IAC Q3 2020 Shareholder Letter

November 5, 2020

Dear Shareholders,

Since we first confronted the severity of this pandemic, leaving our offices in early March to protect our employees and our communities, many things have changed. Although the magnitude of the pandemic's impact on all of us individually has varied wildly, the direction of that impact has been universally and unequivocally negative. The same has not been true for businesses – some have been harmed severely, including many small business sectors that are the foundation of our economy, while others have *benefited* immensely. On a relative basis, IAC's been incredibly lucky. Our workforce can function with 99% of our jobs operating remotely, largely out of harm's way. Our consolidated businesses, all entirely digital, have been able to remain "open" throughout the lockdown, operating legally and safely. And thanks to our perpetually conservative balance sheet, we entered the pandemic with enough cash to withstand plenty of unexpected disruption and short-term volatility while still opportunistically investing over $1 billion in MGM Resorts International and making smaller acquisitions for Dotdash and Care.com. We're grateful to endure a relatively favorable dispersion of outcomes on our businesses.

This letter will focus significantly, for several reasons, on Vimeo, a business that benefited meaningfully from the pandemic. Of course, management always prefers to tell a positive story, and Vimeo is a fantastic story right now. But more importantly, we've begun contemplating spinning Vimeo off to our shareholders, and we therefore want to lay out the current state of Vimeo and why we'd consider separating out the business that, at the moment, is our best performer.

For several years now, we've espoused our belief that every business needs video to communicate, both internally and externally. The lockdowns not only accelerated that necessity by a few years, but also expanded even our own lofty estimates of the size of our addressable market – and I don't expect we'll ever go back. Every business that reaches a wider set of customers online through video today than through their physical location will continue to reach those customers with video. Companies won't stop broadcasting and archiving town hall meetings, training, and demonstrations on video so more employees can see them. And every day more and more stories currently told through text and pictures will become stories told through video.

Vimeo provides the turnkey tools to make video work: livestreaming, screen recording, video creation, collaboration, distribution, storage, and monetization. We offer these tools not just on Vimeo, but also embedded in large platforms such as GoDaddy and Shopify, who value providing distribution-agnostic video solutions to their end customers.

Prior to the pandemic, we were steadily proving Vimeo's fit in the market. Organic bookings growth consistently accelerated last year from 11% in Q1'19 to 27% in Q4'19 as we began to expand from our filmmaker roots to a broader audience of small businesses and large enterprises. Then the pandemic hit, and that acceleration exploded to 41% in Q1, 79% in Q2, and 56% in the most recent quarter. Of course, we can't be certain that the magnitude of the positive lift to Vimeo will persist when the virus' effect on our lives becomes less pronounced, but we're quite confident the need for video isn't shrinking any time soon. Given the recurring nature of Vimeo's subscription Software-as-a-Service (SaaS) revenue and the reality that bookings growth (a precursor to revenue) continues to exceed revenue growth, we've got a lot of growth ahead pretty well locked in. Vimeo was also profitable on an Adjusted EBITDA basis in the quarter, though that was more of an accident than a trendsetter – we couldn't keep investments at pace with revenue growth, an oversight we will not repeat in the next few quarters as we press on product development, marketing and especially on growing enterprise sales teams globally.

An early lead in a large and expanding market ought not be squandered by optimizing near-term profits. On the Self-Serve segment of our revenue (meaning, a customer begins to pay Vimeo without having spoken to a salesperson), we're seeing about $5 in profit for every $1 we spend in marketing. That ratio has continued to steadily improve and we haven't yet found the limit on our ability to spend on marketing with those returns. Enterprise revenue (meaning, sales to large companies, generally assisted by a salesperson and now comprising nearly a quarter of Vimeo's total revenue) doubled year-over-year, a big acceleration over the last few quarters. Net revenue retention on the Enterprise side is now exceeding 100%, and this is an important figure in enterprise software sales, worth explaining. If the figure continues to hold true, the 3,500 Enterprise customers paying Vimeo today would be expected to spend more with us in aggregate in that same period next year, even accounting for some churn among them. Analogies to "virality" are probably inappropriate at the moment, but net revenue retention above 100% means revenue effectively reproduces itself by spreading to more users and use cases inside a company once the product enters that enterprise for the first time. We then add to that growth with expanding sales efforts. Unique relative to many enterprise software products, our software also advertises itself every time a customer publishes or broadcasts videos, shares Vimeo links, collaborates on video creation, or embeds Vimeo's video player in their products. New users can then discover and test our products for free, and a substantial majority of our paying subscribers start out as free users.

So, why consider a spin, and why now? Given Vimeo's success, and investor adulation for the Software-as-a-Service (SaaS) category generally, we expect Vimeo's access to capital inside of IAC will be much more expensive than access to capital outside of IAC, and that capital will be helpful to enable Vimeo to achieve its highest ambitions. We've always said we're the anti-conglomerate, and we optimize for whatever allows our businesses to achieve their best chance of operating success. Right now, we believe Vimeo could benefit from having its own "native" equity currency in enterprise SaaS software, whether to finance R&D investment, recruit employees, or to make acquisitions. We just tested Vimeo's ability to access capital with a small private fundraise to bolster Vimeo's balance sheet and to repay capital to IAC. We entered into agreements today to raise $150 million of equity capital at Vimeo from outside investors at an implied enterprise value of $2.75 billion, a large multiple of current revenue. We don't normally think in terms of revenue multiples, but we found real appetite among investors who do – we had more interest in Vimeo than the number of shares we were willing to let Vimeo sell. So we're now evaluating a full spin off to enable Vimeo with the complete suite of tools available in the public markets. There's a long way to go before we're decided on that, and far too early to speculate on what the terms of that spin would look like – but as always we'll be guided by our long-held principle of doing what's in the best, long-term interests of our businesses and our shareholders.

Outside of Vimeo, it was a respectable quarter in a challenging environment. ANGI enjoyed its strongest growth in homeowner demand (as measured by service requests) since 2018, although supply constraints continue to meter growth. We had over 200,000 service professionals transacting on the ANGI platform for the first time ever, and our sales efforts have successfully offset some of the impacts of lockdowns on our network. However, as people spend more time in their homes than at any other time in modern history, many home service professionals across the country right now are simply too busy to take on new business. Econ 101 would tell you that when demand (homeowners needing work on their homes) exceeds supply (service professionals willing to do work), the price of the service will adjust until the free market finds efficient pricing. While ANGI's core matching and advertising platforms haven't historically afforded us the tools to facilitate efficient pricing, our expanding fixed price services are growing rapidly because we can now match supply with demand at prices that better satisfy both sides of the marketplace.

Our earliest-launched categories in fixed price services show significant increases in lifetime value relative to our traditional matching experience, in terms of both revenue and margin per order and repeat business. We're also continuing to add services for service professionals such as our payments platform, which is now processing nearly $1 million in weekly transactions and growing 30% month-over-month. Navigating the shifting supply and demand dynamics over the next few quarters at ANGI will be tricky, but so long as we're attracting and satisfying a growing percentage of homeowners with their home service needs, regardless of whether we fully monetize those interactions, I believe we'll be in excellent shape for the long run.

Dotdash accelerated growth in Q3 with healthy margins. We closed a small acquisition focused on recipes to bolster our Spruce brand and are actively looking to add more brands to the portfolio. The Search segment continues to navigate headwinds and it's not getting any easier, but the business still produces free cash flow. The biggest story in our Emerging & Other category is Care.com, where Care@Work has pleasantly surprised us with accelerating growth. Enterprises now leverage the power of Care.com's marketplace to deliver childcare and senior care solutions to their employees. Several weeks ago we acquired another small asset, LifeCare, which adds more customers and a complementary distribution network (through partners such as Aetna) to Care@Work. LifeCare also offers employee-counseling services that help employees navigate the complications of challenging life moments such as childcare and senior care, and have been very sticky with their enterprise customer base. On paper, our MGM investment has delivered an after-tax $228 million mark-to-market gain – a positive accounting metric but totally irrelevant in the context of the opportunity as we work with the team at MGM to help plot the next decade and beyond. Our other minority investment, Turo, which provides a platform for short term peer-to-peer car rentals, is remarkably growing right now notwithstanding a broader travel industry down over 60%, an encouraging sign for when travel really returns. With some efficient marketing and risk-based pricing, Turo achieved positive operating cash flow in its core North American market this past quarter.

Through all the undulations of 2020, its hard to believe that only one quarter has passed since we separated from Match Group, and we're already contemplating new moves. I don't know yet where we'll end up, but I do know we have an incredible set of businesses across IAC today, with leading products in large and growing addressable markets. We have strong leaders and deep teams executing ambitious plans over long-term horizons. This is the invigorating process of building a new IAC – showing up every day to grow seeds to the sky.

Personally, I'm enormously grateful to be doing what I love – building. Barry Diller and my incredible colleagues at IAC, from the boardroom to the mailroom, have afforded me opportunities and experiences beyond my wildest imagination. All the while, Barry has pushed and supported me to imagine bolder and set the bar higher, and constantly reminds us all that we're far from finished. So today I signed a new 10-year agreement with IAC, Mr. Diller, and his family, led by Alexander von Furstenberg, to keep going. Together with my colleagues at IAC, we hope to exceed over the next decade the success we've seen over the preceding ones. Though we're surrounded by uncertainty in areas we never expected, we're grateful to be navigating that environment patiently seeking opportunities. And as always, we keep building….

Sincerely,

Joey Levin

2020 Monthly Trends through October [a]:

	Y/Y Growth									
	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	July '20	Aug '20	Sep '20	Oct '20
ANGI Homeservices										
Marketplace Revenue	25%	27%	3%	-2%	20%	18%	10%	15%	12%	13%
Advertising & Other Revenue	7%	8%	4%	4%	1%	0%	-2%	0%	1%	2%
Total North America Revenue	21%	23%	3%	-1%	16%	15%	7%	12%	10%	10%
Europe Revenue	3%	-3%	-26%	-28%	-7%	8%	-5%	2%	-5%	-3%
Total ANGI Homeservices Revenue	**19%**	**21%**	**1%**	**-2%**	**15%**	**14%**	**7%**	**12%**	**9%**	**10%**
Other ANGI Homeservices Metrics										
Marketplace Service Requests	11%	13%	-12%	-8%	27%	34%	24%	33%	30%	21%
Marketplace Monetized Transactions	4%	11%	-11%	-11%	8%	10%	5%	10%	10%	5%
Marketplace Transacting Service Professionals	8%	8%	5%	4%	4%	3%	7%	9%	9%	10%
Advertising Service Professionals	4%	7%	4%	4%	3%	4%	5%	6%	5%	6%
Vimeo										
Total Revenue	**30%**	**34%**	**29%**	**46%**	**53%**	**43%**	**40%**	**43%**	**49%**	**49%**
Ending Subscribers	29%	28%	31%	35%	39%	16%	17%	19%	21%	22%
Dotdash										
Display Advertising Revenue	17%	17%	12%	-5%	-13%	-6%	3%	9%	14%	5%
Performance Marketing Revenue	70%	65%	96%	114%	121%	87%	69%	70%	72%	68%
Total Revenue	**31%**	**29%**	**30%**	**23%**	**17%**	**16%**	**22%**	**27%**	**29%**	**20%**
Search										
Ask Media Group Revenue	-1%	9%	-4%	-22%	-26%	-11%	-13%	-12%	6%	14%
Desktop Revenue	-42%	-43%	-47%	-47%	-51%	-47%	-44%	-44%	-42%	-44%
Total Revenue	**-21%**	**-17%**	**-25%**	**-33%**	**-37%**	**-27%**	**-26%**	**-25%**	**-14%**	**-9%**
Emerging & Other										
Total Revenue	**8%**	**26%**	**63%**	**67%**	**49%**	**65%**	**77%**	**71%**	**101%**	**87%**

(a) As of the date of this document, the Company has not yet completed its financial close process for October 2020. As a result, the information herein is preliminary and based upon information available to the Company as of the date of this letter. During the course of the financial close process, the Company may identify items that would require it to make adjustments, which may impact growth rates and be material, to the information presented above.

Webcast and Conference Call Details

IAC and ANGI Homeservices will host a live webcast to answer questions on November 6, 2020 at 8:30 a.m. Eastern Time. The live virtual conference call will be open to the public at **www.iac.com/Investors** or **ir.angihomeservices.com**. This letter will not be read on the call.

Cautionary Statement Regarding Forward-Looking Information

This letter and the live webcast, which will be held at 8:30 a.m. Eastern Time on Friday, November 6, 2020, 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. This document 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: IAC's future financial performance, business prospects and strategy, including the consummation of the third-party investment in Vimeo and the possibility of separating Vimeo from IAC, anticipated trends and prospects in the industries in which IAC's businesses operate and other similar matters. Actual results could differ materially from those contained in these forward-looking statements for a variety of reasons, including, among others: the impact of the COVID-19 outbreak on our businesses, the risks inherent in separating Vimeo from IAC, the failure of the third-party investment in Vimeo to be consummated, our continued ability to successfully market, distribute and monetize our products and services through search engines, digital app stores and social media platforms, our ability to market our products and services in a successful and cost-effective manner, the continued display of links to websites offering our products and services in a prominent manner in search results, changes in our relationship with (or policies implemented by) Google, our ability to compete, the failure or delay of the markets and industries in which our businesses operate to migrate online, adverse economic events or trends (particularly those that adversely impact consumer confidence and spending behavior), either generally and/or in any of the markets in which our businesses operate, our ability to build, maintain and/or enhance our various brands, our ability to develop and monetize versions of our products and services for mobile and other digital devices, our ability to establish and maintain relationships with quality service professionals and caregivers, our continued ability to communicate with users and consumers via e-mail (or other sufficient means), our ability to access, collect and use personal data about our users and subscribers, our ability to successfully offset increasing digital app store fees, our ability to protect our systems from cyberattacks and to protect personal and confidential user information, the occurrence of data security breaches, fraud and/or additional regulation involving or impacting credit card payments, the integrity, quality, scalability and redundancy of our systems, technology and infrastructure (and those of third parties with whom we do business), changes in key personnel, our ability to service our outstanding indebtedness and interest rate risk, dilution with respect to our investment in ANGI Homeservices, foreign exchange currency rate fluctuations, operational and financial risks relating to acquisitions and our continued ability to identify suitable acquisition candidates, our ability to operate in (and expand into) international markets successfully, regulatory changes, our ability to adequately protect our intellectual property rights and not infringe the intellectual property rights of third parties and the possibility that our historical consolidated and combined results may not be indicative of our future results. 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's management as of the date of this letter. IAC does not undertake to update these forward-looking statements.