Match Group (MTCH)

November 15, 2024

By

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Overview

Match Group Inc (MTCH)	
Current Share Price:	$30.71
Market Cap	$7,710 MM
Free Cash Flow (TTM)	$893 MM
EBITDA (TTM)	$978 MM
PEG Ratio (5 years)	0.45 (5 yr)
Recommendation	Buy

Company overview

Match Group (MTCH) is a software company that specializes in online dating services. The company is divided into 4 main branches of business: Tinder, Hinge, MG Asia and E&E, operating worldwide in 190 countries and 40 languages.

Match Group's platforms enable users to create profiles and connect with others, facilitating romantic relationships and social interactions. The primary way they generate revenue is through offering premium subscriptions to their applications that grant users more perks

Investment Thesis

Match Group offers high quality applications that dominate a market that is poised to grow steadily as people’s social life is becoming more and more online. With a strong cash flow generation used to repurchase shares and great capability to monetize its services, MTCH is undervalued at this current price,

Outcomes and Opportunities

The company is focused on its share-repurchase program, spending $241 million buying back shares in 3Q2024 alone and pledging to spend most of their FCF to maximize the effectiveness to this program in order to maximize shareholder value

Management has been focusing on optimizing pricing of its subscription bundles for all its Apps. This initiative allowed them to increase average revenue per user by 5% year over year, with growth specially present in Hinge, with a 12% YoY growth

The company has registered a -4% YoY decline in paying users and -9% YoY monthly active users for its flagship app, Tinder. This has culminated in a -1% YoY change in revenue for the platform. Management states that they expect user base to grow again as they continue to make improvements to the platform's features and campaigns to target college-aged audiences

Outcomes and Opportunities

Hinge, on the other hand, had a fantastic year. The platform has outperformed all others in the MTCH ecosystem, posting a +36% YoY Revenue growth, +21% paying user base, +12% revenue per user and a +82% net income growth. Hinge's growth has been responsible for offsetting Tinder's decline and thus stabilizing the company's earnings in the quarter

MG Asia posted a slight decline YoY of -6% revenue. The platform Azar, continues to expand aggressively into Europe, growing its user base by +27% YoY and +14% increase worldwide. Its new AI feature allows users to chat through video is likely to boost the platform's popularity among gen Z users who want a more spontaneous dating experience. The segment, however, still has a negative operating income margin.

E&E, however, was the segment that had the worst year. The diverse platforms that operate under this segment, each aiming to reach a specific target audience, decreased the segment's operating income by -88% YoY. The company has a positive outcome for the sector, expecting that a handful of these platforms will turn out to be huge successes by serving underserved demographics

The company's efforts to increase ARPU and willingness to explore different pricing options for their premium bundles according to different user preferences allows for them to capture more revenue

Possible AI integrations to the algorithm will improve matching and profile recommendations, which can present an opportunity for more price hikes for subscription plans in the future

Competitive Position and Industry

Over the past years, the percentage of people in the US that met their current partner through online dating platforms has grown significantly. According to some sources, this number has surpassed 50% of couples in the country, compared to only 37% in 2017. In a world where people will meet their partners, being long term or short term, through online platforms, MTCH, with its household platforms like Tinder and Hinge and emerging platforms that aim at specific demographics, is at a prime position to take advantage of this trend.

The online dating industry is one with a relatively high barrier to entry. Considering that people only go into these platforms to find a partner, every new platform has to have a large user base to become attractive to new users in the first place. With this challenge long behind, other companies can try to defy MTCH's dominance in the industry, but will most likely not reach their level of market dominance.

Risks

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	tinder	Hinge	MG Asia	E&E
Direct Revenue ($M)	$503.2 ⬇ 1% Y/Y +1% FXN	$145.4 ⬆ 36% Y/Y +35% FXN	$72.2 ⬇ 6% Y/Y (1)% FXN	$158.4 ⬇ 9% Y/Y (9)% FXN
Payers (000s)	9,945 ⬇ 4% Y/Y	1,602 ⬆ 21% Y/Y	1,046 ⬆ 14% Y/Y	2,621 ⬇ 14% Y/Y
RPP	$16.87 ⬆ 4% Y/Y	$30.26 ⬆ 12% Y/Y	$23.00 ⬇ 18% Y/Y	$20.14 ⬆ 6% Y/Y
Operating Income ($M) & Margin	$234.8 ⬇ 8% Y/Y 45% margin	$42.2 ⬆ 82% Y/Y 29% margin	$(19.0) ⬇ NM (26)% margin	$3.0 ⬇ 89% Y/Y 2% margin
Adjusted Operating Income ($M) & Margin	$266.8 ⬇ 5% Y/Y 52% margin	$51.5 ⬆ 65% Y/Y 35% margin	$17.8 ⬆ 9% Y/Y 25% margin	$41.4 ⬇ 10% Y/Y 26% margin

Earnings Overview

Income Statement Overview

Revenue for First 9 months of 2023 x First 9 months of 2024: 2,498M x 2,619M. Driven primarily by Hinge's explosive growth and a higher ARPU across the board

- EBITDA Q3 2023 x Q3 2024: 268M x 243M, driven by a severely lower income generation from E&E and a slight decline in Tinder

- Net Income Q3 2023 x Q3 2024: $163M x 136M, also driven by the same losses E&E and Tinder

Balance Sheet Overview:

- Current Ratio: 2.49
- Debt to Equity Ratio: Negative. The long term liabilities of the company surpass their assets

Debt to FCF: 4.3. If the company uses their strong FCF generation to pay off their debt this should be no problem

Statement of Cash Flows Overview

- Cash Provided by operating activities: 9M2023 x 9M2024: $678M v $620M, driven mainly by more stock based compensation, even with the lower net income figure
- Free Cash Flow: 9M 2023 x 9M 2024: $570M x $635M
- FCF in the TTM = $893M
- Analysts' expectation for FCF in FY 2025: $988M

Valuation

EV/FCF analysis: MTCH: 11 /// BMBL: 7 /// GRND: 46

Method Used: Reverse DCF and DCF valuation

- Assuming it's FCF in the TTM of 893 Billion USD, a 0% FCF growth over the next 10 years, a terminal growth rate of 1.5% (in line with the US's GDP growth) and an conservative discount rate of 12% per year (average of market being 10%), the stock should be trading at $30.34, close to its current share price

- Using its current share price and assuming the same stats for WACC, and TGR but applying next year's expected FCF of $988M, we arrive that the share price should be trading at around $33.57,

- Using these conservative assumptions, the company is currently valued in a FCF increase of around 1% CAGR for the next 10 years, which, considering everything stated above, including the opportunities the company has and their risks, seems very pessimistic

- Using these same assumptions and assuming a very conservative FCF growth of 3% CAGR, the company should be valued at around $37.00

Conclusion: Buy

Considering MTCH's diverse portfolio of platforms and ability to satisfy different types of customers around the globe and their plan to increase ARPU, which, considering the mindset of always wanting more gratification and willingness to pay more to increase their odds of matching that dominates the consumer, they are being able to do successfully, MTCH is slightly undervalued considering its price and current/future cash flow generation