



David's Recommendation: Match Group

David Gardner | April 15, 2016 | [Buy Recommendation](#)

CURRENT PRICE: **[MTCH](#)** \$ 97.67 \$ 2.46 (2.6%) Čekúčí Žr. Bázis: 2016-04-15 09:00:00

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There are no guarantees when it comes to finding someone special, but at least the internet has a lot of places where you can look. You could sign up for a traditional dating service like Match.com. Maybe you want something that skews a bit younger, like OkCupid, or something for older singles, like OurTime. You might be looking for a more focused search, like BlackPeopleMeet. Or maybe you're not looking for someone special so much as someone new, and you just want a "hook-up" app like Tinder or Twoo.

Each of these sites has its own spin on matchmaking, but they're all owned by one corporate Cupid: **Match Group** ([NASDAQ: MTCH](#)). Match, spun out of media mogul Barry Diller's holding company **IAC/InterActiveCorp** ([NASDAQ: IAC](#)) in an IPO last November, has a portfolio of more than 45 brands encompassing many of the world's top dating sites (as well as college prep service Princeton Review — getting into school is another way to find a date, right?).

Does it seem strange that I'd recommend a service whose most satisfied customers may never use it again? Don't underestimate the size of the dating pool as more and more people look for love online. According to Pew Research Center, about 59% of U.S. adults surveyed in 2015 said online dating was a good way to meet people — up from 44% in 2005. Meanwhile, Pew found that 15% of U.S. adults had used an online dating site in 2015, up from 11% just two years earlier. What's more, I think Match *does* have a path to strong repeat business as Tinder catches fire.

Match is the leader in a growing market, and I think it will do more than flirt with success.

WHAT IT DOES

Match Group, a subsidiary of IAC/InterActiveCorp, owns a market-leading portfolio of online dating services, including Match.com, OkCupid, and Tinder.

WHY BUY

- Match Group is the leader in online dating, with several of the industry's most popular services.
- Tinder is a global phenomenon, having facilitated over 8 billion romantic match-ups — while still early in its maturity.
- Despite fast-growing user and subscriber counts, the stock is attractively valued.

KEY FACTS

- **Headquarters:** Dallas, Texas
- **Website:** [www.matchgroupinc.com](#)
- **Recent Price:** \$10.30
- **Risk Rating:** 8 out of 25 — Marble
- **Position in Industry:** Leader
- **Market Cap:** \$2,557
- **Cash/Debt:** \$100 / \$1,234

More Than a Pretty Face

It's easy to see why IAC spun out Match (and then kept a big ownership stake): Match was by far the fastest-growing business in IAC's portfolio, boasting 12.7% compounded revenue growth over the past three years. And there's plenty of reason to expect this growth to continue: Match estimates that its addressable market of single Internet users in North America, Western Europe, and select other countries will reach 672 million in 2019, up from around 511 million today. Although Match boasted about 59 million monthly active users as of Sept. 30, and has around 4.6 million paying subscribers, that's just a drop in the bucket.

In fact, subscribers (which the company calls paid member count, or PMC) have been climbing at a solid clip — about 14% annually since 2012 and 18.5% in just the past year. Monthly active users have come in even more quickly, swelling at a 63% annual pace between 2011 and the third quarter of 2015.

You may have noticed that these user and subscriber figures have increased faster than revenue. There are two main reasons for that: Members have been moving to less expensive services in the portfolio, particularly Tinder, and the strong dollar has been a financial drag on results in Europe (where the company saw 31% growth in PMC in 2015). The latter will improve along with European currencies, and the former points to the hidden depths of Match's cross-selling opportunities.

Tinder was initially a free service created by IAC's Hatch Labs in 2012. Even if you've never used it, you may still know how it works, because it's entered the pop-culture lexicon: Swipe right on someone's photo if you like them, and swipe left if you don't. By 2014, Tinder was registering 1 billion swipes per day. So in the fourth quarter of that year, the company switched it to a subscription service, but it kept the pricing much lower than services like Match.com, not wanting to disturb the mass appeal that made the app such a phenomenon. Those pricing experiments are ongoing — it currently charges people over 29 twice as much as the youngsters, and price varies by geography. I believe Tinder is likely to find more pricing power over time, particularly for new features that avid users want.

Tinder may also serve as a front end for a lifelong relationship between Match Group and its customers. Tinder appeals very much to younger people, particularly those not necessarily seeking a serious relationship. But as users grow older and look to settle down, or at least find something longer-term, they will naturally gravitate toward services that Match can promote and incentivize, like Match.com and OkCupid (which is free at a basic level but requires a subscription for premium features).

A Cheap Date

Match has much in common with some of Diller's other great successes, like **TripAdvisor** ([NASDAQ: TRIP](#)) and **Expedia** ([NASDAQ: EXPE](#)): It's another scalable Internet platform that costs fairly little to operate and can produce enormous profits. The company trades at only 14.1 times the \$180 million in free cash flow it produced in 2015 (and 16 times trailing earnings per share). Before the IPO, analysts at Bank of America Merrill Lynch valued Tinder at \$1.35 billion as a standalone business, but said a more optimistic scenario could make it worth \$3 billion. Today, we can buy Match's entire portfolio of more than 45 brands for less than \$2.6 billion (not including debt). And that's despite Tinder showing solid performance in the company's inaugural earnings report.

I think Wall Street is overly concerned about declines in average revenue per user as the company adapts to the enormous opportunity that is Tinder and fits it in with its other services. Like other Internet platforms, Match has been buffeted by the switch from desktop to mobile. Overall, this has benefited the company — Tinder, for example, is a mobile-only platform — but it has posed some of the conversion challenges that other online businesses have seen, as Match seeks to turn massive numbers of browsers into paying subscribers. This, too, I expect to settle out in the quarters ahead.

- **Revenue ('13/'14/'15):** \$803 / \$888 / \$1,020
 - **Earnings ('13/'14/'15):** \$125 / \$148 / \$120
 - **Insider Ownership:** 84.7%
 - **Biggest Threat:** Tinder loses its spark and users resist higher prices.

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Talk About MTCH

Match Group owns a broad swath of top online dating sites, but it hardly has a monopoly — it competes with well-established sites like eHarmony, up-and-comers like Zoosk, and various niche services like ChristianMingle, JDate, SingleParentMeet, and many more. The barriers to entry are low, and Match needs to keep up with competitive features, continue acquiring competitors, or both.

Meanwhile, the company's PMC growth is coming largely from Tinder, as well as the recent acquisition of Plenty of Fish. Without these, subscriber numbers are fairly flat. Thus, even though Match has a diverse portfolio of services, a lot is riding on the continued popularity of Tinder in particular. While it has been remarkably successful, the model is fairly new.

Match carries a substantial debt load, with a current ratio of 0.6 and a debt-to-equity ratio of 433%. Much of its debt is from a term loan due in 2022, and its obligations should be readily managed from cash flow for the next several years, but the company has a large balance due in 2022 that may require refinancing (and since it carries variable interest, the company's obligations could change).

Finally, note that IAC still owns about 85% of the company — so as shareholders, we are at the whim the company's corporate parent. While we assume Diller and his colleagues will seek to maximize the value of the stock, if we find our interests are at cross-purposes, it's clear who's in charge of this relationship.

The Foolish Bottom Line

It's hard to put a price on love, which is why so many different dating services, with so many price points, have thrived in the Internet era. Match Group boasts an unmatched portfolio of top sites, and it's producing lots of high-margin cash flow even as it experiments with optimal pricing. Whether you love Match Group or just like the look of it, it's worth courting the company at this price.

Karl Thiel contributed to this report.

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[Andrew Fredrickson](#) owns shares of TripAdvisor. [Brendan Mathews](#) owns shares of TripAdvisor. [Micah Robinson](#) owns shares of Bank of America and TripAdvisor. [Sara Hov](#) owns shares of TripAdvisor. The Motley Fool owns shares of TripAdvisor.

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