IAC Q2 2021 Shareholder Letter

August 4, 2021

Dear Shareholders,

In our first quarter following the Vimeo spin, we're back to building. Being small again has its benefits. Though there's less earnings to cover the corporate overhead, smaller scale means fewer bureaucratic distractions. The natural big-company inertia toward risk avoidance reverses, and we are able to focus all our resources on expansion and taking healthy new risks. We now have an ambitious team of innovators with momentum building across our portfolio, and ample resources to support them. Some worry about institutions too big to fail. We're now too small to fear failure. As usual for us, though, our general overcapitalization leaves us plenty of room to take risk without ever betting the company.

Dotdash, Care.com, and our smaller and early stage businesses are growing nicely. Our investments in MGM and Turo are meaningfully exceeding our expectations at this stage. And our biggest business, Angi, is in the midst of a significant reinvestment to redefine its category which we believe, while more costly than we expected, is headed in the right direction. They say home improvement projects usually take twice as long and cost twice as much relative to expectations going in, and one of our goals at Angi is to prove that axiom false. Ironically, delivering that proof appears to be, well, taking us longer and costing us more.

Each business's outlook is unique, and in aggregate represents the uniqueness of IAC – a collection of businesses using interactivity to grow in large markets. Each business creates new options, and IAC is in the business of creating valuable options for shareholders. Sometimes those options have a clear and obvious embedded value, such as when a particular business is spun-off, IPO'd or raises outside capital. And sometimes those options are less specific, such as cash not yet allocated, or a collection of businesses in a category with potential for breakout success. Every time we exercise an option (e.g. the IPO of Match Group in 2015, the reverse merger of

HomeAdvisor into Angie's List in 2017, the fundraising at Vimeo in 2020), shareholders appropriately wonder whether another option exists, or when the next option will be exercised. While short-term shareholders may undertake the sometimes frustrating task of trying to align their holding period with our option exercises, those of us who are long-term holders worry less about the timing of the exercise of an option (besides avoiding expiration) – we need only ensure that we are constantly working to create new and greater option value across IAC. Exercising options creates the most attention, but creating options builds the most value.

In the pursuit of creating valuable options, IAC accelerated revenue growth in most of our businesses and in aggregate for the fourth consecutive quarter, even now excluding the high-flying Vimeo. Dotdash led the way with revenue accelerating again to 64% year-over-year growth and healthy Adjusted EBITDA, and our proprietary and growing library of intent driven content connected with nearly 100 million Americans last month. It's of course nice to be growing, and continuing to accelerate, but given the state of the world in the second quarter last year, growth won't continue at these rates. At Angi, the Services business is more than doubling year-over-year, and people love the product. The "Book Now" feature is what we've all always wished would exist in the category – a hassle and haggle-free experience to get a job done reliably at a fair price. At Care, we now have subscribers (not to mention bookings and revenue) growing for the first time since 2019 as we've upgraded the product to lift conversion and extend retention. The Turo experience in the market for short-term car usage appears to be breaking into mainstream behavior, and MGM's online gaming product, BetMGM, gains market share almost every month in a category that continues to expand rapidly.

The biggest work in progress is Angi. It's an understatement to simply say that the impact of the brand change at Angi was more severe than we expected. We have no doubt we made the right decision to migrate to a new domain and believe we'll fully recover (we've run this playbook several times before). But while we always knew the rebrand would be difficult and expensive, we underestimated the impact of the cumulative set of changes. We migrated the angieslist.com website to Angi.com and aligned the vast majority of our marketing to support the new Angi brand. Because a significant amount of our customers visit our properties from search engines and these platforms take some time to recognize a new website, the number of customers arriving at our new domain through search has taken a short-term hit, cutting a bit deeper and returning a bit slower than anticipated. Fortunately, that audience from search has begun recovering, and while not yet completely recovered, we expect to eventually get back to where we started and beyond.

However, we did not expect our other large website, www.homeadvisor.com, to endure a significantly negative impact as we reduced support for the HomeAdvisor brand, and that turned out wrong. Traffic to homeadvisor.com has declined more than we anticipated as we shifted marketing dollars elsewhere (particularly in TV), and you can see the loss of that traffic impacting margins this year. Though it may come across as self-serving at the moment, the fact that the degradation in audience at HomeAdvisor was steeper than anticipated is confirmation of exactly the concerns that led us to launch the new brand, Angi. The generic and literal HomeAdvisor, for all the dollars we spent supporting it was, to some degree, only as relevant as the last marketing dollar spent. Conversely, a more unique and proprietary brand such as Angie's List has had incredible staying power notwithstanding the waning brand marketing support. We believe this category requires a memorable brand – a word we fully own – so we took the opportunity to build upon the brand equity of Angie's List with a modern update. In just four months and with a fraction of the capital, the Angi brand achieved a level of brand awareness – 40% aided – that took HomeAdvisor three years to achieve. Nearly every dollar we chose to spend in the quarter on the new brand was of course short-term less efficient than any spend on the old brands, but we chose to continue to spend on the new brand because we are convinced it holds greater long-term value. We are confident that having one leading standout brand in the category, benefiting from all the best of our product development and all the heft of our marketing spend, is the right strategy for enduring success.

We coupled the brand transition with a management transition and a large investment in Angi Services, which we believe is the next frontier in product for the category, and we did it all in the midst of a pandemic-induced supply crunch on labor and materials in home services. A more conservative approach might have staged some of these changes over time, but we are plowing ahead with all at once under the belief that we know and like our destination, so let's not waste time getting there. The net effect of these efforts, combined with some one-time charges for real estate, took down profits substantially. Fortunately, we had plenty of profit at Angi to reinvest. A competitor or new entrant would take, and some have taken, substantial dilution in raising capital to pursue the future, such that existing shareholders own *less* of that future. We have the balance sheet strength to reinvest our cash flow without dilution, and still have enough extra cash to repurchase shares (as we did this past quarter) and allow existing shareholders to own *more* of that future. While we've always believed in balancing short-term results with long-term ambition, at Angi's small scale relative to the size of the $600 billion home services market, we don't think it's possible to pursue profits here while undergoing fundamental change.

Meanwhile, our fastest growing line of business, Angi Services grew revenue 127% year-over-year and 33% sequentially from Q1. The "Book Now" feature lets consumers consummate the entire transaction digitally for work that's completed physically, and the service professionals using this product get paid by Angi instead of paying Angi. As we've grown this line of business by adding new job categories, we generally contracted margins as each new category begins at a low or negative margin. In this latest quarter, however, we grew substantially and already have parts of Angi Services with double-digit contribution margins and higher contribution than an equivalent service request fulfilled through our traditional marketplace. In our painting category, for example, we've found that by improving our ability to scope the jobs, the ticket sizes generally increase (given a tendency early on to underestimate job size), service professionals make more money, fewer re-dos are needed and satisfaction improves for both consumers and service professionals. We now have plenty of reason to invest more:

- *Repeat Rates* - We continue to see strong repeat rate trends. As we noted last quarter, consumers whose initial experience is a Services booking have nearly a 2x higher repeat rate vs. our traditional experience.

- *Angi Key* – Our membership offering, now officially launched as Angi Key, grew membership 45% sequentially in Q2. For $29.99 a year, the primary value proposition of Angi Key is a 20% discount on a variety of Book Now services. With an average ticket size of around $250, the membership fee typically pays back the homeowner in the very first transaction, inducing about half of new users currently to opt-in to membership, and those users repeat usage at a rate that more than offsets the cost of the discount. With the current offer, it's a wonder why the other half *doesn't* opt-in.

- *Service professional economics* – We continue to see positive economics on the supply side – projected lifetime revenue per service professional and acquisition costs have remained stable throughout 2021 even as Services has grown significantly while the industry muddles through supply constraints.

After the quarter, we added to momentum in Services with a small acquisition in the roofing category to better satisfy the nearly 2 million roofing services requests we receive annually. One of the biggest categories in home services, roofing is a $50 billion addressable market in the US. The company brings complementary capabilities to Angi around sales and project management to help accelerate penetration in the roofing category and better understand the ingredients to success in others. We plan to leverage our demand engine to grow the business and expand geographically.

Building a brand takes time and capital as does building a disruptive start up, which we're doing in Angi Services. We will likely operate the business in and around breakeven for the balance of 2021 at least, and the brand impacts on customer acquisition will keep year-over-year organic revenue growth down at the reduced current levels at least through the next few months, though the small acquisition in roofing shows an improvement in the figures posted. All of the investments and initiatives that are headwinds to margins today should add to margins over the long-term; the traffic and margin headwinds from the brand consolidation should eventually ease and become a tailwind as customer acquisition, sales, and product is consolidated under one brand; continued Angi Services expansion and penetration should drive higher repeat rates and service professional engagement over time which drives material leverage on selling and marketing expenses; and Angi Key, in addition to the repeat rate and retention benefits, should add a new, 100% margin recurring subscription revenue stream. As a result, we're inclined to manage for continued market penetration over Adjusted EBITDA for the foreseeable future. If other shareholders lose patience during this phase for Angi, we at IAC are happy to own more through continued share repurchases at Angi.

We've always believed in big ambitions, and we've always encouraged the kinds of leaders who stoke change. A transcendent product with a differentiated brand, properly capitalized, generally wins a category. Throughout IAC – from within Angi, each segment of Care.com, the different publishing verticals of Dotdash, our various emerging businesses, and our cash and liquid securities – we're building options everywhere. The process is rarely easy or fast, but one of the most important elements of an option's value is duration, and the structure of IAC allows us to take the time to build to win.

Sincerely,
Joey Levin
CEO

2021 Monthly Trends through July [(a)]:

	Jan '21	Feb '21	Mar '21	Apr '21	May '21	June '21	July '21
Angi Inc.							
Marketplace Revenue (b)	4%	-2%	35%	27%	5%	5%	17%
Advertising and Other Revenue	6%	5%	10%	10%	14%	14%	14%
Total North America Revenue	5%	-1%	30%	24%	7%	7%	16%
Europe Revenue	18%	27%	61%	53%	12%	1%	2%
Total Revenue	**6%**	**1%**	**31%**	**25%**	**7%**	**7%**	**16%**
Angi Services Revenue (included in Marketplace above) (b)	*62%*	*38%*	*100%*	*197%*	*115%*	*97%*	*166%*
Marketplace Service Requests	10%	17%	60%	30%	-7%	-13%	-13%
Marketplace Monetized Transactions	0%	3%	46%	28%	5%	3%	0%
Marketplace Transacting Service Professionals	11%	9%	11%	14%	16%	16%	12%
Advertising Service Professionals	7%	6%	6%	7%	7%	6%	4%
Dotdash							
Display Advertising Revenue	24%	20%	28%	70%	73%	64%	35%
Performance Marketing Revenue	111%	100%	87%	62%	59%	51%	25%
Total Revenue	**54%**	**45%**	**47%**	**67%**	**67%**	**59%**	**31%**
Search							
Ask Media Group Revenue	33%	30%	66%	85%	80%	54%	51%
Desktop Revenue	-35%	-32%	-24%	-30%	-25%	-17%	-20%
Total Revenue	**9%**	**8%**	**35%**	**43%**	**45%**	**32%**	**30%**
Emerging & Other							
Total Revenue	**137%**	**83%**	**41%**	**36%**	**44%**	**40%**	**31%**

(a) As of the date of this document, the Company has not yet completed its financial close process for July 2021. As a result, the information herein is preliminary and based upon information available to the Company as of the date of this document. 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.

(b) Includes the Total Home Roofing acquisition which closed on July 1, 2021.

Webcast and Conference Call Details

IAC and Angi Inc. will livestream a joint video conference call to answer questions on August 5, 2021 at 8:30 a.m. Eastern Time. The livestream will be open to the public at **ir.iac.com** or **ir.angi.com**. This letter will not be read on the call.

Cautionary Statement Regarding Forward-Looking Information

This letter and the livestream, which will be held at 8:30 a.m. Eastern Time on Thursday, August 5, 2021, 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 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: (i) our ability to market our products and services in a successful and cost-effective manner, (ii) the display of links to websites offering our products and services in a prominent manner in search results, (iii) changes in our relationship with (or policies implemented by) Google, (iv) our continued ability to market, distribute and monetize our products and services through search engines, digital app stores and social media platforms, (v) the failure or delay of the markets and industries in which our businesses operate to migrate online and the continued growth and acceptance of online products and services as effective alternatives to traditional products and services, (vi) our continued ability to develop and monetize versions of our products and services for mobile and other digital devices, (vii) our ability to establish and maintain relationships with quality and trustworthy service professionals and caregivers, (viii) the ability of Angi Inc. to successfully implement its brand initiative (which could involve substantial costs, including as a result of a continued negative impact on its organic search placement) and expand Angi Services (its pre-priced offerings), (ix) our ability to engage directly with users, subscribers, consumers, service professionals and caregivers directly on a timely basis, (x) our ability to access, collect and use personal data about our users and subscribers, (xi) the ability of our Chairman and Senior Executive, certain members of his family and our Chief Executive Officer to exercise significant influence over the composition of our board of directors, matters subject to stockholder approval and our operations, (xii) our inability to freely access the cash of Angi Inc. and its subsidiaries, (xiii) dilution with respect to our investment in Angi Inc., (xiv) our ability to compete, (xv) adverse economic events or trends (particularly those that adversely impact advertising spending levels and consumer confidence and spending behavior), either generally and/or in any of the markets in which our businesses operate, (xvi) our ability to build, maintain and/or enhance our various brands, (xvii) the impact of the COVID-19 outbreak on our businesses, (xviii) our ability to protect our systems, technology and infrastructure from cyberattacks and to protect personal and confidential user information, as well as cyberattacks experienced by third parties, (xix) the occurrence of data security breaches and/or fraud, (xx) increased liabilities and costs related to the processing, storage, use and disclosure of personal and confidential user information, (xxi) the integrity, quality, efficiency and scalability of our systems, technology and infrastructure (and those of third parties with whom we do business), (xxii) changes in key personnel and (xxiii) the risks inherent in the completed separation of Vimeo, Inc. from our other businesses, including (among others) uncertainties related to whether the expected benefits of the transaction will be realized (on the anticipated timeline or at all), any litigation arising out of or relating to the transaction, the expected tax treatment of the transaction and the impact of the transaction on our remaining businesses. 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.