

## Internet/e-Commerce

## Sub cos. could gain from lower app store fees though impact limited for now

Industry Overview

## Apple announces changes in compliance with EU's DMA

Apple today announced changes to iOS, Safari, and the App Store impacting developers' apps in the EU to comply with the Digital Markets Act (DMA). The changes (effective March) will allow third-party app stores on iOS for the first time. Under the new terms, apps distributed through App Store that choose to use an alternative payment system will pay a 17% commission (rather than 30% prior) and 10% for "small business". An additional 3% fee applies for developers that choose to use Apple's payment processing system. However, Apple has also introduced a "core technology fee" of €0.50 for each first annual install per year over a 1 million threshold.

## Implementation in the EU only limits impact

Apple's announcement comes in tow with Google losing a US antitrust court fight with Epic Games, where the jury decided that Google Play willfully yields monopoly power. Though in 2021 Apple had won its case vs Epic's antitrust claims. The new App store changes are only applicable in EU and would be incrementally bigger if App store's lower fees were implemented in the US (given that the majority of paying users are in the US). However, it's possible that today's decision could lead to similar app store fee reductions in Europe by Google. While today's announcement marks another milestone for lower fees and higher margins for subscription service companies, broader global changes (namely in the US where most revenues are derived) would be needed for a substantive impact to earnings. We suspect this is why the share price reaction to subscription companies to the news was somewhat limited including 3.0% for MTCH, 2.1% for BMBL and 0.7% for DUOL vs. 0.5% for the S&P500.

## MTCH margins benefit most, though EBITDA lift is small

For the subscription service companies that we cover (MTCH, BMBL, DUOL and PTON), we see the biggest potential benefit to MTCH given the company's geographic exposure to Europe. Based on company disclosure that app fees account for ~66% of COGS in 2021, nearly 20% of Match revenues from Europe (excluding the UK which is not included in DMA) and 33% mobile share for iOS in Europe (per Statista), we estimate that the Apple app stores changes would lift Match margins by 40bps and EBITDA dollars by 1.1%. If for example, the Apple store fees were extended to the US, we estimate a total 240bp margin lift and 7% increase to EBITDA. For Bumble, nearly 40% of revenue is attributable to Europe but 20ppts are accounted for by Badoo which has high exposure to Google Android. We estimate that the Europe Apple app store changes could increase Bumble margins by 30bps and EBITDA dollars by 1.7%. For Duolingo, we believe the impact to margins/earnings will be limited given; 1) our estimate that Europe represents less than 20% of revenue (ex-UK) and 2) over 90% of subscriptions are annual/family plans (fee changes on percentage point basis are less meaningful). Nearly all Peloton revenues are booked outside of the app stores so we see no impact to earnings.

25 January 2024

Equity

United States

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EU: European Union

COGS: Cost of Goods Sold

MTCH: Match Group

BMBL: Bumble

DUOL: Duolingo

PTON: Peloton

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Timestamp: 25 January 2024 09:17PM EST

**Stocks mentioned**

Prices and ratings for stocks mentioned in this report

BofA Ticker	Bloomberg ticker	Company name	Price	Rating
BMBL	BMBL US	Bumble	US\$ 14.37	C-2-9
DUOL	DUOL US	Duolingo	US\$ 191.97	C-2-9
MTCH	MTCH US	Match Group	US\$ 38.05	C-1-9
PTON	PTON US	Peloton	US\$ 5.8	C-3-9

Source: BofA Global Research

**Price objective basis & risk****Bumble (BMBL)**

Our PO of \$17 is based on 9x 2025E EV/EBITDA, a discount to subscription service comps which trade at 17x 2025 EV/EBITDA. While Bumble has higher margins and projected revenue growth but we believe the discount is warranted on soft industry trends, slowing Bumble user/payer trends and an overhang from high private equity sponsor ownership

Upside risks to our PO are: 1) a greater than expected acceleration in global online dating trends 2) stronger revenue contribution from new products and monetization efforts and 3) higher capital return following the initiation of a share repurchase program in early 2023.

Downside risks to our PO are: 1) a continued slowdown in user growth which was decelerated through 2023 2) sluggish global online dating trends which have yet to inflect post a 2020/21 peak and 3) somewhat opaque reporting on EBITDA and FX which may weigh on valuation during a period of slowing growth

**Duolingo (DUOL)**

Our PO of \$230 is based on 12x 2025E EV/Sales, a premium to subscription service and education tech comps which trade at 3x and 2x, respectively. We believe this premium is justified given significantly higher projected revenue growth as well as higher gross and EBITDA margins.

Upside risk to our PO are 1) better-than-expected user and payer growth as DUOL is still in early stages for monetization, 2) higher conversion from new AI features as well as a new higher priced tier Duolingo Max, and 3) the potential for 30-35% LT EBITDA margins vs. 17% in 2023.

Downside risks to our PO are 1) a pullback in consumer discretionary spend as well as a slowdown in travel next year, 2) low barriers to entry for language learning, 3) competition from other-AI-based language learning platforms, and 4) our view that DUOL will have to continue its stellar beat and raise track record (every quarter since IPO) in order to maintain current valuation

**Match Group (MTCH)**

Our PO of \$54 is based on 11x 2025E EV/EBITDA, a discount to subscription service comps which trade at 17x 2025 EV/EBITDA. While Match has higher margins and slightly higher projected revenue growth, we believe the discount is warranted on soft industry trends and uncertainty on when Tinder user/payer growth rebounds.

Upside risks are: 1) a greater than expected acceleration in global online dating trends, 2) stronger revenue contribution from monetization efforts and new AI based features, and 3) better than expected Tinder payer trends post platform improvements and the lapping of price increases in 1H23.

Downside risks are: 1) sluggish global online dating trends which have yet to inflect post

a 2020/21 peak, 2) a continuation of weak Tinder trends and share loss to Bumble and Hinge (owned by Match), and 3) revenue pressure from a recent appreciation of the dollar given over 50% non-US exposure.

**Peloton (PTON)**

Our \$4.60 price objective is based on 2.25x 2025 subscriber gross profit/EV. We do not include Peloton's hardware segment (40% of revenues) in our valuation given immaterial gross margins. This represents a discount to subscriber comps which trade at 5.3x gross profit/EV which we believe is warranted given lower EBITDA margins & FCF generation and revenue growth.

Upside risk to our PO are: 1) stabilization in monthly churn trends, 2) better than expected subscriber growth from growth initiatives including FaaS, new app strategy and expanded partnerships, 3) positive hardware gross margins from manufacturing and supply chain efficiencies, and 4) achieving breakeven to positive EBITDA if Peloton is able to reaccelerate connected subscriber revenue.

Downside risks to our PO are: 1) higher subscriber churn as COVID cohorts mature, 2) lower than expected revenue from growth initiatives, 3) limited traction in new international markets, 4) reopening and shift back to in-person fitness, and 5) uncertain TAM given high upfront costs.

**Analyst Certification**

I, Curtis Nagle, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

## US - Internet Coverage Cluster

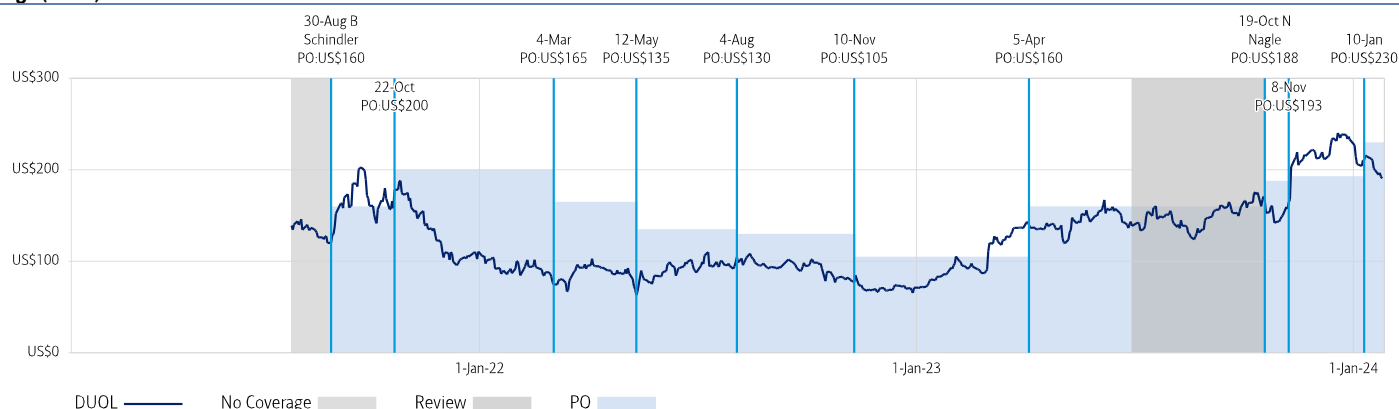
Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
<b>NEUTRAL</b>				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA
<b>UNDERPERFORM</b>				
	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

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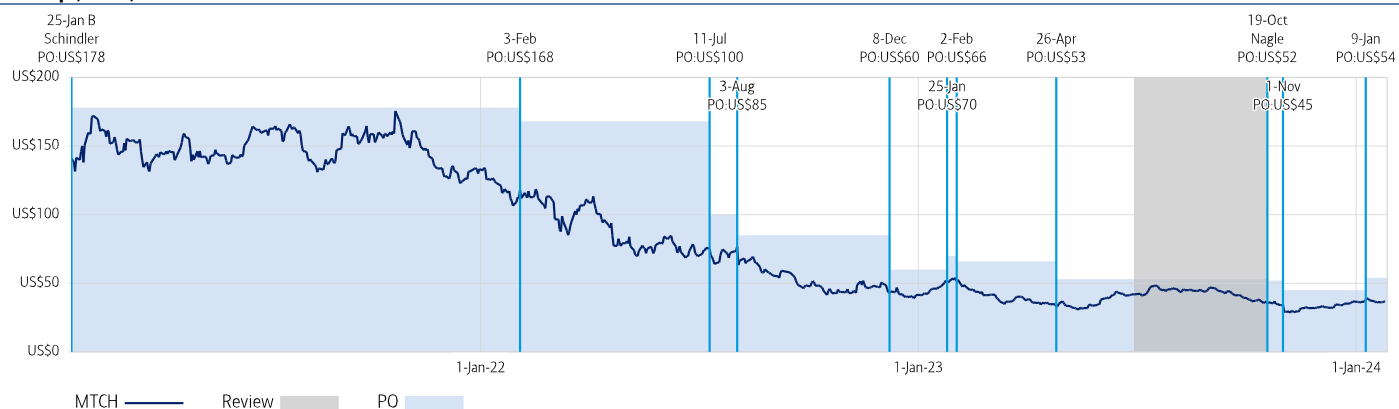
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**Bumble (BMBL) Price Chart**

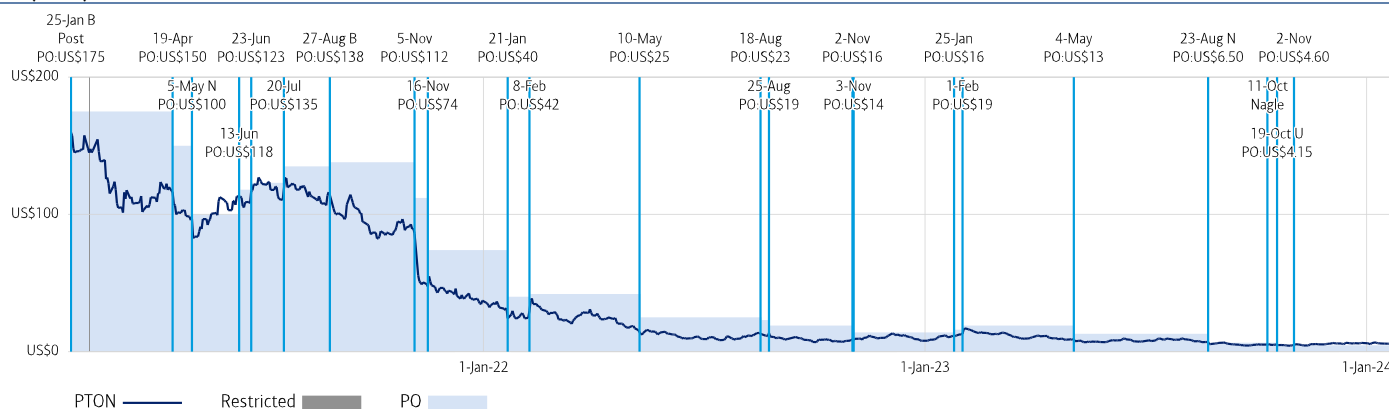
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**Duolingo (DUOL) Price Chart**

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**Match Group (MTCH) Price Chart**

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**Peloton (PTON) Price Chart**

B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

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**Equity Investment Rating Distribution: Education & Training Services Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	8	53.33%	Buy	2	25.00%
Hold	4	26.67%	Hold	1	25.00%
Sell	3	20.00%	Sell	0	0.00%

**Equity Investment Rating Distribution: Media & Entertainment Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	35	53.85%	Buy	15	42.86%
Hold	15	23.08%	Hold	8	53.33%
Sell	15	23.08%	Sell	7	46.67%

**Equity Investment Rating Distribution: Technology Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

**Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)**

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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