

marketing strategies, reduce operational costs and more effectively focus talent across the organization.

All our dating products provide the use of certain features for free, and then offer a variety of additional features for paid members. Substantially all of our Dating revenue is derived directly from users in the form of recurring membership fees, which typically provide unlimited access to a bundle of features for a

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specific period of time, and fees paid for à la carte features, which are typically for a specific action or event.

We have historically grown our business both organically and through strategic acquisitions. We have developed a core competency for identifying, acquiring, integrating and scaling businesses. Since January 2009, we have successfully completed a total of 25 Dating acquisitions (including PlentyOfFish), enabling us to strengthen our business in existing markets and expand our product offerings globally. For example, in 2011, we acquired OkCupid which had a large and loyal user base in the United States, and in 2014, we acquired the remaining outstanding shares of Meetic that we did not already own in order to expand our operations in Europe.

While we currently offer our products in over 190 countries, we have been most heavily concentrated in North America and Western Europe. However, with the launch of Tinder, and the acquisitions of Twoo and Pairs, we are increasingly exploiting opportunities in the rest of the world, which we believe are significant. For the quarter ended September 30, 2015, 54% of our MAUs were outside North America, pro forma for PlentyOfFish.

### **Trends affecting our Dating business**

Over the last several years, we have seen significant changes in our business. During this time, our portfolio has evolved from one dominated by our Match and affinity brands in North America, and Meetic internationally, to one in which Tinder, OkCupid, PlentyOfFish and Twoo now represent the majority of our overall user base. This portfolio evolution has led to, been driven by, or coincided with, a number of significant trends in our business, each of which is discussed below.

**Significant user growth.** Over the last several years, our Dating business has seen very strong user growth, rising from approximately 8 million average MAU during the quarter ended September 30, 2011 to approximately 59 million average MAU during the quarter ended September 30, 2015, a compound annual growth rate of 63%. This rapid growth has been primarily organic, with a compound annual growth rate of 48% excluding acquisitions during this period. This growth has been led by Tinder, which is now the largest of our brands measured in terms of MAU, but we have seen growth across all of our major brands during this period. For the nine months ended September 30, 2015, aggregate new users across Match North America, our affinity brands, Meetic, OkCupid and PlentyOfFish were up more than 30% from the comparable period in 2014, with each of these brands contributing period-over-period growth.

**Meaningful subscriber growth.** Over the last several years, we have also seen substantial growth in users paying for our products, with an average of 4.7 million paid members for the quarter ended September 30, 2015, pro forma for PlentyOfFish, up from an average of 2.1 million paid members for the quarter ended September 30, 2011. The number of our average paid members, excluding Tinder, increased 32% between the quarter ended September 30, 2013 and the quarter ended September 30, 2015, pro forma for PlentyOfFish. This growth, while substantial, has come at a slower pace than our user growth, as the mix of paid and free features at our Tinder, OkCupid, PlentyOfFish and Twoo brands inherently results in conversion of users to paid members ("conversion") at lower rates than our other brands. However, because these brands tend to grow their number of users at a more rapid pace, they contribute paid members in substantial numbers despite lower conversion rates. Additionally, we expect the percentage of users who are paid members (which we refer to as penetration) in these brands to increase meaningfully, as penetration tends to increase rapidly during the early years following the introduction of a Direct Revenue, or paying, model. This is driven by both the introduction of new features that attract different users to convert and by the dynamics of a subscription business in which members are retained for extended periods and new members are increasingly added. For example, at OkCupid, the penetration rate

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as of June 30, 2015, was 5.7x the penetration rate as of June 30, 2012 (which was the end of the first year in which we meaningfully focused on a Direct Revenue model for that product), and MAU doubled over the same period. Tinder, the brand for which we most recently launched a Direct Revenue model, had zero paid members at the end of the third quarter of 2014, and grew its average paid members to approximately 1,000, 96,000, 376,000 and 519,000 for each of the succeeding quarters, ending with 583,000 paid members as of September 30, 2015. We cannot predict whether Tinder's penetration will increase over the coming years at the same rate as that of OkCupid's historical increase, but Tinder's penetration rate after one year is higher than OkCupid's was in June 2012, and we expect its penetration to follow a similar directional course. PlentyOfFish similarly has significant opportunities to increase its penetration rate, as it currently has a penetration rate of only 65% of that of OkCupid as of September 30, 2015. We believe that our monetization know-how, developed over years across our portfolio, should help us meaningfully close that gap in the coming years. Thus, while we do expect the mix of users to continue to shift into these lower penetration brands, we expect penetration within these brands to increase meaningfully over the coming years.

**Strong mobile adoption.** We have recently experienced strong growth in the usage of our products on mobile devices. The percentage of new users coming through mobile channels across our portfolio was 73% in the quarter ended September 30, 2015, compared to 35% during the quarter ended September 30, 2013, and an insignificant percentage just a few years prior to that. Mobile adoption leads to higher user engagement. For example, for the quarter ended September 30, 2015, mobile users of our Match product in North America were approximately 35% more engaged (measured as daily active users divided by monthly active users) than our desktop users. Mobile adoption also opens new customer acquisition channels. As a result, mobile adoption has represented, and continues to represent, a significant growth opportunity for us. However, it also requires dedication of additional product and technology resources and often requires the payment of additional fees to app stores. Additionally, our mobile products, taken as a whole, have tended to have lower conversion rates than our desktop products, when we control for other factors impacting conversion. This has led to challenges over the last few years for those of our brands that had significant pre-existing desktop businesses with high percentages of paid members. Unlike a mobile only brand like Tinder, where each new mobile user is incremental to the total number of users, for those brands with significant desktop usage, many new mobile users are users who