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Grindr, Inc. (GRND)

Q2 2023 Earnings Call

CORPORATE PARTICIPANTS

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

OTHER PARTICIPANTS

Emily Stykes

Analyst, New Street Research LLP (US)

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Jenny and I will be your conference operator today. At this time, I would like to welcome everyone to the Grindr's Second Quarter 2023 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 [ph] Patrick Lenihan (00:40), a representative for Grindr. Please go ahead.

Unverified Participant

Thank you, operator, and good afternoon, everyone. Today's call will be led by Grindr's CEO, George Arison; and CFO, Vanna Krantz. They will make a few brief remarks, and then we'll open it up for questions. Please note Grindr released their Q2 2023 shareholder letter yesterday afternoon. This is available on the SEC's website and Grindr's investor page 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 such 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 to non-GAAP measures, are included in the earnings release we issued today, which has been posted on the Investor Relations page of Grindr's website and in Grindr's filings with the SEC.

With that, I'll turn it over to George Arison.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Hello, everyone, and thank you for joining us today. We appreciate your patience with us on rescheduling today's call. We needed more time to run some additional processing before finalizing our financial results this quarter. We're pleased that we were able to file our 10-Q and letter yesterday, and look forward to sharing additional perspective on our progress today.

We had an excellent quarter and continue to build momentum for the first half of the year by delivering a better user experience with significant feature improvements, and we continue to improve monetization, highlighted by our new weekly subscription plan, which is performing well. I'm proud of what we have been able to achieve so far, and there's a lot more to come.

Our shareholder letter covers the key developments in the quarter, and I encourage you to read more of that. For my remarks here, I will give a high level review of the results and execution and strategic priorities, before turning it over to Vanna.

We delivered revenue growth of 32% year-over-year, with an operating income margin of 23% and adjusted EBITDA margin of 44%. Given strong momentum in the first two quarters of this year, we're pleased to be able to raise our 2023 guidance to revenue growth of 28% or greater and an EBITDA margin of 41% or greater for 2023.

Then, I will cover the details behind the guidance raise. But let me just say that our confidence in our outlook is supported by the rapid progress we're making on our strategic priorities. The first of these priorities is improving on user experience. During Q2, we rolled out and received positive user feedback on a newly designed home screen to help our users connect more efficiently. We also rolled out a redesigned profile that enables higher quality photo sharing, and features a clear and upfront About Me section, among many other improvements.

Our second priority is monetization to greater conversion and new offerings. Our global rollout of Weeklies, a lower priced, shorter duration subscription offering that gives users access to XTRA features and functionality for one week, is an excellent adoption. Weeklies contributed to our growth in paying users and higher ARPPU. We continue to set additional lower pricing options, as well as develop features for our premium [ph] share (04:14), but we do not expect to launch either of these in 2023.

Our third priority is planning for future growth. In May, we rolled out Grindr Web to 100% of our paying users. Web represent a long-term strategic opportunity to build NSFW features our users want that we have not previously been able to provide on a mobile form factor. We're also working on a broad set of paid features that our users have long wanted us to build, which are being tested in H2 and we expect will go live next year.

We are in early stages of developing our AI products. We believe that AI will transform the ability to match users with each other and create new use cases for engagement. And we're making investments across a broad range of AI and ML use cases and features that we expect to bring to market in the coming quarters.

Regarding the team, we're focused on accelerating our execution and we are bringing some terrific talent onboard to help us in areas like product management, engineering, marketing, advertising, data science and more. We expect to see more from us on this front as the year progresses. Our shift to hybrid work structure has impacted our hiring pace, as we prioritize building a high performing public company team. We expect to meet our [indiscernible] (00:05:25) resource requirements in H2 2023 and 2024.

Our core priority is about serving our community, something that continues to animate our business and team. We're pleased with the success of Together TakeMeHome from our long-term collaborators at Building Healthy Online Communities, working closely with Emory University and the US Centers for Disease Control and Prevention. Through our unique public private partnership, we've made the program reachable with a single click from our app, providing our users around the country access to free at-home HIV test kits.

I'm proud of the strong results in the quarter and the progress we've made to improve the Grindr app in the first half of the year. And I look forward to sharing all the great things we are already working on in the second half with you in the coming quarters, including an update at our inaugural Investor Day event. Stay tuned for more information on this in the coming weeks.

With that, I'd like to turn the call over to our CFO, Vanna Krantz, to walk through our second quarter financial results.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

Thank you, George, and hello, everyone. We built upon our first quarter momentum to deliver an excellent second quarter financially, achieving 32% year-over-year revenue growth, an operating income margin of 23% and an adjusted EBITDA margin of 44%. As you heard from George, our strong financial performance in the first two quarters and continued positive user engagement trends have led us to raise our full-year outlook. We now expect full-year revenue growth of 28% or greater, up from 25% or greater, with an adjusted EBITDA margin of 41% or greater, up from 38% or greater. The improved outlook primarily reflects increased confidence in the performance of new subscription and à la carte products, as we continue to improve monetization, as well as operational efficiencies. We expect revenue growth to outpace increases in operating expenses over the second half of the year.

Turning to our user metrics, in the second quarter, average monthly active users increased 8% over the prior year and 2% sequentially to 13.1 million. Average paying users in the quarter increased 22% over the prior year to 929,000. As a result of the increases in average MAU and average paying users, our average payer penetration grew to 7.1% for the second quarter. Improved monetization was primarily driven by the global rollout of our new weekly subscription offering, which we have been testing since late last year.

Our average revenue per paying user increased \$0.56 sequentially to \$19.08 this quarter. As we continue testing subscription options, with our goal of increasing total paying users, we expect this metric may fluctuate quarter-to-quarter.

Turning to the more detailed results, beginning with revenue, second quarter revenue of \$61.5 million was up 32% year-over-year from \$46.6 million. Direct revenue for the second quarter increased 37% year-over-year to \$53.2 million, driven by the new Weeklies subscription offerings and continued adoption of the Boost à la carte product.

Advertising or indirect revenue for the second quarter grew 7% year-over-year to \$8.3 million. Operating expenses decreased by \$1 million year-over-year. We incurred higher expenses related to distribution fees driven by subscription growth and increased head count-related expenses in support of product development. These costs were offset by lower stock-based compensation expense and lower depreciation and amortization.

Net income for the second quarter was \$22.3 million, up from a net loss of \$4.3 million in Q2 of 2022. Basic and diluted earnings per share was \$0.13. Adjusted EBITDA for the quarter was \$26.9 million or 44% of total revenue.

These results were primarily driven by revenue growth and strong operating margins inherent in the Grindr business model. Approximately 1 percentage point of our adjusted EBITDA resulted from certain one-time adjustments, but regardless, our performance was stronger than anticipated.

Turning to our balance sheet, Grindr made principal debt repayments of \$17.6 million in the quarter, resulting in reduced net debt of \$342.9 million at June 30, 2023. We ended the quarter with \$22.1 million in cash and cash equivalents, down from \$25.5 million in the prior year and \$33.8 million in the first quarter of 2023.

With that, I will pass it back to George, who will open it up for Q&A.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Thank you, Vanna. We're excited about the progress we've made so far this year and look forward to continue to delight our users, server community and generate value for our shareholders.

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]

A

We will begin by taking a couple of questions from the [ph] Say platform (11:26), which is a platform that enables us to take questions from retail investors. First question is from [ph] Manuel C (11:34). Will you consider making your premium subscriptions more affordable to increase sales or how about adding a cheaper plan that only remove ads?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

Thank you for the question. Absolutely. We are focused on meeting our users with price points and features that they want. So, we have launched what's called the Weeklies. The Weeklies allow our users to take our product for a shorter period of time, perhaps when they're traveling to a new city and just use the product for that duration. That gives them more flexibility and it is a cheaper option. Also, we have recently launched Grindr Plus and that allows you to have the product without ads. So, that also is a cheaper option. Next – Thank you.

A

All right. Next question is from [ph] Kelly R (12:41). Can you explain why you hired Littler Mendelson while your employees are attempting to unionize?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Thanks for the question. At this time, we are not in a position to comment on matters pending before the NLRB. We have said and will continue to say that we respectfully support our team members' rights to make their own decisions about union representation.

A

Thank you very much. I believe we have a question in the queue. Operator?

Operator: Yes. Your question is from Emily Stykes from New Street Research. Please ask your question.

Emily Stykes

Analyst, New Street Research LLP (US)

Q

Hi. Great. Good afternoon, everyone, and thanks for taking the question. So, the LGBTQ+ community dating app landscape has gotten a little bit more competitive lately with the introduction of a new app from another major player in the space that was released a little bit over two months ago. How do you see this impacting Grindr and its user base? Thank you.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Our experience from looking at the space for quite some time now is that users generally use more than one app for dating. So, we know that some of our users are using our apps that already exist and we would expect them to continue to do that. What's really important for us is for our users to have Grindr as the primary app and then for them to log into the app frequently and use it for a long time so that they're enjoying their experience and have a lot of engagement.

Being from that perspective, we are in a very strong position. We know the things that our users want from Grindr in terms of improvements. Specifically, users want more NSFW features and they want more dating features. And the cohort of users who want those things differ, right? The younger users want NSFW features. The older users want more dating features. And we are doing a lot to build the functionality for those features. I don't see anybody out there at this time who's really thinking about it from that perspective between where the user need is and where we think kind of demand for the functionality need as well.

A

Great. We're turning back to our [ph] Say (15:13) questions from [ph] Daniel D (15:15). Does the leadership team have plans for how to improve market value in the next quarter?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Well, we're obviously always thinking about how to create shareholder value over the long term. So I don't know if I can speak to the next specific quarter, but I think [indiscernible] (15:32) to what we're doing over the long term. And the way we think about that is by creating value for our users, we would expect the users to pay for that value, which would then leads to more monetization in the product and that creates value for our shareholders as well. As you can see from our quarterly results, we've been laser focused on that so far and will continue to do so, given that we were fortunate to be able to increase guidance both on revenue and EBITDA for the year.

When we think about the long term, there are really four key areas where we are focused, and those are our strategic priorities. So number one, we've got to continue improving the user experience. We've done quite a bit on that already and we'll continue to do that in the future. In Q2, we released a new home screen. We also released a new profile page, which has garnered really good feedback from users. And we'll continue to make similar investment for our users to make the app be better.

Number two, we continue to invest in monetization and [indiscernible] (16:31) to be higher. We have 55,000 new paying subscribers in the quarter, which we are very happy about. And the Weeklies product has done very well and we expect it to be an important contributor to the year.

Number three, and this is something that we spend a significant amount of time on, is we'll be planning for the future, looking ahead to the things that the users want and have been asking for for a long time that we've not had an opportunity to build and really going after those products. Through those products and those features, we believe that we'll be able to drive monetization to be higher. We've spoken about this in our shareholder letter, but [indiscernible] (17:10) competing, things like more à la carte offerings we think users very much want and we have [ph] more to come (17:15).

And then, lastly, being very engaged with our user base and our community. Continuing to service the LGBT community is a focus for us as well. So, those are the kind of four strategic priorities that we've spoken about at every call. And we think that by focusing on those, we are in a very good position to be able to create value for our users, and through that, create value for our shareholders.

A

All right. Next question from [ph] Manuel C (17:42). What are you doing to make your app more responsive and less battery intensive?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

So, it's a really good question because I personally have thought about that both now and in the past. The reality, unfortunately, for Grindr is that historically, there was a definite underinvestment in technology. That's been corrected in a significant way over the last three years under the ownership that took over from Kunlun. And we spend a significant amount of time on the engineering team trying to rebuild the technology stack to make the app be in a position where we could then start building new features. The fact that this year we're launching as many features as we are speaks to the fact that a lot of that work was very valuable and has put us in a strong position to now build a better user experience and obviously making the app be less battery intensive as part of that user experience.

We also have made the app much faster. I think people have noticed that in the last few months, and that's quite exciting. We're also building a lot of things for the future to make the app have AI features in it, [ph] open the (18:52) generative side and better matching. So, investing into the app and making it be a better user experience is something that we're very much focused on.

The reality also is that Grindr is a location-based app. And so, those type of products in general on mobile are quite battery intensive. And so, some of it is just the requirements of the product for it to be location-based, and that's not something that we can [indiscernible] (19:17).

A

We had a couple of questions about safety and spams, two, in particular, from [ph] Christian B (19:58). How do you plan to mitigate the proliferation of AI and bot scammers and identity theft? And from [ph] Lynette G (19:35), are you aware of sextortion scams on Grindr. How do you plan to combat this common scam? And do you have plans for raising awareness with users?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

I see in almost every public remarks that I make that privacy and safety for our user is extremely important and something that we take very, very seriously. One of the ways that we track that is through flags that we receive from our users themselves, right? The more flags that we get, the worse it is, obviously. And that can be on a number of things like spams, [ph] obtaining inauthentic (20:08) accounts, solicitation, harassment, et cetera. What we are very proud of is that since January 2021, we have seen a over 50% reduction in user flags that I think that is really significant and speaks to the investment that the business has made in improving the quality of the product from the trust and safety perspective.

There are several ways in which we've done that. Number one, we have grown the customer service team to manage claims and reports that come in from users in a pretty significant way, and that's an important and significant investment that we are making. In [ph] the product (20:49), we've also developed a machine learning capability that allows us to detect spam and illegal activity and proactively remove it. And then, we've also built a fairly detailed set of policy guidelines that educate users about what is allowed and what's not allowed to do.

Obviously, we are a social product and getting spam and unsaved activity down to zero is next to impossible for any social product, but it is something that we are laser focused on, trying to ensure that we have as good of an experience as users can have and expect. Concurrently with that, obviously, we need to be focused on privacy as well. Our users demand protection of their identity and they frankly require it in a lot of places as well because of like the situations that they live in, whether because it's illegal to be gay in those countries or because it's difficult to be in those countries or location. And so, we do have to always be thoughtful both about the safety of our users and the privacy of our users.

A

Next question comes from [ph] Matthew P (21:57). Grindr is in a unique position as the most recognizable LGBT app on the market. How do you plan on leveraging that in the long term to grow the brand beyond its reputation as a gay men's hook-up app?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

So, we are very fortunate to have a very powerful brand with nearly universal brand recognition in our user base and beyond, which puts us in a very positive position. We – the way we think about it and the opportunity to expand the product is through the use cases, starting first with the use cases that already happen in the product.

We know that Grindr is using in a lot of other ways besides hook-up, which was the primary use case for which we've built. Obviously, dating is the second biggest use case. But social connections and friendships is another significant component. We also know that our users use Grindr a lot for travel. And frankly, a lot of them also use

it for health information. We are a source of health information in a lot of countries, maybe the only source of health information to LGBTQ users and people. And we also know what happened last summer where, during the monkeypox epidemic, Grindr played a really critical role in educating our users about what they need to do and how they could protect themselves.

And so, the set of use cases that we service is very broad. The functionality that we have in the app is not as broad. And so, a lot of what we're doing today is to ensure that we can build the functionality to support the use cases that already happen within the product. By doing that, we believe that our users will have a better experience. They will see more value in the app. And so, that we will be in a position of creating more shareholder value through better monetization as well.

A

We'll take one more question from [indiscernible] (23:47). Are you planning any influencer collaborations in the near term?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

It's great question. So first of all, I hope everyone stays – stay tuned for some announcements on the leadership on our brand marketing side that'll be coming out in a few weeks as well, which we're excited about. Historically, Grindr collaborate a lot with artists and influencers in our community. For example, our in-house creative team developed and launched the Old Gays influencers, which since have garnered 11 million followers across social platforms with their primetime television appearances and international media coverage as well. So, it's something that we've done and will continue to do.

Obviously, people come to our social platforms, which we have over 1.8 million followers across Twitter, TikTok, Facebook, YouTube, et cetera, in order to see really fun and sexy content and enjoy themselves. And so, that is the objective of our social presence and that's what we want to continue doing. And we want to make sure that it ties back to our brand and what we want the story behind Grindr to be. And so, I think that is what we've been aiming to do so far and we'll continue to do in the future.

A

Thank you, George. Thank you very much, everyone, who dialed in to listen. I'll turn it back over now to the operator to close out the call.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Great. Thanks, [ph] Patrick (25:13).

Operator: Thank you. Ladies and gentlemen, the conference has now ended. Thank you all for joining. You may all disconnect your lines.

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