Notes for IAC's Q4 2013 Quarterly Earnings Call

Set forth below are IAC management's notes for its prepared remarks for IAC's Q4 2013 conference call held on February 5, 2014. Actual remarks made on the call may vary. A replay of the conference call will be available on IAC's website at http://ir.iac.com/results.cfm until 12:30 PM on February 19, 2014. Management discussed certain non-GAAP measures. Please see IAC's press release issued on February 5, 2014 and the Investor Relations section of IAC's website for all comparable GAAP measures and full reconciliations for all material non-GAAP measures.

Safe Harbor

The below contains "forward looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. The use of words such as "anticipates," "estimates," "expects," "intends," "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, IAC's business prospects and strategy, anticipated trends and prospects 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: changes in senior management at IAC and/or its businesses, changes in our relationship with, or policies implemented by Google, adverse changes in economic conditions, either generally or in any of the markets in which IAC's businesses operate, adverse trends in the online advertising industry or the advertising industry generally, our ability to convert visitors to our various websites into users and customers, our ability to offer new or alternative products and services in a cost-effective manner and consumer acceptance of these products and services, operational and financial risks relating to acquisitions, changes in industry standards and technology, our ability to expand successfully into international markets and regulatory changes. 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 February 5, 2014. IAC does not undertake to update these forward-looking statements.

* * * * *

Overview—Jeff Kip

IAC had another strong performance in the 4th quarter of 2013. Adjusted EPS grew 48% versus the 4th quarter in 2012, Adjusted Net Income was up 38%, and OIBA was up 10% - our 19th straight quarter of double-digit consolidated OIBA growth - despite a challenging few months for our Search & Applications segment. Consolidated Revenue was down year-over-year but would have been up excluding the restructuring of CityGrid and the restructuring and sale of Newsweek. For the full year in 2013, IAC grew revenue 8% and OIBA 21% - our 4th consecutive year of 20%+ OIBA growth.

Match closed out the year well, with 12% revenue growth and 21% OIBA growth in the 4th quarter, in line with our expectations. For the year, Match grew revenue 10.5% and OIBA 16% - and, as Greg will discuss, we expect Match to have a yet better year of growth in 2014 - although, as is typical, our quarterly growth will be uneven.

Also as expected, Search & Applications revenue was down in the 4th quarter versus a year ago, approximately 7.5%. This was modestly below what we'd thought – but our margins were better than expected as we quickly optimized our marketing to efficient levels following the CPC changes that hit in September. For the full year, Search & Applications revenue and OIBA were up 9.5% and 17% over 2012. Looking ahead into 2014, we expect Search & Applications to grow revenue and OIBA modestly, with some quarterly differences in growth. Today we expect segment revenue and queries to be somewhat down seasonally in the 1st quarter versus the 4th, before acquired revenue, and to then build sequentially from there. We expect margins for the year to be just under 4th quarter 2013 levels, with 1st quarter margin in the high teens percent on a significant increase in marketing, and then rising through the year.

The Local, Media and Other segments combined saw an OIBA loss of $(7) million in the 4th quarter, finishing the year with $630 million in revenues and approximately $(21) million in total OIBA losses. Excluding CityGrid and Newsweek, both of which were restructured and the latter of which was sold, these businesses grew revenue 22% in 2013. We expect revenue growth to accelerate in 2014, led by Vimeo – and we also expect now to expand investment across these segments – with a significant portion, perhaps one-half, of the total happening in the first quarter. I will get into a little more detail later in the call – right now, I'd like to turn the call over to first Greg Blatt, Chairman of The Match Group, to discuss those businesses, then to Joey Levin, CEO of the Search & Applications business, who will cover that segment, then I will wrap up.

Match—Greg Blatt

Thanks, Jeff.

In February '09 we announced we were getting out of our European dating business to focus on growing Match.com U.S. Five years later we've come full circle, completing our tender offer last Friday to buy in the public minority of Meetic, the clear European market leader. In the interim, we succeeded in growing Match.com U.S. as intended, but also managed to expand across the globe, across devices, across business models, and to institutionalize a set of practices, processes and principles that have allowed us to do these things successfully. We're now the unquestioned global leader in dating, ending 2013 with 30 million active users and 3.4 million paying subscribers, up 500% and 150% since that time 5 years ago.

Our current Match results are solid, with revenue, PMC and OIBA growth coming in at 12%, 19% and 21%, respectively. And our long term outlook hasn't changed from last quarter. Performance should be strong, both for 2014 and beyond. Our diverse portfolio of services, features and business models increasingly allows us to meet each customer's product and price preferences in an optimal fashion, which should enable prolonged PMC expansion on a consolidated basis and rate increases across our various business lines. This should serve as the foundation for long term strong double digit growth rates in this ever-changing space.

And it is changing fast. A couple of examples.

First, adoption. In our current U.S. singles survey, one-third of respondents said their most recent first date was with someone they met online, more than 50% higher than the next biggest source of first dates, which was meeting through friends. More than a third of all relationships that began in the last year started online, up from 20% in 2010, and 10% just a few years before that. Meeting online is now an inherent part of people's lives and the drumbeat will move inexorably forward for the foreseeable future.

Second, it's a category that has ridden the mobile transformation as well or better than any other. At Match.com U.S., 50% of all communications sent between members were sent from mobile devices. At OkCupid, the number was over 60%. In 2010, these numbers were in the single digits. And we're just scratching the surface here in terms of optimizing for geo-specific features, customer acquisition through mobile channels, etc. Some of our other businesses like People Media and Meetic aren't quite as far along the trajectory. Some like Tinder are further. But 2014 is full of mobile product enhancements across the board, which we expect to lead to even greater engagement and customer acquisition. From an overall portfolio perspective, we are reaching a world of device agnosticism, offering the best experiences regardless of the device you want to access them through.

These changes and many others have created the opportunity for our portfolio approach to thrive. Just take our Developing business line as a representation. In 2014 we expect Developing to contribute almost as much profit as Meetic. In 2010, Developing lost money. So we've got this group of businesses growing 50% annually from nothing a few years ago.

And it's not a big investment baby with the hope of a profitable business model somewhere down the line. It's growing while simultaneously contributing meaningfully to the bottom line. So in just four years we've layered on top of the growing subscription businesses this new engine of profit growth, fueling the combined entity's increasing growth rates and changing the profile of the business. We're confident this combination will drive sustained growth well into the future.

And I should point out that Tinder, the new mobile-only product, is included in Developing only as a negative contribution, bringing down the earnings without contributing to the revenue growth, so in some way this is all understated. Tinder's still very much in investment mode, and we haven't fixed on the timing or exact nature of the business model yet, but it's a dating product that has taken off as fast as any I can remember. Right now we're focused on doing the things necessary to make sure it takes root in an enduring way, but if it does, we believe it can also be a meaningful contributor down the line.

Turning back to the numbers, for full year 2014, as we said last call, we expect to see revenue and OIBA growth exceeding 2013 rates, with PMC growth year end to year end slightly lower. On a quarterly basis, similar to 2013, we expect Q1 to be our weakest quarter on all fronts, just through a confluence of unrelated factors. Some of it's the timing of certain marketing. Some is early work on our dynamic pricing which will ultimately bring rate up but is pressuring it down at the outset. And a big part of it is the re-working of our Yahoo deal, which has reduced volume into our acquisition funnel substantially, and we'll feel the biggest impact there in Q1. So we expect Q1 to see revenue growth dipping into the high single digits, OIBA being roughly flat, and PMC growth being low teens, with each of these increasing in the remaining three quarters netting to what should be the best year Match has had in a long time.

I also wanted to hit briefly on the Match Group concept and the businesses in it. We think the practices, processes and principles which help drive dating performance across multiple brands and business models can do the same for certain other online services with similar characteristics. Tutor and Daily Burn are first to the plate. The number one priority is each business' independent path, but over the coming months we'll be increasingly fostering collaboration across businesses in ways we think will reap mid and long term benefits.

Both of these businesses are early stage, and we are investing in both – we put approximately $(15) million in the two together in 2013 and plan to expand that investment this year. For 2014, Tutor is focused primarily on getting the offering right. This business has historically sold its service to institutions like municipal libraries and universities, and the conversion to a consumer focus takes some time. But I'm confident that as we roll into 2015 we're going to be having some very exciting conversations about where it's headed.

For Daily Burn, 2014 is about proving out its unit economics and starting to grow customers, while simultaneously trying to expand its lead in the streaming fitness area. It's prime season for them, post-holiday, and so far it's been going really well. In these early stage businesses, it's tough to predict rates of growth, but we're hoping to increase paying users by as much as 100,000 this year between these two businesses.

Overall, we're really excited about the Match Group. We're starting in three huge categories – dating, health and fitness, and education. These are all areas where consumers look to make a difference in their own lives or those of their families, where quality and trust matter, and where when you deliver on that quality and trust, people are willing to pay top dollar and stick with you for a long time. We think opportunity continues to abound in dating, and that we're just beginning to scratch at fitness and education, so we're expecting a lot of growth and energy going forward from the group.

With that, I turn to Joey for his thoughts on Search and Apps.

<u>Search & Applications—Joey Levin</u>

Thanks, Greg. It's a pleasure to join you all here on this call.

I'd like to take this opportunity to thank all the employees across the globe working in the Search & Applications segment for their hard work in 2013. We saw our share of volatility over the course of 2013, and we took every change in stride. We absorbed pricing hits, adjusted our practices to accommodate changing policies, and still posted a year with almost double digit gains in revenue and 17% year on year growth in OIBA. Q4 in particular was a true testament to the strength and resiliency of our team, as we almost immediately resumed sequential growth after the pricing reset discussed last quarter. And that track record has given us the confidence to put more capital to work here.

With our recent acquisition of Investopedia and the other assets from ValueClick, I think it worthwhile to spend a few minutes on our current strategy for the content properties and where we're headed with these sorts of acquisitions. In the ValueClick deal we acquired high quality content sites and healthy cash flow at around 5x run-rate pre-tax income, which I consider very attractive both strategically and financially. We now have a significant portfolio of high quality content properties in addition to Ask.com that includes About.com, Dictionary.com, Investopedia, UrbanSpoon, and others. Combined, the profit generated by sites other than Ask now exceeds the profit generated by Ask within our "Websites" group. While each of these content properties is separate, they generally share traits such as a predominant portion of traffic coming from free sources, anywhere from 30% to 60% of traffic from mobile and tablet, and a mix of ad revenue sources that includes search sponsored listings. With our distribution and monetization platform, I think we have a unique ability to buy, build and run these properties, and will continue to seek out more opportunities in this category.

The latest additions, principally Investopedia and Pricerunner, both have a nice and steady source of free traffic driven by compelling content in their respective categories and geographies. We see clear opportunities to improve monetization, and we'll also be able to re-invest some of that upside into the product to set it up for future growth. We're essentially working from the playbook we assembled over the last year with About.com, and see a lot of similarities as we have begun integrating the acquisition.

Looking back on About.com, we've advanced a lot over the past year. Step 1 was to change the monetization, which I think we've done well. Within a year we had revenue per page up close to 20% over pre-acquisition levels by consolidating About.com under our monetization infrastructure and by deploying best practices in page layout and optimization tools. Step 2 was to bring incremental audience to About.com. Between profitable marketing efforts we've initiated at About and traffic we've sent from Ask and other internal properties, we are now sending 30 million pageviews to About.com on a monthly basis that simply didn't exist before. We've confirmed our belief that we can drive audience to these kinds of properties. And all of that contributes to growth with revenue now up over 35% since we bought it.

Of course underlying all this, we've revamped About's technology and brought in an almost entirely new team under the leadership of Neil Vogel. And we still have a lot yet to do. So I'm pretty excited about what we've accomplished there and the potential looking forward. I'd like to see a similar trajectory with the assets we bought from ValueClick. And all of these properties continue to help improve the user experience at Ask.com by providing proprietary access to great content that integrates nicely with our Q&A focus.

At Ask, we grew queries 25% in 2013 over 2012 while navigating the advertising changes in October 2012 and the pricing changes we saw in Q3 2013. With those issues behind us, the sequential outlook for 2014 looks strong. In just a few months we refined our product, adjusted our marketing efforts, and have returned to sequential growth, based largely on the fundamental value in Ask's approach on Q&A and the degree to which our brand resonates strongly with consumers. Our marketing is also starting to succeed on longer term brand objectives, with the percent of users who say they visit Ask because they want to ask a question up 22% year over year according to our surveys. We've continued to make strides from a product standpoint in terms of increasing relevance and authority as we grow our proprietary smart answer coverage, up 40% year on year, and we've advanced our international product with 27 sites now across 14 languages. We have a nice size business in Japan and promising starts elsewhere. We've also successfully shifted more and more of our marketing spend in the US away from agencies to direct, which gives us more control over the user experience and should also improve margins over time.

So in 2014 for Websites overall, I am very pleased with the direction our product is headed and our ability to drive growth. We've cleared some bumps in the road and we expect to grow sequentially every quarter from Q1, driven by improved product, more efficient marketing, and mobile, where we're seeing nice traction. Mobile now comprises 40% of our pageviews in Websites overall, up 30% year over year.

I'm also pleased with the performance of our Applications businesses in 2013 – especially considering the policy changes which shifted the market in 2013. We grew our queries 15% for the year and our revenue 8% in the face of these changes – led by our owned and operated B2C business, which has strong double digit revenue growth. We were able to grow Applications revenue sequentially in Q4 coming out of the policy changes and expect to do so throughout 2014 as well, largely on the strength of B2C. International markets have been a big key to our growth as well, driving over 2/3 of our revenue growth in 2013. We continue to see big opportunities to spend marketing dollars efficiently, leading to accelerating growth, so we will continue to seize those incremental opportunities where we can find them. That will lead to tighter margins in Q1, but we'll see the benefit of that spend throughout the remainder of the year. We have not as yet seen a break in the B2B competitive environment – but we continue to be optimistic that our position as the quality partner of choice will give us the platform for growth there as well. So again, the changes in 2013 reset our baseline and led to lower nominal growth for the year, but we are now growing nicely in 2014.

So, entering 2014 for the segment overall we have a strong and growing portfolio of branded content websites with significant mobile traction, we will have Ask growing again sequentially, and we believe the opportunities exist to add more high return acquisitions. We also have an applications business generating significant cash flows which we expect by the back half of this year to return to healthy year on year growth rates. Thank you.

Local Media and Other—Jeff Kip

Thanks, Joey. We obviously feel that both the Match Group and our Search & Applications businesses are positioned well for growth in 2014, and are investing accordingly earlier in the year to drive full year results.

As I noted previously, the Local, Media and Other segments combined had $630 million in revenues and approximately $(21) million in total OIBA losses in 2013. The three segments are made up of several smaller businesses that we believe have a great deal of promise. Greg gave you commentary on the two businesses moving to the Match Group – Tutor and Daily Burn – and the investments we are making there. We also expect investment across the remaining Local, Media and Other businesses to be in the low double digit millions of dollars in aggregate in 2014. I'll now touch on a few of the businesses in the three segments.

First, Vimeo has tremendous momentum – unique viewers are up nearly 60% year over year to 130 million in December and mobile viewers grew nearly 200% in 2013 and are now nearly 45% of all unique viewers. We have seen unique viewer growth rates accelerate through the year on both desktop and mobile. Vimeo became the #2 dedicated video sharing property to YouTube in the quarter, passing both Yahoo! and Daily Motion for total viewers. Vimeo's global video sharing platform is differentiated from other category leaders because it offers creators of all levels simple, professional-quality tools to share HD video and a secure, uncluttered environment with zero pre-roll advertising. The Vimeo platform has attracted a broad group of quality-minded creators who have uploaded a significant and growing catalog of impressive independent content - which in turn has attracted a very large and rapidly growing viewing audience. Vimeo is only starting to realize the opportunity it has with its audience through Vimeo on Demand, which allows creators to offer paid content to viewers directly - without any advertising. Vimeo on Demand had nearly 5,000 titles at year end, and we expect that number will continue to grow – and we expect to continue to invest here.

Also in Media, Electus enjoyed a year of tremendous revenue growth, and we have recently integrated Electus and CollegeHumor together under the same management and are excited the potential of the digital business there. The Daily Beast readership also continues to grow significantly, reaching an all-time high in January with approximately 16 million unique visitors.

In the Local segment, HomeAdvisor had a difficult year from a financial standpoint in 2013, but we are very happy with the re-branding and the improvements that have been made to the consumer and service professional experiences, and we have seen a rebound in the business. Lead acceptances improved sequentially in the 4th quarter, our service provider network has grown for two consecutive quarters, and our service requests grew year-over-year in January for the first time since 2012. HomeAdvisor is now enrolling its network members in a subscription plan and after a little more than a quarter of full rollout, nearly 20% of all SPs are now members, driving improvements in satisfaction, retention, and lifetime value. Our TV advertising delivered impressive ROI in 2013 – and we will expand those efforts significantly in 2014, leading to solid top line and significant bottom line growth for HomeAdvisor this year. With well over $200 million in revenues in 2013, HomeAdvisor is as significant a player in its market as any competitor, and we think it has real potential going forward.

Use of capital—Jeff Kip

Let me conclude briefly with our use of capital in the quarter and then we will take your questions. Our priorities remain the same as they have been:

We want to deploy capital in high-return or high growth acquisitions and investments, both for add-ons to existing businesses such as the recently closed the ValueClick acquisition and the Meetic minority buy-in, and in new businesses with great potential such as our recently increased investment in Aereo.

We also will continue to buy in our shares opportunistically – we completed $96 million worth of buyback in the 4th quarter at a price of $58.25 per share, capping a year in which we repurchased $229 million worth of shares at an average price of $50.63 per share.

Finally, we will continue with our dividend policy, under which we are currently paying $0.96 per share – we paid out a total of $79 million in 2013.

All in all, we returned over 95% of our free cash flow to shareholders in 2013, and with over $300 million in acquisitions and investments, including Meetic and ValueClick, we used nearly 2x our FCF in acquisitions, buybacks, and dividend. We continue to see many opportunities to deploy capital effectively – thus we also raised an additional $500 million in debt in the 4th quarter at a very attractive rate.

With that, let's go to your questions.