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Grindr, Inc. (GRND)

Q3 2023 Earnings Call

CORPORATE PARTICIPANTS

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

George Arison

Chief Executive Officer, Grindr, Inc.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

OTHER PARTICIPANTS

Rohit Kulkarni

Analyst, ROTH Capital Partners LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Ludi, and I will be a conference operator today. At this time, I would like to welcome everyone to the Grindr Third 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 Tolu Adeofe, Grindr's Head of Investor Relations. Please go ahead.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

Thank you, moderator. Hello and welcome to Grindr's Q3 2023 earnings call. 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 its Q3 2023 shareholder letter this afternoon and 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 have 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.

George Arison

Chief Executive Officer, Grindr, Inc.

Thank you, Tolu. Before we get started, I would just like to say how glad I am to have you on board. We've added so many strong new leaders across departments who will help us attract even more excellent talent. In Q3, Zac Katz joined us as General Counsel and Head of Global Affairs; Tristan Pineiro as Vice President of Brand and Communications; and Solmaz Torbaghan as Director of Artificial Intelligence and Machine Learning, with more to come.

Now for our results. Grindr delivered a strong quarter with revenue growth of 39% and adjusted EBITDA margin of 46%. It is clear from the results that our work this year on new products and features is being well received by users and we're excited by the progress we're making on our monetization strategy. Our team is executing on these initiatives, while concurrently driving positive cultural change with company, change that is ongoing and will continue for much of 2024.

Over the last year, a big focus for the executive team has been to facilitate our transition to an environment where our employees can continually learn, execute successfully, and unleash their full potential.

Returning to the office on a hybrid basis is crucial to this change. In Q2, our leadership team decided Grindr would move to a hybrid work model, involving a return to an in-office work environment. And in August, we announced the adoption of a multi-phase return-to-office plan. This plan is assigned to capture the benefits of in-office work, while preserving the flexibility that so many of us have come to value.

Being back together in the office will enable us to deliver better results for our users and for our shareholders. And I'm excited about the pipeline of projects we're working to prioritize right now. These projects include innovation focused on building improved functionality to allow users to better find what they need within our app and new features that better enable behavior already taking place within the app. This is all in addition to the AI capabilities we're building to help us provide users with unique insights about each other and to better connect with each other. I'm excited about the work that we're doing and I look forward to telling you more about it in the coming quarters.

With that, I'll hand it over to Vanna to discuss our financial performance.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

Thank you, George, and hello, everyone. As you just heard, Grindr achieved 39% year-over-year revenue growth to \$70.3 million for the quarter with an operating margin of 24% and an adjusted EBITDA margin of 46%. Our continued financial performance in the first three quarters has led us to update our full year outlook. We now expect revenue growth in 2023 to be at or above 31%, up from 28%. And our expected adjusted EBITDA margin to remain at 41% or better.

The adjusted EBITDA margin outlook reflects comparatively higher GAAP operating expenses in Q4 compared with Q3. Q3 revenue of \$70.3 million for the quarter was up 39% year-over-year from \$50.4 million, driven by strong sales of our subscription and a la carte products. Direct revenue increased by 43% year-over-year to \$61.6 million. Indirect revenue was up 21% year-over-year to \$8.7 million. In the third quarter, average monthly active users increased 8% over the prior year and 3% sequentially to 13.5 million. Average paying users in the quarter increased 18% over the prior year to 962,000. Due to the increases in both average MAU and average paying users, our average payer penetration rate was 7.1% for the third quarter.

Onto our more detailed results. Our average revenue per paying user increased to \$2.25 sequentially to \$21.33 this quarter. Operating expenses, excluding cost of revenue, were \$35.4 million in Q3 2023, up 5% year-over-year. This reflects higher people costs, comprising lower salary and benefit expenses in the latter weeks of the quarter, following our implementation of our return-to-office initiative, offset by severance costs and higher legal and other professional services.

Net loss for Q3 was \$400,000 versus a loss of \$4.7 million in Q3 2022. Net loss margin for Q3 was 1% compared to 9% in Q3 2022, with the improvement due to lower sales and marketing, depreciation and tax expenses. Adjusted EBITDA for Q3 was \$32.6 million or 46% of total revenue, primarily reflecting our strong revenue growth as more Grindr users adopt our expanded subscription and a la carte offerings. Adjusted EBITDA results relative to GAAP operating expenses benefited from the add-back of non-recurring severance expenses related to implementation of our return-to-office initiative.

Turning to our balance sheet. Our net debt position was \$343.4 million at September 30, 2023. We ended the quarter with \$29.9 million in cash and cash equivalents, up from \$27.2 million in the prior year and \$22.1 million in the second quarter of 2023.

Finally, I'll recap our revised 2023 outlook as shared in our letter. Based on our performance year-to-date, we have increased our revenue growth guidance for the year to be at or above 31% and our adjusted EBITDA margin remains at least 41% for the year. This outlook reflects our strong performance year-to-date.

With that, I will pass it back to George to begin our Q&A.

George Arison

Chief Executive Officer, Grindr, Inc.

Thank you, Vanna. At this time, I'll ask the operator to open up the line for question.

QUESTION AND ANSWER SECTION

Operator: Thank you. And ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] One moment please for your first question. And your first question comes from the line of Rohit Kulkarni from ROTH MKM. Your line is open.

Rohit Kulkarni

Analyst, ROTH Capital Partners LLC

Q

Oh, hey, thanks. Thanks for taking my questions and great quarter, guys. I'm new to the story. Just perhaps, George, just high level, perhaps talk about how do you feel about the algorithm for growth over the next 18 to 24 months, with regards to the top-of-funnel users, bottom-of-funnel paying users and monetization? Like, in an ideal world, how do you feel these three drivers would trend in contribution of growth? Then, I have a couple of follow-ups on next year's investments.

George Arison

Chief Executive Officer, Grindr, Inc.

A

Sure. I'm happy to start and then I'll ask Vanna to add as well. So, when we got here about a year ago or so, about to complete our one year public [indiscernible] (00:10:21) we've said that the biggest opportunity in terms of revenue growth at Grindr is from driving great monetization of our current users. We are significantly undermonetized compared to our peers. That's due primarily because a lot of features that users want to pay for, we don't currently offer. And so, we've been very focused on launching features that people will want to pay for. Boost obviously is an example of that and it has done really well and we have many more a la cartes and/or features inside our subscriptions that we will be building and launching in the coming quarters that will help with monetization.

Historically, Grindr has been very much on the free side, using kind of a [ph] balance between (00:11:00) free and paid. We also added more features for free versus our peers in the dating ecosystem. And so, the best way to drive people to become more paying customers would be to have more features people will pay for.

On that tech front side, obviously we have great high performance growth and that's all organic because we've added features that people are excited about or because people know that they should come to Grindr to meet members of the community and the community of the Grindr is very important, but we are not dependent on the top-of-funnel growth in order to have significant growth in our revenue and in payer penetration. Anything you want to add there, Vanna?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

I think that really George summed it up properly. We are really thinking about converting the users that we already have at 7.1% paid penetration. There's plenty of room to go until we get to, what I would say, Match and Bumble's numbers. And we're going to continue to do that through developing products and features, and frankly, product pricing that enables more of our users to convert and compels them to want to convert to a paying user because there's just so much value with what we're here to offer.

I know, Rohit, you're a bit new to the story, and so in the past, we said that we are really focused on the Bumble strategy, but frankly, thinking about domestic first and then rolling that out. So you could sort of see a little bit of wave of that coming into the future just to start to address your investment areas for the following years.

Rohit Kulkarni

Analyst, ROTH Capital Partners LLC

Okay. Fantastic. And I guess...

Q

George Arison

Chief Executive Officer, Grindr, Inc.

You can go ahead with your follow-up.

A

Rohit Kulkarni

Analyst, ROTH Capital Partners LLC

Sorry. Go ahead.

Q

George Arison

Chief Executive Officer, Grindr, Inc.

No, go ahead with your follow-up question.

A

Rohit Kulkarni

Analyst, ROTH Capital Partners LLC

Oh, okay. Thank you. And I guess the other question was just around incremental investments. As you look ahead next year, you already have very healthy EBITDA margin and I can think of how quickly the EBITDA margin can go much higher based on your core business model itself. So perhaps talk about how are you thinking philosophically around investments for growth versus managing profitability in the next 12, maybe 18 months? Are there specific new, chunky new investments that you wish to do, or that are there on the horizon that we need as investors do keep an eye on?

Q

George Arison

Chief Executive Officer, Grindr, Inc.

Well, I think the most kind of important thing on this is that, right now, our team is smaller than it had been historically, as is known publicly and as in our financials that have than it had been filed today, our team has shrunk in size. People have not returned to office. So our focus from investment perspective is to rebuild our team back at least to the levels that we were at in the first half of the year. Obviously, we're going to be very deliberate in how we do that, and in how we ensure that we attract talent that wants to go after audacious goals and achieve impossible things on behalf of these shareholders.

A

But, you know, from that perspective, that's going to be the biggest investment we're going to make to kind of rebuild the team. We believe there is a lot of opportunities in the product to build new features and new things that our users really want us to build around how they use the product. And obviously that you need engineers and product managers to invest in technology. But we generally are confident that we can do that with a fairly lean team and to start with getting back to the size that we were earlier in the year kind of January-February timeline.

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

And, Rohit, just to add, really what these people are going to do is to continue to develop our product pipeline, which we have mainly filled for 2024. But, of course, that's a never-ending project given that the company has really just started to think about the monetization levers and is evolving from just connection to connection and monetization. So that's what these folks will predominantly be working on.

Rohit Kulkarni

Analyst, ROTH Capital Partners LLC

Q

Okay. Awesome. Thanks, George. Thanks, Vanna. Let me go back in queue.

Operator: [Operator Instructions]

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

We'll also be taking questions from the [ph] Say platform (00:15:41), which is a platform that enables us to take questions from retail investors. So one of the questions is from [ph] Jean P. (00:15:48). Vanna, what is the team doing to add value to the entry version of the app? It seems too restricted at the moment. The premium versions are too expensive for a younger user base.

[Technical Difficulty] (00:16:01-00:16:28)

George Arison

Chief Executive Officer, Grindr, Inc.

A

I think we might be having some technical [indiscernible] (00:16:30) Can you folks hear us right now?

Operator: Yes.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Yes.

Operator: We can still hear you, George.

[Technical Difficulty] (00:16:38-00:16:48)

Operator: Tolu, do you have any more questions?

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Yes. Nope. I think the team is redialing in. Apologies. Just give us a moment.

Operator: Sure.

[Technical Difficulty] (00:16:59-00:17:07)

Operator: Goodbye. And ladies and gentlemen, please stand by. Your conference will resume momentarily.

[Technical Difficulty] (00:17:27-00:18:09)

George Arison

Chief Executive Officer, Grindr, Inc.

A

Thank you. Apologies for those technical difficulties. We somehow got dropped off the line. Can everyone hear us now?

Operator: Yes, George.

George Arison

Chief Executive Officer, Grindr, Inc.

A

Great. Thank you. And so, to the first question, I think what we'd say is, ever since Grindr was sold from the Chinese ownership to the current largest shareholders, we've been laser-focused on ensuring that our product is world-class and obviously have been investing heavily in the product to make that happen.

This year, we launched the new home screen and a new profile page with large photos and quicker navigation, that has really improved the speed of the app, which we're really excited about. The year prior, we launched Albums and, since launched, Albums has been used over 1 billion times and over a 1 billion Albums has been shared, which is great. And, this year, we also added Video to Albums.

And so, I think, all of those things are making the entry product, or the free product better. Even though historically, we've actually had the most features that you can find in any dating app and in a free product. One of the biggest complaints historically has been that users lose all of their chats when they switch phones and have to re-download the app, and that's because we used to store chats natively on the app.

We've moved away from that and now are storing chats on the Web, which obviously helped to remove the excuse that a lot of users use for why they didn't get back to somebody. So, I think there's a lot of great examples of improvements that we've made to the free products for the last 18 to 24 months. And we'll continue to do that in the coming quarters. We also introduced an extra weekly subscription price at \$12.99 earlier this year, and that was in response to our users asking for a lower entry price point tier.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Thanks, George. Our next question will be from [ph] Aiden Kay (00:20:01), who asks, will there be any perks for Grindr shareholders?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

Thanks, [ph] Aiden (00:20:09). Well, actually, we have had discussions on this topic, but we really have nothing to say on it at this time.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

[indiscernible] (00:20:19) asks, what are the plans for expansion of the extra subscription?

George Arison

Chief Executive Officer, Grindr, Inc.

A

Thanks for the question. As you know, this year we added our Web product, which is only available to XTRA and Unlimited subscribers. So obviously, there was a very significant addition to the paying offering in the app. Generally speaking, historically, Grindr's approach has been to err on the side of a free product when compared to other dating applications.

And that the function now that we're offering which was far more significant than our peers. And now we're focused on expanding the product feature set and opportunities where people can actually pay for those product. And so you should expect more features to be launched on the paying side, but that it'll be a mix between things that we might launch in the paying subscriptions or in a la carte.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Thanks for that. From [ph] Mark (00:21:12), I know users who tried Grindr and were unhappy with ads that basically froze the apps feature. And then it [audio gap] (00:21:20) before they can return [audio gap] (00:21:22). They just left the [audio gap] (00:21:25) their options. Can something be done to make these ads less intrusive?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

Thanks, [ph] Mark (00:21:31), for the question. Well, actually, Grindr offers an incredible amount of value for free, more than all of our peers and users spend about 60 minutes a day on the app, so it's good engagement.

Advertising allows us to offer a robust free product, and it provides the investment dollars to improve the app. And it's really important to note that we offer very few ads in the app compared to other products that have as heavy users usage like Grindr.

Also, we actually did introduce a lower price subscription tier called [ph] XTRA Weeklies (00:22:09) for folks that want to enjoy the app without any advertising at all. And finally, we really are starting to embark on an effort to make the ads you see more relevant to you. It's the early days, but we hope that in the next year or two, we can make meaningful improvements in this area, since we know that we have a highly desirable demographic that advertisers want to reach.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Thank you, Vanna. From [ph] Shaun H. (00:22:39), when will Grindr fix the issue where a user blocks someone and that blocked person is able to unblock themselves. I brought this issue up to IT, but nobody seems to know the answer. How can the blocking feature be such an issue that is taking so long to address?

George Arison

Chief Executive Officer, Grindr, Inc.

A

Thanks for the question. So privacy and trust and safety are really important priorities for us in the company. And we've said this many times. Privacy is paramount for our users. There is many reasons for that, including the fact that we operate in many countries where were being gay is illegal, and we are really focused on ensuring that people can protect the privacy to the fullest extent possible.

Precisely for this reason of privacy, I and most of the management is completely removed from customer service issues related to specific users. We have a team of professionals managing that and we trust them to be able to focus on protecting our users' needs. And we don't ever find out what might be happening with specific users. Without knowing the details of the account or accounts in question, it's a little bit difficult to know exactly what that user's experience might be, but users are not able to unblock themselves in the app. And so if people blocked somebody, they can't unblock and become visible to you again.

What is most likely happening is that somebody is deleting their old account and then is recreating a new account with similar photos. Many of our users choose to purge their old accounts and then create new ones. This is not against the guidelines, and there are a lot of reasons why users, including for privacy reasons, might choose to do that. For example, somebody might have made somebody a favorite in their account, but the other user does not want to be the favorite. And this might be one way in which they kind of eliminate their relationships that they might have built on the app and then build new ones.

If someone is harassing others or breaking guidelines, we say please reach out to customer support and that can be addressed. But I do want to emphasize one more time that privacy and safety are a top concern for our team, and we'll continue to be very focused on that as we build the product of the future. We recently published a blog post on this topic and I encourage everyone to take a look at that for more details.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Thanks, George. From [ph] Luis C. (00:24:59), when will Grindr add a Grindr shop option? This will enable users to buy potential Grindr merchandise for guests and send to users. I think this would increase the value of the shares.

George Arison

Chief Executive Officer, Grindr, Inc.

A

Great question. And we are definitely very proud of the Grindr brand and recognize that it can be leveraged in many different ways. We have incredible brand awareness in the community and recently brought on board a new leader for our brand and communications team, who joined us just three months ago to make our brand be utilized in many different ways. We have in the past offered seasonally collection of Grindr merchandise. We have done that about twice a year and we tend to rotate that a couple of times a year. So it's just a matter of prioritization about whether we want to do more of that. But we do offer our merchandise every once in a while. And so please stay tuned next time it's launched.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

A

Thank you. And our last question will come from [ph] Francisco M. (00:25:59). What are some of the features or offerings being explored to compete with other chat or dating apps?

George Arison

Chief Executive Officer, Grindr, Inc.

A

Great question. Well, I said this on an earnings call before that we know that users use Grindr in ways more than just dating. Obviously dating is at the core of it, but there's a lot more that's happening here. This is a core part of the fabric of the gay community, and people use it in many different ways socially as well. So with both a dating and a social app.

We also know that in the dating sphere, users will be using more than one application at the same time. For us, what's important is that users have the best possible experience in the app and spend time in the app and use it as the first app that they come to when they think about using a dating app. For a variety of reasons, whatever reason they might want to use it for, whether it's casual dating, long-term relationships, social engagement or chatting.

To that end, we are working on a robust pipeline of features that serve our community in ways that are meaningful to them. Some of the examples of things that are in the pipeline for the future. We said this in our earnings intro today and have said this in the past as well, that we are really kind of a Teleport.

It's a way for a user to be able to show themselves in a different location from where they might be in any given time as they're planning travel, which allows them to then make connections prior to their trip or ahead of the trip and then either to engage with other users in that new location.

We also have done a lot of user research to understand that our users really care about intent, as the app has grown and attracted more users, the intent has become a little bit confusing. Different users have different intent for what they're looking for in the app, and they're going to be looking for us to help them express their intent more clearly. So, that's something that we're working on in the future.

And then, lastly, we talked a lot about how AI can be very helpful in helping us make better connections between people, whether it's by what they're looking for or their interests, as well as from the generative perspective in terms of making conversations better. So, that's another area that we are focused on to make the app better.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

Thank you, George. Thank you, Vanna. And thank you, everybody, for joining our call today. Operator, you can go ahead and close us out.

Operator: Thank you, presenters. And, ladies and gentlemen, this concludes today's conference call. Thank you for participating and you may now disconnect.

Tolu Adeofe

Director-Investor Relations, Grindr, Inc.

Close us out.

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