



IAC Q1 2018 Shareholder Letter

May 9, 2018

Dear Shareholders,

I had a letter half-written last week that began with, “Whether it’s the economy, luck, or talent, five months into the year almost everything is working so let’s enjoy it while it lasts...” The opening sentence remains as true today as it did last week, but didn’t feel appropriate with our share price down 20% in a week. Though the catalyst – the announcement of a new entrant into one of our most important categories – was outside our control, we nonetheless don’t like to let down shareholders who have trusted their capital with us. Despite the week, on the major measures of corporate and operating health, we are as solid as we have ever been. We collected about \$1 billion of consolidated revenue in the first quarter, up 31% from last year, and a bit under \$200 million of Adjusted EBITDA, up 85% from the prior year. Across almost every segment, our major businesses are expanding and innovating. We continue to maintain significant financial flexibility, with an aggregate cash balance of \$1.7 billion and expectations of over \$700 million of free cash flow in 2018, such that at year-end we should have more cash than debt. We’ve done all that while investing in ourselves and our future, having spent almost \$2 billion since 2016 on acquisitions and stock repurchases.

Last week Facebook announced a plan to launch enhanced dating features at some point this year. People have been finding relationships on the social network since it was a project in Mark Zuckerberg’s dorm room at Harvard, but the announcement still served as an important reminder that we compete every day to delight our users, win new customers, and deliver innovative products in every one of our categories. We respect the power of Facebook’s network – as consumers and partners we have been great beneficiaries of their mission to connect the world. However, on the long list of things we worry about in our dating business, this announcement doesn’t top the list. We have a 23-year head start and several months advanced warning, and we’re going to take advantage of all of it.

By the time you are reading this letter, Mandy Ginsberg and Gary Swidler, supported by the world's best team in the dating category, will have enumerated on their quarterly shareholder call many of the reasons we feel quite comfortable competing in the dating space, and what the latest news means for Match Group (net, we think good for the category). We've competed to help bring couples together with everything from social networks to bars, churches, nosey aunts, prying neighbors and concerned parents. A single new competitor, even a powerful one, cannot just uproot us – our fate is in our own hands. No matter what our competitors may do, or large internet platforms may announce, we have tens of millions of people all over the world who visit our brands every month to find like-minded people with the express purpose of finding a relationship. We have 1,400 talented, driven employees who spend all day every day trying to figure out how we can get better at helping our customers find successful relationships. And we have passion for the cause. Facebook can give up and scrap their dating project anytime, but that's not an option for us – it's our life. The only option for us is to help more people build relationships. If we continue to do that better every day, and willingly disrupt ourselves as we've done repeatedly – most recently and most successfully of course with Tinder – we will win. And winning doesn't mean everyone else loses – it just means we delight more customers tomorrow than we did today, and every day forward. Tinder released a genie from the bottle and neither Facebook's launch of a new profile page for single people nor anything else is going to put that genie back in.

ANGI Homeservices

Outside dating, our big operational focus is still the integration of Angie's List, which we acquired late last year and combined with our HomeAdvisor to create a new public company of which we own 87%. Seven months into the marriage, the honeymoon continues. HomeAdvisor's technology and products are clearly resonating with the Angie's List consumer - service requests from consumers are running about 50% above our expectations and in Q1 annualized we drove new customers to HomeAdvisor from Angie's List representing an estimated \$10 billion worth of jobs. We have also taken significant costs out of the combined business. If we had included Angie's List in the prior year period, total revenue would have been up 15% year-over-year on a combined cost base that grew by less than half that, leading to

quite a bit more profit this year as compared to last. We are pleased with that overall growth in the first few quarters – Angie’s List revenue was declining about 13% annually when we acquired it and we hastened that decline under our ownership by eliminating products and deemphasizing certain lines of business to focus on the future. We expect the declines at Angie’s List to start shrinking by year-end and by the fourth quarter the combined company should reach 20% growth, our baseline for the future.

Consumer requests (i.e., demand) for Service Professionals (“SP’s”) are growing like gangbusters – so much so that we’re hitting some constraints on the capacity of our SP network (i.e., supply) to absorb that demand. We initially believed we had the capacity to absorb most of the incremental customers coming in from Angie’s List, but also said that even if we were wrong about capacity, we would replace paid customer acquisition with higher quality free customers arriving through Angie’s List. So, our marketing spend will be lower while we aggressively push on resolving our supply constraint. The near-term incremental cash flow and lower marketing costs are nice, but we are more focused on taking a bigger piece of this \$400 billion market.

We have plans to accelerate capacity expansion in the second half of the year, and early results show promising potential to tap latent capacity in our SP network. At our current pace, with our salesforce at 1,400 people, we are determined to add a record number of SP’s onto the platform, with record revenue per SP to catch up to our growing demand. We have also begun to evolve the platform. Our current platform is a highly targeted product that enables SP’s to automatically and instantly match to customers based on very specific criteria, governed by a monthly spend target agreed between the SP and a salesperson at the time of the original sale. We are now supplementing this platform (which we call “auto-accept”) with an entirely new opt-in platform, where SPs can see a much broader selection of homeowner requests, including from a wider geographic region and in related tasks, and choose in real time whether to connect with those homeowners, outside the SP’s original fixed spend target. The two systems are complementary to each other – one highly targeted and instantaneous, the other broader, with more time for consideration, and at the SP’s discretion. Now SP’s can choose to pick up new customers based on their up-to-the-minute work capacity rather than a months-old contract.

Our ability to roll out this product is significantly enhanced by the fact that over 75% of SP's in the marketplace have our app installed on their smartphone, allowing us to reach them with potential job notifications anywhere. Over time, the concept of "monthly budget" can evolve toward a hybrid which provides a steady base of business while also enabling real-time decisions in areas with enough depth in SP coverage and high consumer demand. In a world where consumers and SP's are increasingly turning to our on-demand tools like Instant Booking, Instant Connect, Same Day Service or Next Day Service, an SP's available marketing budget is much less important than the SP's available schedule.

Our marketplace is growing rapidly on both sides with all the wonderful network effects that entails, and with the capacity expansion efforts underway, we remain confident in the \$270 million Adjusted EBITDA target. It's a full dance card for the remainder of the year. The opportunity in this market is exceptional, the benefits of liquidity profound and the merger with Angie's List just a beginning, not an end.

Vimeo

Vimeo made terrific progress this quarter growing organic bookings 29%, the highest in 14 quarters, with market share still in the single digits. Our recent acquisition of Livestream has brought a great product and talented team to expand our live streaming capabilities, and we've added a new tier in our service offering incorporating the functionality.

Vimeo remains the most underappreciated asset in our portfolio. A subscription-based software with a consistently sticky subscriber base, rising average spend per user, and a profitable global marketing footprint is a wonderful business in any category. This category also happens to have a tailwind as video becomes a relevant and accessible tool to more people, businesses, and events every year. We are removing the friction of multiple patchwork video solutions by providing an intuitive self-serve user experience at an obtainable price point – we are delivering Software as a Service, or SaaS. Purchasing and deploying enterprise-level video tools previously required

customers with real category expertise – now our customers need only a love of video and an internet connected device.

A few additional figures:

- 80 million registered users, over 900,000 paying
- 99% of subscribers are self-serve
- 50% of revenue, though only a fraction of marketing spend, is international
- Nearly 90% annual revenue retention and average customer life of almost 5 years
- Gross margins of approximately 60% and improving with scale

With a very strong start to the year and pipeline, we now expect in excess of \$125 million recurring subscription revenue in a huge addressable market.

Publishing

Publishing had another terrific quarter with revenue up 72% and \$17 million of Adjusted EBITDA. Results were driven by strong performance at the Ask Media Group and Dotdash, as our verticalization strategy pushed revenue up 79% year-over-year, as well as 54% revenue growth at Investopedia. Dotdash was a standout, not just in terms of revenues and profits, but in developing a competitive lead that should serve our audience well over the long term. Dotdash publishes problem-solving content for intent-driven readers. To reach those readers, Dotdash must appeal to both the readers and the search engines that drive them to our content. Generally, the search engines and the reader seek the same characteristics: Is the content accurate, fresh and up-to-date? Is the site fast and visually appealing? Does the site avoid advertising bombardment? Dotdash has built a scalable suite of tech and talent to answer all these questions in the affirmative on a corpus of 250,000 articles, and we continue to add people and infrastructure, at considerable expense, to ensure that remains the case.

Applications

Lower revenue per query in Q1 led to a dip below \$30 million of Adjusted EBITDA, compounded by our mobile business beginning to transition to paid subscriptions in a much more pronounced (and promising) pace than we envisioned. Our mobile business is on a path to have the majority of its revenue from subscriptions by year-end, up from 15% in Q4 2017. In a category I once thought near impossible to transition to mobile, we now believe we can get to 20% of Applications revenue from mobile by the end of this year, a testament to relentless grit and vision of Tim Allen and the people running our Applications business.

Other

We also planted a few seeds this quarter with the investments in BlueCrew, an on demand marketplace for light industrial jobs, Honcker, an on demand platform for leasing cars, and JoyRun, an on demand marketplace for crowdsourced delivery. If one of these works, it will more than pay for all three of them. With focus, capital, plenty of good luck, and on-going support of the entrepreneurs who run these businesses, they've each got a chance. From IAC's perspective, they're all, even in aggregate, small enough to fail. But from their founders' perspective, in each case, they're far too big to fail. It's a model we like, and those are the people we bet on.

To put it all in context, we delivered more Adjusted EBITDA at IAC this past quarter than we delivered in the quarter *before* we spun off a collection of businesses in 2008 now worth \$15 billion outside of IAC. This success is a result of a deeply embedded culture in the entire company that relishes competition and the excitement of building category leaders in the digital landscape. We've gone enough rounds in the ring to establish a track record of long term success and attractive returns for our shareholders. Tinder is on fire, the Angie's List acquisition looks like a winner in the category, cash is flowing from Applications and Publishing, and the young businesses like Vimeo are starting to grow up nicely while we feed the IAC engine with

new businesses in large categories. In our world, no one can say the past is prologue, but we have the experience, the capital, and the will to continue the journey.

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 an attractive opportunity 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>	FY 2018 Guidance
<i>Adjusted EBITDA</i>	
Match Group	\$600-\$650
ANGI Homeservices ^(a)	\$270
Video	(40-30)
Applications	100-120
Publishing	40-50
Corporate	(65)
Total IAC Adjusted EBITDA	\$905-\$995
Stock-based compensation expense ^(b)	(230-220)
Depreciation	(80-70)
Amortization of intangibles	(80-70)
Operating income	\$515 - \$635

(a) Excludes costs and deferred revenue write-offs related to the Angie's List transaction (\$2.5 million and \$2.8 million, respectively, in Q1 2018 and less than \$2 million and \$3 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 Q2/FY 2018 Color

- *Match Group* – In Q2 we expect \$405 to \$415 million revenue and \$160 to \$165 million Adjusted EBITDA. For the FY, we expect \$1.6 to \$1.7 billion revenue.
- *ANGI Homeservices* – In Q2 we expect 16% pro forma revenue growth (Q2 '17 pro forma revenue of \$253.5 million). We expect higher margins in Q2 with Adjusted EBITDA around \$60 million, excluding costs and deferred revenue write-offs in connection with the Angie's List transaction. For the remainder of 2018, we expect costs and deferred revenue write-offs in connection with the Angie's List transaction to be less than \$2 million and \$3 million, respectively.
- *Video* – In Q2 we expect revenue of \$55-\$60 million with the full year growth rate impacted by the delivery of 3 films at IAC Films in the second half of 2017, which is not expected to recur in 2018. We expect Q2 Adjusted EBITDA losses around \$10 million, maybe a little bit higher.
- *Applications* – For the foreseeable future, we expect quarterly revenue flat to Q1 with quarterly Adjusted EBITDA between \$25 and \$30 million.
- *Publishing* – In Q2 we expect revenue slightly below Q1 levels with Adjusted EBITDA around \$10 million.

Appendix

Webcast and Conference Call Details

IAC executives will participate in the ANGI Homeservices quarterly conference call to answer questions regarding IAC on Thursday, May 10, 2018 at 8:30 a.m. Eastern Time. The live audiocast will be open to the public at www.iac.com/Investors or ir.angihomeservices.com. This letter will not be read on the call.

Non-GAAP Financial Measures

This letter contains references to Adjusted EBITDA, a non-GAAP measure. This non-GAAP financial measure 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.

Publishing operating income was \$15.8 million in Q1 2018. Applications operating income was \$27.7 million, \$18.9 million, \$29.2 million, \$33.8 million, \$32.8 million, \$39.1 million, \$29.4 million and \$28.9 million for each quarter from Q1 2016 to Q4 2017, respectively.

Please refer to our 1st quarter 2018 press release 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' Q1 2018 press release for Q1 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 May 10, 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.