

Consumers Tracking Interest Rates Help Financial Web Site Grow

February 20, 2008: 08:05 PM EST

While investment banks were crying the subprime blues last year, Bankrate, a leading online source for rate information, was laughing all the way to the bank.

Bankrate was enjoying growing consumer traffic to its flagship Web site bankrate.com and strong click-throughs to advertisers' Web sites. Business in September, October and November was especially robust.

Bankrate provides free rate information on numerous financial products, such as mortgages, credit cards, auto loans, money market accounts, CDs, checking and home equity loans.

It updates rates from about 4,800 financial institutions in the U.S. The firm gets paid every time someone clicks on an advertiser's Web site, and from banners and other ads on its Web site.

Interest Rates

Bankrate and its admirers have long maintained that it's immune to financial market woes as long as interest rates keep moving, regardless of their direction.

Common wisdom has it that when rates trend lower, people look to find good mortgage rates or refinancing terms. When rates are going up they look for, say, the best money market and CD rates.

"We enjoy volatility in either direction," said Bankrate Chief Marketing Officer Bruce Zanca. "For us, it doesn't matter if markets are up or down."

But in December, Bankrate got hit with an unpleasant surprise. As the financial services sector tumbled on concerns of huge bank losses, traffic suddenly slowed and several large advertisers cancelled display ads that month to the tune of nearly \$2 million.

The revenue shortfall and lower than expected fourth-quarter earnings that the company reported on Feb. 5 sent the stock tumbling about 13% in two days.

In a conference call, Chief Executive Tom Evans said the affected advertisers were the same ones "so prominent in the news."

The news wasn't all bad. Traffic for all of 2007 was still up 40% over 2006, and 2007 online revenue rose by 31%.

By the time January came around, the picture looked a lot better, even before the Fed started cutting rates again in mid-January.

"The traffic was so strong that the company was able to give away 35% of their mortgage and home equity clicks for free in the last nine days of January," wrote Bear Stearns (NYSE:BSC) analyst Victor Anthony.

With a record 8.8 million unique visitors, January traffic was more than 50% above the company's best month ever, and 70% above January 2006's level, he said.

"The great news is that many of our (cost-per-click) advertisers were getting healthier on the increased volume, (from) what is clearly a refinancing boom," Evans said in the call.

Evans started a Google-like "cost-per-click" model after he became CEO in June 2004, as part of his plan to beef up sales and marketing. He also raised ad rates, though the hikes have moderated from steep early bumps.

Evans formerly was CEO of GeoCities, which was sold to Yahoo (NASDAQ:YHOO) YHOO in 2000 for \$4.7 billion. At Bankrate, he has co-branding partnerships with about 80 other media companies, including Yahoo, MSN, the New York Times NYT and USA Today.

Bankrate's brand is bolstered by a now-small legacy print business that provides rate information and editorial content to dozens of newspapers. But that business has been declining and accounts for only about 10% of total revenue.

Still, company execs say the print business serves not only to build brand awareness, but it drives traffic and advertisers to the higher margin Web site.

Zanca says Bankrate raised online ad prices about six times in the last two years, each time around 10% to 15%. He says Bankrate commands ad rates that are five times as much as general-interest Web sites.

The company is able to get strong ad rates due to its laserlike focus on financial products, analysts say. "If you're at Bankrate, you're not looking for shoes," said Colin Gillis of Canaccord Adams. "You're looking for financial products, and you're looking because you're gonna buy."

Gillis says ad clicks were a major driver of growth in 2007 and will be again in 2008.

Meanwhile, Bankrate is diversifying its revenue base. Late in 2007, it bought Nationwide Card Services for \$26 million and Savingsforcollege.com for \$2.25 million. This year, insurance-rate provider InsureMe and Lower Fees, which provides data on mortgage transaction and closing fees, joined the lineup.

Costs and integration issues related to the acquisitions will keep management's "hands full," Anthony wrote. So will a newly launched Bankrate startup in China, its first venture outside the U.S.

Margins

The new ventures have lowered margins. Net margin in the fourth quarter was down 2.6 percentage points from a year ago, to 16.2%.

The \$2 million hit to fourth-quarter revenue and lower margin sales from recent acquisitions caused earnings to miss Wall Street's estimate by 6 cents in the quarter. Excluding stock-compensation costs, earnings totaled 33 cents a share, which were still up from 27 cents the same time last year.

That was on total revenue in the quarter of \$25.2 million, up from \$20.7 million in the 2006 period.

For all of 2007, earnings rose 51% to \$1.96 a share. Analysts polled by Thomson Financial estimate 2008 earnings will rise 42% and go up a more moderate 24% in 2009.

