Credible Labs Inc. (CRD)

credible

Rapid Adoption of Loan Marketplace and Mortgage Launch

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In this Open Briefing, Stephen Dash, Founder and CEO discusses:

- Who is Credible Labs Inc. (ASX:CRD)
- Key drivers behind strong Q3 growth in Closed Loan Volume
- The launch of Credible's Mortgage marketplace
- Credible's outlook for its Mortgage marketplace
- Future verticals in the pipeline for Credible
- Post-IPO share price movement and key drivers
- How potential investors should approach Credible from a valuation perspective

Credible Labs Inc. is a financial technology company based in San Francisco that listed on the ASX in December 2017. At the time of its IPO last year, Credible was the largest technology IPO of the year. The Company was founded by Stephen Dash, an Australian entrepreneur who left Australia in 2012 for Silicon Valley to start the business. Credible has carved out a unique value proposition in the large U.S. consumer finance market. The Company has developed the first end-to-end online loan marketplace where borrowers can seek out offers from numerous vetted lenders across student loans, personal loans, credit cards and mortgages.

Almost one year on, the Company has achieved a number of significant milestones, including its recent public launch of its mortgage platform in October 2018, as well as achieving an all-time record quarter of loan origination volume in the September quarter of 2018. Today we have the pleasure of speaking with Stephen Dash who will answer a few questions related to these exciting developments.

First of all, can you explain the background to, and provide an overview, of Credible?

Stephen Dash: Sure. Credible is an online loan marketplace that was founded in 2012. I set the Company up, having seen an opportunity in the student loan vertical here in the U.S. – basically a loan marketplace where borrowers really did not have transparency on their options and the process of getting a student loan, or refinancing a student loan, was very, very difficult and opaque. We built the first online loan marketplace where borrowers are able to obtain multiple offers from multiple lenders when they're looking to refinance their student loans or looking to get a student loan in the first instance. We delivered this unique value proposition first back in 2013, and since then we've expanded from student loans, across personal loans, credit cards and most recently, mortgages.

All of the technology that we have built over that time is proprietary. We've built a modular system including multi-lender eligibility and underwriting technology, we've built lender integrations, we've built integrations with credit bureaus, and that's what enables us to provide something that is unique in the market.

We are the only place where borrowers can go and receive multiple pre-qualified offers of credit in less than three minutes – not a rate range or a marketed rate – and close their loan on the same platform; so a very unique proposition distinct from the traditional lead generation business model that so many are used to, and really a win-win for both sides of the marketplace. A win for consumers because they're able to see their options and a win for lenders who are able to acquire customers rather than leads; so we're really providing value on both sides of the marketplace.

To give you a sense of a couple of numbers, we have about 130 employees across 3 offices, and we have originated over US$2 billion worth of loan volume over the course of the last 6 years, about US$1 billion of which has been originated in the last 12 months. We have about 35 lending partnerships: integrated lending partnerships with large lenders like Citizens Bank and SunTrust who are top 15 banks in the country; as well as online marketplace-style lenders (i.e., alternate lenders), credit unions and student loan authorities in the U.S. We're a fast-growing fintech company based in San Francisco with all of our operations here in the U.S. and as you said, we're listed on the ASX. We were the largest technology IPO last year, and we have now been listed for about a year and we're growing very fast, and shortly we'll talk about the exciting launch of our mortgage marketplace.

The growth in your third quarter results looked very strong; what were the key drivers behind these results?

Stephen Dash: Yes, so we had nearly 90% growth quarter-on-quarter, Q3-on-Q2, and nearly 60% growth on the previous corresponding period, so on Q3 2017 – we are a December year-end. The growth was driven by a number of deliberate strategies that we implemented at the start of 2018 in response to some changes in market conditions, particularly around paid acquisition – Google and Facebook, and the costs of acquiring customers through those channels – as well as a deliberate strategy to really accelerate and emphasise our partnership channels of customer acquisition.

We work with nearly 200 partnership organisations who send traffic to us basically. Online lead-gen platforms and affiliates; we [also] work with professional groups like the American Veterinary Medical Association and the American Association of Nurse Practitioners as their loan platform. We're able to strike these partnerships because of the unique value proposition of our platform – we're independent, we're unbiased and we're able to show borrowers personalised options in real time without impacting their credit, without sharing their data, and we're able to show that across multiple lenders; so borrowers can shop with confidence and originate their loan all within our platforms; a real departure from the traditional lead generation experience.

Q3 was a period where we really saw the fruits of some of that effort in terms of changes to our acquisition strategy and really subtle changes that started to come through in Q3 2018. During the first half of 2018 we doubled the contribution of our partner channel to our overall marketing mix. In addition, Q3 is historically a seasonally strong period for us on the student loan origination side of the business. Now we did note in our most recent results that the growth that we saw in Q3 was mostly a function of our student loan refinancing and personal loan marketplaces – there was obviously an impact from student loan origination, the seasonal component to our loan volume – but the majority of growth was seen in those what I call year-round loan verticals. Loan verticals that are not necessarily subject to that seasonality.

We saw really strong growth, as I mentioned, and revenue follows that growth obviously. Our business model is that we generate revenue based on Closed Loan Volume within a period, so we're really pleased with the results. More pleasing I think is the fact that we feel like this is sustainable because it's a function of these sort of longer-term strategic initiatives that we have really emphasised through these partnership channels. In addition, during the quarter we brought on a handful of new lenders to our platform, as I've mentioned, increasing our lender panel to 35 partners and that helps us with conversion and it helps us broaden our underwriting model and it helps us broaden our product offering to consumers which is obviously helpful for driving additional volume. In summary, a function of a couple of factors: deliberate strategies that we implemented at the start of the year [and] some seasonality related to student loan origination; but as a general comment I would say we're pleased with the progress we've made and we're enthusiastic about how this sets us up for future growth.

You recently launched the mortgages vertical; how big is the market opportunity in mortgages and who are the other players in this space?

Stephen Dash: We launched the first-of-its-kind, end-to-end online mortgage marketplace in the U.S. Nothing like this exists in the U.S. today. For a consumer, the alternatives are to go to an offline broker who will come around to your home and sit down with you and go through the paperwork; you can go directly to a lender, like a Wells Fargo or a Chase or a loanDepot or a Caliber Home Loans; or you can go to a lead-gen site online and fill out a lead form and your phone will start ringing and won't stop ringing as lenders try and contact you and try and sell you a mortgage.

We thought that process, particularly the lead-gen experience is fundamentally not great for the consumer so we set about building a platform and an experience that was much more consumer friendly; and really provides value on both sides of the marketplace for lenders and consumers. We entered the US$1.6 trillion a year mortgages marketplace in October 2018, that's US$1.6 trillion of originations per year, US$450 billion to US$500 billion of which are mortgage refinancing activities.

With our mortgage launch, we started in the mortgage refinancing industry. In total mortgages is about 80 times bigger than the market that we operate in today in student loans. So it is a very large opportunity where we have leveraged a lot of our existing technology and infrastructure to execute and deliver on a marketplace that attacks this very, very large mortgage marketplace in the U.S.

Obviously, like Australia, a mortgage is for most people the largest debt obligation that they carry and we think it's important to bring our approach – our very consumer-friendly approach – to this market. We did that in an accelerated fashion this year. We had committed to the market that we would be launching our mortgage marketplace in pilot phase by the end of 2018 – in the end we launched it in July as a pilot, July 2018, so nearly six months ahead of schedule and then we launched publicly in 20 states in October, mid-October 2018, so obviously well ahead of schedule. Those 20 states represent about two-thirds of the [mortgage] originations in the U.S., so we have really broad coverage with the marketplace that we offer. We obviously had to go and get regulatory approval and licenses in all of these states, so we went through a fairly lengthy process there of licensing and compliance.

In terms of other players in the space, I mentioned the offline process with mortgage brokers, the online or offline or hybrid process with direct lenders, and then the lead-gen or aggregator process where, for consumers, we don't think that's a great experience. We're really targeting the millennial audience who by 2025 will be 75% of the working population in the U.S., so obviously a very large segment to go after. This audience, these millennials have grown up with Amazon and the iPhone and KAYAK and Expedia and OpenTable – they've grown up used to these really simple online marketplace style experiences. So when it comes to financial services, this hasn't really existed in the same way it does in these other verticals, and we think there's a really unique opportunity for us to execute against a vision of becoming that marketplace for financial services. The step towards mortgage is obviously a step in that direction, and with our audience that we're targeting, they've come to expect and demand this type of experience.

We really believe we have the right long-term business model to serve the audience that we're targeting as that migration occurs online, and as that migration of the working population occurs towards millennials. [And] we really do believe we have a durable model; we think the ease and streamlined nature of the origination process that we offer, combined with the transparency and unbiased nature of what we're presenting to borrowers, puts us in a very, very strong position.

I'll also note that we take no credit risk in our model. Unlike being an online lender where a lender is taking credit risk and then selling that credit risk in most cases, some are balance sheet lenders but most sell that credit risk; as an online marketplace we're not taking any of that credit risk yet we do retain the ability to communicate with the audience that we have acquired.

So we really do think we have the right long-term model to be a winner in this very, very, very large market.

What is Credible's outlook for the mortgages vertical?

Stephen Dash: Well it's obviously early days, we launched the product a couple of weeks ago now, and so like all of our other verticals, to build sustainable and durable distribution takes time. We're really taking a lot of those learnings, from what we did in student loans to become really the dominant marketplace in student loans, and what we're doing in personal loans to grow our market – a much bigger market than student loans and we're growing very fast in that market – [and] applying the same methodology as we did to our entrance into the student loan vertical [and] taking all of those learnings; we're taking that technology, we're taking that business model and that approach and we're executing against that in mortgage.

We're early days, but given this is the largest debt category in the U.S., we see it as not just an important pillar of our growth strategy, but we also see it as likely the largest debt category over time given the sheer size of the market and the opportunity ahead of us. We expect that mortgages will be our largest loan category over time. We have had really encouraging feedback from the first handful of investors who have come through the platform, one of our early beta testers on the mortgage side closed their mortgage refi in 21 days – a process that would normally, for that type of loan, take somewhere like 40 to 45 days; [and] required only 3 documents for the lender – compared to what would normally be 6 or 7 or more.

We put that down to the fact that our platform, which employs conditional logic to ask only the questions that are required of the borrower, and to intelligently identify the documents that are required. We're not asking a borrower for 8, 10, 15 documents when really only 3 or 4 are required. We put it down to that process that we are able to get this individual through very, very painlessly in a refi process that took just 21 days so we're really encouraged by that.

We're also encouraged by the fact that we have partnered with six lenders, six mortgage lenders, including four of the top 10 lenders in the mortgage space in the U.S. Quicken Home Loans, which is the number one originator in the U.S., Caliber Home Loans, loanDepot, and UWM are four of the top 10 originators in the US who are all partnered and integrated with the Credible platform, so that's very encouraging. And as I mentioned earlier, we have 20 licenses, so we've achieved regulatory approval in 20 states in the U.S., representing about two-thirds of the mortgages that are originated in the U.S.

Early days, but we're really enthused by these signs of early success and we continue to drive against our strategic priorities of over time making mortgage one of the core pillars of our platform.

Are there any other verticals planned or in the pipeline for Credible?

Stephen Dash: Well, given we've just moved into mortgage refinancing, it makes sense for us to consider mortgage purchase in time as we continue to grow. One of the things that you get with these state licenses is the ability to offer both a refi product and a home purchase product. We don't have a definitive timeline in terms of when we may launch into the home purchase market as we want to really focus our resources right now on the mortgage refi opportunity, which by the way, despite increasing interest rates, there's expected to be US$0.5 billion of mortgages refinanced between now and the end of 2019.

Outside of mortgage purchase, we over time want to be the online destination for borrowers when they think about financial services. As our endgame state, we really would expect to have other products available on the platform – they may include insurance, wealth management, utilities – but right now we're really, really focused on the verticals that we have built and are growing, and I think it's really important for the organisation to stay focused on those verticals and make them very successful.

We're excited about what we have in front of us today, and clearly many, many avenues of growth opportunities for us, and the company and the team remains very focused on executing against our existing verticals.

Your share price has been sold off post your IPO, what do you think has driven that?

Stephen Dash: We think the impact on our share price, which has been volatile since the IPO, has suffered from some of the geopolitical and macro factors that have influenced a lot of technology stocks – over the last few weeks in particular. It's worth noting that when we built our register, we built a very tight register with long-term investors so 75% of our register, roughly speaking, is under escrow as it stands today, through a function of the ASX compulsory escrow as well as a voluntary escrow that was imposed on early investors in the Company. With the remaining 25% free float, we really do have some very strong investors on the register, including superannuation funds and very well-known growth stock investors and with that combination there is limited liquidity in the stock; so we may have been impacted a little more than others, given the fact that we do have low liquidity.

But both our core story and our financial profile since IPO have not changed, and the communication through our IPO process and to investors has really been about building for the long term. So we're making decisions that will help the business grow over a longer period of time, we make decisions around building durable distribution, we make decisions around building durable relationships with our lenders, we make long-term decisions around how we improve our product offering. Moving into mortgage is an example of making a long-term decision where there's really no revenue impact today, though there has been a meaningful investment of resources into building that platform, again because it's in the best interests of the Company over the long run.

So on reflection, where we are now compared to the IPO, we're in a very strong position. We have over US$30 million of cash and cash-like equivalents. We've built a mortgage marketplace and we've launched that in 20 states, ahead of schedule. So we feel really good about where we're at; we've got great momentum on the core business side and really importantly we haven't taken our eye off the ball in our core business. We're really driving at growth, and that's been reflected in our most recent results, where we've had almost 60% year-on-year p-c-p growth, almost 90% quarter-on-quarter volume growth in our business and as I mentioned, revenue tracks to that Closed Loan Volume. We're in a really strong position, [and] more than ever, I believe in our long-term prospects and that we have the right long-term business model; and the reality is the share price is going to jump around on small liquidity, but we really feel good about the long-term prospects of the business.

Credible has seen strong revenue and loan origination growth since IPO; however, the Company is currently making an operating loss. As it focuses on growing and expanding the business, how should potential investors approach Credible from a valuation perspective?

Stephen Dash: So we always direct people as a first point of reference to the analyst coverage on the stock. Both Bell Potter and Moelis cover Credible. Moelis recently initiated on Credible, so that report is fresh, it's about three weeks old, and that will help potential investors understand the key drivers in the business, the risks and the brokers' views on valuation of Credible. As I think about how to value the Company, because we're a growth story, we're a fintech Company, really the key valuation metric that a lot of private investors here in the U.S. will look at, as well as public market investors will look at, is an EV to revenue multiple. We're trading around a 4 times revenue multiple today which, in our opinion, doesn't necessarily reflect the underlying fundamentals of the business in our business that we operate in today, and the very large opportunity and option value that we have in the mortgage vertical. When I look at our comparables here in the U.S., in terms of private market businesses, and I look at their growth profiles compared to ours and where their EV to revenue multiples are, we trade at a discount, for sure, to some of those names.

But, as a general comment, at least the way we think about it internally is you've got a core business that's generating revenue today and is growing today and that's sort of one part of the sum-of-the-parts [valuation]. And then you've got this mortgage business which right now is not generating any revenue but certainly has option value. As I mentioned we've built a platform that is unique, hasn't been done before, we've launched in 20 states, we cover two-thirds of the market in terms of originations, and we're partnered with four of the top 10 lenders in the U.S. So all of the early signs are really, really good. [And] it's hard – you obviously can't value that on a revenue multiple.

The other thing I would mention that many probably don't look at is between our IPO and today, the AUD:USD exchange rate has shifted considerably and in a favourable direction for us as a Company that generates U.S. dollar revenue. That's probably about a 10% roughly, change since the IPO that should be factored into any consideration of obviously valuing the Company.

That's how we think about it internally, but I would really point people to the analyst research so that people can make a balanced decision on the opportunities, the value, and the risks of the organisation.

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