

Mossberg's Investor Digest

Best Idea Profile:

Spark Networks, Inc. (NYSE MKT:LOV)

DESCRIPTION:

Spark Networks provides online personals services that enable adults to meet online, participate in a community and form relationships. Registered users can post a profile and access the database of member profiles for free. In order to initiate communication with another user, members pay an upfront monthly subscription fee of \$17 to \$25 per month, giving them access to real-time chat rooms, instant messaging services and face-to-face singles events. Headquartered in Los Angeles, Spark Networks operates two primary networks and a compilation of other niche focused dating websites, such as BlackSingles.com and SilverSingles.com. Jewish Network is the original flagship service and Christian Network is a growing service with a broad array of assets including ChristianMingle.com, Faith.com, Daily BibleVerse.com, and Believe.com.

KEY INVESTMENT CONSIDERATIONS:

Attractive Business – Online dating no longer has the stigma that was associated with it previously. The percentage of people that meet online doubled in the past decade. U.S. dating services is more than a \$2 billion business and growing, and online dating represents more than half.

Growth Internally Funded – The Jewish Network is a mature business that is generating cash to support the rapid growth of the Christian Network. The Christian market is 30 times the size of the Jewish market making this cash cow arrangement extremely beneficial to growth.

Scalable Model – Advertising expenses are critical in this industry and don't go away. However, these expenses have reached a plateau and this operating leverage means that subscriber growth and average revenue per user only need to grow modestly for dramatic bottom-line results. Because of the upfront monthly payments, the revenues are recurring and very predictable.

Inside Ownership Support – Management and the board own more than 6% of shares outstanding. In fact, since the company's initial public offering in 2006, both shareholders and the company itself have been proactive when the stock weakens. In proof of that fact, in December 2013 the board authorized the repurchase of up to \$5 million in stock on the open market.

Stock Price Pressure – In November 2013 Great Hill Partners, nearly a 20% stockholder, offered 4 million shares of their common stock at a public offering price of \$6.00 per share. This announcement caused immediate pressure on the stock and the share price fell precipitously. Osmium Partners stepped in to take advantage of the opportunity and now owns approximately 16%.

Upcoming Financial Milestone – Management expects net income will turn positive in the fourth quarter of 2014. This is a bit surprising given the fourth quarter is typically a seasonally weak subscriber acquisition quarter, but is further indication of management's optimism.

VALUATION:

LOV is attractively valued on an enterprise value to sales basis given it is a high growth, sustainable and predictable business model. As investors breathe deep and come back to the stock, they are likely to be rewarded with stock returns driven by high earnings growth. The stock buyback now in place will bolster the stocks ability to more accurately the company's value. Two new industry comparable companies will be coming online in 2014, which will give investors more data in order to evaluate what reasonable value should be assigned to Spark.

Spark Networks, Inc. (NYSE MKT:LOV) Investment Data (as of 1/15/14)

Recent Price	\$6.07
52-Week Range	\$5.29 - \$9.27
Fiscal Year End	Dec
Dividend	NA
Yield	NA
Shares Outstanding	23.9 M
Average Trading Volume (3 mos)	148k
Market Capitalization	\$146 M
Cash	\$17 M
Long-term Debt	N/A
Enterprise Value (EV)	\$131 M
Book Value	\$0.76
TTM Revenue	\$68 M
P/ Revenue	2x
TTM EPS	\$(0.88)
P/ EPS	NA
TTM EBITDA	\$(9) M
EV/ EBITDA	-14x

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