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Valuation Project
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Company	Price	DCF Value Pricing Recomendation
Match Group (MTCH)	$32.02	$39.54 $37.40 HOLD

Match Group (MTCH)
Industry: Software (Internet/Social Network)
Rating: HOLD

A Dynamic Market Leader in the Online Dating Industry

Narrative:

Match Group, a powerhouse in the online dating industry with a portfolio of brands like Tinder, Hinge, Match, etc., has shifted its focus towards innovative monetization strategies to drive revenue growth as user growth slows down from increased pandemic numbers. Match Group is a disruptor that excels in optimizing its invested capital while continuously refining strategies to enhance shareholder value, decrease risk, and enhance overall financial performance. Since its separation from IAC in 2020, Match Group has demonstrated its commitment to adapting amidst market challenges and evolving user preferences.

Assumptions:

	Base year	*Next year*	*Years 2-5*	*Years 6-10*	*After year 10*
Revenues (a)	$3,188,843.00	13.35%	13.35%	→	3.44%
Operating margin (b)	20.73%	16.2%	→	→	29.70%
Tax rate	4.00%		4.00%	→	25.00%
Reinvestment (c)		2.30	2.30	2.30	39.36%
Return on capital	18.41%	Marginal ROIC =	55.91%		8.74%
Cost of capital (d)			9.66%	→	8.74%

Revenue Forecasting:

The revenue forecast for Match Group was developed by considering it as part of the online dating services sector within the broader software (internet) market. This context is crucial in determining the growth rate, given Match Group's unique market positioning. The company commands a significant market share relative to direct competitors, as high as 60% in the US and 30% globally.

Our analysis indicated a potential for revenue growth despite recent low numbers, given the large size and high growth characterizing the software industry. In contrast, analyst forecasts for the online dating services market growth were lower than the software industry estimates. Reconciling these trends, we calculated a weighted average growth rate using historical data from Match Group's post-separation performance. This process yielded an estimated growth rate of 15.5%, higher than last year's but lower than the overall software market.

However, we adopted a more conservative estimate, assuming growth would fall between the online dating services market's lower bound (9.2%) and Match Group's historical growth rate. This resulted in an average growth rate of 12.35%. After considering other revenue growth drivers such as increasing Revenue Per Payer (RPP) numbers, strategic acquisitions, and innovative monetization strategies, we added an additional 1% to the growth rate, settling at an estimated 13.35%.

Target Operating Margin Forecasting:

Determining the target operating margin involved carefully studying industry averages, competitor performance, and Match Group's operational dynamics. The software industry showed wide variances in pre-tax operating margins at -2.01% (Global), -5.85% (US), and a positive 20.73% for Match Group. Notably, Bumble, a direct competitor, had negative margins significantly below the industry average, likely due to its relative newness. This examination led to the establishment of Match Group's pathway to profitability. The company's existing high operating margin suggested a less challenging route to future profitability relative to its industry peers.

Match Group's financial strategy and business model are primarily anchored on three critical aspects:

1. Diversified Portfolio: The company's diverse array of dating platforms minimizes reliance on single-platform growth and broadens the revenue base.
2. Freemium Model and User Monetization: Match Group employs a freemium model, offering basic services for free while monetizing users who opt for premium features. This approach drives Revenue Per User (RPU) growth, enabling revenue generation beyond user growth.
3. Cost Efficiency and Innovation: The company balances cost management with technology investments to streamline operations, optimize marketing expenditure, and enhance user engagement, which is crucial for long-term growth and profitability.

Based on these conditions, I assumed that Match would have an easier path to profitability compared to the industry. In lieu of this, We projected a target pre-tax operating income of between 25% and 35%, factoring in the company's diversified portfolio, freemium model, cost-efficiency, and innovation strategy. The final estimate was 29.70%.

Tax Rate:

We assumed the effective tax rate would converge to the US marginal tax rate over time to keep estimates conservative.

Reinvestment:

Match Group abides by a low capital-intensive model. Therefore, it can maintain a relatively high sales-to-capital ratio compared to other software giants. A consistent estimate of the sales to the capital of 2.30 over the next decade showcases the firm's commitment to driving revenue via innovative monetization strategies and operational efficiency. As Match sustains a high Return on Invested Capital (ROIC), the reinvested returns could amplify growth and market presence, underscoring its strategy for sustainable growth and investment optimization.

Return on Capital:

Match Group, a leading entity in the online dating industry, has successfully demonstrated its significant competitive advantage with a substantial market share and an impressive 55.91% Return on Invested Capital (ROIC). A robust portfolio of brands, including Tinder, Hinge, and Match, drives this financial strength. As user growth moderates due to the pandemic's residual effects, the company has strategically shifted its focus towards innovative monetization strategies, effectively driving revenue growth.

Cost of Capital:

To estimate the cost of capital, I took an industry-average approach that was adjusted for risk-free rate differences.

Pricing:

Match's current EV/Sales ratio is considered to be undervalued when compared to its comparable companies such as Bumble, Snap, and Meta. These were companies above 1 billion in market cap, US-based companies that operated in the online dating services market, or an adjacent market. To determine a more accurate EV/Sales ratio, a market-wide regression analysis of multiples of US companies was conducted. The result is a standard EV/Sales ratio which was applied to Match to arrive at a relative valuation. According to my analysis, the EV/Sales ratio from the regression analysis was 4.30 resulting in a fair price of $37.40. This value was slightly lower than the DCF valuation but higher than the current stock price. Using these two methods, the final values suggest that the company is undervalued intrinsically and relatively.

Recommendation:

Match Group showcases strong fundamentals, including a diversified brand portfolio, effective monetization strategies, and a robust market position. Its positive profitability outlook, driven by high operating margins and a low capital-intensive model, is commendable. The stock appears to be undervalued based on the EV/Sales ratio, and the company stands to benefit from favorable macroeconomic conditions, including rising user growth metrics. However, the HOLD recommendation is advised due to the slowing user growth, sustained indirect competition, and potential regulatory risks (large settlement in Tinder's case) in the tech industry. Hence, existing investors are encouraged to maintain their positions, but prospective investors should seek further clarity on the company's user growth trends and regulatory landscape before venturing in.

Limitations:

Pricing

We used the EV/Sales ratio, comparing it with companies such as Bumble, Snap, and Meta. While these companies operate in similar digital and social networking spaces, each has unique business models, growth trajectories, and risk profiles that might not mirror those of Match Group precisely. The EV/Sales ratio is affected by market sentiment, which can be subject to temporary market conditions.

DCF

1. DCF model relies on projections and assumptions about the company's future, which can be altered by unexpected changes in user behavior, competitive dynamics, or regulatory environment.
2. Target operating margin is based on industry averages and unique business dynamics but can be affected by unforeseen costs or tax law changes.
3. Reinvestment rate and return on capital projections depend on maintaining the current business model and market conditions.
4. Cost of capital is estimated using an industry-average approach, which may not fully capture Match Group's unique risk profile.