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Matchmaker, matchmaker, where are the revenues

Spark revenues crept up in Q1 as it returns to niches

By Omri Cohen

Spark Networks (AMEX: LOV) has had trouble attracting investor attention since listing for trade on Wall Street in February 2006, in parallel with a listing in Frankfurt. The company was worth \$219 million at the end of last week and the release of its first-quarter 2006 results didn't do much to drum up notice.

Spark (formerly MatchNet) is controlled by former Israelis, Joe (Yoav) Shapira and Alon Carmel. It runs no less than 30 online matchmaking sites and is considered the third-largest company in its sector in the U.S. Yet Spark is having trouble translating its popularity into money.

For the first quarter of 2006 Spark reported a 2% increase in revenues year over year to \$16.8 million, and that's after buying Mingle-Match less than a year ago.

Spark's biggest websites are Jdate.com, for the Jewish American community, and AmericanSingles.com, which serves all Americans. Jdate has been expanding but AmericanSingles remains feeble.

In the first quarter, Jdate's revenues increased 8% year over year to \$7 million and the average number of paying users increased by 13% to 79,500.

But Jdate's cost of user acquisition shot up to \$13.20, an increase of 46.5% which the company explains through marketing costs on building its brandname, including through non-Internet advertising.

Yet user recruitment remains relatively cheap at Jdate. At AmericanSingles, direct user recruitment costs increased 37% to \$35.20. Yet the average number of users dropped by 19% to 98,800, while revenues sank 22% to \$6.3 million.

Spark says that everything's relative: an intense marketing blitz in late 2004 increased user traffic in the first quarter of 2005.

However, in the last year Spark has abandoned the idea of conquering the American singles scene and has returned to focusing on niche communities, such as ethnic minorities, pensioners, homosexuals, and so on.

The company also redesigned Relationships.com, a site that targets Christian religious communities in the U.S.

Other sites, including the Israeli version of Jdate and Cupidon, contributed \$3.5 million revenues in the first quarter. Their average number of users increased to 66,000. The average recruitment cost per user was \$24.70, Spark said.

The company booked its stock option costs, which amounted to \$1.4 million in the first quarter of 2006. That increased operating costs by 10% to \$10.2 million.

These costs eroded net profit by 64% to \$710,000 or 2 cents per share, compared with \$2 million net profit in the parallel quarter of 2005.

For the year 2005 Spark posted a net loss of \$1.4 million.

"During our traditionally strong first quarter, we reached a significant milestone, reporting EBITDAS profit of \$3.4 million, our highest EBITDAS performance to date," stated David Siminoff, president and CEO of Spark Networks.

"In addition, we closed the quarter with a strong balance sheet, having paid down an additional \$5 million of debt from our MingleMatch acquisition last year, leaving our cash and marketable securities position at \$15.8 million," Siminoff said.

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