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Grindr, Inc. (GRND)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is JP and I will be your conference operator today. At this time, I would like to welcome everyone to the Grindr Fourth Quarter and Full Year 2022 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference over to Patrick Lenihan, VP of Communications. Please go ahead.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

Thank you, operator, and good afternoon, everyone. Today's call will be led by Grindr's CEO, George Arison; and CFO, Vanna Krantz. They'll make a few brief remarks and then we'll open it up for questions. I'll also note that we released our shareholder letter this afternoon and that is available on our website at investors.grindr.com.

Before we begin, I will remind everyone that during this call we may discuss our outlook and future performance. These forward-looking statements may be preceded by words such as we expect, we believe, we anticipate or similar statements. These statements are subject to risks and uncertainties, and our actual results could differ materially from the views expressed today. Some of these risks have been set forth in our earnings release and our periodic reports filed with the SEC. During today's call, we will also present both GAAP and non-GAAP financial measures. Additional disclosures regarding non-GAAP measures, including a reconciliation of GAAP and non-GAAP measures, are included in the earnings release we issued today, which has been posted on our Investor Relations page of our website and in our filings with the SEC.

With that, I'll turn the call over to George.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Hello, everyone, and welcome to our earnings call. I'm pleased to share that Grindr had a great 2022. We closed the year near the top of our range, growing full year revenue 34% year-over-year to \$195 million, and hitting an adjusted EBITDA margin of 44%. Vanna will talk more about our financial results shortly.

First, I want to take a few minutes to share with you my initial insight about the company and some key business and product highlights from the past year. When evaluating the Grindr opportunity last year, I quickly saw that the fundamentals of our business are awesome. We have a differentiated product with our mix spread in the

marketplace, incredible user engagement with a young and growing user base, attractive market penetration opportunity, very strong global brand recognition, and outstanding margins.

And our passionate team has done a fantastic job delivering strong financial results while working over the past 2.5 years to addressing historical underinvestment in technology, product development and monetization. What gets me most excited about this business is Grindr's immense opportunity to grow and deliver shareholder value. I'm highly confident in the plans we're developing to generate sustainable double-digit revenue growth and continued high profitability as we enhance our user experience, better monetize our core business, execute over time to build out our international business, and add new, adjacent business opportunities as part of a community-focused super app.

We intend to deliver strong results in our first full year as a public company. We anticipate 2023 full year revenue growth of 25% or greater with a 38% or greater 2023 full year adjusted EBITDA margin. We see our growth opportunities in three overlapping time horizons. Near-term, we will better monetize the users we have and drive conversion of free to paying users to new impactful features and services in the Grindr app. Because we are early in our monetization journey, we will work to find the right balance between free and paid features. We will also invest in our advertising and brand partnerships to benefit both users and the businesses who want to connect with them.

Medium term, currently we operate in nearly every country across the globe, but there is more we can do to monetize and grow. We can better serve our international users by further localizing products, bringing Grindr to more and different form factors, and effectively marketing the brand. In addition to internationalization, we will work on using machine learning and artificial intelligence for better matching and generative conversation purposes.

Long-term, Grindr not only has the largest user base of gay, bi, and trans men in the world. We also have a deep connection to the broader LGBT community. By tapping into our community's unique needs, we can develop distribution partnerships, products, and services that deliver new revenue lines that have a hyper focus on this highly valuable demographic. Having previously founded three companies, I bring to Grindr a founder's mindset and decades of experience in building and scaling successful technology platforms. I'm excited to share more about our accomplishments and results from last year and how they set us up to further scale in 2023.

Starting with 2022, the team had a productive year continuing to tackle technology and product debt while building new features and setting ourselves up for further growth in the years to come, all while maintaining adjusted EBITDA margins that compare very favorably with our peer group. Our Album (sic) [Albums] (05:30) feature is a perfect example of our user focus and privacy-centric design. Initially deployed in Q1 2022, Albums gives Grindr users the ability to share multiple photos instantaneously with their connections while blocking screenshots and enabling the instant revocation of Albums' access at users' discretion. In 2022, our users globally added more than 70 million photos in 20 million albums and shared them over 999 times.

Our product and engineering team launched Boost, a paid à la carte feature in Q2 of 2022, and while it currently is a relatively small new revenue stream for us, we're confident that as we optimize it over time, they will continue to scale. The successful launch of Boost, which users purchased more than 1.4 million times in just around six months, indicate a strong opportunity for us to grow à la carte offerings this year and in the years to come.

Chat is the foundation of Grindr's unique engagement experience. Last year alone, our users sent a total of over 111 billion chats on our platform. Yes, 111 billion. That's over 300 million a day. In 2022, our engineering team replatformed our chat functions in order to support faster feature development in coming quarters, including the

modernizing of the UI and the UX of our inbox. Using industry-leading encryption, we continue to ensure our users enjoy the best available technology in terms of privacy and security.

Turning to 2023 strategic priorities, we made significant technology and product investments over the past two years that helped establish a foundation for long-term growth. Our first priority is to improve the user experience. Specifically, we will help our users make more and better connections by updating features such as the cascade, search and discovery, profile, and tags. And we will create an improved chat interactions experience by improving the inbox and chat interface to make messaging more reliable, organized, relevant, and actionable.

Our second priority is to drive monetization to conversions and new offerings. The core way in which we will drive monetization in 2023 will be through pricing and plan optimization and increased monetization of features and services that we have already built such as Boost, Albums, and Filters. Vanna will discuss these features as she discusses monetization in her remarks.

Priority number three is planning for future growth. As we move further ahead, the obvious opportunities for growth are demographic and geographic and [ph] exist in (08:06) our ads and brands partnerships business where we have underinvested. We also have an incredible opportunity [ph] expanding (08:13) our products and services beyond our core given we have one of the largest community of gay, bisexual, trans, and queer people in the world. And we are imagining how we can better serve them holistically.

And last but not least, our fourth priority is to continue to commit to our community. Grindr is not typical business. We have a deep and vital mission of service to our users and to the broader LGBTQ community. Nothing we accomplish would be sustainable without the support of the users we serve. Therefore, we see our commitment to every segment of the LGBTQ community is a foundational strategic priority for the company.

In addition to providing financial support where our resources can do the most good, namely in the developing world where the LGBTQ community can often be forgotten, we will also continue to serve as a vital source of information about health for our users like we did with monkeypox in 2022.

With that, I'd like to turn it over to our CFO, Vanna Krantz, to talk to our Q4 and full year 2022 financial results.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

Thank you, George. Hello, everyone. The search for companionship is arguably the most important search in our lives, and our goal is to help our users be more successful in their search. One of the key things that attracted me to Grindr's business was the deep relationship we have with our users. We are fortunate to have over 12 million monthly active users who spend on average 58 minutes a day on our app. My particular focus will be on monetizing more of those users and working with our Chief Product Officer, AJ Balance, to translate our high engagement into higher paid user penetration, which we expect to enhance shareholder value. Let me share a little more detail on our three-pronged approach that George mentioned earlier.

First, we will increase the range of subscription options with differentiated features and price points, ranging from the more accessible to the ultra premium experiences for our avid users. Second, we will improve on what we have already built and introduce new à la carte features to enhance the product experience and help our global users find what they're looking for faster and more efficiently. And finally, we will broaden our relationship with our users by serving as a conduit between them and relevant brands and experiences. We will leverage user research to evolve our existing core product and inform how we build new products to delight our users.

As we move forward, we will utilize operational rigor in assessing the success of our products. More immediately, I am pleased to report that our Q4 and 2022 results continue Grindr's track record of quarter-over-quarter and year-over-year growth. We closed 2022 near the top of our guidance range, growing full year revenue by 34% and achieving an outstanding adjusted EBITDA margin of 44%.

Looking quickly at our key metrics, we saw solid improvement, but we do remain early in our monetization journey. We ended the year with about 873,000 paying users, up 22% from 2021. At year-end, our paying user penetration rose to 6.9% from 6.1% in 2021. Our average revenue per paying user was \$17.28 in 2022 compared with \$16.08 in 2021. We believe these results represent just the beginning of what our talented organization can achieve through prioritizing data-driven product development, price optimization, and operational rigor. We intend to maintain double-digit revenue growth and best-in-class EBITDA margins in 2023 while continuing to invest in our core business, predominantly through increased head count in technology, product and data science.

Turning to more detailed results, for the full year 2022, revenue grew to \$195 million, up 34% on a year-over-year basis from \$146 million. We are especially proud of achieving 41% revenue growth in our direct revenue, which is the subscription and à la carte business. This is the key driver of our near and long-term growth.

Direct revenue totaled \$163 million for the year. Grindr's Q4 2022 revenue was \$55 million, up 21% year-over-year from \$45 million. Direct revenue was \$45 million, up 27% year-over-year. This performance was achieved despite exceptionally strong subscriber growth in the year ago quarter due in large part to the highly successful launch of the more profile feature as well as higher subscription activations traceable to the vaccine rollout.

Additionally, in the fourth quarter of 2022, we aggressively tested subscription price optimization, which led to uneven subscriber growth. Advertising or indirect revenue was relatively flat in Q4 on a year-over-year basis at approximately \$10 million as growth in brand partnerships was partially offset by a decline in programmatic advertising revenue. This was primarily due to intentional choices made by previous management to focus less on advertising and more on user experience. We are just beginning to transition our advertising from predominantly programmatic, which typically serves less relevant advertising to our users in favor of direct advertising, which is relevant.

Total operating costs and expenses in Q4 2022 were \$52 million, up from \$35 million in the prior year due to hiring and one-time costs associated with becoming a public company. Selling, general and administrative expenses in Q4 were \$21 million compared to \$9 million in the prior year period. The increase was primarily driven by equity compensation expense for the exiting management team, increased insurance expenses and outside services which were driven by legal and consulting fees as we scaled for public company-related operations.

Headcount for the fourth quarter increased by 58 people as we scaled the business for public company-related operations, and we ended the year with just over 200 full-time employees. For the full year 2022, total operating expenses were \$182 million, up from \$122 million in the prior year. The most significant portion of the uptick was an incremental equity compensation expense of \$24 million for the exiting management team, the final \$3 million of which was recognized in Q4 and also a distribution fee increase of \$14 million from the prior year, consistent with direct revenue growth. We also saw an increase of the previously mentioned incremental people costs and outside service costs as we incurred one-time transaction expenses related to becoming public.

Adjusted EBIT for the fourth quarter of 2022 was \$19 million or 36% of total quarterly revenue. The decrease in adjusted EBITDA was primarily driven by increased expenses as we scale to manage public company

requirements and enhance our infrastructure to execute on our strategic priorities as well as challenging year-over-year revenue comparisons.

Full year 2022 adjusted EBITDA was \$85 million or 44% of full year revenue and up 11% from \$77 million in the prior year. Some of the expense drivers that lowered the EBITDA margin in Q4 2022 will continue into 2023. However, as George stated earlier, our EBITDA margin guidance for 2023 is 38% or higher.

Turning quickly to our balance sheet and liquidity, Grindr generates cash from its operating activities given its strong EBITDA margins. 2022 was an unusual year given the transaction which impacted Q4. We expect to return to a more normal cadence of cash generation, which enables us to easily service our debt and fund our investments in the business. Additionally, we will be looking at our capital structure optimization over the coming quarters as our debt agreement and the market conditions allow.

Lastly, I want to thank everyone on the call for their support and the interest we have seen to date from the investment community. I look forward to engaging with our investors and future analysts as we embark on this exciting journey as a public company. Grindr is an inspiring company with a goal we all believe in: connecting the global community and helping them find companionship. We look forward to translating that goal into shareholder value.

And with that, I'll pass it back to George.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Thank you, Vanna. I'm glad to have your experienced partnership to lead our company into its next era. We have an amazing opportunity to continue our profitable growth and build on our strong foundation as a community-minded product. And I'm excited to update you regularly on progress and developments.

At this time, I'll ask the operator to open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Shyam Patil from Susquehanna. Your line is now open.

Q

Hi. This is [ph] Margaret (18:19) on for Shyam. Thanks for taking our questions. So first, historically Grindr has had low marketing spend. Could you help walk us through the thinking around why the company hasn't increased marketing spend much in the past few years and what would drive the company to increase marketing spend from here?

Also, I wanted to ask about the range of subscription offerings you plan to release in the next two years, as you mentioned in the shareholder letter. Could you dig in a little more on that, for example, what additional premium features would you include in these higher priced tiers?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Great questions. Thank you very much. Maybe I'll start and then I'll hand it over to Vanna. So, I've known about Grindr, just start with just kind of anecdote as a word-of-mouth product back in 2009. I was in a bar in Washington, DC with a friend of mine. He's like let me show you something really cool. He pulled out the phone and showed me Grindr and you could see all these guys were in the same bar on Grindr and like, oh my god, this is the most amazing thing.

I was, at that point, building a company in mobile as well but our primary product was on BlackBerry and so I didn't use an iPhone. And I remember like a month – a week later going back, going to get an iPhone because of Grindr. So the word-of-mouth in this product is really, really powerful. My experience back in 2009 is a demonstration of that, and that continue to be the case ever since.

And so my sense is that we'll be able to continue to maintain that with 85% brand penetration. It's really effective to work through word-of-mouth. Unlike a lot of applications out there in social, we have been able to bring young people back into our app versus have them go somewhere else.

Now, that's not to say we can't improve things in marketing. We absolutely can. We need to do a much better job in lifecycle marketing. We need to do a much better job in product marketing. Those are all huge opportunities for us and we'll continue to do that. But that really needs expertise in-house to kind of do that, not a dollar spent. And I'll hand over to Vanna for the second question.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

Sure. Just to kind of put a finer point on the sales and marketing expense, I think as George said, we really have a tremendous benefit by already having 85% global brand awareness, and that really helps fill the top of our funnel from a perspective of overall awareness.

We also fill the top of our funnel with amazing user features that we develop every year and so that's really a more efficient way of generating MAU and top of funnel. And then when you get to the overall sales and marketing, what might happen to it and what would really drive an increase, I think as George said, we would probably start to think more seriously about performance marketing over time when we feel like we really are ready to handle that one.

And in terms of the subscription tiers, right now, we offer two tiers. One's called XTRA at \$19.99 for the month, and the other is called Unlimited. And that's \$39.99. Both of them remove ads and the Unlimited essentially provides unlimited profiles and premium features like incognito. And while the XTRA feature brings you up to about 600, free users get about 100 free profiles.

So, I think what I'd say is that going to a more premium tier higher than the \$39.99 will require a little work from us in terms of real user research to understand what they would pay for and then we would develop that premium tier over time. Don't look for it until the very end of 2023 or maybe think about 2024 for that premium tier.

Q

Thank you.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

Thank you.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

A

Great. Well, we are very excited to have a number of questions off of the Say platform from our retail investors. We're going to read a few of those now and answer them for everybody here.

The first question from Say Technologies, what is Grindr doing to keep up with the pace of all the other dating apps? Being one of the original gay dating apps, how are you keeping it fresh and up-to-date?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Great question. Thank you, Patrick, and thank you to the users and/or investors who submit that.

So first of all, I think it's important to talk through what Grindr does and how differentiated it is. We are very different from almost every other dating app out there. We allow users to see people around them and then to speak to anybody they'd like on the grid that they can – of the user that they see on their grid. So we don't force one-on-one matching and we don't limit who you can talk to. And that makes the product very different.

That also makes the product really engaging, right? We know that our engagement numbers are pretty fantastic. Last year, there were 111 billion messages sent. That's over 300 million messages a day in the app, which I think is truly incredible. There were nearly 1 billion Albums shared in the product even though we only launched the Album (sic) [Albums] (23:25) product in Q1 of last year. So the engagement numbers are really high, and that's really driven by the fact that our product is very differentiated already from every other dating product that's out there.

That said, obviously we want to keep the product fresh and make it be better for our users. Historically, the company had underinvested in technology and that's been something we've been working very hard to address for the last 2.5 years when the new ownership team came through. They've done a lot of work to make the technology better here, whether it's chat infrastructure or launching some of the new features like Boost and Albums. I think we've seen some significant improvements, but the underlying work that's been done on technology now allows us to actually start investing into the UX and the UI, and making the application truly world-class where applications can be today, which is something I think our users deserve and want.

Some of the things we'll work on this year will be a better cascade on the grid, inbox infrastructure being improved so that you can do messaging better. Those are all things that we think will be very much liked by our users. And we'll continue to offer features that both make them happy with the product and hopefully drive monetization as well.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

A

Thank you very much, George. That question was from [ph] Vincent M. (24:39) This next question is from [ph] Drew H. (24:42) What are you doing to ensure Grindr is safe in countries or areas where LGBTQ+ identities are not welcome or safe, e.g. preventing undercover police government accounts for the purposes of targeted discrimination, ensuring user identity and privacy safeguards, et cetera? George?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Yeah. It's a really important question and it's something that we talk about a lot at Grindr, probably much more so than almost any other company out there. We really care about the safety of our users and it's something we're really focused on. Let me start a little bit with my background and how that relates to this. I was born in Georgia, the country, where being gay is still very difficult. It's not illegal by any means, but people being out is not well-accepted and people have a very hard time with that. So I know what it's like to live in a place where being gay is probably not safe and much harder to manage than, say, in the United States. And so I very much approach that from my personal experience and the challenges that I faced are by no means the worst compared to what people in some of the other countries around the world might face where it's actually illegal to be gay.

We do a lot to help our users be safe, and it's always top of mind when we have a product that designates certain kinds of dangerous neighborhoods and we provide information to our users there in terms of how they should behave to keep themselves safe.

We also have launched features over the years that are specifically designed to help our users in countries like that. For example, in our Albums feature, you are not allowed to take a screenshot and that's purposely done to avoid people from being able to get pictures of our users in Albums, so if they want to be – they basically help them being more discreet.

Also critical to appreciate that privacy is really, really important for Grindr and for our users, and we are constantly focused on ensuring that privacy is maintained. We've definitely had to think about being in different parts of the world and how you handle being in those places where being gay is difficult. And what we've oftentimes heard from local activist organizations and gay rights organizations is that they really want us to be there because it's a – Grindr's a really powerful way for people to come together and to connect to each other, especially in places where it's really hard to meet people who are in your community. So this is a really vital thing for us as a company. Grindr for Equality is a really big deal for us and we are really investing in that as a [indiscernible] (27:14) and will continue to in the years to come.

Operator: [Operator Instructions]

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

While we're waiting for any further analyst questions, we'll take another question from Say Technologies. This is a question from [ph] Drew H. (27:38) Many users are tired of ads for games only their grandparents would play on an iPad. Any plans for more targeted ads?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

I very much feel [ph] Drew's (27:50) pain and I appreciate why he's asking that. We've discussed this in our shareholder letter pretty extensively. We are really focused on building our direct ad partnerships and relationships with advertisers and agencies that work with them in order to bring more relevant ads to our platform. That's something that takes significant time in terms of making those initiatives happen. We already have some direct ads in our product and we know that those are better received by users and we want more of those ads.

We also know that our user base is in significant demand by advertisers, and we think that we can have ads that are both relevant to the users, really good for Grindr and really good for the advertisers. And that's very much the focus for us. Doing that is going to take time. That's not something that we can accomplish in one year and so as we invest in the direct ad business and help grow it, the idea would be to depreciate and become less dependent on the third-party ads. But I wouldn't expect that to happen in a year. That's a multi-year initiative.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

Great. Thank you. Next question from Say Technologies, [ph] Robert V. (29:01) How does Grindr plan to encourage growth? With the cost for paid memberships being one of the most expensive of all dating apps, wouldn't it be better to lower subscription prices and encourage more to pay for paid services? Vanna?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

That actually is a great question because it's exactly what we are doing. We are looking at testing our monetization opportunities right now. In 2023, we're experimenting with new price points as well as new subscription plans, and we really are looking to meet users where they are and ultimately maximize conversion from free to paid.

So to do this, we're going to conduct some user research to fully understand what our users want and what they're willing to pay for. So we're looking to really get our domestic business firing on all cylinders first, and then we'll roll it out in the medium term internationally. And we know our tier 1 international markets in terms of both MAU and paid users pretty well as well as having a sense of the greater acceptance levels in each of those countries. So look for that in the medium term.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

Thank you very much. Next question from [ph] Brian D. (30:09) Why doesn't Grindr have a verification option? This would eliminate the excess of fake profiles and bots on the platform which deceive real numbers.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Thank you, [ph] Brian (30:22). It's a good question. So we've already added some features like this. For example, you can link your profile to Instagram and Twitter, which is a way to verify who you are. And a large number of users already take advantage of that.

I do think it's really important to also remember, though, that a large portion of our users are discreet, and that is good for a variety of reasons. It could be, as asked a couple questions earlier, that they live in countries where being gay is really difficult and they want to be discreet from that perspective. It could be that they have personal reasons to be discreet or even in places where legality is not an issue, the communities that they're in might not be very accepting, and they need to stay private.

But we want to encourage those users to be able to use our product as well since Grindr oftentimes is the only way for them to connect with people in their community and that's a really important effort on our part. And so whatever we do with user verification needs to work both for users who are discreet and those who are not. And I think being very focused on privacy is really important. I think that we need to be a great product for both types of users, ones who are discreet and who are not. And I think the balance approaching – we are approaching that from that balance perspective, I think we're doing a good job in that regard.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

A

Great. We'll take one more question from Say Technologies and then we're going to close the call. This question is from [ph] Adam S. (31:45) As an active user, I have noticed a significant drop-off in engagement with other users. It may be anecdotal, but as an investor, I am concerned about losing market share to competitors. George?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Yeah. I mean, we have really amazing engagement and I think it's outlined in the shareholder letter, over 111 billion chats last year. That's 300 million messages per day, which is frankly really incredible. People stay in the app for nearly an hour a day. We had nearly 1 billion Albums shared last year, even though Albums was launched as a product in Q1 of last year. So I think engagement is really strong. We've been able to drive growth in our monthly active users as well, which we're very happy with. And so on all these metrics, the company is doing really, really well and we're confident that we'll continue to do in the future as well.

As far as competitors, I think we spoke about this a little bit earlier, Grindr is a very differentiated product that offers users a different type of experience, and it has very strong word-of-mouth and connection to the community. And we need to continue to nurture that. I think what we need to do is to ensure that we provide our users with the features that they really want to use. There are many features that we haven't yet launched that people expect on a platform like us and enabling those features, whether they are à la carte offerings or within a subscription product is something that we are actively working on. And by doing that, I think we'll have a continuation of very excited user base that uses us as frequently as they do.

Patrick Lenihan

Vice President-Global Head of Communications, Grindr, Inc.

With that, we'll close the call. Thank you all for participating today. We look forward to keeping you up to speed on everything happening at Grindr in the quarters to come.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Thank you very much.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

Thank you.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.

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