IAC Q2 2023 Shareholder Letter

August 8, 2023

Dear Shareholders,

In our last two shareholder letters, we outlined our "Back to Basics" operating theme for 2023 and addressed the embedded discount in IAC shares relative to the value of our private companies, cash and publicly-traded securities. At the risk of perhaps being too "basic," those two topics remain front and center, and the actions we've taken on both so far appear to be working.

On the discount, we captured some value for long-term shareholders, having purchased 3.2 million shares between February and May at an average price of less than $51 per share, putting over $165 million of cash to work. Those shares are worth over 30% more today. We should not judge share repurchase success on a time horizon of just one quarter, but shares being up on the investment to date certainly feels better than down.

The discipline of "Basics" seems to be working too: profit margins and earnings growth has delivered another solid quarter of improvement, and our two largest businesses, Angi and Dotdash Meredith, have both now turned the corner on profit growth. Generally, we are achieving the objectives we set at the beginning of the year. Despite no significant improvement in the broader advertising market, we accomplished three essential goals at Dotdash Meredith during the second quarter: we grew Digital revenues with a stable audience year-over-year in the month of June, we grew Adjusted EBITDA (slightly) year-over-year for the quarter, and we delivered on a forward projection. At Angi, we're still in the range of the full-year Adjusted EBITDA we forecast last quarter, and though revenue declined more than we had planned in Q2, the reality for much of the lost revenue is "good riddance" as we continue to take specific actions to eliminate low-value revenues and improve the quality of our service for long-term benefit. We're far from our aspirational future steady state at Angi and Dotdash Meredith, but we like the progress in evidence.

The Search segment is also stabilizing, with revenue and profit back to sequential growth in the quarter, and we've cut losses and grown profits throughout the Emerging & Other segment. In aggregate, we're building our cash balance again, and our two significant minority equity investments, MGM Resorts and Turo, are both growing admirably. As always, the IAC story is best understood as a sum of several parts.

Dotdash Meredith

Digital revenue for the quarter was down 10% year-over-year, but we returned to year-over-year growth at the end of the quarter with June revenue up 1%. Stability in traffic helped, as did passing the toughest of last year's advertising comparables. The table below summarizes the traffic performance relative to integration expectations across these digital properties:

Primary Brands	Months Post-Migration	Traffic Status
Health	15	🟢
Parents	14	🔴
InStyle	13	🔴
Travel & Leisure	13	🟢
Shape	12	🔴
Better Homes & Gardens	12	🟢
People	11	🟡🟢
Real Simple	11	🟢
Food & Wine	11	🟢
Southern Living	10	🟢
Allrecipes	10	🟢

Months Post-Migration	1	2	3	6	12	18	24
Expected Traffic Growth	-6%	-5%	0%	10%	20-30%	40-50%	70-100%

We are also seeing continued traffic improvement in key original Dotdash properties like Investopedia, The Spruce and Verywell Health, which aren't shown in the chart above featuring the acquired Meredith titles. Those Dotdash properties have passed their toughest post-pandemic audience comps and are in position to grow in the back half of the year. As we are now more than a year-and-a-half past the closing of the Meredith acquisition, we are going to sunset the chart above in favor of traffic disclosure that better aligns with how we monitor the business: aggregate traffic trends rather than traffic only on the acquired Meredith sites.

Our brands continue to build momentum and cultural capital in a way the humans at Dotdash Meredith are uniquely capable of delivering. In the quarter, our expert chefs and household cooks tested or created over 1,500 recipes, and expert reviewers rigorously evaluated more than 2,000 products ranging from air purifiers to smokers in our fully-equipped product testing labs in Des Moines, Birmingham, and New York. This quarter we marked the 40th Anniversary of the Food & Wine Classic in Aspen with our biggest execution of the iconic event yet. We relaunched the new InStyle digital-only property with its first issue featuring cover star Quinta Brunson, one of 19 digital issues across brands including PEOPLE, Byrdie, Travel & Leisure, and Better Homes & Gardens, bringing new digital life and beautiful execution to the beloved "cover" concept. We announced this year's Travel & Leisure World's Best Awards and debuted the Southern Living Idea House in the last few weeks – both tentpole brand franchises are on track to reach their largest digital audiences ever across our proprietary websites and social media.

The advertising market overall remains soft, with the programmatic market down about 5-10% year-on-year. Retail, Beauty and Style, Travel and Auto sectors are growing, offset by ongoing weakness across Finance, Technology, Telecom and Entertainment. The prior year comparables will continue to get easier over the coming months, but extended Hollywood strikes will likely significantly reduce spend from the Entertainment and Streaming categories. While we can't count on any aggregate recovery in the ad market, we do expect Dotdash Meredith to benefit from D/Cipher adoption, Performance Marketing strength, and more ad performance optimization on the former Meredith sites.

- <u>D/Cipher:</u> Launched in May to address a cookie-less advertising market, D/Cipher is a platform that delivers scaled targeting and transparent performance metrics across our brands based on a user's intent, without any personal identifiers. Advertisers can target specific interests, not specific individuals, and it works across all content and devices, including cookie-less platforms like Apple's iOS, where sizeable audiences (estimated to be more than half of the US digital population) have been unreachable by advertising cookies for the past two years. We've closed a number of premium ad deals so far across Automotive, Pharma, Food, and Retail.

- Performance Marketing: Fundamental to the Meredith acquisition was applying performance marketing capabilities to premier publishing brands. Our writers, editors, and tastemakers have been helping readers for a century find the best consumer products across multiple categories where we've developed unique expertise. Without compromising an iota of editorial independence, we create intensely researched and expert guides and generate revenue through deep retailer relationships. Total Performance Marketing revenues grew 12% in Q2, led by 40% growth in affiliate sales of physical products.

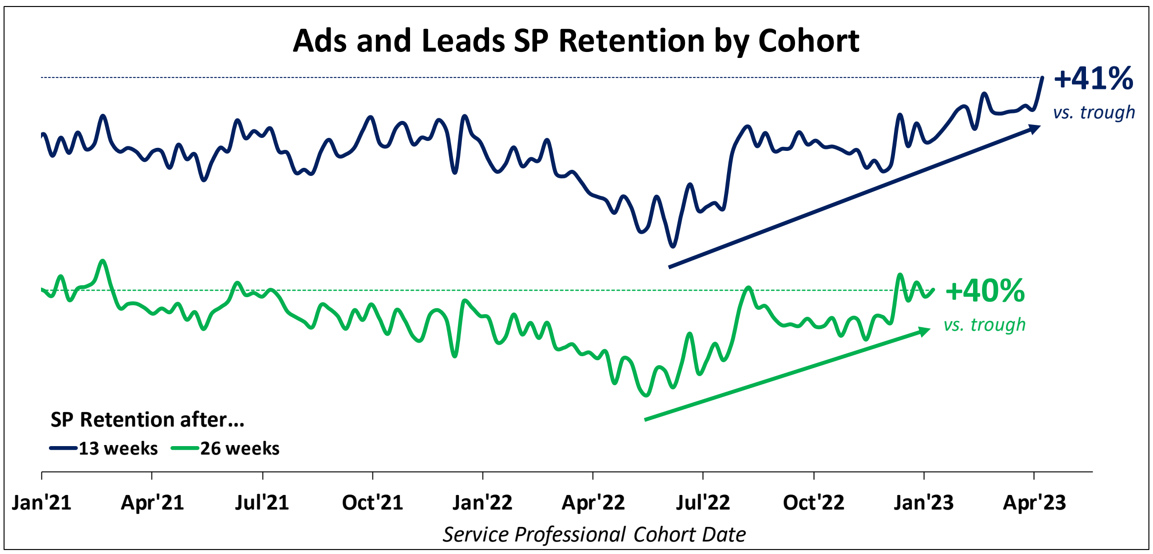
- Advertising Performance: We continue to see steady improvement from removing low-performing excessive monetization. In Q2 this effort began to pay off with our first quarter of rate growth in the programmatic open market since Q1 2022.

Beyond stabilizing key revenue trends, Dotdash Meredith Adjusted EBITDA margins are expanding. On 15% less total revenue, we generated a hair more Adjusted EBITDA in Q2 this year than we did in the prior year when excluding last year's one-time charges (growth is much higher on a reported basis) following several quarters of year-over-over declines. Performance in Q3 so far has been mixed, with growth in the broader Meredith sites and strong Amazon Prime Day sales, offset by traffic softness in the Entertainment category and certain partner sites. For the quarter, we expect Digital revenue to be slightly negative but improved on Q2 performance, and Adjusted EBITDA growth to accelerate year-over-year, followed by solid growth in both revenue and Adjusted EBITDA in Q4. We continue to expect $250-$300 million of Adjusted EBITDA for the year (excluding the $45 million non-cash lease impairment incurred in Q1 2023), executing against the things in our control.

Angi

Nine months into leading Angi directly, I know we are on the right path. Of the four big priorities we set out at the beginning of the year (Customer Experience, SEM/SEO, Rationalize Services, and Less Costs/More Cash Flow), three and a half have positive impact in evidence. SEM and SEO are improving, with SEM profit up year-to-date and SEO traffic, while down year-over-year driven by legacy HomeAdvisor declines, continues to be up year-over-year at Angi.com. Services is now healthy and profitable. We've meaningfully reduced costs to generate cashflow. And Customer Experience improvements are now clear for one side of our customer base, the Service Professional ("SP"), with improvements for the other side of our marketplace, homeowners, in the works. Revamping the homeowner experience is challenging but has the potential to be the most rewarding.

The main indicator of SP satisfaction is whether they continue to pay, and I referred to some changes we made to improve this metric in last quarter's letter. The chart below shows more recent and encouraging results:



We are not only getting better each month at retaining SPs, but the impact of those gains grows with age. That means we see more SPs reach the 8-week mark in more recent cohorts than prior cohorts, and the improvement in retention of those same SPs becomes even more pronounced at the 13- and 26-week marks. From a profit perspective, while we won't see much incremental revenue in the current period from those SPs, the extended retention means we can expect revenue in future periods without the associated cost to acquire them.

We can attribute a portion of the results to features released to improve the SP experience, but we can also attribute a portion to bringing better SPs onto our platform from the get-go. In Q2 2023, Ads and Leads acquired fewer SPs than in the prior year but the expected lifetime value of each is 50% higher, so the aggregate lifetime value of SPs added in the quarter was up 11%. Importantly, we did so with a smaller, more effective salesforce leading to a lower cost of acquisition. That means we're spending less to get more, a ratio often referred to as LTV-to-CAC, or lifetime value (LTV) divided by customer acquisition costs (CAC). That ratio for Angi's SP acquisition improved 22% in Q2 2023 vs. Q2 2022, which flows through our income statement over time.

The recent performance of our international business gives us insight on the trajectory of the US business, as the core focus of the European product, elevating the value of a match between homeowner and SP to get a job done well, is the exact same direction we're headed in the US. For the last five years, Jeff Kip and the international team have been quietly toiling away in Europe towards a better consumer product, integrating multiple platforms we acquired. In the process, revenue was relatively flat from 2019 to 2022 and the business did not turn sustainably profitable until Q3 2022. Over that period, we improved two-sided matching, removed certain channels of demand, enabled more flexible customer choice, and migrated 3 of the 4 acquisitions to a single platform. The business turned the corner over the last twelve months, generating $11 million of Adjusted EBITDA in that period (notwithstanding a very challenging macro-economic environment in Europe) and $3 million in Q2 2023. SPs grew consistently, and revenue growth accelerated to 17% in Q2.

No one loves declining revenue, but we've said all year that the actions we have taken to lower revenue are good for our customers, employees, and shareholders. We are still aiming for $100-$130 million of Adjusted EBITDA in 2023 despite the dip in profitability this quarter, with a current bias toward the lower end of that range, and a return to revenue growth next year.

Capital

As important as our cash and equity capital is our human capital. We regularly evaluate the positioning of our companies and our leaders, analyzing strategic clarity, the realization of growth opportunities, and cost management. This sometimes leads to operational pivots, aggressively investing in growth or prioritizing free cash flow. It also can precipitate broader capital allocation decisions, such as spin-offs, mergers, acquisitions, or divestitures. At times it leads us to make management changes, as we did at two important holdings last quarter: Care and Search.

Since IAC's acquisition in early 2020, Care has grown steadily under Tim Allen's leadership, navigating the ups and downs of the pandemic, rebuilding the core platform, improving the quality of the provider base and investing heavily in the Enterprise business. Trailing twelve months revenue is up nearly 80% since we acquired Care, with materially increased profits. This was yeoman's work, as Tim has done several times before, and will provide the foundation for the next chapter of Care's growth. We decided the next stage of growth at Care required a leader with deeper experience in building transactional consumer businesses, and that Tim's operational expertise was needed at Search, our free cash flow machine. With Tim heading to run Search and new hire Brad Wilson starting at Care, we think we now have *two* winners.

Brad was General Manager of HBO Max at Warner Brothers and led Marketing at Disney Streaming, Travelocity and LendingTree after beginning his career many years ago at our Match.com. Care is at a key moment of its development: expanding its industry-leading marketplace from subscriptions to also include a transactional Instant Book offering. Brad's experience both driving transactional marketplaces and growing subscription products made him an excellent candidate to realize the opportunities in front of Care, and he has hit the ground running with a passion for the product and the work Care is doing for families and caregivers.

Tim takes over Search at an important moment in its history: revenue and Adjusted EBITDA are achieving stability following the run-off of its highly profitable Desktop Applications offerings. The key for the unit is continued innovation in digital advertising while maintaining strength in its core search activities. Given Tim's experience with the business and track record managing complex operations for stable growth, we thought of no better leader for Search and are excited to see him build on nearly two decades of profitability.

On other capital allocation, we didn't spend any new cash this quarter beyond the share repurchases, the additional Turo investment and the land purchase disclosed last quarter. We also don't expect new M&A in the immediate future as we continue to focus on internal results, but as always, we are builders, and we'll seize an opportunity if we see one. In the meantime, we'll stick to the basics.

Sincerely,

Joey Levin
CEO

Full Year 2023 Outlook

Please find below our full year 2023 outlook. We confront investment choices every day, and as stewards of your capital, will deviate from this outlook when we have attractive opportunities that drive 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:

(in millions)	**FY 2023 Outlook**
Adjusted EBITDA Excluding Certain Dotdash Meredith Items	
Dotdash Meredith	$250-$300
Angi Inc.	100-130
Search	40-50
Emerging & Other	30-50
Corporate	(100-90)
Total	**$320-$440**
Dotdash Meredith lease impairment (a)	(70)
Stock-based compensation expense	(130-110)
Depreciation	(160-140)
Amortization of intangibles	(220-200)
Total Operating loss	**($260)-($80)**

(a) Includes $45 million impacting Adjusted EBITDA and $25 million impacting depreciation.

Webcast and Conference Call Details

IAC and Angi Inc. will host a joint conference call to answer questions on August 9, 2023 at 8:30 a.m. Eastern Time. The conference call 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, including Adjusted EBITDA Excluding Certain Dotdash Meredith Items, which we refer to as "Adjusted EBITDA" in the case of the discussion regarding Dotdash Meredith above. These non-GAAP measures should be considered in conjunction with, but not as a substitute for, financial information presented in accordance with GAAP.

Adjusted EBITDA Excluding Certain Dotdash Meredith Items is defined as Adjusted EBITDA excluding certain: (1) restructuring charges; (2) transaction-related expenses; and (3) lease impairment charges. We believe Adjusted EBITDA Excluding Certain Dotdash Meredith Items is useful for analysts and investors because it can enhance the comparability of Adjusted EBITDA trends between periods and we use it for that purpose internally. Adjusted EBITDA Excluding Certain Dotdash Meredith Items has certain limitations because it excludes the impact of the expenses referenced above.

Dotdash Meredith Q2 2022 and Q2 2023 Operating Loss to Adjusted EBITDA Excluding Certain Dotdash Meredith Items Reconciliation:

($ in millions)	**Q2 2022**	**Q2 2023**	**Y/y Growth**
Operating loss	**($28)**	**($18)**	**35%**
Amortization of intangibles	49	49	2%
Depreciation	13	17	31%
Stock-based compensation expense	5	6	11%
Adjusted EBITDA	**$39**	**$54**	**38%**
Certain Dotdash Meredith items	15	-	NM
Adjusted EBITDA excluding certain Dotdash Meredith items	**$54**	**$54**	**0%**

Angi International Trailing Twelve Months Operating Income to Adjusted EBITDA Reconciliation:

($ in millions)	**TTM 6/30/2023**
Operating income	**$6**
Depreciation	3
Stock-based compensation expense	1
Adjusted EBITDA	**$11**

Cautionary Statement Regarding Forward-Looking Information

This letter and the conference call, which will be held at 8;30 a.m. Eastern Time on Wednesday, August 9, 2023, 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, advertising networks 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) the ability of our Digital business to successfully expand the digital reach of our portfolio of publishing brands, (ix) risks related to our Print business (declining revenue, increased paper and postage costs, reliance on a single supplier to print our magazines and potential increases in pension plan obligations), (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), while balancing the overall mix of service requests and directory services on Angi platforms, (xii) our ability to access, collect and use personal data about our users and subscribers, (xiii) our ability to engage directly with users, subscribers, consumers, service professionals and caregivers on a timely basis, (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 investments in IAC and 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, as well as geopolitical conflicts, (xx) our ability to build, maintain and/or enhance our various brands, (xxi) the adverse impact of COVID-19 and other similar outbreaks on our businesses, (xxii) our ability to protect our systems, technology and infrastructure from cyberattacks and to protect personal and confidential user information (including credit card information), as well as the impact of cyberattacks experienced by third parties, (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, (xxv) the integrity, quality, efficiency and scalability of our systems, technology and infrastructure (and those of third parties with whom we do business) and (xxvi) 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.