

## Equity Research

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## Financials

### LendingClub Corporation

#### Mixed Bag in 4Q17: Top Line Miss, Adj. EBITDA Beat, FY18 Guidance Reiterated But 1Q18 Outlook Weak

The 4Q17 report that LendingClub Corporation (LC) released today after the market close was a mixed bag of positives and negatives. LC missed consensus estimates on the top line, but it beat estimates on adjusted EBITDA. Management provided 1Q18 guidance that was below consensus, but they reaffirmed their guidance for FY18. Loan originations increased during 4Q17 by 23% versus the prior year period, but the company disclosed that it will use almost 12% of its cash balance to settle federal and state class action lawsuits stemming from its 2016 legacy issues.

- Of course, LC's reiterated FY18 guidance when combined with a disappointing 1Q18 outlook means that the operational trajectory needed to achieve management's targets is steeper than what it had been perceived to be prior to today's report. And while the preliminary settlement of litigation arising from LC's May 2016 scandal involving misallocated loans will be a use of much-needed cash, it also helps to remove a source of uncertainty and enables the company to move further away from an unfortunate chapter in its history.
- At this point, we believe LC should be assessed by the extent to which its positive optionality remains intact. The company's revenues grew by 20% during 4Q17 and consensus estimates call for it to generate almost \$700mm in revenue during FY18. We stated in a January 10 note that LC's expense structure appeared excessive and that we believe the company could meaningfully help its own cause by rationalizing its expense base. With all of that said, LC shares at today's close traded at just 7.1x consensus FY20E adjusted EBITDA and the risk/reward associated with the story remains interesting, in our view.
- As such, **we are reiterating our Buy recommendation on LC and our price target of \$7** based on 10x the company's FY20E adjusted EBITDA of \$202.2mm discounted back at 10%.
- Valuation:** Our price target of \$7 for LC is based on 10x the company's FY20E adjusted EBITDA of \$202.2mm discounted back at 10%. The multiple we employ is based on our outlook for LC's growth rate.

**LC** **\$3.95**

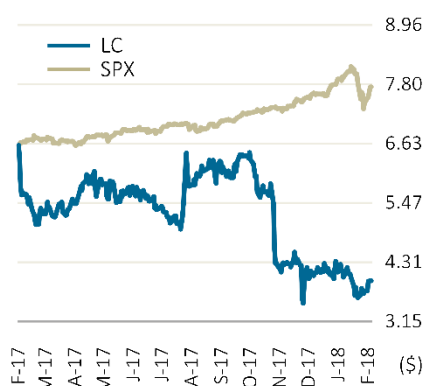
12 month target \$7.00

### BUY

52 week range \$3.51 - \$6.46

Market Cap (m) \$1,643

#### Price Performance



Source: IDC

## Estimates

	1Q17 A	2Q17 A	3Q17 A	4Q17 A	FY17 A	1Q18 E	2Q18 E	3Q18 E	4Q18 E	FY18 E	FY19 E
Sales	122	133	142	157	554	153	165	175	183	676	815
EBITDA	0	4	21	19	45	10	21	24	27	82	144
Basic EPS (Adj.)	(0.02)	(0.01)	0.03	0.01	0.01	(0.01)	0.02	0.03	0.03	0.07	0.21

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

*Please Read: Important disclosures and analyst's certification appear in Appendix*

- ▶ LC reported 4Q17 adjusted EBITDA of \$19.0mm, outpacing the consensus estimate of \$17.8mm and our estimate of \$16.4mm. The company's net revenue during the quarter was a record \$156.5mm, falling short of the consensus estimate of \$158.2mm and our estimate of \$158.7mm.
- ▶ Management guided to 1Q18 net revenue in a range of \$145mm to \$155mm, trailing the consensus estimate of \$161.4mm and our estimate of \$165.2mm. At the same time, they provided 1Q18 adjusted EBITDA guidance in a range of \$5mm to \$10mm versus the consensus estimate of \$13.1mm and our estimate of \$18.5mm.
- ▶ Nevertheless, management reaffirmed the FY18 guidance it had provided during LC's Investor Day last December 7. This included revenue in a range of \$680mm to \$705mm and adjusted EBITDA in a range of \$75mm to \$90mm. They also reiterated their expectation that the company would exit 2018 with an adjusted EBITDA margin in the 15% context with the improvement driven by higher revenue yield and lower fixed costs.
- ▶ While LC's 4Q17 loan growth of 23% was essentially flat with the prior quarter, management touted that as a positive result in light of the impact of tightened credit arising from management's deliberate decision to accelerate the implementation of the company's fifth-generation credit model last September.
- ▶ Management said LC's agreement to settle the class action lawsuits included a payout of \$125mm that was subject to court approval. While \$47.75mm of that amount will be covered by the company's insurance, the remaining \$77.25mm will be paid out of liquid assets of approximately \$650mm at YE17.
- ▶ LC's stated cash position at YE17 was \$474mm, which was exclusive of \$236mm due to loans held for sale as part of its securitization program and \$45.3mm in securities available for sale subject to regulatory risk retention requirements. That compared with \$603mm in cash at September 30 exclusive of \$187mm in loans invested in the company with most of those targeted for future securitizations.
- ▶ LC during 4Q17 executed two loan securitizations and two issuances of CLUB certificates which are tradable pass-through securities that give the company access to a new set of investors. As a result, the company's structured programs represented 11% of its funding during the quarter, up from zero a couple of quarters ago. The increased diversification brought funding from banks during 4Q17 down to 36% of originations versus 44% in 2Q17.
- ▶ In response to questions about the impact of rising interest rates on demand for LC's product, management stated that the company's product offered high yield and short duration with the quick reinvestment provided by the latter being particularly attractive given volatility around rates.

## Income Statement

LendingClub Operating Model	Dec-14	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Dec-19	Dec-20
\$ Millions	2014A	2015A	2016A	1Q17A	2Q17A	3Q17A	4Q17A	2017A	1Q18E	2Q18E	3Q18E	4Q18E	2018E	2019E	2020E
Transaction fees	197.12	373.51	423.49	98.69	107.31	121.91	120.70	448.61	116.21	126.10	132.68	138.27	513.25	605.16	707.65
Servicing fees	11.53	32.81	68.01	21.18	21.12	20.50	24.31	87.11	24.81	27.37	29.92	32.47	114.57	160.32	211.56
Management fees	5.96	10.98	11.64	-	-	-	-	-	-	-	-	-	-	-	-
Other revenue	(1.20)	9.40	(7.67)	2.22	4.22	(0.23)	11.72	17.94	11.84	11.95	12.07	12.19	48.06	50.01	52.04
<b>Total operating revenue</b>	<b>213.41</b>	<b>426.70</b>	<b>495.47</b>	<b>122.09</b>	<b>132.65</b>	<b>142.18</b>	<b>156.73</b>	<b>553.65</b>	<b>152.85</b>	<b>165.42</b>	<b>174.67</b>	<b>182.94</b>	<b>675.88</b>	<b>815.50</b>	<b>971.25</b>
<b>Net interest income (expense)</b>	<b>(2.16)</b>	<b>3.25</b>	<b>5.35</b>	<b>2.39</b>	<b>6.92</b>	<b>11.85</b>	<b>(0.27)</b>	<b>20.89</b>	<b>2.96</b>	<b>2.99</b>	<b>3.02</b>	<b>3.05</b>	<b>12.03</b>	<b>12.60</b>	<b>13.16</b>
Benefit (provision) for losses on loans at amortized cost	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair valuation adjustments - loans	(124.60)	(549.74)	-	-	-	-	-	-	-	-	-	-	-	-	-
Fair valuation adjustments - notes and certificates	124.48	552.97	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Net interest income after loss provision and fair-value adjustments</b>	<b>(0.12)</b>	<b>3.02</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total net revenue</b>	<b>211.13</b>	<b>432.96</b>	<b>500.81</b>	<b>124.48</b>	<b>139.57</b>	<b>154.03</b>	<b>156.46</b>	<b>574.54</b>	<b>155.81</b>	<b>168.42</b>	<b>177.70</b>	<b>185.99</b>	<b>687.91</b>	<b>828.09</b>	<b>984.40</b>
Sales and marketing	87.28	173.70	216.67	54.58	55.58	59.57	60.13	229.87	63.94	66.23	69.27	71.76	271.20	307.23	346.54
Origination and servicing	38.29	63.24	74.76	20.45	21.27	21.32	23.85	86.89	24.55	25.40	26.53	27.45	103.94	117.27	131.44
General and administrative	117.07	195.17	322.53	79.33	88.21	79.79	86.62	333.95	85.08	87.17	90.15	92.33	354.72	397.16	454.14
Class action settlement	-	-	-	-	-	-	77.25	77.25	-	-	-	-	-	-	-
Goodwill impairment	-	-	37.05	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total operating expenses</b>	<b>242.63</b>	<b>432.11</b>	<b>651.01</b>	<b>154.37</b>	<b>165.07</b>	<b>160.68</b>	<b>247.84</b>	<b>727.95</b>	<b>173.57</b>	<b>178.80</b>	<b>185.96</b>	<b>191.53</b>	<b>729.86</b>	<b>821.65</b>	<b>932.12</b>
<b>Adjusted EBITDA</b>	<b>19.14</b>	<b>72.77</b>	<b>(16.92)</b>	<b>0.16</b>	<b>4.49</b>	<b>20.90</b>	<b>19.05</b>	<b>44.60</b>	<b>10.21</b>	<b>20.53</b>	<b>23.73</b>	<b>27.42</b>	<b>81.89</b>	<b>144.02</b>	<b>202.17</b>
<b>Income (loss) before income taxes</b>	<b>(31.50)</b>	<b>0.85</b>	<b>(150.20)</b>	<b>(29.88)</b>	<b>(25.50)</b>	<b>(6.65)</b>	<b>(91.39)</b>	<b>(153.41)</b>	<b>(17.75)</b>	<b>(10.39)</b>	<b>(8.26)</b>	<b>(5.55)</b>	<b>(41.95)</b>	<b>6.44</b>	<b>52.28</b>
Provision for income taxes	1.39	2.83	(4.23)	(0.04)	(0.05)	0.01	0.71	0.63	-	-	-	-	-	-	-
<b>Net income (loss)</b>	<b>(32.89)</b>	<b>(1.98)</b>	<b>(145.97)</b>	<b>(29.84)</b>	<b>(25.44)</b>	<b>(6.66)</b>	<b>(92.10)</b>	<b>(154.05)</b>	<b>(17.75)</b>	<b>(10.39)</b>	<b>(8.26)</b>	<b>(5.55)</b>	<b>(41.95)</b>	<b>6.44</b>	<b>52.28</b>
<b>Diluted EPS</b>	<b>(\$0.44)</b>	<b>(\$0.01)</b>	<b>(\$0.37)</b>	<b>(\$0.07)</b>	<b>(\$0.06)</b>	<b>(\$0.02)</b>	<b>(\$0.22)</b>	<b>(\$0.38)</b>	<b>(\$0.04)</b>	<b>(\$0.02)</b>	<b>(\$0.02)</b>	<b>(\$0.01)</b>	<b>(\$0.10)</b>	<b>\$0.02</b>	<b>\$0.12</b>
<b>Adjusted EPS</b>	<b>\$0.04</b>	<b>\$0.15</b>	<b>(\$0.10)</b>	<b>(\$0.02)</b>	<b>(\$0.01)</b>	<b>\$0.03</b>	<b>\$0.01</b>	<b>\$0.01</b>	<b>(\$0.01)</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>\$0.03</b>	<b>\$0.07</b>	<b>\$0.21</b>	<b>\$0.35</b>
Diluted shares outstanding	75.57	387.34	395.09	400.31	406.68	412.78	416.01	409.00	416.42	416.84	417.25	417.67	417.05	418.72	420.39
Tax rate	-4.4%	332.1%	2.8%	-0.1%	-0.2%	0.2%	0.8%	-0.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan originations	4,377.5	8,361.9	8,664.7	1,958.7	2,147.3	2,442.9	2,483.3	9,032.2	2,520.5	2,621.4	2,752.4	2,862.5	10,756.9	12,561.5	14,711.0
Revenue growth	117.8%	99.9%	16.1%	-19.3%	29.6%	26.3%	21.3%	11.7%	25.2%	24.7%	22.9%	16.7%	22.1%	20.7%	19.1%
Adjusted EBITDA growth	23.8%	280.2%	-123.2%	-99.4%	-114.9%	-287.4%	-2264.5%	-363.7%	6241.1%	357.0%	13.6%	43.9%	83.6%	75.9%	40.4%
Adjusted EBITDA margin	9.1%	16.8%	-3.4%	0.1%	3.2%	13.6%	12.2%	7.8%	6.6%	12.2%	13.4%	14.7%	11.9%	17.4%	20.5%

Source: BTIG Estimates and Company Documents

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## BTIG Covered Companies Mentioned in this Report

LENDINGCLUB CORPORATION (LC, Buy, \$7.00 PT; Current Price: \$3.95; Analyst: Mark.Palmer)

## Appendix: Analyst Certification and Other Important Disclosures

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I, Mark Palmer, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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#### LendingClub Corporation (LC, Buy, \$7.00 PT)

**Valuation:** Our price target of \$7 for LC is based on 10x the company's FY20E adjusted EBITDA of \$202.2mm discounted back at 10%. The multiple we employ is based on our outlook for LC's growth rate.

**Risks:** Increase in defaults on loans facilitated through LC's marketplace could negatively impact return on investment for investors in those loans, which could result in a decline in investment in the marketplace. Additionally, changes in the regulatory environment surrounding peer to peer loans could negatively impact Lending Club's ability to originate new peer to peer loans.

## LendingClub Corporation (LC)



*Note: Closing Price and Target Price have been adjusted for corporate actions.*

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
11-Dec-14	23.43	19	Mark Palmer	Buy
15-Dec-14	24.97	31	Mark Palmer	Buy
29-Oct-15	14.18	21	Mark Palmer	Buy
09-May-16	4.10	9	Mark Palmer	Buy
08-Dec-17	3.89	7	Mark Palmer	Buy

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