

LendingClub Corporation

NYSE: LC

Analyst: Michael Post

Sector: Financials

BUY

Price Target: \$11.20

Key Statistics as of 3/29/2016

Market Price:	\$7.67
Industry:	Consumer Finance
Market Cap:	\$3.17B
52-Week Range:	\$6.34 - 21.15
Beta:	.5

Thesis Points:

1. LC is undervalued because of macroeconomic, legislative, and competitive concerns that are causing over conservative analyst expectations.
2. LC is projected to continue to post higher revenue growth and higher earnings per share over all competitors.
3. LC has a superior management team that will continue to make value creating decisions for the company and its shareholders.

Company Description:

LendingClub Corporation was founded in 2006 and is headquartered in San Francisco, California. The company went public in December of 2014, priced around \$15 per share. LendingClub operates as an online marketplace that connects borrowers and investors in the United States. Its marketplace facilitates various types of loan products for consumers and small businesses, including unsecured personal loans, super prime consumer loans, unsecured education loans, and patient finance loans. The company also offers investors an opportunity to invest in a range of loans based on terms and credit characteristics. LendingClub customers include retail investors, high-net-worth individuals and family offices, banks and finance companies, insurance companies, hedge funds, foundations, pension plans, and university endowments. The company's mission is to transform the banking system and make credit more affordable and investing more rewarding.



Peer-To-Peer Consumer Finance Industry

The Peer-to-Peer lending industry is a newly created market that gives borrowers and lenders another ability to satisfy each other's needs without the use of banks. Banks have previously controlled this market as one of the only providers of such lending and borrowing services. However, banks are now faced with growing competition and a shift in consumer behavior from personal banking to virtual peer-to-peer business. This form of business was made readily available for consumers at the end of 2014 when LendingClub, the first of its kind, was able to perfect an algorithm that managed risk and regulated transactions between parties. Favorably, the peer-to-peer industry is under a lot less government regulation than the banking industry because of the excessive federal policies that were put in place over banks after the 2008-2009 financial crisis. These policies regulate the banking loan system, and make it much harder for banks to give consumers their desired loans. These same regulations however do not apply for peer-to-peer lending, and therefore many individuals that were turned down because of increased regulation now have an alternative market place to receive their needed funds. As LendingClub was able to prove their capability, banks realized the potential of LendingClub taking over their market share, and invested in competing against LC by partnering with companies that researched and developed their own peer-to-peer lending place. To be clear, the peer-to-peer lending process consists of matching borrowers of certain risk levels with lenders of certain risk tolerances. LendingClub, or any of its peers, do not actually issue any loans themselves and therefore bear very little responsibility. The key component for this industry is managing default risk by properly evaluating borrowers' capability of taking on debt.

Thesis Point 1 – Currently Undervalued

As explained above, the peer-to-peer lending industry is a new form of business that is not heavily regulated by government policies. For this reason, many analysts are skeptical that government intervention will take place and begin regulating the peer-to-peer industry which would dramatically slow growth potential and reduce revenue estimates for companies such as LendingClub. This assumption is currently priced into the market and is partially responsible for the LC's currently discounted stock price. Interestingly, this assumption is based only on speculation and as a result is currently undervaluing LendingClub's potential. LendingClub's management team has done an excellent job working with government

officials, through multiple Q&A meetings and ongoing progress updates, to build a completely transparent business model that the government can easily understand and therefore trust without intervening. As of 2016, the government has taken no initiatives to interfere with LC's operations, and management has openly expressed their lack of concern for the possibility of government regulation. Despite this, as seen in the chart below, LC managed to beat revenue estimates every single quarter and will continue to outperform analysts' conservative revenue estimates in 2016 as well.

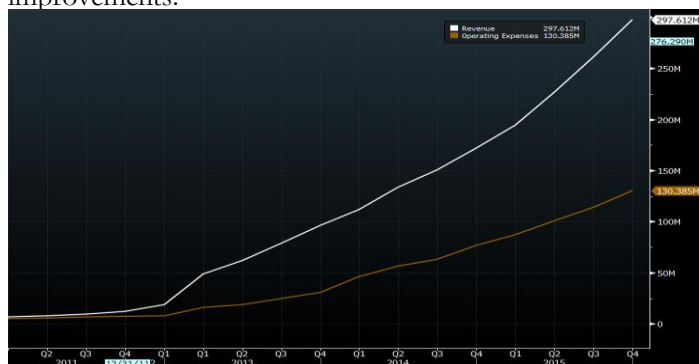
3 Months Ending	03/31/2015	06/30/2015	09/30/2015	12/31/2015
Revenue				
Consensus Estimate	75.6	91.8	108.0	130.6
Comparable Actual	81.2	96.9	116.3	135.5
Revenue Surprise %	7.4	5.6	7.7	3.7

The key driving factor for LC's success and government cooperation is and will continue to be the accuracy of the underlying algorithm controlling all transactions. This algorithm is responsible for controlling the default rate, which is the most important measure for a lending service marketplace. As a result of growing macroeconomic concerns, analysts question whether the algorithm will be able to manage worse economic conditions or will the default rate grow out of control. LendingClub has addressed this concern and publically stated that they have run thousands of scenario tests and simulations changing various factors and guarantee that its algorithm can sustain an economic downturn without default rates growing out of control, as a result of their qualification screening process for borrowing candidates. Currently, LC's default rate floats around 5%, which is in line with management estimates and below analyst expectations because of their speculative concerns. Coinciding the pessimistic ideas on the industry, analysts also over accounted for the growing competition that LendingClub is facing. They projected that LC was going to have to reduce its profit margins in order to better compete with growing competition. LC, however, actually increased their fee structure and overall margins while maintaining over 70% revenue growth year-over-year. LC was able to do this by building a trustworthy name that lenders feel more comfortable giving loans through than other competitors. The chart below shows LC's earnings estimates compared to those that analysts predicted. The outperforming trend is going to continue until analysts better understand this industry and more importantly LendingClub itself. The misconception that currently exists is resulting in conservative growth estimates that are forcing artificial concern and causing LendingClub's stock price to currently be undervalued.

	03/31/2015	06/30/2015	09/30/2015	12/31/2015
Earnings Per Share				
Consensus Estimate	0.01	0.02	0.02	0.04
Comparable Actual	0.02	0.03	0.04	0.05
EPS Surprise %	150.0	100.0	73.9	31.6
Pretax Income (Loss)				
Consensus Estimate	-7.1	-5.6	-5.3	0.8
Comparable Actual	-5.7	10.8	2.2	5.2
Pretax Income (Loss) Surprise %	18.9	-	-	556.4

Thesis Point 2 – Continuing Growth

LendingClub has outperformed analyst expectations for the past year and will continue to post high revenue growth and higher profit margins in 2016 as well. In 2015, LC accomplished a loan origination increase of 82%, signifying the increasingly growing consumer demand and supply for peer-to-peer borrowing and lending. Operating revenue increased 93% year-over-year, and this was a direct result of a slightly increased fee structure that LC deemed appropriate. LendingClub evaluated the average return of their platform to be 7.8% for the average consumer, and therefore felt increasing its fee structure was suitable given the high average returns. The high growth in loan originations, despite the increased fees, is a good sign that consumers had small sensitivity to changes in the fee structure because of the high average returns. By increasing fees, LC was able to improve its revenue yields by over 5% and improve contribution margins to 49% for the year. The chart bellows portrays the increasing contribution margin that LC has been able to accomplish through its operational improvements.



When accounting for sales, marketing, origination, and service expenses, LC accomplished an annual EBITDA margin of 16.3% for the 2015 year. Looking forward to 2016, LendingClub predicts continued success with a 72% revenue growth and an improved EBITDA margin to 19%. Management's plan is to continue to run the company as they have and capitalize on the natural growth of this new market. The next product that is currently being perfected

and soon to be released on LC's platform is mortgages. What is just as impressive as LendingClub's individual growth as a company is its comparison to competitors within the same industry. The exhibit below compares LendingClub's revenue and earnings per share growth to 10 of its closest competitors.

	Name (BICS Best Fit)	Rev - 1 Yr Gr:Y	EPS - 1 Yr Gr:Y
	Average	16.31%	10.43%
100)	LENDINGCLUB CORP	72.52%	97.77%
101)	SLM CORP	21.90%	23.40%
102)	CREDIT ACCEPTANCE CORP	14.07%	13.74%
103)	BLACKHAWK NETWORK HO...	24.65%	12.45%
104)	SANTANDER CONSUMER U...	16.31%	12.09%
105)	EURONET WORLDWIDE INC	6.50%	-3.17%
106)	NELNET INC-CL A	-0.21%	-10.73%
107)	NAVIENT CORP	-7.81%	-12.96%
108)	WEX INC	4.52%	-13.43%
109)	SQUARE INC - A	49.04%	-14.81%
110)	ONEMAIN HOLDINGS INC	-22.11%	--

As seen above, LC had revenue growth of 72.52% and eps growth of 97.77% compared to the industry average of 16.31% and 10.43%. While competitors are enjoying the natural growth of the industry, it is clear that LendingClub has superior management and is operating more efficiently and effectively than any of its competitors.

Management

LendingClub's Founder and CEO is Renaud Laplanche. Renaud was recognized on Bloomberg Markets' 2015 Most Influential List, an annual list that acknowledges 50 of the top leaders across technology, finance and politics around the globe. In 2014 he won the Economist Innovation Award in the consumer products category. He was ranked one of the top SMB CEOs by the Glassdoor Employees' Choice Awards in 2015 and was named the "best start-up CEO to work for" by Business Insider in 2014. Renaud has an MBA from London Business School and a JD from Montpellier University.

LendingClub's Chief Financial Officer is Carrie Dolan. Prior to Lending Club, Carrie was the Treasurer for Charles Schwab Corporation, a leading provider of securities, brokerage, banking, and financial advisory services to individual investors and independent investment advisors. Carrie also served as the Chief Financial Officer for Schwab Bank, a bank she helped launch in 2003. Carrie was named one of the Most Powerful Women in Finance by American Banker in 2015 and named the 2015 Financial Woman of the Year by the Financial Women of San Francisco (FWSF).

Thesis Point 3

LendingClub is managed by highly qualified individuals that possess both a high level of technological expertise and financial experience. Thus far, this knowledge has enabled them to stay ahead of their peers by consistently achieving higher growth and higher profitability than their closest 10 competitors. In addition to building a highly efficient and successful company, LC's management has proved that their decisions include the best interest of all shareholders as well as the company. As of quarter 4 of 2015, LendingClub announced that they plan on initiating a 150 million dollar stock buyback program that will take place over the next 12 months. Currently, LendingClub has almost no debt, approximately 550 million dollars in cash, and is looking for value creating decisions such as this program. In addition to the share repurchase, LC's management has also expressed an ongoing interest in possible acquisitions. Though there are no known acquisition targets as of now, LC is financially strong and their management will not underutilize its strong balance sheet. As the company continues to grow an increasingly larger cash position, investors can inspect either acquisitions or a dividend program to be initiated in the near future. Either way, LC's management has proved and will continue to prove that their knowledge and experience will lead to value creating decisions.

Conclusion

LendingClub is an industry leader within a newly created peer-to-peer industry that may change the future of lending forever. The idea of this movement is hard to accept for most analysts, and this fact is causing LC to be wrongfully undervalued at its current stock price of \$7.67. Management's decision to initiate the 150 million dollar share buyback program also proves they believe LC's share price is currently undervalued. Accounting for the expected growth and improving profitability, LendingClub is proving that it will remain the powerhouse of its peers and continue to grow as a highly successful company. This being said, I expect LC will return to its original IPO price of \$15 per share, and then continue to grow, as analysts better understand the potential and value of the company. More conservatively, I place a one-year \$11.20 price target on the company, which represents a greater than a 46% return based on its current price of \$7.67.

LendingClub Corporation (LC)

CENTER FOR GLOBAL FINANCIAL STUDIES

BULLISH

Analysis by Michael Post
4/2/2016

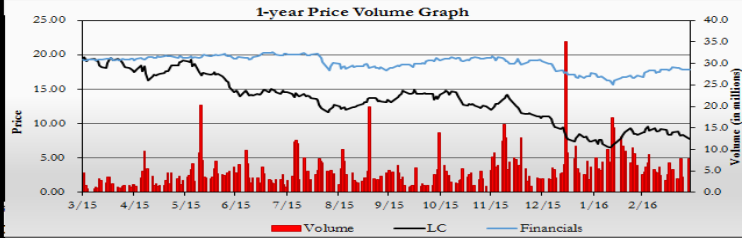
Current Price:
Divident Yield:

\$7.81
0.0%

Intrinsic Value
Target Price:

\$11.20
\$20.41

Target 1 year Return: 161.48%
Probability of Price Increase: 100%

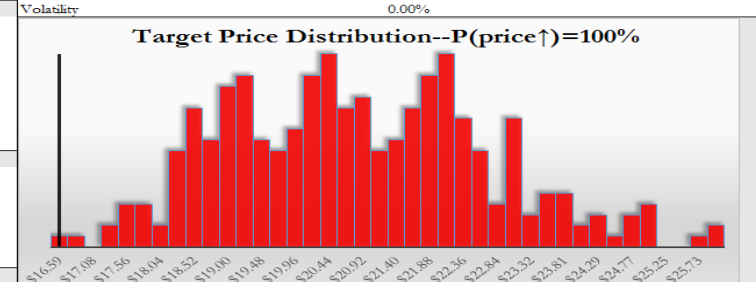


Description	LendingClub Corporation, together with its subsidiaries, operates as an online marketplace that connects borrowers and investors in the United States.
General Information	Sector: Financials Industry: Consumer Finance Last Guidance: November 3, 2015 Next earnings date: N/A Estimated Country Risk Premium: 5.56% Effective Tax rate: 40% Effective Operating Tax rate: 36%

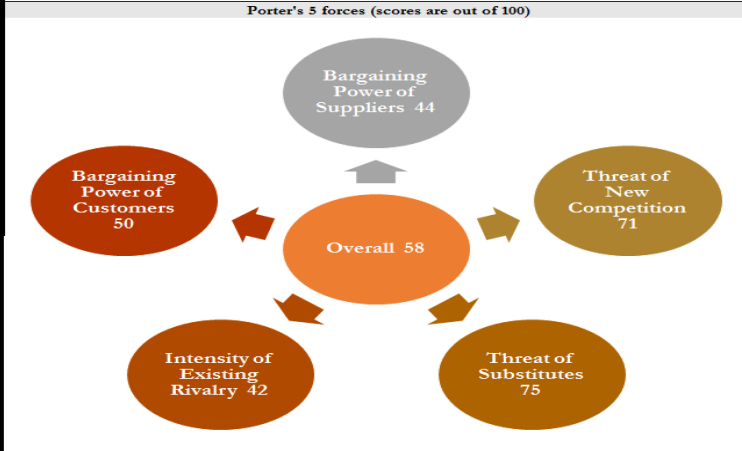
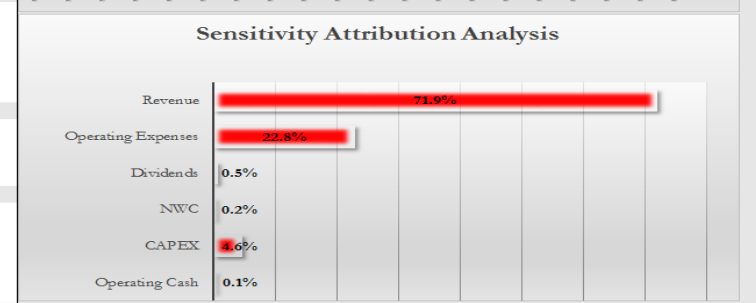
Market Data	Market Capitalization: \$2,948.45 Daily volume (mil): 1.33 Shares outstanding (mil): 381.43 Diluted shares outstanding (mil): 374.87 % shares held by institutions: 76% % shares held by investments Managers: 60% % shares held by hedge funds: 6% % shares held by insiders: 5.12% Short interest: 14.61% Days to cover short interest: 8.31 52 week high: \$19.98 52-week low: \$6.34 Levered Beta: 0.00%
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Quarter ending	Revenue	EBITDA
12/31/2014	1.27%	-13.79%
3/31/2015	7.31%	153.16%
6/30/2015	5.81%	105.48%
9/30/2015	8.09%	72.41%
12/31/2015	4.13%	29.87%
Mean	5.32%	69.43%
Standard error	1.2%	29.0%

Peers	OneMain Holdings, Inc. On Deck Capital, Inc. Green Dot Corporation Enova International, Inc. World Acceptance Corp. Credit Acceptance Corp. SLM Corporation Synchrony Financial
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Management	Position	Total compensations growth	Total return to shareholders
Laplanche, Renaud	Founder, Chairman of Board o	123.37% per annum over 5y	N/M
Dolan, Carrie	Chief Financial Officer	73.7% per annum over 4y	N/M
Sanborn, Scott	Chief Operating & Marketing	86.14% per annum over 4y	N/M
MacIlwaine, John	Chief Technology Officer	44.63% per annum over 3y	N/M
Chen, Chaomei	Chief Risk Officer	89.61% per annum over 3y	N/M
Altieri, Jason	Chief Legal Officer, Complia	N/M	N/M
Profitability	LC (LTM)	LC (5 years historical average)	Industry (LTM)
ROIC	-2.0%	1.81%	#DIV/0!
NOPAT Margin	8%	-40.79%	#DIV/0!
Revenue/Invested Capital	-0.24	-0.04	#DIV/0!
ROE	-2.0%	-2.00%	#DIV/0!
Adjusted net margin	8%	-40.94%	#DIV/0!
Revenue/Adjusted Book Value	-0.25	0.05	#DIV/0!
Invested Funds	LC (LTM)	LC (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	-18.3%	-19.6%	20%
Estimated Operating Cash/Total Capital	-18.3%	-19.6%	N/A
Non-cash working Capital/Total Capital	0.0%	0.0%	0%
Invested Capital/Total Capital	108.7%	100.0%	75%
Capital Structure	LC (LTM)	LC (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.01	0.00	7.37
Cost of Existing Debt	6.14%	4.59%	#DIV/0!
Estimated Cost of new Borrowing	6.14%	4.91%	0.00%
CGFS Risk Rating	6.14%	#DIV/0!	B
Unlevered Beta (LTM)	0.00%		0.54
WACC	6.14%	5.86%	4.57%



Period	Revenue growth
Base Year	103.6%
12/31/2016	60.0%
12/31/2017	30.0%
12/31/2018	20.0%
12/31/2019	10.0%
12/31/2020	5.0%
12/31/2021	3.0%
12/31/2022	3.0%
12/31/2023	3.0%
12/31/2024	3.0%
12/31/2025	3.0%
Continuing Period	3.0%
Period	Invested Capital
Base Year	-\$137.67
12/31/2016	-\$330.10
12/31/2017	-\$730.32
12/31/2018	-\$1,772.31
12/31/2019	-\$1,757.61
12/31/2020	-\$3,702.08
12/31/2021	-\$6,234.84
12/31/2022	-\$7,204.02
12/31/2023	-\$7,565.09
12/31/2024	-\$7,119.33
12/31/2025	-\$6,208.01
Continuing Period	

Valuation	
NOPAT margin	ROIC/WACC
8.1%	-0.34
7.3%	-0.23
9.8%	-0.24
10.2%	-0.26
10.5%	-0.28
10.9%	-0.32
11.4%	-0.40
12.1%	-0.53
12.1%	-0.72
12.1%	-1.10
12.2%	-2.31
12.5%	24.55
Net Claims	Price per share
-\$10.17	\$8.12
-\$7,138.84	\$20.72
-\$8,206.17	\$20.85
-\$8,694.51	\$20.84
-\$8,400.20	\$20.77
-\$7,662.59	\$20.78
-\$6,738.96	\$20.94
-\$5,768.03	\$21.27
-\$4,875.44	\$22.16
-\$3,759.08	\$22.85
-\$2,576.47	\$23.77

