

# LendingClub Corporation

## (LC, Buy, \$30.00 PT)

Reiterating Buy, Adjusting Price Target to \$30 (from \$6) to Reflect 5-to-1 Reverse Stock Split; Higher Share Price Opens Up LC to New Investors

**WHAT YOU SHOULD KNOW:** We are reiterating our Buy recommendation on LendingClub (LC) while adjusting our price target to \$30 (from \$6) to reflect the 5-to-1 reverse stock split that was effective on July 5. We note that the adjustment we have made reflects only the impact of the stock split.

- While we acknowledge the negative connotation associated with reverse stock splits inasmuch as they are often an indicator of a company's financial distress, we view LC's reverse split as benign, particularly as we believe the company's outlook during the next couple of years is promising and that many of the positive changes implemented by management have been overlooked by the market. The extent of investors' severely negative sentiment toward LC is seen in the stock's deep discount valuation: it trades at just 1.36x FY20E EV/revenues when peers trade at 3-5x.
- LC stated that its reverse split was aimed at reducing the its annual listing fees at the New York Stock Exchange (NYSE) by decreasing the number of shares outstanding. We note that Simon Mays-Smith, LC's Vice President, Investor Relations, during BTIG-hosted meetings with investors last month had said the split would reduce the company's listing costs on the NYSE by about \$300K. He said the split should be seen in the context of LC's push to reduce costs as part of its effort to enhance its profitability: the company intends to achieve GAAP profitability during 2H19 and to advance toward its medium-term target of an adjusted EBITDA margin of 25%.
- Mays-Smith also pointed to the fact that LC's split would enable more institutional investors to buy the stock as some of them have mandates prohibiting the purchase of stocks trading at below \$5. The split also would help investors to reduce their brokerage fees, he said.
- We continue to view LC's share price as suppressed by investor concerns about the inquiry into the company by the Federal Trade Commission, which management has acknowledged could go on for some time. Mays-Smith said the outcome of the investigation, which stemmed from LC's assertion that it had "no hidden fees" when it has a 5% transaction fee that it contends was well disclosed, could involve a fine and some alteration of its business practices. With that said, it appears that LC's discount valuation already reflects such an outcome.
- Valuation:** Our price target of \$30 for LC is based on 10x the company's FY20E adjusted EBITDA of \$184.9mm. The multiple we employ is based on our outlook for LC's growth rate.



July 10, 2019

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COMPANY DATA	
Closing Price:	\$16.10
Price Target:	\$30.00
Market Cap (\$M):	1,386.35
Shares Out (M):	86.1
Avg Daily Vol - 3 Months (M):	0.38
Dividend/Yield:	\$0.00/0.0%

REVISIONS		
	Previous	Current
Rating	Buy	Buy
Price Target	\$30.00	\$30.00
FY19E EPS	\$(0.04)	\$(0.21)
FY20E EPS	\$0.03	\$0.17
FY19E Rev. (M)	\$792.21	\$792.21

Diluted EPS (Adjusted)			
FY Dec	2018A	2019E	2020E
Q1	(0.17)	(0.13)	(0.05)
Q2	(0.50)	(0.13)	0.03
Q3	(0.09)	0.02	0.09
Q4	(0.05)	0.03	0.11
<b>Calendar EPS</b>	<b>(0.80)</b>	<b>(0.21)</b>	<b>0.17</b>
Calendar P/E	-	-	94.0x

REVENUE (\$M)			
FY Dec	2018A	2019E	2020E
Q1	151.67	174.42	204.00
Q2	176.98	195.66	222.11
Q3	184.65	209.42	232.28
Q4	181.52	212.71	235.34
<b>FY</b>	<b>694.81</b>	<b>792.21</b>	<b>893.73</b>

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

We believe LC's valuation fails to reflect its strong adjusted EBITDA growth prospects as well as its improved funding model. We view the company as well positioned to achieve GAAP profitability during 2H19 and to advance toward its medium-term target of an adjusted EBITDA margin of 25%.

- Announcements of additional securitizations, block trades and CLUB Certificate issuances that would further diversify LC's funding model.
- 2Q19 earnings report demonstrating LC on track to achieve management's FY19 guidance.
- Resolution of FTC investigation.

- Our price target of \$30 for LC is based on 10x our FY20E adjusted EBITDA of \$184.9mm.
- We assume that LC will be able to achieve management's FY19 guidance for net revenue growth of 10% to 14% and adjusted EBITDA growth of almost 28%.

- LC achieves a favorable resolution of the FTC investigation, and the company's expense reductions are more impactful than anticipated.
- LC's loan origination growth accelerates and the company's margin expansion plans materialize. The stock trades up to \$40.00.

- LC settles with the FTC for a large fine and a significant alteration in its business model.
- The company's loan origination growth is less than expected as competitors eat into its market share. The stock trades down to \$7.50.

## Company Description

LendingClub Corporation (NYSE: LC) is the world's largest online marketplace connecting borrowers and investors. Qualified consumers and small business owners borrow through LC to lower the cost of their credit and enjoy a better experience than traditional bank lending. Investors use LC to earn attractive risk-adjusted returns from an asset class that has generally been closed to many investors and only available on a limited basis to large institutional investors.

## Income Statement

LendingClub Operating Model \$ Millions	Dec-16 2016A	Dec-17 2017A	Mar-18 1Q18A	Jun-18 2Q18A	Sep-18 3Q18A	Dec-18 4Q18A	Dec-18 2018A	Mar-19 1Q19A	Jun-19 2Q19E	Sep-19 3Q19E	Dec-19 4Q19E	Dec-19 2019E	Mar-20 1Q20E	Jun-20 2Q20E	Sep-20 3Q20E	Dec-20 4Q20E	Dec-20 2020E	Dec-21 2021E
Transaction fees	423.49	448.61	111.18	135.93	137.78	142.05	526.94	135.40	149.61	156.62	157.07	598.69	146.54	162.74	170.54	171.20	651.03	698.04
Investor fees	79.65	87.11	27.90	27.40	29.17	30.42	114.88	31.73	32.50	33.71	34.88	132.83	35.67	36.49	37.71	38.91	148.77	163.80
Gain on sales of loans	0.12	23.37	12.67	11.88	10.92	10.51	45.98	15.15	15.91	16.71	17.54	65.31	18.42	19.34	20.31	21.32	79.38	96.49
Other revenue	(9.46)	6.44	1.46	1.47	1.46	1.46	5.84	2.06	2.11	2.16	2.21	8.53	2.27	2.33	2.38	2.44	9.42	10.40
<b>Net interest income and fair value adjustments</b>	<b>7.03</b>	<b>9.02</b>	<b>(1.54)</b>	<b>0.31</b>	<b>5.32</b>	<b>(2.92)</b>	<b>1.17</b>	<b>(9.92)</b>	<b>(4.46)</b>	<b>0.22</b>	<b>1.00</b>	<b>(13.15)</b>	<b>1.10</b>	<b>1.21</b>	<b>1.34</b>	<b>1.47</b>	<b>5.13</b>	<b>7.50</b>
<b>Total net revenue</b>	<b>500.82</b>	<b>574.54</b>	<b>151.67</b>	<b>176.98</b>	<b>184.65</b>	<b>181.52</b>	<b>694.81</b>	<b>174.42</b>	<b>195.66</b>	<b>209.42</b>	<b>212.71</b>	<b>792.21</b>	<b>204.00</b>	<b>222.11</b>	<b>232.28</b>	<b>235.34</b>	<b>893.73</b>	<b>976.23</b>
Sales and marketing	216.67	229.87	57.52	69.05	73.60	68.35	268.52	66.62	74.22	76.19	76.48	293.52	69.87	77.60	81.32	81.63	310.42	333.70
Origination and servicing	74.76	86.89	22.65	25.59	25.43	25.71	99.38	28.27	29.27	29.37	29.59	116.51	30.52	31.56	31.99	32.74	126.81	133.28
Engineering and product development	115.36	142.26	36.84	37.65	41.22	39.55	155.26	42.55	42.60	42.56	42.09	169.80	46.70	47.25	46.97	47.16	188.08	201.29
Other general and administrative	207.17	191.68	52.31	57.58	57.45	61.30	228.64	56.88	60.73	59.92	61.73	239.25	61.42	63.38	64.14	64.18	253.12	257.83
Goodwill impairment	37.05	-	-	35.63	-	-	35.63	-	-	-	-	-	-	-	-	-	-	-
Class action settlement and regulatory litigation expense	-	77.25	13.50	12.26	9.74	-	35.50	-	-	-	-	-	-	-	-	-	-	-
<b>Total operating expenses</b>	<b>651.01</b>	<b>727.95</b>	<b>182.81</b>	<b>237.77</b>	<b>207.43</b>	<b>194.92</b>	<b>822.92</b>	<b>194.32</b>	<b>206.82</b>	<b>208.03</b>	<b>209.90</b>	<b>819.07</b>	<b>208.51</b>	<b>219.79</b>	<b>224.41</b>	<b>225.71</b>	<b>878.44</b>	<b>926.09</b>
<b>Income (loss) before income taxes</b>	<b>(150.19)</b>	<b>(153.41)</b>	<b>(31.14)</b>	<b>(60.79)</b>	<b>(22.79)</b>	<b>(13.39)</b>	<b>(128.11)</b>	<b>(19.90)</b>	<b>(11.16)</b>	<b>1.39</b>	<b>2.81</b>	<b>(26.87)</b>	<b>(4.52)</b>	<b>2.31</b>	<b>7.86</b>	<b>9.63</b>	<b>15.29</b>	<b>50.13</b>
Income tax expense (benefit)	(4.23)	0.63	0.04	0.02	(0.04)	0.02	0.04	-	-	-	-	-	-	-	-	-	-	-
<b>Consolidated income (loss)</b>	<b>(145.96)</b>	<b>(154.05)</b>	<b>(31.18)</b>	<b>(60.81)</b>	<b>(22.75)</b>	<b>(13.41)</b>	<b>(128.15)</b>	<b>(19.90)</b>	<b>(11.16)</b>	<b>1.39</b>	<b>2.81</b>	<b>(26.87)</b>	<b>(4.52)</b>	<b>2.31</b>	<b>7.86</b>	<b>9.63</b>	<b>15.29</b>	<b>50.13</b>
Less: net income attributable to noncontrolling interests	(0.21)	0.00	0.00	0.05	0.06	0.05	0.16	0.04	-	-	-	0.04	-	-	-	-	-	-
<b>LendingClub net income (loss)</b>	<b>(145.96)</b>	<b>(153.84)</b>	<b>(31.18)</b>	<b>(60.86)</b>	<b>(22.80)</b>	<b>(13.46)</b>	<b>(128.31)</b>	<b>(19.94)</b>	<b>(11.16)</b>	<b>1.39</b>	<b>2.81</b>	<b>(26.90)</b>	<b>(4.52)</b>	<b>2.31</b>	<b>7.86</b>	<b>9.63</b>	<b>15.29</b>	<b>50.13</b>
<b>Diluted EPS - GAAP</b>	<b>-\$1.88</b>	<b>-\$1.88</b>	<b>-\$0.37</b>	<b>-\$0.72</b>	<b>-\$0.27</b>	<b>-\$0.16</b>	<b>-\$1.52</b>	<b>-\$0.23</b>	<b>-\$0.13</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>-\$0.31</b>	<b>-\$0.05</b>	<b>\$0.03</b>	<b>\$0.09</b>	<b>\$0.11</b>	<b>\$0.17</b>	<b>\$0.56</b>
<b>Adjusted EPS</b>	<b>-\$1.88</b>	<b>-\$0.90</b>	<b>-\$0.17</b>	<b>-\$0.50</b>	<b>-\$0.09</b>	<b>-\$0.05</b>	<b>-\$0.80</b>	<b>-\$0.13</b>	<b>-\$0.13</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>-\$0.21</b>	<b>-\$0.05</b>	<b>\$0.03</b>	<b>\$0.09</b>	<b>\$0.11</b>	<b>\$0.17</b>	<b>\$0.56</b>
Common shares	77.55	81.80	83.66	84.24	84.87	85.54	84.58	86.11	86.32	86.54	86.76	86.43	86.97	87.19	87.41	87.63	87.30	88.18
Diluted shares	77.55	81.80	83.66	84.24	84.87	85.54	84.58	86.11	86.32	88.54	88.76	87.43	88.98	89.21	89.43	89.65	89.32	90.21
<b>Consolidated net income (loss)</b>	<b>(145.96)</b>	<b>(154.05)</b>	<b>(31.18)</b>	<b>(60.81)</b>	<b>(22.75)</b>	<b>(13.41)</b>	<b>(128.15)</b>	<b>(19.90)</b>	<b>(11.16)</b>	<b>1.39</b>	<b>2.81</b>	<b>(26.87)</b>	<b>(4.52)</b>	<b>2.31</b>	<b>7.86</b>	<b>9.63</b>	<b>15.29</b>	<b>50.13</b>
Acquisition and related expense	1.17	0.35	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Depreciation and amortization	29.88	46.21	11.70	12.58	15.65	14.84	54.76	15.86	15.65	16.75	17.02	65.28	18.36	17.77	18.58	18.83	73.54	80.33
Goodwill impairment	37.05	-	-	35.63	-	-	35.63	-	-	-	-	-	-	-	-	-	-	-
Cost structure simplification expense	-	-	-	-	-	6.78	6.78	4.27	-	-	-	4.27	-	-	-	-	-	-
Legal, regulatory and other expense related to legacy issues	-	80.25	16.97	18.50	15.47	2.57	53.52	4.15	-	-	-	4.15	-	-	-	-	-	-
Stock based compensation	69.20	70.98	17.80	19.80	19.77	17.72	75.09	18.25	20.54	21.99	22.33	83.12	21.93	23.88	24.97	25.30	96.08	96.86
Income tax expense (benefit)	-	0.67	0.04	0.02	(0.04)	0.02	0.04	-	-	-	-	-	-	-	-	-	-	-
(Income) loss attributable to noncontrolling interests	(4.23)	0.17	(0.00)	(0.05)	(0.06)	(0.05)	(0.16)	(0.04)	-	-	-	(0.04)	-	-	-	-	-	-
<b>Adjusted EBITDA</b>	<b>(12.88)</b>	<b>44.59</b>	<b>15.33</b>	<b>25.67</b>	<b>28.05</b>	<b>28.46</b>	<b>97.52</b>	<b>22.59</b>	<b>25.04</b>	<b>40.13</b>	<b>42.16</b>	<b>129.92</b>	<b>35.77</b>	<b>43.96</b>	<b>51.41</b>	<b>53.76</b>	<b>184.90</b>	<b>227.32</b>
<b>Adjusted EBITDA margin</b>	<b>-2.6%</b>	<b>7.8%</b>	<b>10.1%</b>	<b>14.5%</b>	<b>15.2%</b>	<b>15.7%</b>	<b>14.0%</b>	<b>13.0%</b>	<b>12.8%</b>	<b>19.2%</b>	<b>19.8%</b>	<b>16.4%</b>	<b>17.5%</b>	<b>19.8%</b>	<b>22.1%</b>	<b>22.8%</b>	<b>20.7%</b>	<b>23.3%</b>
<b>LendingClub net income (loss)</b>	<b>(145.96)</b>	<b>(153.84)</b>	<b>(31.18)</b>	<b>(60.86)</b>	<b>(22.80)</b>	<b>(13.46)</b>	<b>(128.31)</b>	<b>(19.94)</b>	<b>(11.16)</b>	<b>1.39</b>	<b>2.81</b>	<b>(26.90)</b>	<b>(4.52)</b>	<b>2.31</b>	<b>7.86</b>	<b>9.63</b>	<b>15.29</b>	<b>50.13</b>
Cost structure simplification expense	-	-	-	-	-	6.78	6.78	4.27	-	-	-	4.27	-	-	-	-	-	-
Legal, regulatory and other expense related to legacy issues	-	80.25	16.97	18.50	15.47	2.57	53.52	4.15	-	-	-	4.15	-	-	-	-	-	-
<b>Adjusted net income (loss)</b>	<b>(145.96)</b>	<b>(73.59)</b>	<b>(14.21)</b>	<b>(42.36)</b>	<b>(7.33)</b>	<b>(4.11)</b>	<b>(68.01)</b>	<b>(11.52)</b>	<b>(11.16)</b>	<b>1.39</b>	<b>2.81</b>	<b>(18.48)</b>	<b>(4.52)</b>	<b>2.31</b>	<b>7.86</b>	<b>9.63</b>	<b>15.29</b>	<b>50.13</b>
<b>Adjusted EPS</b>	<b>-\$1.88</b>	<b>-\$0.90</b>	<b>-\$0.17</b>	<b>-\$0.50</b>	<b>-\$0.09</b>	<b>-\$0.05</b>	<b>-\$0.80</b>	<b>-\$0.13</b>	<b>-\$0.13</b>	<b>\$0.02</b>	<b>\$0.03</b>	<b>-\$0.21</b>	<b>-\$0.05</b>	<b>\$0.03</b>	<b>\$0.09</b>	<b>\$0.11</b>	<b>\$0.17</b>	<b>\$0.56</b>
Non-GAAP diluted shares	77.55	81.80	83.66	84.24	84.87	85.54	84.58	86.11	86.32	88.54	88.76	87.43	88.98	89.21	89.43	89.65	89.32	90.21
Originations	8,664	8,987	2,306	2,818	2,886	2,871	10,881	2,728	3,029	3,175	3,187	12,119	2,973	3,302	3,460	3,474	13,209	14,200
Transaction fee rate	4.89%	4.99%	4.82%	4.82%	4.77%	4.95%	4.84%	4.96%	4.94%	4.93%	4.93%	4.94%	4.93%	4.93%	4.93%	4.93%	4.93%	4.92%
Revenue growth	16.5%	14.7%	21.8%	26.8%	19.9%	16.0%	20.9%	15.0%	10.6%	13.4%	17.2%	14.0%	17.0%	13.5%	10.9%	10.6%	12.8%	9.2%
Adj. EBITDA growth	-120.1%	-446.1%	9423.6%	472.6%	34.3%	49.4%	118.7%	47.3%	-2.5%	43.1%	48.1%	33.2%	58.4%	75.6%	28.1%	27.5%	42.3%	22.9%
Adj. EBITDA margin	-2.6%	7.8%	10.1%	14.5%	15.2%	15.7%	14.0%	13.0%	12.8%	19.2%	19.8%	16.4%	17.5%	19.8%	22.1%	22.8%	20.7%	23.3%

Source: BTIG Estimates and Company Documents



## BTIG Covered Companies Mentioned in this Report

LENDINGCLUB CORPORATION (LC, Buy, \$30.00 PT; Current Price: \$16.10; Analyst: Mark.Palmer)

## Appendix: Analyst Certification and Other Important Disclosures

### Analyst Certification

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.

### Regulatory Disclosures

#### Ratings Definitions

**BTIG LLC's ("BTIG") ratings, effective June 12, 2017, are defined as follows:**

**BUY** – A security which is expected to produce a positive total return of 15% or greater over the 12 months following the recommendation. The BUY rating may be maintained as long as it is deemed appropriate, notwithstanding price fluctuations that would cause the target to fall outside of the 15% return.

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**Distribution of BTIG's Research Recommendations (as of March 31, 2019):**

**BUY: 62.6%; NEUTRAL: 34.8%; SELL: 2.6%**

**Distribution of BTIG's Investment Banking Services (as of March 31, 2019):**

**BUY: 25.7%; NEUTRAL: 9.9%; SELL: 0.0%**

For purposes of FINRA ratings distribution rules, BTIG's stock ratings of Buy, Neutral and Sell fall into Buy, Hold and Sell categories, respectively.

### Company Valuation and Risk Disclosures

#### LendingClub Corporation (LC, Buy, \$30.00 PT)

**Valuation:** Our price target of \$30 for LC is based on 10x the company's FY20E adjusted EBITDA of \$184.9mm. 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	117.15	95	Mark Palmer	Buy
15-Dec-14	124.85	155	Mark Palmer	Buy
29-Oct-15	68.10	105	Mark Palmer	Buy
09-May-16	23.10	45	Mark Palmer	Buy
08-Dec-17	17.55	35	Mark Palmer	Buy
19-Feb-19	18.05	30	Mark Palmer	Buy

## Company-Specific Regulatory Disclosures

BTIG LLC expects to receive or intends to seek compensation for investment banking services in the next 3 months from: LendingClub Corporation (LC)

## Other Disclosures

Additional Information Available Upon Request

## General Disclosures

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