DEALREPORTER

Match must use size to overcome challenges facing public dating services – sources

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As **The Match Group** moves toward an IPO, it must use its size advantage to overcome the difficulties that have plagued other dating companies that have gone public, industry sources told this news service.

IAC/Interactive (NASDAQ: IACI), controlled by media mogul Barry Diller, said in June that The Match Group, which includes Match.com, OKCupid, Tinder and other assets, would issue less than 20% of its common stock in an IPO, which is expected to be completed sometime during 4Q15.

The public markets can be daunting for dating services. **FriendFinder Networks**, the parent company of Penthouse magazine and AdultFriendFinder.com, which once traded on NASDAQ, was delisted in 2013 for failing to trade above the USD 1 level, and began trading over the counter. Weighed down by debt, FriendFinder filed for bankruptcy protection that year. Though it later exited bankruptcy, the company is not listed for public trading.

Zoosk filed for an IPO in April 2014, intending to raise more than USD 100m, but withdrew the application in May of this year, citing unfavorable market conditions. Shares of **Snap Interactive** (OTC: STVI) have not been above the USD 1 mark since August 2013, and the stock has plunged 85% since then. Over the same two-year span, **Spark Networks** (NYSE: LOV) has seen its stock decline 60%, to USD 3.11.

On the other hand, Chinese dating firm **Jiayuan.com International** (NASDAQ: DATE) has seen its US-listed stock rise 22% in the last year. Revenue climbed 25% in 2014, partly as a by-product of China's booming economy.

Match's size will be an advantage over other publicly traded dating entities, said Mark Brooks, an industry consultant with Courtland Brooks. Its scale and brand awareness means it probably pays much less to acquire new users, he explained. “This is very clearly a game of size,” Brooks asserted, adding that Match.com does not have to pay search giant **Google** (NASDAQ: GOOG) for every new member because it has built a brand through time, helped by TV and radio advertising.

A few years ago Sparks Networks reportedly was paying USD 35 to USD 42 per new paying member on its American Singles site, Brooks recalled, while its better known J-Date website required just USD 12 per new paying user. Overall costs of paying users are also enhanced by re-orders, which are users who leave the site, then return after some time off. “I would say about 15% to 20% of members come back after 18 months,” Brooks said, citing his past experience working for dating companies. Good quality affiliates will get repeat business through re-orders by ensuring users have a good experience.

Another industry source said, however, that this kind of repeat customer is harder for paid sites to generate. A typical user signs up for the dating site and remains active for about four months, this source said. “Either they met someone, and they're done; the dating service has done its job. Or, they don't meet somebody, and they get frustrated, and decide to split,” the source explained. “So in any three-to-four month period, those are the two outcomes. You can figure out the economics -- if it's USD 20 a month, over three to four months, the company collects USD 60 to USD 80. The marketing costs need to be less than that, on a per-person basis.”

One banker said Tinder is the only online dating business that's truly valuable, driving growth. Match and other subscription services are tapped out, this banker said.

As this news service reported in a 3 August story, Match has employed a strategy of acquiring companies with strong growth profiles in an attempt to enhance its own growth. This was a key reason for its decision to acquire rival dating site **PlentyOfFish** for USD 575m in a deal announced 14 July.

A second banker noted PlentyOfFish's annual EBITDA numbers are substantial for the dating industry, and this is very important to Match as a public company because analysts will primarily use forward EBITDA to determine its value.

Morgan Stanley analyst Brian Nowak told clients in June that he expects The Match Group's total EBITDA to be USD 350m by the end of 2016. The second banker said it will be challenging to reach this figure, as efforts to generate advertising revenue for Tinder have been disappointing.

Tinder, the "swipe right, swipe left" mobile dating app it launched in 2012, tripled its user base during 2014, according to an April **Washington Post** article. Meanwhile, total dating revenue at Match grew just 4% last year, IAC reported.

Tinder's results are not broken out when IAC reports earnings for The Match Group.

Morgan Stanley's Nowak said Tinder's efforts to monetize itself are likely to disappoint investors, but he also noted that one potential positive catalyst for the newly-traded stock will be better disclosure about Tinder's numbers.

IAC/Interactive did not respond to a request for comment.

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