability may be lower for a period of time. A number of these investments began in 2016 and our guidance reflects the annualization of these investments.

Other investments are beginning early in 2017. These investments will impact adjusted EBITDA growth in the first half of 2017 but we expect them to contribute to growth later in the year. Third, we are assuming a normal year for credit card -- new card introductions and promotions in 2017. As we have discussed in the past, Q3 2016 benefited from a significant new card launch which creates a challenging overlap for Q3 2017. With that, I'll turn the call over to Ken to discuss progress on RATE's strategic initiative.

Ken Esterow - Bankrate Inc. - President and CEO

Thanks a lot, Steve. As highlighted in today's release, in early 2016, I made three commitments to shareholders. First, that RATE would meaningfully ramp the topline growth of our flagship credit cards in marketplace through disciplined ROI positive marketing investments. Second, that our reconstruction efforts would return bankrate.com to growth and profitability; and finally, that we'd ramp the dividend in Caring by adding to our network of senior living communities.

I'm pleased to report we successfully delivered on all three commitments. At a high level, our Card segment aggressively extended its footprint across an array of paid consumer acquisition channels. We targeted getting to \$100 million annualized run rate in marketing and in fact, exited the full year -- a full 20% higher with ROI positive credit card marketing spend at an annualized level at \$120 million, more than 2.5 times our 2015 spend.

In Banking, our business model shift from a Web 1.0 static publisher towards a dynamic performance marketing platform, accelerated in 2016. As Steve highlighted, the Banking segment grew its topline the quarter and also returned to adjusted EBITDA growth for the first time in two years. Finally, Caring expanding its network of senior living communities by almost 50% in 2016.

Let's dive into our credit cards performance a bit deeper. Despite a challenging start to 2016, the Card segment once again delivered. Even if you were, pro forma, to exclude the benefit of NextAdvisor, total Cards revenue would have grown roughly 18% full year 2016.

And from a macro perspective, the credit card environment remains robust. The total number of general purpose credit cards increased in 2016 to \$634 million, up about 6% versus 2015 and total card balances outstanding were up roughly 7% year over year to \$850 billion. Coming into 2017, February year-to-date, all three of our credit card platforms, CreditCards.com, The Points Guy and our NextAdvisor business are tracking to double-digit consumer inquiry buying growth year over year.

However, issuers seem to have taken a bit of a breather in terms of cards pricing in Q1 following a very active 2015 and 2016. We've seen unit price growth deceleration in January and February. Both of these trends are reflected in our Q1 guidance. Best we can tell is that issuers are holding the firepower, gearing up to support some new card launches and product updates in the second quarter and beyond.

And finally, the integration of NextAdvisor is progressing well. In the fourth quarter, NextAdvisor consumer inquiries were up 44% over the Q4 2015 levels. You may recall NextAdvisor is also managing the content marketing for CreditCards.com, and grew it from 40% in the quarter sequentially.

With regards to Banking, I'm pleased that our investments in the segment are paying off as we return to revenue and adjusted EBITDA growth in the quarter. We do believe we can continue to grow mortgage revenue in 2017 despite expected contraction of overall refinancing activity. We are in the process of introducing new mortgage products to keep our Banking segment turnaround going.

In the fourth quarter, we started testing a mortgage REIT product on our rate tables. With leads, Bankrate.com passes along the consumer's name, contact details and some additional intent to the lender and gets paid on a per lead basis instead of per click. Now the consumer still chooses the provider they want to connect with but the provider only pays us when they get a lead, tightening the linkage between price and value, while keeping our consumer-centric experience intact.



Second, we are testing provider bidding on our mortgage rate tables. For mortgage providers who want even more consumer demand, they can bid in real time to be featured on the top of our mortgage rate tables. And finally, let's spend a couple minutes on Caring. The Caring team successfully grew our participating senior living network by almost 50% in 2016.

We are also thrilled to welcome back Brookdale, a leading provider of senior living in the US in December. We are now working with roughly half of the senior living communities. Now investors may recall that in the Caring business, there is a lag from when communities are added to our network to when referrals move in and generate revenue.

However, the Caring business is once again well-positioned to scale, with consumers having access to our broadest roster of participating communities ever, including the industry's leading providers.

In summary, I'm proud of the team's strong execution of our ambitious change agenda in 2016. With RATE's solid fourth quarter results, we have momentum and we are razor-focused on continuing to scale revenue, making the appropriate marketing and product investments, and accelerating adjusted EBITDA growth in 2017.

Let's turn to guidance. For the full year 2017, we're expecting revenue to be in the range of \$500 million to \$515 million and full-year adjusted EBITDA is expected to be in the range of \$122 million to \$129 million. For Q1 2017, we're expecting revenue of -- between \$115 million and \$118 million and adjusted EBITDA between \$26 million and \$28 million. So with that, I'd like to turn the call over to the operator for your questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

John Campbell, Stephens Incorporated.

John Campbell - Stephens Inc. - Analyst

I just wanted to dive in on the Credit Card segment for a little bit. I guess first, you guys mentioned that the largest your -- winding back spend in 4Q. That drove some revenue but it sounds like that the big 3Q results actually maybe pulled forward a little bit of revenue. Is that fair to say?

Steve Barnhart - Bankrate Inc. - SVP and CFO

I think you see two things happening. One with the success of that card, I think it's the first card, and certainly -- and recently, that went viral and took on a life of its own. It gave the provider the -- issuer ability to begin to cut back CPAs for that card, because the card was essentially selling itself with this viral phenomenon that it became. So that was a big part of it. The rest of the cards business was on track.

John Campbell - Stephens Inc. - Analyst

Okay. That's fair. And then I know that issuers were pretty bullish at their Analyst Day about staying aggressive on the new card front into 2017. But just curious about guidance. How are you guys thinking about that particular players -- their for the year? Are you thinking it will look more like first half of 2016 where it kind of normalizes? Maybe a continued reduction spend into 2017?



Ken Esterow - Bankrate Inc. - President and CEO

John, I'm not sure. You mentioned that they were bullish on the calls. But I'm not quite sure how that translated into your question?

John Campbell - Stephens Inc. - Analyst

So I think they were signaling that they would be continuing to be aggressive on the new card development front into 2017. I don't know how you guys are factoring their spend into guidance. Because obviously, in 4Q, there was a big reduction spent from them which impacted the whole segment. So I'm curious about what your expectations are for their spend going into this year.

Steve Barnhart - Bankrate Inc. - SVP and CFO

As I mentioned, we built our guidance on a normal year for card introductions. But in terms of what we sort of hear in the pipeline, we think in Q2 and Q3, you will see sort of a good pipeline of new card products. But not -- we haven't seen that much in Q1 at this point.

Ken Esterow - Bankrate Inc. - President and CEO

Yes, so let me add to that. So if you look back at 2015 over 2014, and 2016 over 2015, we saw really strong growth in pricing. It's 35% up 2015 over 2014, and 40% up in 2016 over 2015. I think it's tough to project that kind of pricing. It increases in 2017. Our Q4 number was actually -- pricing was up versus the prior-year quarter.

It was just that we had this tough compare in Q3 of this -- that card that became a phenomenon. And we called it out in Q3. We did grow revenue from consumer inquiry. Our measure of pricing Q4 versus Q4 of 2015. Just -- I think it's hard to estimate 40% growth in pricing.

John Campbell - Stephens Inc. - Analyst

Okay. That's understandable. And on the capstone, Steve, that jumped, I think 30% sequentially. It's a pretty big jump there. Aside from free cash flow, is there something else to go off there?

Steve Barnhart - Bankrate Inc. - SVP and CFO

In terms of cash balance?

John Campbell - Stephens Inc. - Analyst

Yes.

Steve Barnhart - Bankrate Inc. - SVP and CFO

No. We had \$80 million, as I mentioned, operating cash flow. We obviously had cash going out for NextAdvisor during the year. But no, there is nothing else unusual that I would call out on that.

Ken Esterow - Bankrate Inc. - President and CEO

Actually, just to clarify, John, the transcript, I misspoke the unit pricing was up it fell really strongly 15%, 2015 over 2014, 15%. 2016 over 2015, total revenue was up 40% and 40%, respectively. So we still saw a really good growth in pricing. And we are optimistic about pricing but we are going to be somewhat conservative coming into 2017 about 15% -- another year of 15% growth in pricing.

John Campbell - Stephens Inc. - Analyst

Okay. And then the last question here. Back to pricing, I don't want to put too fine of a point on it, but it sounds like you guys are implying pricing to be down in 1Q and then moderately picking up for the rest of the year. So for the full year, are you looking for flattish or maybe just slight growth at a pricing for the full year?

Ken Esterow - Bankrate Inc. - President and CEO

I'll take the first one because I mentioned in my part of the comments. We actually set pricing to be up slightly in Q1 versus Q1 of last year. What we highlighted was a deceleration in pricing growth. As we've seen issuers take a breather, there haven't been any significant new card product launches in the quarter based on what we are hearing and what we understand is we would look for issuers to start getting back into the market in Q2 and Q3. So that infers or gives us a Q1 number and I will let Steve talk about the full-year in terms of pricing.

Steve Barnhart - Bankrate Inc. - SVP and CFO

Yes. So we are looking for modest, very modest pricing on a full-year basis. We are not building anything -- as Ken said, we are not continued -- we're not building out a continuation of the strong pricing that we've seen over the last couple of years. And as that materializes, obviously that would be an opportunity.

John Campbell - Stephens Inc. - Analyst

That's great to hear. Thanks, guys.

Operator

Laura Martin, Needham.

Laura Martin - Needham & Company - Analyst

One of the questions I have is it sounded like in the fourth quarter, we exited the quarter sort of at a run rate of \$120 million of spending. But we sort of missed a little bit, our credit card revenue number and I think versus something by like 3% and consensus by 6% or so.

So if we spent more on marketing because we thought it was going to be \$100 million and it turned out to be a run rate of \$120 million, how did we miss the revenue number? And then what is that -- what's the implication then for next year in terms of total spending? Do we have to spend more than we thought to hit the revenue numbers that we have here for our projections?

Steve Barnhart - Bankrate Inc. - SVP and CFO

Yes, Laura, so two things on that. We had said we would expect to get full-year marketing spend to \$100 million a year run rate. We obviously exceeded that. But some of the initial view on that did not include the investments in NextAdvisor. If you back out NextAdvisor, we are around \$100 million that we had talked about earlier in the year.

And in terms of being a modestly up on the revenue in the quarter, it's really the impact of coming off of the new card launch in Q3 as that issuer pulled back on pricing, it just created some downside for revenue. And as we -- we obviously had to offset that in the P&L but it decrease revenue down side.

Laura Martin - *Needham & Company - Analyst*

Okay, that makes sense. And then, Ken, you mentioned specifically by name, Brookdale, came back to senior living. Was that the big client that left like a year ago? Is that the same guys?

Ken Esterow - *Bankrate Inc. - President and CEO*

Yes. It was. And we contacted them and they were comfortable with us sharing that they are working with us. And we are really looking forward to it. They've got a management team in place that's excited with working with us again. We are going to deliver for them. (multiple speakers)

Laura Martin - *Needham & Company - Analyst*

That is great. You said you were going to get them back and you got them back. So that is awesome. A little faster than you thought. Last question for me is you guys were tossing and you mentioned it here that getting paid on a price per lead basis for mortgages rather than a price per click. Do I take that to mean that, that is out of beta and you're rolling that out broadly now; is that what I heard or not yet?

Ken Esterow - *Bankrate Inc. - President and CEO*

So we are in -- we're still in catch. We're in will be in roughly 20% of our volume in the end of the quarter. And we're methodically working with our provider partners to make sure they get comfortable with the new approach. They understand the pricing and value and we continue the momentum in our mortgage business. It has worked for awhile; we built a platform that works and serves them well.

And at the end of the day, they want to make sure they get access to the customer. The provider bidding will help even further align pricing with value and if mortgage providers want more demand, they can buy more demand by bidding for it. Then we've got some other exciting things in the pipeline that we will talk about in subsequent quarters.

Laura Martin - *Needham & Company - Analyst*

Okay. Thanks guys.

Operator

Oscar Turner, SunTrust.

Oscar Turner - *SunTrust Robinson Humphrey - Analyst*

I might have missed this but did you provide organic revenue growth for the Card segment, excluding NextAdvisor for the quarter?



Steve Barnhart - Bankrate Inc. - SVP and CFO

No, Oscar, we didn't provide that. We've integrated that business pretty quickly and I think we've mentioned before, in addition to the sort of existing NextAdvisor business, NextAdvisor is running content marketing for CreditCards.com. So it is integrated into the business. And as we go forward, we are not looking to break that out because we don't -- we just think it is hard to cleanly cut that. But for 2016, NextAdvisor contributed \$29 million in revenue and just under \$8 million of EBITDA.

Ken Esterow - Bankrate Inc. - President and CEO

I'll give you -- one of the statements we referenced the prepared remarks was that if you were to take out NextAdvisor in 2016 and just compare apples to apples basis, the cards business without NextAdvisor in 2016, end of 2015, full-year revenue grew 18%.

Oscar Turner - SunTrust Robinson Humphrey - Analyst

Okay. Thanks. That's helpful. And then also on cards, can you provide color on the competitive environment in the marketplace? Do you think recent M&A activity in this space had any effect on Q4 performance? Do you think it will affect growth prospects for the Card segment going forward?

Ken Esterow - Bankrate Inc. - President and CEO

It's a great question. It's something -- we touched on it last quarter. We haven't seen an impact. For us, the card space has been heavily competed for the last number of years. There are a lot of great competitors who have really good capabilities.

All of them approach the market with slightly different takes in terms of marketing profile, their offering, how they engage consumers. This is a huge addressable market, of which the aggregators -- platforms like CreditCards.com, and The Points Guy, and NextAdvisor and our competitors are just scratching the surface of.

While we do compete and we have respect for our competitors and we certainly would love to take a point from them, the real opportunity is around the secular growth in the space. More of the marketings been going to digital and then within digital, to the aggregator space -- we respect our competitors, who have done a good job but nothing new or unusual in terms of the cost of marketing or marketing efficiency or any other metrics you would look at from a competitive perspective.

Steve Barnhart - Bankrate Inc. - SVP and CFO

That's clearly the main point. One minor point I would add on, though, specific to us with M&A activity in the space, we have seen compared price move off of our affiliate networks. Again, there's not much profit attached to it. But it was about \$20 million of affiliate revenue in the beginning of 2017. Moving off, starting at the beginning of 2017, and that affiliate revenue number one will come down with -- again, probably less than \$1 million of bottom-line impact.

Ken Esterow - Bankrate Inc. - President and CEO

It was a total reasonable decision. Again, we've got a great relationship with the issuer, the advertiser and our banking business. We understand that the reason to compare cards to a different affiliate network. It will be fine.



Oscar Turner - *SunTrust Robinson Humphrey - Analyst*

Okay. Just last question. In the past, you've spoken a bit about strategy, this virtuous cycle, this pay -- that you expect paid marketing to drive organic traffic over the long term. Are you seeing any evidence that, that strategy is panning out?

Ken Esterow - *Bankrate Inc. - President and CEO*

We -- we are. So I look to the fact that we were able to get to a point in Q4 of an annualized market run rate of \$120 million of fivefold or sixfold from where we were at the beginning of the year. And part of that calculus around the efficiency of our marketing spend is tracking the consumer who starts their journey on -- in a paid engagement with some advanced analytics and tracking technology we contract them into an organic conversion. And we are seeing it.

And as we begin penetrating platforms like social and display and begin to ramp some off-line marketing, the attribution or tracking paid marketing into organic will become that much more important. And some of the investments Steve talked about in technology products and infrastructure are going to make sure that -- are going towards making sure we've got our handle and arms around the ROI on all of these marketing investments that are hardest to track to equity. And you have to do it analytically through inference and cross-divide cross channel efforts.

Oscar Turner - *SunTrust Robinson Humphrey - Analyst*

Okay. Thanks a lot. That's helpful.

Operator

Douglas Anmuth, JPMorgan.

Damien Brewer - *JPMorgan - Analyst*

This is Damien for Doug. Thank you for taking the question. My first question is on the direct marketing opportunity. I think you mentioned from your marketing opportunities that will go early in 2017. Could you give us more color on that? Do you feel comfortably -- comfortable about being on all marketing terms that are available to you or are there opportunities that you guys could see in 2017? Then as a follow-up, could you give us an update on the personalization on the credit card and vertical and how you see that evolving over time?

Ken Esterow - *Bankrate Inc. - President and CEO*

Sure. On the first one in terms of marketing channels, 2016 was about really ramping our content marketing expertise. NextAdvisor has really helped along those lines and has done a terrific job in bringing expertise and the capability and scale. 2017 is going to be around display. It's going to be around social.

It's going to be around off-line and ramping some of our off-line capabilities with this direct response focus, through those efforts. So we think there is plenty of runway in terms of finding ROI positive channels to market and ramping those channels and doing it efficiently, and with our ROI targets in mind. On the personalization front, we haven't talked about it a lot in past calls.

And we are up to over 3 million consumers who are engage with either myBankrate or Quizzle or MyCreditCards or our Wallaby platforms, Credit Card Wallet. With the coming redesign of our Bankrate.com platform, which is expected to draw up in the first quarter. Personalization is going to be, first and foremost, around their efforts to provide an ongoing relationship with the consumer and make sure that what we are delivering to them.

As they come to us, not only the first time but repeated times, reflect what we know about them and can begin to better serve or anticipate what information they need or want or what offer they may respond to. What we're also really excited about and we highlighted on our last call is our social presence has really ramped.

So I think the metric I referenced last quarter was across our properties, we have more engagement on Facebook and Twitter and some of the other social networks than our next three competitors combined. And as it -- as we showed with the Q3 launch of that card, that engagement, that asset became very valuable as an issuer wanted to reach certain segment of the marketplace; in this case, The Points Guy targeting affluent travelers.

We were able to really take advantage of the opportunity in front of us through The Points Guy's audience. We are taking a broader view. It's nice we can focus on the credit report ; each part of our business will have an element that touches on personalization. The credit report will be still part of it. The Walla.by tools around maximizing the rewards profile, tracking your spend, and some other cool things that will be introduced later in the year on the card side. We like where we sit in terms of personalization coming into 2017.

Damien Brewer - *JPMorgan - Analyst*

Got it. Thank you.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Can you discuss what's implied in the guidance between how much you plan to spend on branding or television advertising versus online performance marketing? And then can you touch on the different competitive dynamics you are seeing in each of the marketing channels?

Steve Barnhart - *Bankrate Inc. - SVP and CFO*

Yes, Jed, we are not -- I don't think we're going to get into breaking out marketing spend by channels at this point. These things, in particular, what's in our guidance -- these things will move through the year as we see some things performing better than other things less well.

I think we obviously do have specific assumptions in there, but it's not something, at least for competitive reasons, I think that we want to break out. Can you give me the second piece of your question again?

Jed Kelly - *Oppenheimer & Co. - Analyst*

Just the current competitive dynamics in each marketing channel?

Steve Barnhart - *Bankrate Inc. - SVP and CFO*

Yes, I don't -- these channels, really, I would say all of them have been highly competitive for some time. I don't think we would say that we saw any material change in the fourth quarter versus earlier quarters. The big change in the marketplace was the obviously the aftermath of the large card launch in Q3. But in terms of specific marketplace changes and as Ken said earlier, it was just not even post the M&A activity, we just haven't seen big moves.

Ken Esterow - Bankrate Inc. - President and CEO

If you look, for example, NextAdvisor, since we bought them has maintained their contribution margin; it actually went up a couple points on their EBITDA margin profile. On the cards marketing side, we see no meaningful shifts and through the margin on SEM. As we test these new channels, they do have different profiles.

One of the things that we talked about in conferences and previous calls is, as we pursue new channels, we are less focused on whether that channel can generate 25% contribution margin and 35%, just that as we build out the channels that it is a reliable channel in terms of revenue generation and contribution. So we don't get the spiky revenue and pops of contribution margin in a two- or three-week period that make it hard to get your arms around the trajectory of the business.

And on the banking side, same thing. Nothing is unusual in terms of the marketing profile. In fact, as we moved our value pricing initiatives through our ecosystem of partners, we did update some of the partner rep share relationships to better reflect the values they were bringing to our advertisers and adjust our prices accordingly.

So we picked up a little bit of contribution margin in the quarter in banking. Not much to speak about but it was sort of the right thing to do, and economically balanced to complete with our partners and our advertisers. But trends are -- the trends in the marketing environment are still strong.

Jed Kelly - Oppenheimer & Co. - Analyst

Thank you.

Operator

Nat Schindler, Bank of America Merrill Lynch.

Nat Schindler - BofA Merrill Lynch - Analyst

I know your mortgage business is relatively small but it was an interesting thing you mentioned that you are moving on to the CPA model from the CPC models. Does that have any net effect on your economics in the end? Or were you fairly close to the efficient frontier already on the CPC?

Steve Barnhart - Bankrate Inc. - SVP and CFO

I will take that. So first of all, a clarification. It's not CPA. We're not going to get paid for closed mortgage.

Nat Schindler - BofA Merrill Lynch - Analyst

Per lead.

Steve Barnhart - Bankrate Inc. - SVP and CFO

Per lead; it's an important distinction, at least from our general counsel perspective. In terms of the linkage, we do think there is upside. As you get closer to the consumer ultimately transacting a loan, the less risk the advertiser takes and the more they are willing to pay for that increase in certainty. So you go from the top of the funnel, or CPM, where the advertisers takes all the risk on conversion, to CPC, where they take some risk, the CPL. Then we've got the consumer's name and they can market to them immediately.



And then we've got some interesting things around bidding and trying to better provide pricing options for advertisers who have more demand and more efficient conversion funnels to yield up or bid up. And then we've got some other things in the back half of the year that we think will be interesting to allow us to continue to get to that efficient frontier, that really provides as close to perfect alignment between the price they pay us and the value they realize with respect to their acquisition cost of demand.

Nat Schindler - *BofA Merrill Lynch - Analyst*

As you go farther down the funnel, does that market get more cyclical? More affected by shocks to the mortgage market, for example?

Ken Esterow - *Bankrate Inc. - President and CEO*

I think we'll -- what we have seen is an increase in rates. There is actually more demand from mortgage advertisers because the walk-in traffic and the call-in traffic has filtered off. Refinancing is down meaningfully. So we haven't seen it. We are geared up in 2017 to make these changes and grow revenue on the mortgage side.

As you said, it is a small part of our business, but 10% of revenue -- one of the things we didn't talk about was as the Fed's talk about rate increases and assuming that remains consistent with a robust growth scenario and economic expansion, that should benefit our cards business as rates come up. Credit card rates are tied to underlying Fed funds or prime rates, rates will pick up. The cost of funding seems to lag.

In fact, a number of the issuers talked about that in their year-end calls about seeing an increase in net interest margin. For that to be impactful for us, what happens is the value of a new cardholder becomes that much more valuable. And the yield on existing customers goes up, allowing them to potentially direct more dollars to customer acquisition. So we think we will have a good 2017 in terms of the macro environment relative to interest rates.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Operator

Allen Klee from Sidoti.

Allen Klee - *Sidoti & Company - Analyst*

For the banking segment, you posted EBITDA margins of 30% in the quarter which was higher than the previous three quarters. I'm just wondering if you think that, that is sustainable?

Steve Barnhart - *Bankrate Inc. - SVP and CFO*

So the banking margins we have a good bit of leverage in that business. And as we've -- as we scale the business and back up the much -- as some margins come down as revenue declines over the last couple of years, we would expect to see the corresponding leverage as we get growth back in that business. So we have some other benefits in terms of -- as Ken mentioned, we renegotiated some deals and we had a little bit of leverage in some of our marketing. But yes, we would expect margins to grow as we continue to restore that growth rate in the banking business.



Ken Esterow - Bankrate Inc. - President and CEO

Did we lose you?

Allen Klee - Sidoti & Company - Analyst

I thought I lost you for a second. And my other question is related to free cash flow. Can you give us any good guidance and insight on what you think, CapEx, stock-based comp type payments will be? And if working capital is more likely to be a use of source of funds for the year?

Steve Barnhart - Bankrate Inc. - SVP and CFO

Yes, in 2016, we had about \$11 million of CapEx. As we expand our development activities that could -- we would expect that to grow modestly as we scale those activities. But some sort of high single or low digit number. In terms of working capital, as we scale the cards business, it does use some working capital but there is no unusual changes that I would call out for 2017.

Ken Esterow - Bankrate Inc. - President and CEO

It's our reliable time with payers, but compared to our banking business where some of our advertising dollars are actually pre-funded. As cards grow faster than banking there's just in the working capital dynamic.

Allen Klee - Sidoti & Company - Analyst

Okay. Thank you very much.

Operator

Blake Harper, Loop Capital.

Blake Harper - Loop Capital - Analyst

I wanted to ask about the activity and competition for the full paid mobile slots on Google search engine page. This when you're out now from the big change that was made and just wanted to see how significant that, that is to your business now and anything else you can comment about the activity there?

Ken Esterow - Bankrate Inc. - President and CEO

I will take that in terms of the search. Investors may recall that there was a meaningful change in the search results a year ago, this quarter. We talked a lot about that a year ago. So I'm not going to revisit that. We've been dealing with a full paid out in both desktop and mobile for the better part of the year.

We are able to buy paid marketing at good solid contribution margins in mostly high double digits in 20% or 30% range consistently. And we've got, we think it's a combination of having good monetization, a really good paid marketing team, good analytics and a good product offering.

So we are doing just fine. One of the stats I will call out, which I think I referenced in an investor conference a couple weeks back was cards -- CreditCards.com. I don't have the number for CPG or NextAdvisor, but I remember CreditCards.com. Traffic was about 50% coming into Q4; total traffic on mobile. And revenue was about 30%.

So it's still significant gap and part of that gap is the credit profile of the mobile customer versus customer ; part of that is people who come to mobile, shop on mobile ; check out couple of sites, then come back on desktop. We saw one study by a major search provider that said there could be as much as another 10 percentage points of conversion across device.

People starting on mobile, deciding where they want to go, coming back to our site on desktop and completing the transaction. So we've come a long way on mobile from where we were a year-and-a-half or two years ago. The offering is really well done. Traffic is ramping. Our paid marketing is working, not just in search but in displaying and content marketing in other channels. So kudos to our cards team for really closing the gap there.

Blake Harper - *Loop Capital - Analyst*

Great. Thanks. If I could just follow up on the last thing you said there about these social channels and you've done a great job to grow your presence there. But have you been able to effectively leverage a lot of those social connections on an organic basis and turn them into leads? Or have you had to -- or do you see yourself being able to do more paid social advertising to -- or is it much easier for SEM?

Ken Esterow - *Bankrate Inc. - President and CEO*

It's a mix of both. I don't have the numbers in front of me. I would say for our Points Guy business, he is done a really good job of building his audience both organically but with meaningful amount of paid marketing, particularly on Facebook and it is worked really well for him. And Facebook's targeting capabilities align with his marketing efforts and he can find the audience who would respond to his content.

Remember, it's a content site first and the marketplace, second. He's got real authoritative content. People find it really engaging. People once who decided to like him and follow him do so on an ongoing basis. In our CreditCards.com and banking businesses, a lot of the growth in social has been more organic.

I think we have a couple hundred thousand combined followers on bank and cards and some of our new blog sites like the Cashlorette, which I'd encourage you to check out, who go after the millennial saver. We are doing a really nice job with that offering.

Blake Harper - *Loop Capital - Analyst*

Okay. Thanks Ken.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

I just wanted to get a sense of what kind of trends you're seeing in the organic side of your traffic? I know you're not going to get into the specific numbers but if you could just give us a sense between the traffic that you get to Bankrate from the brand building efforts that Bankrate has around content and content that you produce as well as the obvious SEM side of the -- or the SEO side of the equation, the non-paid side of things. Just curious how important that is if you thought if you've come to emphasize more of the paid channels that are available to you?

Steve Barnhart - *Bankrate Inc. - SVP and CFO*

Sure. Heath, we've made a reference a couple quarters back that after -- that the organic trends that stabilized back in Q2, they are really still largely at that place. We are not seeing the kind of growth in organics that I think there was two or three or four years ago. But it has stabilized. And we



mentioned earlier, consumer inquiries for cards, we reached the point in the fourth quarter where approximately half of them came through paid marketing which is a significant shift from where we were a year or two ago. So that's -- how I guess that would describe it.

Ken Esterow - Bankrate Inc. - President and CEO

I just want to remind folks who may be new to the story or had -- impacted us last year; it was not an algorithm change. Google changed their search results for paid listings. We actually did a review going back four years in terms of the authority of our content and how it resonates in the various search engines. Our cards business for the top ten in terms we rank in the top three spots and have for the last four years.

They'll be credit cards and credit card offers and top credit card offers, the same stats in banking and with respect to mortgage and CDs. Our content continues to resonate. We spend a lot of time making sure we've got great content; that is being optimized for how search digests and pulls this content in. But the growth in revenue, we expect to be driven by our advertisers and paid marketing.

Heath Terry - Goldman Sachs - Analyst

Great. Thanks.

Operator

Michael Tarkan, Compass Point.

Michael Tarkan - Compass Point Research & Trading - Analyst

Just a quick follow-up on the personal loan business. I know you guys were starting this off from a very small base. I'm kind of wondering where things stand there. I know we've seen some stabilization within marketplace lenders, some have emerged with traditional lenders into space. I'm just wondering what you're thinking in that sector? Thanks.

Steve Barnhart - Bankrate Inc. - SVP and CFO

Thanks. So I think it's fair to say that the back half of the year, we deemphasized personal loans. We were hit with the market disruption and dislocation in, I think it was the second quarter of last year. Given the other higher priority opportunities and challenges we are facing across banking and cards, we sort of put that on the bank burner. And put more of our emphasis on mortgages and our value pricing and deposits and auto loans.

We should be launching a completely updated bankrate.com site the end -- by the end of the quarter, in Q1. We're really excited about that. The team has done a great job in giving a completely refreshed look and feel; a better consumer experience. We may come back to personal loans as a focus area. I think others have done a really nice job in the category; it s provides real value to consumers but it has become less of a priority for us.

Michael Tarkan - Compass Point Research & Trading - Analyst

Thank you.

Operator

Thank you. I am showing no further questions from our phone line. I would now like to turn the conference back over to Ken Esterow for any closing remarks.

Ken Esterow - *Bankrate Inc. - President and CEO*

Great. Thanks, operator. Thanks, everyone, for listening. Thanks for your great questions, and we look forward to updating you at the end of the quarter. Thanks.

Operator

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

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