

15-May-2023

Grindr, Inc. (GRND)

Q1 2023 Earnings Call

CORPORATE PARTICIPANTS

Patrick Lenihan

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

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Ina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Grindr First 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 Patrick Lenihan, VP of Communications. Please go ahead.

Patrick Lenihan

Vice President & Global Head-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 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 our Investor Relations page of our website and in our 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 welcome to our first quarter earnings call. The year is off to a strong start financially, which Vanna will discuss in a moment. I will begin by providing an update on the progress we've made against our four strategic priorities for 2023, which we shared on our March earnings call.

These were improving user experience, driving monetization through conversions and new offerings, planning for future growth, and continue to commit to our community. I'm very proud of the progress the team has made on each of these [ph] pilots (00:02:30). First, improving user experience. In February, we enhanced our very popular Albums product by enabling video uploads in addition to photos. We've seen strong adoption of this addition to Albums with a 1.1 million videos uploaded since we launched in beta in February.

Additionally, over the last year, a small team has been working on an exciting new product we call Grindr Web, which we launched in alpha in Q1 and rolled out in beta globally last week for our XTRA and Unlimited subscribers. While the feature set on Grindr Web is still limited, it helps us build a foundation for creating unique but specific features in 2024 and beyond.

Second, driving monetization through conversion and new offerings. We're focused on identifying ways to most effectively monetize, with different value models matching price points with levels of access to our compelling feature sets and testing weekly, monthly, and multi-month subscriptions. [indiscernible] (00:03:24) some of this activity show up in our results as we delivered positive monetization metrics. As we said in March, these results may be uneven in the coming quarters as we test pricing and zero in on the optimal formula. While we continue to introduce new features and test new subscription tiers and paid offerings, we're mindful of the fact that our free product offers extensive functionality and we're evaluating the right dividing line between free and paid functionality.

Third, planning for future growth. As we strengthen our foundation for long-term growth, we're paying close attention to the insights that we get from our users. A la carte offerings are a great example. We know that a la carte products are popular on other dating applications, [indiscernible] (00:04:06) strong, sustained success in Boost, our first a la carte offering. Given this success, we're building a set of additional offerings that we will release periodically over the next couple of years.

Fourth, serving the LGBTQ community. We're committed to serving our users and supporting our community. In the first quarter, we launched free HIV at-home test kit ordering in the US in partnership with Building Healthy Online Communities, Emory University and the US Centers for Disease Control and Prevention. 54,000 at-home HIV test kits were requested through this program in its first four weeks, and that number has continued to grow every day with a prominently placed order buttons we've coded into the Grindr app. One reason this project is so powerful is that in early testing, over 30% of users who requested at-home HIV test kits reported to have never had an HIV test before, which speaks to Grindr's ability to advance public health goals in communities that are very difficult to reach. We will continue to serve as a resource for our community and provide support where we can be most effective.

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

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

Thank you, George, and hello, everyone. As George said, we had a strong first quarter, growing revenue 28% year over year to \$55.8 million, while maintaining a very healthy adjusted EBITDA margin of 39%. Both revenue growth and EBITDA margin are slightly ahead of full year guidance of 25% or greater revenue growth, with an adjusted EBITDA margin of 38% or greater. We reaffirm this earlier guidance.

We are pleased to deliver results that demonstrate strong year-over-year growth even as we test new features and price points. We are pleased to deliver results that demonstrate strong year-over-year growth even as we test

new features and price points. In Q1, we averaged 866,000 paying users, up 20% from the first quarter of 2022. Our average paying user penetration was 6.7% this quarter, compared to 6.1% in the prior year period.

Year-over-year our average monthly active users grew to 12.8 million, a 9% increase. Average revenue per paying user was \$18.53 this quarter, compared with \$16.77 in the first quarter of 2022. While ARPU is up both on a year-over-year and quarter-over-quarter basis, I'd like to remind you that this metric may fluctuate as we continue to test different subscription options across different price points and durations as we maximize opportunity in our overall ecosystem.

Turning to the more detailed results, Q1 2023 revenue of \$55.8 million was up 28% year over year from \$43.5 million in Q1 of 2022. Direct revenue increased \$11.7 million to \$48.1 million, up 32% year over year, led by growth in both subscription revenue and premium add-ons. Advertising or indirect revenue was up 8% on a year-over-year basis to \$7.7 million.

Operating expenses increased by \$12.5 million in Q1 2023 as Grindr hits its stride as a public company with the commensurate people costs and infrastructure expenses. The increase also reflects higher professional fees in connection with public company filings, audit and tax services, legal fees, and D&O insurance. We swung to a reported net loss of \$32.9 million in Q1 from net income of \$4.5 million in the first quarter of 2022.

As noted in our shareholder letter, there are three primary factors driving the change: a gain on fair value measurement of the outstanding warrants based on a higher stock price at quarter end; an income tax provision that includes timing differences which will largely be offset by tax benefits in the remaining quarters of the year, and interest expense.

Adjusted EBITDA for the first quarter of 2023 was \$22 million or 39% of total revenue, up from \$20.3 million in the prior year period. The increase in adjusted EBITDA was driven by revenue growth, partially offset by higher operating expenses on a normalized basis.

Turning to our balance sheet, Grindr ended the first quarter with \$33.8 million in cash and cash equivalents, up from \$27.8 million in the prior year period and \$8.7 million in the fourth quarter of 2022. With that, I'll pass it back to George.

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, serve our community and generate value for our shareholders. At this time, I'll ask the operator to open 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] Mr. Lenihan, there are no questions at this time. Please continue.

Patrick Lenihan

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

A

Hi, everyone. Thank you for joining today. We are glad to have a number of questions come to us from retail investors by way of the [indiscernible] (00:10:12) platform over Robinhood. First question comes from [ph] Mark R (00:10:17). I'm wondering if any of your board members use the app. If so, it should be obvious that there are fake profiles, scammers and others soliciting services. Can something be done about this?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Thank you, Patrick. And thank you, [ph] Mark (00:10:35), for the question. Well, to start with, the Grindr ownership and board prior to the company going public strongly prioritized ensuring that the Grindr management and board have a lot of representation from folks in the community that we serve. And so, the answer is yes. There are many people on the board who use the app. And there are also many employees at Grindr in the leadership roles that also use the app and have for many years.

Since the transition to new ownership in 2020, Grindr has actually invested in customer service and content moderation, and I think we've made some really great strides in that regard on the platform. For example, since January 2021, overall, we've reduced user reports by more than 50%, even as the user base has grown. [indiscernible] (00:11:19) concrete statistics on that front in the last two years. We've reduced spam reports by 86%. We've seen a 22% reduction in illegal activity reports from users, and a 39% reduction in bans for sexual solicitation.

So, I think we've made some really great strides in ensuring that the product is serving users well, and we are reducing spam and bad behavior as much as possible. I do want to note that privacy is really important to many of our users, and they rely on us to protect their identity, and many of them have to be discreet. So we take that trust very seriously and we'll continue to do so in the future.

Patrick Lenihan

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

A

Next question comes from [ph] Austin F (00:12:02). will your app consider a verification feature?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Thank you for that question, [ph] Austin (00:12:10). And it's obviously very connected to the first question we just answered. We've certainly thought about this, and there are many divergent views in our community on this point. Some folks very much want it and others don't want it just as strongly for privacy reasons. And so as we've said before, trust is really paramount and we have to balance the needs from verification perspective with the need from privacy perspective, and we'll continue to do that in the quarters to come.

Patrick Lenihan

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

A

Our next question comes from [ph] Hana W (00:12:43). Are you concerned about users moving to web based competitors and what is your plan to address that?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

It's a great question. I think it probably came before we announced the launch of the Web last week. So obviously, we know that users use many different applications and this is not a zero sum game. People can be using different apps for different things. Our job is [indiscernible] (00:13:09) to deliver the best user experience that we can and ensure that our users can access Grindr when and where they want. As everyone probably knows, we launched Web beta just last week. This offers several key benefits, [ph] including for the (00:13:23) photos, easier chatting and increased accessibility to users, and obviously an opportunity to use the product on a desktop which we couldn't do before. We're really excited about [ph] what is new (00:13:34) for Grindr in the future including our ability to build certain types of functionality that you can only do on the web and can't do in a mobile app on iPhone or Android. And so I think in that regard, we're really well-covered and are excited about what the future holds.

Patrick Lenihan

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

A

Next question comes from [indiscernible] (00:13:55). What's the plan to update the app's look and functionalities?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

I very much appreciate the question. I and the whole team agree that making the user experience better is a huge priority for us, and we're building for a world where Grindr has world-class [ph] in-app (00:14:14) experience for our users. And to this end, we obviously invested significant resources to ensure that we have a good experience. And, as we discussed in March, historically, Grindr has underinvested in technology, and the company has done a lot of work over the last couple of years to address the technical debt that was inherited from previous ownership.

The results have been fairly positive [indiscernible] (00:14:38) is up. Crash time is down significantly. And in the last year, we've launched many features that, we think, are really beneficial to users and [indiscernible] (00:14:46) Boost, Albums and, most recently, our [indiscernible] (00:14:51), which we'll discuss in a future call, and now, obviously, the launch of Grindr on the web in beta. All these, I think, are really great things for our users and there's a lot more to come.

As I said before, these are multi-quarter investments since we operate a fairly lean but a very efficient team. And I do want to say some of these investments that we're making today will mean that you can't blame losing your chance on why you never get back to a guy in the future since we're fixing that issue as well.

Patrick Lenihan

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

A

Thank you, George. Next question comes from [ph] Paul O (00:15:32). What is the percentage of paid subscribers versus users?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

Thanks for the question. So, we disclosed our payer penetration, and that's defined as payer users, which is both customers who buy our subscription products, as well as people who buy our a la carte products like Boost. And our average paying users for the quarter was 866,000. Our monthly active users for the quarter was 12.8 million, and that's a healthy 9% growth rate year over year. So that brings us to our 6.7% payer penetration that we disclosed in our shareholder letter.

We're really focused on increasing our payer penetration, and that's why we're experimenting with our new subscription and a la carte offerings. So we should see this story unfold over the coming quarters as we dial up both our product lineup and optimize our pricing.

Patrick Lenihan

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

A

Thank you, Vanna. Next question is from [ph] Frankiana Z (00:16:40) What is the company's plan to increase profits?

Vandana Mehta-Krantz

Chief Financial Officer, Grindr, Inc.

A

Thank you. I love that question. We have a great business and we are generating double-digit revenue growth with profit margins that are among the best in the industry. As you may have seen, we have laid out our plans to grow revenue for the future years by offering our users different features and products that meet their needs at their price points. Also, we are carefully managing our costs, so we are focused on both levers of profitability. Finally, given we are early in our monetization journey, you should see the benefits of operating leverage take hold in the next quarters and years to come as our payer penetration naturally increases. Thank you.

Patrick Lenihan

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

A

Our next and final question from the [ph] Say (00:17:42) platform comes from [ph] Curtis J (00:17:43). Will the price of premium services drop a bit?

George Arison

Chief Executive Officer & Director, Grindr, Inc.

A

Thanks for the question, [ph] Curtis (00:17:51). Today, we have a relatively high entry point price for XTRA and a very robust free service, which we know our users very much appreciate. But we've heard from users that they would like us to have an entry point price that is a little bit lower. We've tested a couple of ways to achieve this and look forward to telling you more about that towards the end of the year, early next year once the testing is further along. But it's something that we're actively working on and we believe we'll be able to meet business need in that regard.

We do believe that XTRA and Unlimited offerings offer great value to subscribers, and we are always focused on adding more functionality in each of these segments. Indeed, what we've heard from users is that for certain types of features, actually willing to pay more as long as we're able to provide them, which we are working on and making sure that we can. As an example, we just recently launched Web, which is obviously a huge launch for us because it's a totally new innovation, and it's only available for XTRA and Unlimited subscribers only, so we think that's another piece of value that we're providing for our paying customers.

George Arison

Chief Executive Officer & Director, Grindr, Inc.

Great. I think, well, with that we can – we're at the end of the questions. So we can end the call. And thank you, everybody, for joining us.

Operator: Thank you. Ladies and gentlemen, that does conclude our conference for today. Thank you all for participating. You may all disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.