David's Re-Recommendation: Match Group

David Gardner | August 19, 2016 | Buy Recommendation

CURRENT PRICE: MTCH $ 97.67 ↑ $ 2.46 (2.6%) ĆvệùĠ | Ẏṙ Ḃ≈ÃÖĠ ÀÄaūÀÄǫÀÄaı ừN̂ ừ

Invest Foolishly! *This is the second time we've recommended Match Group. When we re-recommend a stock, it's a sign of extra confidence in a company we already know well. While we don't advocate buying too much of any stock, we think you should give this one a longer look as you build a well-diversified portfolio of 15 or more stocks to own for at least three to five years.*

We had a great time on our first date with **Match Group** (NASDAQ: MTCH), and we'd really like to see it again.

This portfolio of online dating services offers lots of ways to find love, from the eponymous Match.com to OKCupid, Meetic, Delightful, HowAboutWe, Chemistry.com, OurTime, BlackPeopleMeet, PlentyOfFish, and more. But it's no secret that the company's recent success has been driven largely by "hook-up" app Tinder. Tinder remains a global phenomenon, handling over 1.4 billion swipes (profile views) and 26 million matches every day. It's the fifth-most-popular app by revenue in the world (excluding games), and management expects it to double its paid member count in 2016 — ending the year with about 1.6 million paying users.

Since I first recommended Match in April, its stock has jumped more than 30%, while the S&P 500 has barely gotten off the couch. Whether you already own shares or not, we think it's worth getting to know a little better.

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 is the leader in online dating, and Tinder has become a global phenomenon.
- There's a strong growth opportunity, particularly internationally, with largely untapped areas like India, Japan, and Brazil.
- The company has lots of opportunities to monetize a popular business that's proving sticky with subscribers.

KEY FACTS

- **Headquarters:** Dallas, Texas
- **Website:** www.matchgroupinc.com
- **Recent Price:** $15.26
- **Risk Rating:** 8 out of 25 — Marble
- **Position in Industry:** Leader
- **Market Cap:** $3,841

More Reasons to Super Like

Tinder reminds me in some ways of my brother's re-recommendation this month, **Facebook** (NASDAQ: FB) — a wildly popular social site that resonates with millions of users on a daily basis. And, like Facebook, Match is still just learning how to optimally monetize its service.

So far, it's been hitting home runs. Tinder Plus launched in March 2015 with premium features like the ability to undo a left swipe (a profile you passed over) and the ability to change your location to chat with users in other parts of the world. But the company also cannily limited the number of right swipes (likes) available through the free service. That drove lots of avid Tinderers to the tiered subscription product. "I've never really seen the monetization of business go as smoothly as this has from a standing start," said CEO Gregory Blatt in the company's most recent conference call.

Indeed, users' willingness to pay for access has given the company a fair bit of latitude in how it grows profits. It introduced "Super Likes" last October, allowing users to swipe up instead of right to show an especially high level of interest in someone (once a day for free users, five times a day for premium members). That gave the company a nice bump in paid member count and continues to drive incremental revenue as users pay a la carte for additional "likes."

- **Cash/Debt:** \$174 / \$1,215
- **Revenue ('14/'15/TTM):** \$888 / \$1,020 / \$1,123
- **Earnings ('14/'15/TTM):** \$148 / \$120 / \$112
- **Insider Ownership:** 84% (the company is controlled by IAC/InterActiveCorp.)
- **Biggest Threat:** Doesn't grow fast enough to justify steep investments.

Follow MTCH

Talk About MTCH

In July, the company launched Tinder Social — aimed at groups looking to meet up, plan activities, or join others. (The company is quick to note that it's not a "group dating" app; in fact, management believes that one benefit of Tinder Social will be to decrease any remaining stigma around the core product.) While it's too soon to know much about its impact, this is a nicely adjacent market for Match, and its connection to Tinder's popularity should give it momentum that similar concepts like Foursquare and Dodgeball never had, while also driving users back and forth across the group and dating services.

Moving Cautiously

Match has been understandably cautious in its approach to monetization, not wanting to spook the users who have created such a powerful network effect. But as a result, it has lots of levers that it hasn't even begun to pull. Subscription pricing is tiered to age but varies widely by geography (and by the length of subscription). The free version of Tinder still allows users a generous number of likes — 100 in 12 hours — before cutting them off, a number that could certainly be tightened. Match can continue to introduce a la carte features as a way of both adding revenue and encouraging users to subscribe. It can experiment with different features and price points by gender (paying subscribers skew heavily male, which works for Tinder because non-subscribers can still make matches, but it may not be ideal).

But even with so many experiments left untried, business is booming. In its second-quarter report, Match reaffirmed its top-line guidance for the year: The company expects revenue of \$1.1 billion to \$1.14 billion, although its adjusted EBITDA target came down slightly to a range of \$400 million to \$415 million, owing to some stepped-up investments.

Management believes free cash flow will be at least 50% of EBITDA, suggesting it will easily exceed \$200 million this year. Match should certainly be able to beat that margin in the future, considering that free cash flow clocked in at 65% of EBITDA in 2015. But even using that target suggests the company is trading between 19 and 20 times estimated free cash flow for this year. That's not especially expensive, particularly in comparison to other software-driven services. In fact, it's far cheaper on this basis than fellow **IAC/InterActiveCorp** (NASDAQ: IAC) spin-outs **Expedia** (NASDAQ: EXPE) and **TripAdvisor** (NASDAQ: TRIP), as well as popular app-driven businesses like **Yelp** (NYSE: YELP) and social networks like Facebook and **Twitter** (NYSE: TWTR).

Right now, the company is investing in new product initiatives — and not just for Tinder. International growth is particularly strong, and it's being led not just by Tinder but also by Meetic, a leading European brand. Management has also acknowledged that it hasn't applied the necessary resources to grow the Tinder advertising business, another area of focus. In part because of this, profits aren't keeping up with revenue and cash-flow growth, but I expect that to reverse next year, with the company leveraging top-line growth into improving profit margins.

Risks and When We'd Sell

The caveats that I outlined in April — Match's relatively high debt load and IAC/InterActiveCorp's 84% ownership stake — remain true today. But this especially: Take out Tinder and the acquisition of PlentyOfFish, and the rest of the business — from the conventional dating sites to the Princeton Review and Tutor.com education services — is essentially flat.

Average revenue per user has been declining because the company's mix of members is moving to cheaper services like Tinder. However, that trend has slowed: ARPU was $0.55 in the second quarter versus $0.58 a year earlier. That 5% decline marks a sharp deceleration from the 14% in the fourth quarter of last year and 10% in the prior quarter.

Nevertheless, Tinder has to keep growing rapidly, particularly if the rest of the business treads water or worse. While Wall Street reacted ambivalently to the company's most recent quarter — many investors were hoping for even faster growth in paid member count — management has consistently said that with so much in flux, short-term forecasts are difficult. We're satisfied for now that the company is making the right moves. But keeping up growth could be difficult if users find alternative services that are cheaper or serve them better. While Tinder has critical mass, alternatives like Bumble — started by ex-Tinder execs — and Hinge are gaining traction. If users start swiping left on Tinder itself, we'll reevaluate.

The Foolish Bottom Line

Many users of traditional online dating services sign up hoping to find love and make the service obsolete. While that goes for some Tinder users, too, Match has found that this is a "periodic consumption business," meaning that people tend to be intense users for a time, drop out, and later return. That makes for a more stable base to build on, as the company brings in new users but also keeps existing ones for longer. Count us part of the trend: After a few months, we're swiping right on Match Group for a second time.

Karl Thiel contributed to this report.

Get all our updates on Match Group:

Send me updates on MTCH

Help us make Stock Advisor more Foolish!
Let us know how much you liked this article:

- Liked it a lot
- Liked it somewhat
- Indifferent to it
- Disliked it somewhat
- Disliked it a lot

See results vote

bike tracks

Abi Malin owns shares of Facebook. Andrew Fredrickson owns shares of TripAdvisor. Andy Cross owns shares of LinkedIn. Brendan Mathews owns shares of Facebook, LinkedIn, and TripAdvisor. David Gardner owns shares of Facebook. Jim Mueller owns shares of Match Group. Karl Thiel owns shares of Facebook. Micah Robinson owns shares of TripAdvisor and Twitter. Sara Hov owns shares of Facebook and TripAdvisor. Tom Gardner owns shares of Facebook and LinkedIn. The Motley Fool owns shares of Facebook, LinkedIn, TripAdvisor, and Twitter.

Important Reminder! Access all of David Gardner's top stock recommendations

In less than 60 seconds, you can DOUBLE the amount of stock picks you currently receive from David Gardner! You see, *Motley Fool Stock Advisor* is not the **only** place where David shares his top stocks. David's also the lead advisor for *Motley Fool Rule Breakers* -- the highly sought after growth-investing newsletter he founded in 2004. Click here to access a special offer -- and instantly upgrade your membership to include the market-thumping stock ideas of BOTH *Motley Fool Stock Advisor* and *Motley Fool Rule Breakers*.