IAC Q2 2022 Shareholder Letter

August 9, 2022

Dear Shareholders,

In the August heat of summer, awaiting my kids' return from summer camp, I noticed the daily notes from the camp's director struck a familiar chord. As parents, we want to know first and foremost that our children are safe, but we also need to trust that they're well looked after by leaders with our values, growing healthily every day, and trying new experiences that we might not be able to provide them on our own. The camp director's regular reminders of why we send our children to camp are a comforting affirmation to keep them there.

I'll not equate your capital to your children by any stretch, so forgive the analogy, but many of the same principles apply. Communication is key to our shareholders' peace of mind. We want our shareholders to feel their capital is safe with us, that our values align with long-term value creation rather than short-term trading, and that it's our responsibility to help that capital grow healthily by building businesses and creating opportunities our shareholders may not have the chance to access on their own.

Like the weather at camp, the macroeconomic forecast isn't always sunny and while we can't be certain where the economy is going, we need to be ready for the occasional rain. IAC is currently in the fortunate position of being both diversified and well capitalized as the macroeconomic environment gets tougher, and though not achieving all our recent ambitions, our businesses are holding up relatively well. We have high conviction in our three largest majority-owned businesses (Dotdash Meredith, Angi, and Care) and our two largest minority investments (MGM Resorts and Turo), and as we often say, we still have much to prove. We'll share with you our small window into the economy with the latest data on what IAC companies are experiencing and, in turn, how we are responding. The most pronounced trend so far is a notable disparity in behavior between consumers and businesses.

Consumer Behavior & Demand

Consumer spending across IAC has not yet slowed as much as spend by enterprises. Dotdash Meredith properties, for example, saw a 20% lift in Prime Day affiliate commerce revenue in July 2022 over Prime Day in June 2021 and so far in Q3, our performance marketing and commerce revenue (directly tied to consumer purchases) is outperforming display advertising (tied more closely to corporate spending on brands). Within Dotdash Meredith, we've also seen a pronounced shift in consumer interests. Our Home and Financial sites, which were big winners in 2020 and the first half of 2021, have seen 20% year-over-year declines in traffic while Travel, Entertainment and Beauty properties saw 10% traffic growth. Consumer spend at Turo and MGM Resorts' properties held strong in Q2 as well – MGM posted record profitability thanks to consistent strong demand from the leisure consumer and all-time high average daily room rates for Las Vegas.

Angi's consumers are also spending less time and money on their homes – we speculate a result more of shifting priorities than strained finances – as consumers revert from the extraordinary peak in home spending in the first half of 2021 to more normalized levels today. Service requests were down 10% in the second quarter – keyword search data suggest users are submitting ~5-10% fewer home services queries to search engines than at the same time last year, and fewer users are ultimately converting to monetizable transactions. As we've seen in similar environments in the past, Angi tends to enjoy a natural hedge as service professionals rely more on the platform to deliver customers when demand for home services contracts, and we've seen service professionals return spend to the Angi platform, driving a portion of the 32% increase in Revenue per Transacting Service Professional in June. Plus, most consumer demand on our platform is for non-discretionary jobs such as leaks and repairs, which don't wait for the economy. In Angi Services, where users book and pay for completed jobs directly on our platform, revenue growth slowed in July, but we believe mostly due to our own actions (more on that below).

Care's consumer business may be one area showing early elements of a slowdown in consumer spending in May and June – 30% growth in subscribers through April turned to 18% in June. We've seen small declines in traffic, conversion and renewal, perhaps due to consumers making small lifestyle changes with rising inflation, but we haven't seen evidence of lost ground competitively. Back-to-school in the fall is a key seasonal market for Care, and the trends will be clearer over the course of the third quarter.

Corporate Demand

Across the IAC businesses, we clearly saw companies put the brakes on spending in June:

- Dotdash Meredith saw a rapid pullback in ad spend among its Retail, Consumer Packaged Goods and Food customers with ad rates overall now declining year-over-year in June vs. growth each preceding month in 2022.
- Demand for labor paints a mixed picture: Bluecrew worker-shifts requested by its client base in June was flat year-over-year following strong growth earlier in the year and now declining in July, led by Retail, Warehousing and Logistics customers, while Vivian's healthcare job volumes continue to grow steadily.
- Care's Enterprise business has seen corporate customers defer procurement decisions, although the second quarter is a relatively light period for new sales and renewals.

Whether out of fear, data, or opportunity, companies are clearly cutting spend well ahead of the consumer. In response, we've slowed hiring and reduced discretionary spend, and shifted the balance a little further in the direction of profitability versus growth. We still build businesses at IAC, and we believe long-term investment in innovation generally prevails – we just need to prepare for an environment where customers have less money to spend.

Dotdash Meredith

Eight months into it, our confidence in the combination of Dotdash and Meredith has grown. The original Meredith digital properties have the latent potential we expected, unleashed with faster sites, fewer ads, and better content, and the cost structure offered more savings than forecasted. On most topics we cover, we remain the best free, unbiased, independent content destination available to help a consumer make purchase decisions, and if we continue to innovate in this area, we have a winning business. We're not overly vexed by the near-term cyclicality of ad sales if we can start to grow audience, and recent delays in our digital migration due to hiring and technical challenges put us behind schedule but haven't taken us off the path.

Last quarter we shared the promising early results from the first digital migration to the Dotdash platform, Health.com. We have since migrated six additional properties, reaching 75% of total traffic, with similar site speed improvements, reduced ad loads and increased ad rates. As expected, the audience lift with these migrations takes time to develop but our history here has been consistent with meaningful traffic appreciation over time. We had hoped to have nearly all the Meredith properties migrated by this point, but we'll finish in Q3 and the benefits will show up more in 2023 than 2022.

Our leaner Print portfolio, where seven key category-leading titles now comprise almost 90% of print advertising revenue, did better than we expected, with Print advertising revenue on our remaining titles up 3% year-over-year in Q2. We still need to add more rigor to the sales process across the organization, but we've already taken big strides organizationally, and we now have a seat at the adults' table for digital ad sales. Dotdash benefited from the underdog mentality for a long time, and the combined company is now making that transition from challenged to challenger.

Current realized cost savings from the merger are nearly $100 million annualized, well ahead of our acquisition case, although the Adjusted EBITDA impact won't show up fully until we get Digital revenue growing again. We still expect around $300 million in Adjusted EBITDA this year and should have a clearer view on next year as traffic and advertising trends evolve over the next few months, but we won't reach $450 million Digital Adjusted EBITDA by next year. The last two months' trends make 15-20% year-over-year digital revenue growth unlikely by the end of the year given the softness in premium advertising, so we still have work to do once we turn growth around. Nonetheless, we should deliver real traffic growth and tactical monetization improvements from here based on the content upgrades and platform migrations to date and expect the opportunities to grow once we get momentum on our side again.

Angi

After a challenging two years, we are starting to see the light at the end of the tunnel, and we're reasonably confident it's not another train approaching head-on. We endured the pandemic, the rebranding and significant investment in Angi Services, and Angi is now well positioned to generate steadily improved profitability and grow revenue in a declining demand environment.

The Ads and Leads business returned to growth in Q2 after nearly a year of declines following the Angi re-brand last year, and traffic to the Angi brand continues to steadily improve. While we expect consumer appetite for home services to remain below the elevated levels of the last 18 months, we are seeing higher service professional engagement within Ads and Leads and, as the re-brand fades in the distance, we believe Ads and Leads is a growth business from here.

The improvement in total Angi profitability also came from reduced losses at Angi Services since passing peak investment last quarter. Angi Services still delivers our highest customer satisfaction product, with service professional engagement holding as we've scaled and repeat usage per homeowner well above Ads and Leads. Although Services revenue growth is now slowing in Q3 as we optimize unit economics with the data gathered as we built, we are comfortable slowing growth to lift margin per transaction – a healthy tradeoff. We went too far in some areas – notably roofing, which will decline in Q3 as a result – and probably not far enough in others. Also, a significant driver of the revenue deceleration is simple math: the four quarters preceding Q3 of this year included revenue from the roofing acquisition in the current period but not in the prior year period, a growth benefit which ended in June. Meanwhile, the rest of our Services business grows nicely, and we believe we can still improve margin meaningfully overall, while far outpacing growth in the category.

Capital

We are always looking for long-term value opportunities in companies we love. They're usually category leaders with standout brands and an option on exciting new growth. Up until the last few months, most of those companies had seemingly infinite access to capital and no reason to pick up our phone call. Things have since changed, but we're taking our time, and any analysis on capital allocation begins with looking at the companies we know best: shares of IAC and our other businesses. So far, we've effectively invested a little more into all of them by purchasing $59 million worth of IAC shares in Q2, our first repurchases of IAC shares since 2018, as we believe the embedded value of the portfolio represents a compelling opportunity to buy in the stock. Fortunately, we haven't emptied our wallet yet. IAC has $1.2 billion of cash and no debt at the parent level, and now's a good time to have capital, conviction, and a long-term view.

While we're relieved to be past the phase warped by limitless capital (though it certainly had its benefits), we still have severe geopolitical uncertainty and are navigating the multiyear impacts of a pandemic and unprecedented fiscal and monetary stimulus, followed by significant inflation for the first time in many of our careers. We know we cannot predict the future, we can only execute against building a future we'd like to see. So that's what you can expect us to do – we will invest in the products and the people to build great businesses, knowing that in any economy, customers have fundamental needs which our businesses, with appropriate time and capital, can solve. And when most of the world is pulling back, we'll look for areas to push forward, into our existing businesses or beyond.

The only thing we've ever done consistently at IAC is do things differently. As part of the continuous progression of change at IAC, it's perhaps worth noting here to avoid confusion that we'll become IAC Inc. (and no longer IAC/InterActiveCorp) effective later this week. We've been "IAC" for a while now – it was time to make it official.

Sincerely,

Joey Levin
CEO

2022 Monthly Trends through July [(a)]:

	Jan '22	Feb '22	Mar '22	Apr '22	May '22	Jun '22	Jul '22
Dotdash Meredith							
Digital Revenue	248%	226%	219%	227%	225%	207%	243%
Print Revenue	NM	NM	NM	NM	NM	NM	NM
Total Revenue	**684%**	**683%**	**634%**	**618%**	**582%**	**504%**	**575%**
Pro Forma Digital Revenue	2%	0%	-8%	0%	-3%	-18%	-12%
Pro Forma Print Revenue	-11%	-10%	-5%	-25%	-16%	-36%	-27%
Total Pro Forma Revenue (b)	**-5%**	**-7%**	**-6%**	**-16%**	**-10%**	**-28%**	**-20%**
Angi Inc.							
Angi Ads and Leads	-2%	1%	-7%	-2%	8%	11%	7%
Angi Services (c)	91%	132%	102%	111%	108%	103%	18%
Total North America Revenue	13%	20%	10%	17%	26%	29%	10%
Europe Revenue	0%	-3%	-8%	-7%	-6%	-1%	6%
Total Revenue	**12%**	**18%**	**9%**	**16%**	**24%**	**27%**	**10%**
Angi Service Requests	-5%	-11%	-20%	-14%	-7%	-8%	-9%
Angi Monetized Transactions	-2%	-2%	-14%	-8%	-3%	-5%	-7%
Angi Transacting Service Professionals	-2%	-3%	-4%	-4%	-3%	-2%	-3%
Angi Advertising Service Professionals	-5%	-6%	-11%	-7%	-7%	-8%	-7%
Search							
Ask Media Group Revenue	48%	37%	22%	8%	25%	9%	-6%
Desktop Revenue	-20%	-19%	-22%	-13%	-17%	-30%	-34%
Total Revenue	**33%**	**25%**	**14%**	**5%**	**17%**	**2%**	**-11%**
Emerging & Other (d)							
Total Revenue	**13%**	**1%**	**13%**	**12%**	**4%**	**3%**	**7%**

(a) As of the date of this document, the Company has not yet completed its financial close process for July 2022. 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) Pro Forma reflects the inclusion of Meredith revenue for all periods prior to the to Meredith acquisition on December 1, 2021. Meredith's programmatic advertising revenue hasbeen presented on a net basis to conform to IAC's accounting policies.

(c) Includes revenue from Angi Roofing, which was acquired on July 1, 2021.

(d) February, May and December 2021 include revenue from IAC Films projects recognized during the month.

Webcast and Conference Call Details

IAC and Angi Inc. will livestream a joint video conference call to answer questions on August 10, 2022 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.

Non-GAAP Financial Measures

This letter contains references to certain 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.

Dotdash Meredith FY 2022 Operating income to Adjusted EBITDA Reconciliation:

($ in millions)	**FY 2022 Outlook**
Operating income (a)	**$20-$35**
Amortization of intangibles	190-200
Depreciation	55-60
Stock-based compensation expense	20
Adjusted EBITDA (a)	**$300**

(a) Excluding restructuring and transaction-related items associated with the acquisition of Meredith.

Cautionary Statement Regarding Forward-Looking Information

This letter and the livestream, which will be held at 8;30 a.m. Eastern Time on Wednesday, August 10, 2022, 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, 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) adverse economic events or trends that adversely impact advertising spending levels, (viii) risks related to our Print business (declining revenue, increased paper and postage costs, reliance on a single supplier to print our magazines and increased pension plan obligations), (ix) the ability of our Digital business to successfully expand the digital reach of our portfolio of publishing brands, (x) our ability to establish and maintain relationships with quality and trustworthy service professionals and caregivers, (xi) the ability of Angi Inc. to successfully implement its brand initiative and expand Angi Services (its pre-priced offerings), (xii) our ability to engage directly with users, subscribers, consumers, service professionals and caregivers on a timely basis, (xiii) our ability to access, collect and use personal data about our users and subscribers, (xiv) 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, (xv) risks related to our liquidity and indebtedness (the impact of our indebtedness on our ability to operate our business, our ability to generate sufficient cash to service our indebtedness and interest rate risk), (xvi) our inability to freely access the cash of Dotdash Meredith and /or Angi Inc. and their respective subsidiaries, (xvii) dilution with respect to our investment in Angi Inc., (xviii) our ability to compete, (xix) 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, (xx) our ability to build, maintain and/or enhance our various brands, (xxi) the impact of the COVID-19 outbreak on our businesses, (xxii) our ability to protect our systems, technology and infrastructure from cyberattacks and to protect personal and confidential user information, (xxiii) the occurrence of data security breaches and/or fraud, (xxiv) increased liabilities and costs related to the processing, storage, use and disclosure of personal and confidential user information, (xxvi) the integrity, quality, efficiency and scalability of our systems, technology and infrastructure (and those of third parties with whom we do business) and (xxvii) changes in key personnel. 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.