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Aug 11, 2020

Match Group (MTCH)

$115.65 (As of 08/10/20)

Price Target (6-12 Months): **$121.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 07/06/20) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**4-Sell**
	Zacks Style Scores:	VGM:F
	Value: D | Growth: D | Momentum: D	

Summary

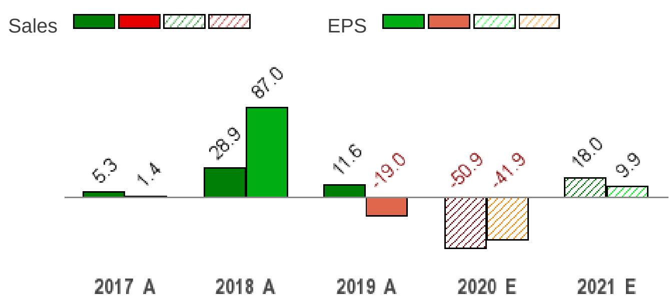
Match Group reported stellar second-quarter results. Notably, both earnings and revenues increased year over year. Top-line growth was driven by robust momentum at Tinder and solid performances of Hinge, Pairs and OkCupid. Notably, activity across all brands has increased since the coronavirus outbreak, especially among younger users and females. Moreover, the company witnessed rebound in propensity to pay, driven by robust uptake of video-enabled services to boost engagement amid the coronavirus crisis-induced shelter-in-place guidelines. Match Group's robust portfolio of online-dating services is a major growth driver. The company enjoys a first mover's advantage in the space. However, intense competition from the likes of Facebook and unfavorable forex are headwinds. Shares have underperformed the industry on a year-to-date basis.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	**$123.00 - $87.56**
20 Day Average Volume (sh)	**4,026,743**
Market Cap	**$9.8 B**
YTD Price Change	**-53.6%**
Beta	**1.20**
Dividend / Div Yld	**$0.00 / 0.0%**
Industry	**Internet - Commerce**
Zacks Industry Rank	**Top 41% (103 out of 253)**
Last EPS Surprise	**7.1%**
Last Sales Surprise	**5.1%**
EPS F1 Est- 4 week change	**-6.6%**
Expected Report Date	**11/04/2020**
Earnings ESP	**0.0%**
P/E TTM	**38.0**
P/E F1	**44.0**
PEG F1	**2.9**
P/S TTM	**2.3**

Sales and EPS Growth Rates (Y/Y %)



Sales Estimates (millions of $)

	Q1	Q2	Q3	Q4	Annual*
2021	629 E	672 E	727 E	755 E	2,756 E
2020	1,229 A	555 A	604 E	630 E	2,335 E
2019	1,106 A	1,187 A	1,247 A	1,218 A	4,757 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	$0.67 E	$0.56 E	$0.76 E	$0.77 E	$2.89 E
2020	$0.01 A	$0.60 A	$0.57 E	$0.62 E	$2.63 E
2019	$0.91 A	$1.19 A	$1.35 A	$1.08 A	$4.53 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

Overview

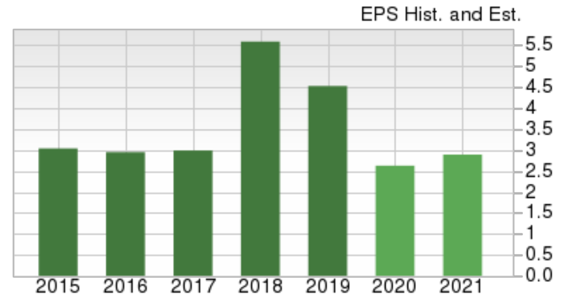
Match Group, Inc. is the world's foremost provider of dating products and operates a portfolio of more than 45 brands. Its biggest and best known brands are Tinder, Match.com, PlentyOfFish, Meetic and OkCupid. The Dallas, TX-based company offers dating products in 42 languages in more than 190 countries.

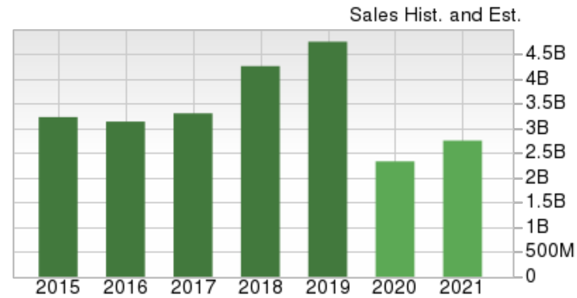
The company is currently enjoying strong growth, driven by robust momentum at Tinder and solid performances from Meetic, Match, Pairs as well as PlentyOfFish.

Tinder which was launched in 2012 and is the world's #1 downloaded as well as top earning dating app. Tinder reflects the key catalyst for the company's year–over-year revenue growth. Revenues from Tinder direct grew 43% year over year in 2019 and came in at $1.2 billion. Notably, in first quarter of 2020, Tinder added 1 million average subscribers.

Match was launched in 1995 and helps in generating the online dating category. Its unique features involve searching profiles, receive algorithmic matches and attend live events, promoted by Match, with other Subscribers.

PlentyOfFish launched in 2003 and was acquired in October 2015. Its unique features are also the capability to both search profiles and receive algorithmic matches.





Based in France, Meetic is a leading European online dating brand and was launched in 2001. It also has unique features to search profiles, receive algorithmic matches, and attend live events.

OkCupid launched in 2004 and attracts users through a mathematical and Q&A approach to the online dating category.

One of the largest brand, OurTime is a community of singles above the age 50 of any dating product.

Launched in 2012, Hinge was acquired by Match in December 2018. It is a mobile-only experience that focuses on users with a greater level of aim to enter into a relationship.

Match Group became a public company in 2015. The company generated revenues of $2.1 billion in 2019. North America contributed 51.1% to total direct revenues, while international contributed 48.9%.

Reasons To Buy:

Robust momentum at Tinder and solid performances from Meetic, Match as well as PlentyOfFish bodes well for the company.

- Online dating has been gaining traction because of the rising number of singles globally. According to reports, the marriage rate in the U.S. has decreased 40% in the last 25 years. This has led to a significant rise in the number of people looking for a match. Per Allied Market Research data, online dating services market is projected to hit $9.2 billion by 2025, witnessing a CAGR of 4.7% between 2018 and 2025. Per another report from Verified Market Research, the online dating services market is projected to hit $9.39 billion by 2026, witnessing a CAGR of 4.6% between 2019 and 2026. Match group is already a trusted dating site with over two decades of presence in the industry. Consequently, the statistic bodes well for the company and will help Match group to garner additional revenues.

- The company is considered to have pioneered the concept of online dating, which is why it enjoys a first mover's advantage in this market. Match Group has been benefiting from increasing subscriber addition in the form of membership subscriptions. Online dating has been expanding, as users from more demographics join the fray. The company's subscribers continue to grow at a significant pace driven by new features and tools that improve engagement. Tinder average subscriber increased 18% year over year in the second quarter of 2020 and came in at 6.2 million. Most of Match Group's users connect from mobile devices, where conversion to paid members is also higher. This momentum bodes well for top-line growth, going forward.

- Match Group has been reaping profits for the past three years and recording top-line expansion as well. The company is currently enjoying strong growth, driven by robust momentum at Tinder and solid performances from Meetic, Match as well as PlentyOfFish. Match group has 9.9 million subscribers worldwide and 6 million of them use Tinder — the most profitable segment of Match Groups business for advertising (In fact, Tinder became the highest grossing app in Apple's App Store in 2019, edging out Netflix and Candy Crush). With a combination of free features — which include advertising — and paid subscription-based premium services and options, Match Group took in $2.1 billion in revenues in 2019, up 19% year over year.

- Tinder, the world's #1 downloaded and top earning dating app, is one of the major growth drivers for Match Group. Moreover, gender diversification is an attraction for Tinder users, as the app includes more gender options like transgender. Per media reports, the gender options update was rolled out to make the service more inclusive. Last year, Tinder launched a web based version of its popular mobile dating service called Tinder Online. Tinder also updated its app, which will allow its users to link their profiles with their respective Instagram profiles. Notably, Tinder is the cash cow of Match Groupg. Revenues from Tinder direct soared 15% year over year in second-quarter 2020. The company has a presence in about 196 countries with reportedly over 50 million users (who spend an average of 90 minutes on the app and keep coming back at least 11 times a day). Moreover, Match Group has introduced Tinder Lite, with an aim to expand international presence. The company also launched a credit card payment option on the Android version of Tinder. We believe that such initiatives can be strong growth drivers for if Match Group decides to monetize the same ever.

- Of all places, India deserves special mention regarding user growth. India, the world's second most populated country, offers tremendous potential. It has more than 1.3 billion people, of which, only a little over 560 million use Internet, per Statista. Despite low internet penetration, India is already one of the largest markets for the company just after the United States, given its extreme popularity. Tinder was launched in the country in 2013, and with its rapidly growing mobile-friendly demographic, the app saw a 400% increase in downloads in the country in 2015. Moreover, India holds the biggest market in Asia in regard to this dating app. Tinder stated in 2016 that it gets 7.5 million daily swipes in India. This bodes well for Match Group. A burgeoning well educated middle class, increasing spending power and rapid adoption of smartphones will boost Match Group's prospects in the country.

Reasons To Sell:

Stiff competition from Facebook, overdependence on Tinder for revenue generation and a leveraged balance sheet are major concerns.

- Match Group currently faces stiff competition from other big and small players in the dating industry, with a constant stream of new products and entrants. Additionally, within the dating industry, cost for users to switch between the products is usually very low and consumers have a tendency to try new ways to connect with people. Consequently, new entrants, new products and business models are emerging at a high rate which may pose a huge threat to Match Group's profitability.

- Facebook poses a potential threat on Match Group. Due of its sheer size, anything Facebook does is rightly viewed as a potential threat to anyone currently occupying the space. Facebook's more than 3 billion user count dwarfs Match Group's 9.9 million average subscribers, suggesting that if Facebook Dating (launched in the United States on Sep 5, 2019) gains traction, Match Group could witness widespread defections and consequently its earnings. If successful this can be a huge hindrance to Match Group to retain its customers. Although Match Group has started distributing ads on other websites, we believe that Facebook continues to have a significant competitive edge due to its scale and diversified product offering. Weaker-than-expected advertising revenue growth trends might dent the company's top-line, going forward.

- Tinder is the major source of revenues for Match Group. Tinder, launched in 2012, is a location based dating service. It is basically labeled as more of a hook up/sexting app. Although, over the past few days, Tinder has updated its app to include more gender options like transgender. Per media reports, the update is available only in the United States, the U.K and Canada and is aimed at making the service more inclusive. Reports further add that Tinder is likely to face hurdles when it tries to roll out this feature in other "not so liberal parts" of the world.

- The company has a highly leveraged balance sheet. As of Jun 30, 2020, Match Group had cash and cash equivalent balance of $129.3 million compared with $465.7 million as of Dec 31, 2019. As of Jun 30, 2020, the company had long-term debt of $3.53 billion compared with $2.89 billion as of Dec 31, 2019.

Last Earnings Report

Match Group Q2 Earnings and Revenues Improve Y/Y

Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	5.07%
EPS Surprise	7.14%
Quarterly EPS	0.60
Annual EPS (TTM)	3.04

Match Group reported second-quarter 2020 earnings of 51 cents per share, which improved 13% from year-ago quarter's figure.

Revenues of $555.5 million increased 12% year over year courtesy of robust momentum at Tinder and solid performances of Hinge, Pairs and OkCupid. Excluding the effect of foreign exchange, the top line rose 14% year over year to $566.5 million. The upside was primarily driven by rise in average subscriber base.

Notably, activity across all brands has increased since the COVID-19 outbreak, especially among younger users and females. Moreover, the company witnessed rebound in propensity to pay driven by robust uptake of video-enabled services to boost engagement amid the coronavirus crisis-induced shelter-in-place guidelines.

The Zacks Consensus Estimate for earnings per share and revenues was pegged at 56 cents and $529 million, respectively.

This is the first quarter wherein Match Group reports as a fully independent public company. Notably, on Jun 30, 2020, a series of transactions led to the separation of the companies formerly known as Match Group, Inc. (referred to as "Former Match Group") and IAC/InterActiveCorp (referred to as "Former IAC").

The process resulted in two separate public companies — Match Group, which comprises the businesses of Former Match Group and certain financing subsidiaries previously owned by Former IAC, and IAC, consisting of Former IAC's businesses other than Match Group (the "Separation").

Following the separation, the operations of Former IAC businesses other than Match Group have been included as "discontinued operations." Notably, Former Match Group incurred $7.5 million of separation costs in the second quarter, which have been included in discontinued operations.

Quarter Details

Average subscriber base increased 11% to 10.1 million and average revenue per user (ARPU) was flat year over year at 58 cents.

North America subscriber base climbed 4% to 4.7 million, while International advanced 17% to 5.4 million. Increase in subscriber base in North American and internationally was driven by growth in user base of Tinder, Hinge, OkCupid and Pairs.

North America ARPU increased 7% to 65 cents, while International ARPU declined 5% to 53 cents. North America ARPU was driven by increased purchases of à la carte features at Tinder, while International ARPU was affected by strength of the U.S. dollar compared with Euro and other currencies.

The company continues to expand operations across international markets. Post OkCupid success in India, the company is expecting to sustain momentum across Turkey, Germany and Israel. Also, launch of Hawaya — the company's Muslim-focused app across 12 markets — primarily across the Middle East, Western Europe and Asia, remains notable. The company is witnessing strong user growth across these markets, which bodes well.

Moreover, robust Tinder average subscriber increased 18% year over year came to 6.2 million, which contributed to the quarterly results.

Direct revenues from Tinder increased 15% year over year. The company introduced Face-to-Face at Tinder, a one-to-one video chat functionality, in a bid to capitalize on growing clout of video dating amid coronavirus crisis-induced shelter-in-place guidelines.

Direct revenues from non-Tinder brands collectively improved 9% on a year-over-year basis, driven by 5% growth in ARPU, and 1% increase in average subscribers and contribution from non-subscriber one-to-many video revenues. Markedly, Hinge's ARPU was up over 60% on a year-over-year basis in the second quarter.

Moreover, Match Group owned dating app — Plenty of Fish — rolled out a free live streaming feature called LIVE! to encourage members to practice social distancing while dating amid the coronavirus pandemic. Moreover, Hinge app has launched a 'Dating from Home' feature and a 'Date Ready' feature that enables live video dating. The company witnessed healthy adoption of video-enabled services in the second quarter.

Adjusted EBITDA was $227.8 million, up 13% year over year. Adjusted EBITDA margin expanded 30 basis points (bps) year over year to 41%.

Total operating costs and expenses, as a percentage of revenues, contracted 100 basis points (bps) on a year-over-year basis and came in at 65% in the reported quarter. This was driven by decline in selling and marketing expenses, and general and administrative expenses, and reduced spend on travel.

Operating income advanced 14% from the year-ago quarter's tally to $195.6 million. Operating margin expanded 80 bps to 35%.

Balance Sheet & Cash Flow

As of Jun 30, 2020, Match Group had cash and cash equivalent balance of $129.3 million compared with $465.7 million as of Dec 31, 2019. As of Jun 30, 2020, the company had long-term debt of $3.53 billion compared with $2.89 billion as of Dec 31, 2019.

The company's cash and debt balance as of Dec 31, 2019 has been adjusted for separation with IAC.

As of Jun 30, 2020, the company also reported $1.7 billion of exchangeable senior notes previously held by Former IAC. The company had an outstanding balance of $20 million as of Jun 30, 2020 of its $750 million of revolving credit facility. The amount was repaid in early July and the credit facility is undrawn as of Aug 4, 2020.

For six months ended Jun 30, 2020, the company generated operating cash flow of $275.9 million compared with $205.2 million in the six-month period ended Jun 30, 2019. For six months ended Jun 30, 2020, free cash flow was $257.8 million compared with $184.4 million in the six-month period ended Jun 30, 2019.

During the reported quarter, the company repurchased 0.6 million shares worth $51.2 million at an average price of $80.61 per share.

Guidance

Match Group expects third-quarter revenues of at least $600 million. The Zacks Consensus Estimate is currently pegged at $564.4 million.

Adjusted EBITDA is anticipated in the range of $215-$225 million.

Recent News

On Jul 1, Match Group and IAC announced the successful completion of the separation of Match Group from the remaining businesses of IAC.

On Jun 25, Match Group and IAC announced that all proposals required to complete the separation of Match Group from the remaining businesses of IAC have been approved by their respective stockholders.

On Jun 12, Match Group announced an agreement with Bumble to settle all litigations between the companies. However, details of the deal have not been disclosed.

Per a MarketWatch report on Jun 9, IAC/InterActiveCorp reached an agreement to sell shares of its Class M common stock to third-party investors as part of its pending separation with Match Group.

Per a Bloomberg report on Jun 8, Match Group decided to retain the race-based filter across some of its dating apps to empower minority groups.

On May 12, Match Group announced its decision to sell off $500 million aggregate principal amount of 4.625% senior notes due in 2028 in a private offering. The Offering is expected to close on May 19, 2020.

On Mar 19, Match Group owned dating app – Plenty of Fish – rolled out a free live streaming feature called LIVE! to encourage members to practice social distancing while dating amid the coronavirus outbreak.

Valuation

Match Group shares are down 53.8% in the year-to-date period and 53% over the trailing 12-month period. Stocks in the Zacks sub-industry and Zacks Retail-Wholesale sector are up 52% and 26.6% in the year-to-date period, respectively. In the past year, the Zacks sub-industry and sector rose 70.6% and 39.9%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 3.80X forward 12-month sales, which compares to 4.58X for the Zacks sub-industry, 1.25X for the Zacks sector and 3.66X for the S&P 500 index.

Over the past five years, the stock has traded as high as 5.11X and as low as 0.97X, with a 5-year median of 2.88X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $121 price target reflects 3.99X forward 12-month sales.

The table below shows summary valuation data for MTCH

Valuation Multiples - MTCH

		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	3.80	4.58	1.25	3.66
	3-Year High	5.11	5.99	1.25	3.66
	3-Year Low	0.97	3.16	0.82	2.53
	3-Year Median	2.88	4.70	0.97	3.05
P/B TTM	Current	2.85	9.20	7.96	4.67
	3-Year High	7.96	11.2	8.07	4.67
	3-Year Low	1.50	4.89	3.69	2.83
	3-Year Median	3.96	7.96	5.01	3.74
EV/Sales TTM	Current	2.49	6.9	1.51	3.26
	3-Year High	6.65	8.52	1.52	3.46
	3-Year Low	1.09	3.92	0.90	2.14
	3-Year Median	3.35	6.31	1.15	2.86

As of 08/10/2020

Industry Analysis **Zacks Industry Rank:** Top 41% (103 out of 253)

Top Peers

Company (Ticker)	Rec	Rank
Amazon.com, Inc. **(AMZN)**	Neutral	3
Facebook, Inc. **(FB)**	Neutral	3
Spark Networks, Inc. **(LOV)**	Neutral	3
Pinterest, Inc. **(PINS)**	Neutral	2
Sina Corporation **(SINA)**	Neutral	3
Snap Inc. **(SNAP)**	Neutral	3
Twitter, Inc. **(TWTR)**	Neutral	3
Weibo Corporation **(WB)**	Neutral	3

Industry Comparison Industry: Internet - Commerce

Industry Peers

	MTCH	X Industry	S&P 500	FB	LOV	SNAP
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	3	3	3
VGM Score	F	-	-	B	A	D
Market Cap	9.83 B	3.29 B	23.56 B	749.24 B	6.76 M	32.35 B
# of Analysts	5	4	14	12	1	9
Dividend Yield	0.00%	0.00%	1.71%	0.00%	0.00%	0.00%
Value Score	D	-	-	C	B	F
Cash/Price	0.29	0.09	0.07	0.08	2.93	0.09
EV/EBITDA	12.69	8.07	13.39	22.93	34.25	-34.79
PEG Ratio	2.95	3.80	2.92	1.73	NA	NA
Price/Book (P/B)	2.84	6.68	3.18	6.78	0.04	14.74
Price/Cash Flow (P/CF)	15.83	18.58	12.69	30.96	NA	NA
P/E (F1)	44.74	49.06	22.16	32.65	37.07	NA
Price/Sales (P/S)	2.31	2.39	2.55	9.97	NA	16.82
Earnings Yield	2.27%	0.85%	4.33%	3.06%	2.70%	-0.86%
Debt/Equity	1.05	0.29	0.77	0.09	0.60	0.87
Cash Flow ($/share)	7.31	0.47	6.94	8.49	-6.42	-0.66
Growth Score	D	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	22.10%	10.52%	10.41%	42.58%	NA	NA
Proj. EPS Growth (F1/F0)	-41.99%	5.69%	-6.51%	25.28%	116.28%	-19.44%
Curr. Cash Flow Growth	-13.51%	1.48%	5.26%	-8.33%	-1,635.41%	-20.24%
Hist. Cash Flow Growth (3-5 yrs)	14.47%	11.42%	8.55%	38.21%	NA	NA
Current Ratio	3.32	1.71	1.34	6.02	0.30	5.99
Debt/Capital	51.49%	29.25%	44.59%	8.02%	37.47%	46.45%
Net Margin	1.99%	-4.10%	10.13%	31.29%	NA	-57.18%
Return on Equity	8.99%	4.13%	14.59%	22.90%	NA	-49.08%
Sales/Assets	0.51	1.34	0.51	0.56	NA	0.47
Proj. Sales Growth (F1/F0)	-50.92%	0.00%	-1.54%	13.48%	33.70%	26.87%
Momentum Score	D	-	-	A	A	F
Daily Price Chg	-0.20%	0.00%	0.91%	-2.03%	-5.12%	2.04%
1 Week Price Chg	12.83%	4.71%	2.30%	5.82%	13.02%	-3.75%
4 Week Price Chg	19.33%	4.85%	8.54%	10.04%	32.06%	-9.27%
12 Week Price Chg	-54.47%	33.64%	13.68%	23.36%	82.11%	25.90%
52 Week Price Chg	-52.80%	50.68%	3.71%	41.88%	-32.42%	30.92%
20 Day Average Volume	4,026,743	328,071	2,015,804	24,575,860	105,689	30,811,824
(F1) EPS Est 1 week change	-3.71%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-6.55%	0.58%	1.67%	13.27%	200.00%	2.42%
(F1) EPS Est 12 week change	51.99%	6.11%	2.27%	13.19%	200.00%	4.57%
(Q1) EPS Est Mthly Chg	-20.87%	0.00%	0.67%	15.21%	NA	3.47%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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