

Equity Research

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Financials

LendingClub Corporation

Sell-Off After SC Exit from Personal Loan Space Unwarranted as Demand Outstripping Supply

Shares in LendingClub Corporation (LC, Buy, \$31 PT) came under pressure this morning after Santander Consumer USA (SC, Buy, \$30 PT) disclosed that it had decided to exit the personal lending space and had classified the loans within its personal lending portfolio as held-for-sale. We view the sell-off in LC as unwarranted in that demand for the loans that LC facilitates has been robust such that the company should have no problem finding buyers for the loans that otherwise would have been directed to SC.

► LC in March 2013 entered into an agreement with SC in which the auto lender would purchase up to 25% of its total loan originations for three years. The company in January 2014 explained to online lending blog Lend Academy that the 25% level was a cap and that it often institutes such a limit on its large investors to ensure that its loans are available to all buyers. LC added that SC was one of multiple buyers of whole loans who would compete with each other on an equal basis.

► We have heard estimates from alternative lenders that demand for peer-to-peer loans has been outstripping supply by a margin of four-to-one, and that imbalance is apparently pervasive throughout the industry. Orchard Platform, which facilitates the links between marketplace lenders and institutions, said earlier this year that 50% of the whole loans facilitated by LC peer Prosper Marketplace were being acquired by investors in less than 10 seconds.

► SC CEO Jason Kulas this morning during the company's 3Q15 conference call said its decision to exit the personal lending space was part of a "back to basics" approach in which it would focus on its core auto lending business. It was the first major change in SC's strategy since Kulas took over as CEO from Tom Dundon, who resigned on July 2, and it occurred during a "kitchen sink" quarter during which Kulas appeared to expurgate some elements of Dundon's legacy. Given the enthusiasm that Dundon expressed for the personal lending space during his tenure, we believe personal lending may have been one of those elements.

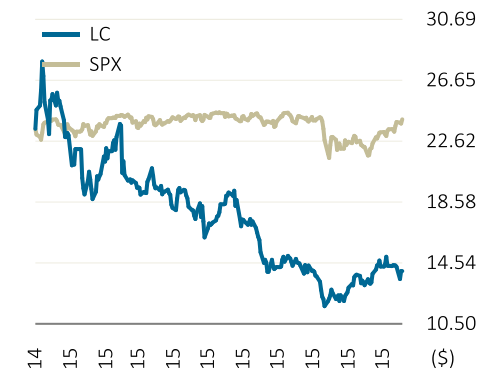
► We note that through the end of 1Q13, when LC entered

LC **\$14.00**
12 month target \$31.00

BUY

52 week range \$11.67 - \$27.90
Market Cap (m) \$5,207

Price Performance



Source: IDC

into its agreement with SC, the company had originated \$1.53bn of loans since inception. That was just under 14% of the \$11.17bn of total loans issued since inception that LC reported through the end of 2Q15. While the agreement with SC may have been a more important driver of LC's business during that early stage in its growth, we believe both the company and the overall market for alternative loans has grown to the point that SC's role in LC's business has become much less essential.

- ▶ We expect LC CEO Renaud Laplanche to address the SC situation and his outlook for demand for the company's loans following the auto lender's exit from the space when it reports its 3Q15 results tonight after the market close with a conference call slated for 5pm ET.

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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Company Valuation and Risk Disclosures

LendingClub Corporation (LC, BUY)

Valuation: Our price target of \$31 is based on 0.75x the company's FY17E total loan originations of \$19.6bn discounted back at 15%.

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.

Santander Consumer USA Holdings (SC, BUY)

Valuation: Our price target of \$30 is based on 10x our 2016E earnings per share of \$2.98

Risks: Primary risks to our recommendation include reduced access to funding; higher-than-expected default rates, particularly on nonprime receivables; poor portfolio performance that triggers credit enhancement provisions on the company's revolving credit facilities or secured structured financings; inability to meet certain milestones and metrics that could result in the termination of the company's agreement with Chrysler; adverse changes in interest rates; adverse economic conditions; and regulatory risks.

Santander Consumer USA Holdings (SC)



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

Date	Closing Price (\$)	Target Price (\$)	Analyst	Rating
22-Jan-14	25.25	31	Mark Palmer	BUY
04-Nov-14	17.29	26	Mark Palmer	BUY
28-Apr-15	24	28	Mark Palmer	BUY
30-Jul-15	24.18	30	Mark Palmer	BUY

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Additional Information Available Upon Request

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