



## IAC Q2 2018 Shareholder Letter

August 8, 2018

Dear Shareholders,

The numbers we reported today need no embellishment, and the weather is nice outside, so this letter will be brief. Our teams delivered a sensational quarter and first half of the year in every segment of IAC and our outlook has never been stronger. Consolidated free cash flow for the second quarter was over \$200 million and \$340 million year to date. That's as much as we generated in all of 2017 and we're only halfway through the year, while investing more in our businesses and our people. IAC now employs 27% more people than a year ago, and average salaries for employees with us since the same time last year are up over 4%. Capital expenditures will also be up about 20% this year. Of the remaining cash flow, we used nearly 50% to acquire more shares of IAC and Match Group, and stockpiled the rest of the cash for a rainy day. Assets with comparable upside at similarly attractive prices are scarce, so we're steadily acquiring the companies in which we have the greatest confidence – our own. Free cash flow should more than double to over \$750 million for the year, giving us plenty of capital to work with on top of existing cash and financing capacity with three publicly-traded currencies.

Between the value of our 81% stake in Match Group and 87% stake in ANGI Homeservices plus \$1.2 billion of cash, we hold \$16.7 billion of cash and publicly traded securities, against which we have borrowed less than \$600 million of debt, most of which is convertible into equity. We've been buying IAC shares at an appealing discount to the value of those assets, even before taking into account the value of our other cash flowing assets and Vimeo. While the discount is undeniable (see table below), and the market can debate valuation multiples or the impacts of yield curves or tariffs or stages of economic cycles, we've primarily focused on our 5% current free cash flow yield, with clear visibility to sustained growth, in purchasing our shares.

\$ in billions - as of 8/7/2018

81% Match Group Stake	\$8.8
87% ANGI Homeservices Stake	\$6.7
Cash	\$1.2
Less: Debt	(\$0.6)
<b>Total</b>	<b>\$16.1</b>
IAC FD Shares Outstanding (millions)	86.2
IAC Share Price	\$155.96
<b>IAC Market Value</b>	<b>\$13.4</b>
<b>Implied Discount</b>	<b>(\$2.7)</b>

Among our private subsidiaries, **Vimeo** had another great quarter with accelerating revenue growth. Vimeo's small financial contribution to IAC today belies its enormous potential. We're often asked how Vimeo can compete against "giants" in video like Netflix, YouTube and Amazon. The answer is simple: it doesn't. Vimeo doesn't make its own shows or purchase any content. Vimeo doesn't sell ads nor aggregate audience in front of screens. Vimeo sells subscription software to those behind the camera – creative professionals, enthusiasts, businesses – to help them make and distribute videos digitally.

As some of the world's largest companies vie for the top spot among video publishers, Vimeo's position is to be a command center enabling creators to reach every spot. We give creators a platform-agnostic central repository and set of tools for safely creating, sharing, and analyzing their work, and our users love our products. We can see that love in the figures: average subscription length is now approaching 5 years, and average revenue per subscriber has gone up 15% per year for the last 4 years, and accelerating. The secular shift to digital video is an unstoppable tailwind on a \$20 billion addressable market: total video traffic is expected to grow at 30% a year from 2017-2020 and comprise over 80% of all consumer internet traffic by 2021. This coming increase in video consumption will be more than just the next few seasons of *Stranger Things* – video will be the medium to follow local politics, learn what's happening in your company's 401K plan, or decide whether to hire a plumber. If we only maintain a heartbeat (to wildly understate our ambition), the rising tide of video relevance ought to deliver healthy growth here for at least a decade.

Our **Publishing** segment, which has begun to generate real profits on 76% revenue growth in the quarter, still has its best years ahead, led by Dotdash. Hard to believe that only several quarters ago, we weren't even willing to proclaim it had *any* years ahead. Under the leadership of Neil Vogel, Dotdash has transformed from a single general interest website (About.com) to a vibrant collection of vertical brands in health (Verywell), personal finance (The Balance), food and home (The Spruce), tech (Lifewire), and travel (TripSavvy). Dotdash focuses on three simple principles: (i) produce the best and freshest content; (ii) deliver the fastest sites; and (iii) show the fewest and most effective ads. While other publishers are declining, Dotdash grew revenue 50% year-over-year in Q2. We believe the formula at Dotdash is not only working, but scalable, and in July we added Investopedia to the Dotdash family of brands. On the back of a world-class team elsewhere in Publishing, we also continue to buck industry trends with 82% revenue growth on the rest.

For years, we've enjoyed our **Applications** segment's cash flow – steady and heavy – as the business thrived in a desktop software category with persistent secular decline. We're not yet growing, but the business is clearly and consistently transitioning to mobile while maintaining that steady cash flow. Mobile now represents 20% of total segment revenue (up from approximately 5% two years ago) and has amassed over a million paying subscribers. On the desktop side, the business remains heavily dependent upon Google for both distribution and monetization, and sometimes Google giveth, and sometimes Google taketh away. Desktop monetization is near all-time highs, driving strong profit in the most recent quarter, but some changes to the Chrome browser effective in September could hurt the distribution of products distributed through the Chrome Web Store on the desktop. Our team in this area has dealt with changes like this before, and will deal with changes like this in the future, and as always, will adjust and deliver within the new rules. Regardless, the unimpeded growth of the mobile application business will continue to shift the mix of revenue away from these types of issues.

Among our publicly traded assets, **Match Group** continued to deliver outstanding financial performance, with 36% revenue growth, 60% Adjusted EBITDA growth and, as always, significant free cash flow. Tinder's amazing growth run continues globally, and the rest of the portfolio is holding steady. We acquired Hinge, a small business showing early signs of

breakthrough in the US with urban millennials and women, which is racking up meaningful mentions in the scoreboard of marriage braggadocio – the *New York Times* wedding section. Across all our dating businesses, we have 1,400 employees fulfilling one of the greatest missions a company can have – bringing people together. With only 7.7 million subscribers out of 600 million singles globally, we have plenty of work left to do.

At **ANGI Homeservices**, Q2 was a big proving moment for us on the integration of HomeAdvisor and Angie's List. The business is ahead on almost every metric — \$70 million of Adjusted EBITDA in the quarter (excluding transaction-related items) compares to what would have been \$22 million for the two businesses combined in the prior year quarter, and all that incremental profit came while accelerating revenue growth.

We had nearly 7 million service requests in the quarter, up 30% year-over-year, and by adding additional service professionals and increasing engagement from the service professionals already on our network, overall capacity in our service professional network increased by 31%. We're also now seeing available work capacity sitting outside our service professionals' contractual capacity beginning to migrate onto our platform. Consider a plumber in Skokie, Illinois. When setting up his budget, he may have defined his focus as plumbing jobs only in Skokie, even though he can, and often does handle jobs in neighboring Evanston. He might also be willing to respond to requests for water heater repair projects well within his bailiwick, but never realized they were available. We're now allowing service professionals to see and respond in real-time to a broader selection of homeowner requests from adjacent geographies and in related tasks, generating incremental spend outside their fixed budget that adds to our overall network capacity. Results so far demonstrate that a service professional's initial budget is just a starting point for the natural evolution of our solution. More importantly, jobs that previously went unmatched are getting done, producing busier service professionals and happier consumers.

Lastly, a quick note on some of our **Investments** and our net income this quarter. We don't report on our minority investments often, and they remain immaterial to IAC overall, but the new accounting rules forced us to show an unusual \$126 million gain in the quarter due to the mark-to-market of certain investments in our portfolio. We've periodically allocated small amounts of

capital to minority investments and as these investments mature, we generate cash to redeploy elsewhere. This quarter we realized a small gain of \$27 million on one of the investments, but the new accounting rules require marking the entire position to market notwithstanding our inability to sell it. While we wouldn't otherwise choose to run an outsized paper gain through our P&L, we did collect some real cash and plenty more value remains to be harvested.

Though it's often difficult for anyone to enjoy quarterly reporting, it's certainly fun to report a quarter like this one – even the confounding accounting rules worked in our favor. Occasionally we look around, proud and amazed at the talent that's come from IAC to lead businesses throughout the digital universe. But as I look at my colleagues in IAC today, and the year we're having and our outlook ahead, I'm grateful to be working with what I think is the best team we've ever had. Ambition abounds...

Sincerely,  
Joey Levin  
CEO

## Full Year 2018 Outlook

Please find below our updated full year 2018 outlook. We confront investment choices every day, and as stewards of your capital, will deviate from guidance when we have attractive opportunities that drives long-term value at the expense of short-term results. And of course, sometimes we'll simply be wrong about the future. Amply warned, here's our current outlook for the year:

<i>(in millions)</i>	<b>FY 2018 Guidance</b>
<i>Adjusted EBITDA</i>	
Match Group	\$625-\$650
ANGI Homeservices <sup>(a)</sup>	270
Video	(40-35)
Applications	115-125
Publishing	50-60
Corporate	(65)
<b>Total IAC Adjusted EBITDA</b>	<b>\$955-\$1,005</b>
Stock-based compensation expense <sup>(b)</sup>	(230-220)
Depreciation	(80-70)
Amortization of intangibles	(80-70)
<b>Operating income</b>	<b>\$565 - \$645</b>

(a) Excludes costs and deferred revenue write-offs in connection with the Angie's List transaction (\$3.3 million and \$4.6 million, respectively, YTD through June 30, 2018 and less than \$1 million and \$1 million, respectively, for the remainder of 2018).

(b) Includes -\$90 million of charges in connection with the Angie's List transaction and the modification of other subsidiary equity.

### Additional Q3/FY 2018 Color

- *Match Group* – In Q3 we expect \$430 to \$440 million revenue and \$160 to \$165 million Adjusted EBITDA. For the FY, we expect \$1.68 to \$1.72 billion revenue.
- *ANGI Homeservices* – In Q3 we expect 18% pro forma revenue growth (Q3 '17 pro forma revenue of \$251.4 million) and Adjusted EBITDA in the \$75-\$80 million range depending on marketing, excluding costs and deferred revenue write-offs in connection with the Angie's List transaction.
- *Video* – In Q3 we expect revenue around \$60 million and Adjusted EBITDA losses around \$10 million.
- *Applications* – In Q3 we expect revenue flat to Q2 with Adjusted EBITDA around \$30 million.
- *Publishing* – In Q3 we expect revenue around \$130 million and over \$10 million of Adjusted EBITDA.

## Appendix

### **Webcast and Conference Call Details**

IAC executives will participate in the ANGI Homeservices quarterly conference call to answer questions regarding IAC on Thursday, August 9, 2018 at 8:30 a.m. Eastern Time. The live audiocast will be open to the public at [www.iac.com/Investors](http://www.iac.com/Investors) or [ir.angihomeservices.com](http://ir.angihomeservices.com). This letter will not be read on the call.

### **Non-GAAP Financial Measures**

This letter contains references to Adjusted EBITDA and free cash flow, non-GAAP measures. These non-GAAP measures should be considered in conjunction with, but not as a substitute for, financial information presented in accordance with GAAP.

IAC full year 2018 net cash provided by operating activities is expected to be \$750-\$850 million and capital expenditures are expected to be \$85-\$95 million.

Please refer to our 1<sup>st</sup> and 2<sup>nd</sup> quarter 2018 press releases and the investor relations section (quarterly earnings tab) of our website for all comparable GAAP measures and full reconciliations for all material non-GAAP measures. Please refer to ANGI Homeservices' Q2 2018 press release for Q2 2018 reconciliation of ANGI Homeservices non-GAAP measure.

### **Cautionary Statement Regarding Forward-Looking Information**

This letter and the ANGI Homeservices conference call, which will be held at 8:30 a.m. Eastern Time on August 9, 2018 (with IAC executives participating to answer questions regarding IAC), may contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "plans" and "believes," among others, generally identify forward-looking statements. These forward-looking statements include, among others, statements relating to: future financial performance, business prospects and strategy, anticipated trends in the industries in which IAC's businesses operate and other similar matters. These forward-looking statements are based on management's current expectations and assumptions about future events, which are inherently subject to uncertainties, risks and changes in circumstances that are difficult to predict. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others: (i) our continued ability to market, distribute and monetize our products and services through search engines, social media platforms and digital app stores, (ii) the failure or delay of the markets and industries in which our businesses operate to migrate online, (iii) our continued ability to introduce new and enhanced products and services that resonate with consumers, (iv) our ability to market our various products and services in a successful and cost-effective manner, (v) our ability to compete effectively against current and future competitors, (vi) our ability to build, maintain and/or enhance our various brands, (vii) our ability to develop and monetize versions of our products and services for mobile and other digital devices, (viii) our continued ability to rely on third parties in connection with the distribution and use of our products and services, (ix) adverse economic events or trends, either generally and/or in any of the markets in which our businesses operate, (x) our continued ability to communicate with users and consumers via e-mail or an effective alternative means of communication, (xi) the migration of users from our higher monetizing dating products to our lower monetizing dating products, (xii) our ability to successfully offset increasing digital app store fees, (xiii) our ability to establish and maintain relationships with quality service professionals, (xiv) changes in our relationship with, or policies implemented by, Google, (xv) foreign exchange currency rate fluctuations, (xvi) our ability to protect our systems from cyberattacks and to protect personal and confidential user information, (xvii) the occurrence of data security breaches, fraud and/or additional regulation involving or impacting credit card payments, (xviii) the integrity, quality, scalability and redundancy of our systems, technology and infrastructure (and those of third parties), (xix) changes in key personnel, (xx) our ability to service our outstanding indebtedness, (xxi) dilution with respect to our investments in Match Group and ANGI Homeservices, (xxii) operational and financial risks relating to acquisitions and our continued ability to identify suitable acquisition candidates, (xxiii) our ability to successfully integrate Angie's List, (xxiv) our ability to expand successfully into international markets, (xxv) regulatory changes and (xxvi) our ability to adequately protect our intellectual property rights and not infringe the intellectual property rights of third parties. Certain of these and other risks and uncertainties are discussed in IAC's filings with the Securities and Exchange Commission. Other unknown or unpredictable factors that could also adversely affect IAC's business, financial condition and results of operations may arise from time to time. In light of these risks and uncertainties, these forward-looking statements may not prove to be accurate. Accordingly, you should not place undue reliance on these forward-looking statements, which only reflect the views of IAC management as of the date of this letter. IAC does not undertake to update these forward-looking statements.