

Why CIB Swiped Right on Match Group Inc. (NASDAQ:MTCH)

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Summary

- CIB should buy MTCH and hold for 5-6 months. The growing market is just the tip of the iceberg. MTCH also has a diversified portfolio that will make them a long term market leader.
- MTCH has over 40+ dating services and has a leading dating service in every age group making it difficult for any competitor to eat away at their 25 percent of market share.
- Hinge, a part of Match Group's portfolio is predicted to go from 500,000 subscribers to 8 million over the next 10 years, which will be very profitable for MTCH since it targets the 25-34 year age range, which includes people most likely to be single and economically stable leading to high revenue.
- Revenue is expected to realize double-digit growth over the next 5 years from expansion efforts and further user penetration. This growth will significantly increase Net Income as much as 20% YoY growth over the next five years.
- Price Projection: \$135 end of 2020, \$150 end of 2021

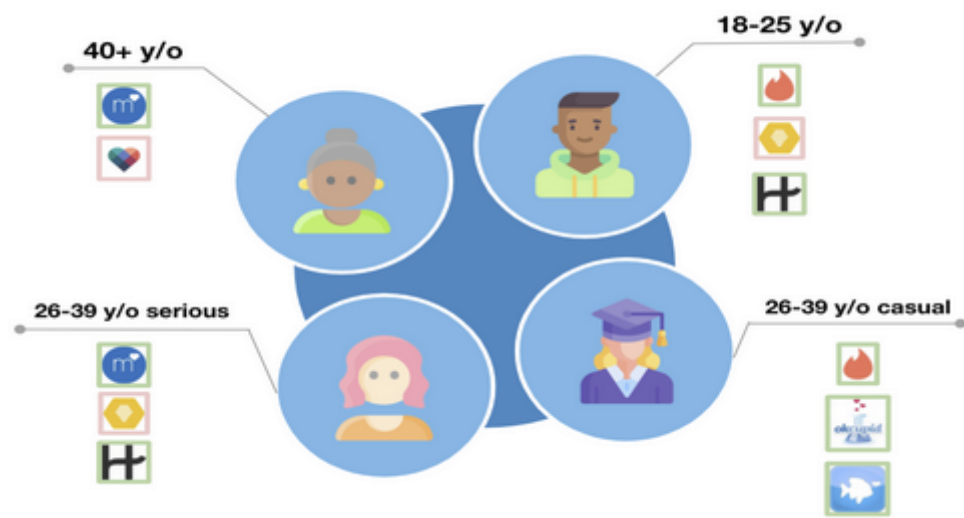
Our Unique Perspective

After thorough research of MTCH's company, valuation, and analysts' outlook, we believe that MTCH is undervalued due to an under-appreciation of the growth trajectory of the online dating industry. As college students, we are better positioned to understand the long-term value of MTCH's offerings and the trend towards online dating services than many of the analysts and investors that cover the stock. In the past 3 years, especially in wake of COVID-19, Tinder and the related dating applications have become a core component of how the teenage to mid-twenties demographic connects with prospective dates. While COVID-19 has expedited the use of online dating, that certainly does not mean it will be short-lived. Rather, we believe that it will only become more pervasive in youth culture, and this leads us to believe that MTCH is significantly undervalued and a must-buy.

MTCH's Diversified Portfolio Will Make it a Market Leader

MTCH will continue to expand into more countries accessing the 600M single people with internet access that exist globally (not including China), out of which 400M have never used a dating service. Further, MTCH's diversified portfolio of over 40 dating services creates a network effect that will allow them to tap into the majority of singles globally. MTCH has 40+ services geared at hook-ups, long term relationships, young people, older people, specific ethnic and religious groups, and more. Conversely, its main competitors are exposed to one specific customer segment: eHarmony

targets older people, Spark focuses on Jewish and Christian people, and Bumble has young adults. Looking at 2M interactions across 100+ dating services, MTCH has a dating service that leads every age group: Tinder, Hinge, and Plenty of Fish to name a few.



Subscription Pricing

MTCH has the cheapest popular dating services (Tinder, Hinge, POF). It also is cheaper than its competitor in every customer segment. One in three app users are premium subscribers.

Company	Market Share	Subscription Price
Match Group	25%	<ul style="list-style-type: none">• Tinder: free or premium for \$9.99/mo*• Match: free or premium for \$26.99/mo• Hinge: free or premium for \$12.99/mo• OkCupid: free or premium for \$19.95/mo• Plenty of Fish: free or premium for \$9.80/mo
eHarmony	12%	Free or premium for ~ \$25/mo
Bumble	~5%	Free or premium for \$18.33/mo

*\$19.99/mo if you are >30 years
Subscription price is based on how long you buy a subscription for, we assumed 3mo for all #s

MTCH also charges on average more or the same for a premium subscription when compared to other services in the same age segment.

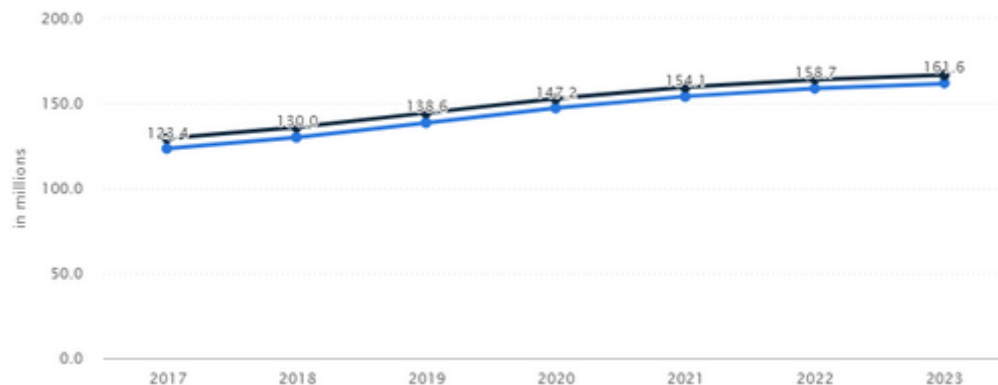
Users that do have competing apps often still use the MTCH version: someone with Bumble is more likely to have Tinder than someone with Tinder having Bumble.

Since MTCH is a portfolio company, it also has many high growth smaller brands that are predicted to attract many users over the next three to five years. Hinge is the most established emerging brand, and it is predicted to go from 500k subscribers today to 8 million over the next 10 years. Hinge had strong 3Q growth with monthly active users >90% year over year. Hinge also targets the 25-34 year age range, which is lucrative because they are likely to be single while having a steady income, unlike college-aged users. Other smaller brands—Ablo, Hawaya, BLK, and Chispa—are also doing very well. For example, Hawaya has been doubling users quarter over quarter. This user growth is important because it directly translates to revenue generation. One in three users on dating apps is premium subscribers, which accounts for 95 percent of a dating service’s revenue on average. As an industry leader with a diversified portfolio and 25 percent of the market share, MTCH will only go up as the number of people using online dating does.

COVID-19 will Continue to Fuel Revenue Growth

When COVID-19 started, investors thought that MTCH would experience serious losses because people would not be able to meet in-person. In reality, dating services have been seeing higher rates of usage with people bored at home. COVID-19 converts will stay on the app in a post-COVID-19 world because using dating services to date will become normalized to them. Some investors are worried that as the economic downturn continues, people will cut back on luxury subscriptions, such as those to dating services. However, what we have seen is that people are still paying for dating services at rates analogous to a pre-COVID-19 world, which is that just under one in two users on dating apps pay for a premium subscription. There are also other ways to monetize based on the number of free users, such as advertising. When bars and other businesses open, people will go back to meeting in-person, but dating services will still see user growth because even in a world without COVID-19 dating apps have been becoming more popular. In fact, online dating is the number one way couples form right now. Dating services are also expanding internationally with Tinder already being in about 200 countries. Some countries, such as Pakistan, have taken dating apps off their app stores because they feel like they do not align with the country's cultural values. MTCH is poised to create apps that are cognisant of different cultural differences because unlike competitors, it already has a diverse portfolio of different types of dating services.

Monetization



There are almost as many paying users as non-paying users in online dating

Blue - non-paying / Black - paying

Many users pay for a subscription because it allows them to purchase extra likes or getting a higher quality pool of potential dates. For example, on Hinge premium you can sort by many features including religion and political affiliation. Tinder Premium has the passport feature, which allows you to look at people from other countries. Tinder Premium also lets you undo a swipe in case someone accidentally swiped left on their future spouse. Second, dating apps have ads. Ads either interrupt the swiping or allow users to access features they otherwise have to pay for. Types of ads include a video, a survey, or an ad that looks just like another profile at first glance. Ad revenue has become one of the main ways internet companies make money, and dating apps offer a unique platform for companies to use for ads, since dating companies know a lot about their users' demographics.

Company Financials

Match Group's Share Price is up 43% YTD, making the Share Price \$120 and valuing the company at \$31 billion. On July 1, 2020, Match Group spun off from its parent company IAC Holdings (now worth \$10 billion). Despite COVID-19, Match Group had YoY Revenue growth of 12% in Q2 of 2020 and 13% growth in diluted EPS. While it is worth noting that MTCH has close to ~3.5 Billion in net debt - which is intended to be deployed for strategic transactions and international expansion - it is expected to generate \$258 million in Free Cash Flow in 2020, and a majority of the company's debt balance does not mature until 2025 or later.

Match Group currently trades at a 45x P/E Ratio, which is expected to stabilize to 36x over the next 5 years. Revenue is expected to realize double-digit growth over the next 5 years from expansion efforts and further user penetration. This growth will significantly increase Net Income as much as 20% YoY growth over the next five years.¹⁶ MTCH's user penetration will be 4.3% in 2020 and is expected to hit 5.7% by 2024. The average revenue per user (ARPU) is expected to be \$8.51. MTCH owns 5 out of 10 of the most popular dating apps by users (Match.com, Tinder, OkCupid, Hinge, POF). Revenue is projected to reach 2.7B in 2020 and 4.2B by 2024 with an annual growth rate (CAGR 2020-2024) of 11.6%.

Below, you will find the projected Income Statement for MTCH, which has been computed using a variety of estimates from analysts covering the company.

Income Statement (M)						
	Dec '20E	Dec '21E	Dec '22E	Dec '23E	Dec '24E	Dec '25E
Revenue	2,290	2,705	3,057	3,454	3,800	4,180
Sales Percent Growth	18%	13%	13%	10%	10%	10%
Cost of Revenue	612	720	833	950	1,064	1,170
Cost of Sales Percent Growth	18%	16%	14%	12%	10%	10%
Gross Income	1,711	2,010	2,334	2,504	2,736	3,009
SG&A Expense	726	816	905	1,000	1,000	1,000
Selling & Marketing Expense	464	534	594	630	630	630
General & Admin Expense	273	288	312	350	350	350
Research & Development	154	173	184	250	250	250
EBITDA	862	1,080	1,280	1,254	1,486	1,759
Depr. & Amort.	39	42	43	45	45	45
Operating Income	709	946	1,135	1,209	1,441	1,714
Interest Expense	150	169	170	175	175	175
Pretax Income	583	779	969	1,034	1,266	1,539
Tax Expense	33	115	151	155	190	231
Net Income	497	616	792	879	1,076	1,308

Overall, an investment in MTCH is an investment in the online dating industry, which is the number one way American couples are meeting each other today.