IAC Q4 2022 Shareholder Letter

February 13, 2023

Dear Shareholders,

At the end of every year, we bring together the senior management of IAC's businesses for our Annual Planning Meeting. Over a few days, we complete in-depth analysis of current year performance, review the outlook for the year ahead, and agree on long-term strategic plans for each company. This year, the theme of the conference was "Back to Basics": clear objectives, relentless prioritization, focus on profitability and return on investment. We punctuated the theme by substituting the usual corporate meeting swag with new basic socks and undershirts.

Entering 2022, a message so simple as "Back to Basics" might've sent executives fleeing before they had the chance to put on their free socks. The world was priced for perfection, digital companies broadly focused on growth at all costs, and "basic" was a tacit insult. We'd been expecting what we'd consider a healthy market correction for so long we'd almost forgotten, and the environment made it difficult to see mistakes. A comforting lull set in when everything but interest rates moved in only one direction: up. Our mistakes, however, weren't a product of stretching too far on valuations in allocating capital during a rosy market, but rather a result of underappreciating the tailwinds that the pandemic and rollicking market had invisibly provided to make execution look so easy. We'll not dwell on our failures (nor accomplishments) in this letter as I think we covered them reasonably well last quarter. Across IAC everyone is now focusing 2023 back on basic, fundamental execution. And so far, it's working.

Though the market adjustment is unpleasant, we prefer operating in an environment where risk is recognized rather than one where all trees are assumed to grow to the sky. An IAC that trades at a meaningful discount to the sum valuation of its parts, as it appears today, affords plenty of opportunity to create value. We own leading businesses with scaled networks in large, well-established digital categories and will win in this environment with better operations, better decision making and better capital allocation. That is what you should expect, and we feel confident we will deliver. This letter will lay out the key priorities in 2023 for each of our companies and how going "Back to Basics" can generate real value into the future.

2023 Priorities

Angi

We have four big priorities at Angi this year and expect to make meaningful progress on each, though some will progress faster than others:

- Deliver an **intuitive customer experience**.
- Turn the trend in **SEM and SEO**.
- Rationalize **Services**.
- Operate with **less costs** and **generate more cash flow**.

The above list isn't particularly innovative, and critics could argue that three of these four priorities apply to any Internet business at any time, to which I'd say, you're right! But we nonetheless need to do these four things, we need to do them properly, and if we do them, given our scale, we can make our customers meaningfully happier and generate much better profit at Angi. I don't regret the efforts we made over the last several years to access new markets and transform the homeowner experience – we need to take risks and try new things. I only regret that, in the pursuit of those new opportunities, I believe we lost sight of some of the basics. We will always try to find new markets and elevate the customer experience, but we need to rebuild those essential competencies over the course of 2023.

An **intuitive customer experience** is non-negotiable, and my colleagues at Angi will tell you we've spent most of my first 100 days at the company focused on the customer. We are now collecting Net Promoter Scores throughout the customer's journey, and we've clearly identified both the actions we need to encourage and those we want to curb. Like any business, we earn our margin by simplifying the work for our customers. Right now, we require too much work by the customer on parts of our platform and we're getting the disappointing margin we deserve in those areas. Our product is anchored around the Service Request, Angi's primary tool for matching homeowners with Service Professionals. The Service Request requires real work from homeowners to answer detailed questions. While it saves real effort for the Service Professional and will remain an important part of our platform, we're updating our user interfaces to enable additional forms of interaction between homeowner and Service Professional beyond the Service Request. Reinvigorating interfaces like the directory that once thrived in Angi's history can catalyze more interaction on our platform and deliver incremental value and revenue for customers. Not only can a directory help homeowners connect with Service Professionals beyond a Service Request, we can also reach more customers on search engines (which value our proprietary data) by showcasing directory content earlier in the user journey.

Service Requests have been declining year-over ever since we transformed the brand from HomeAdvisor and Angie's List to Angi in March 2021, although some lost traffic likely resulted from issues beyond the rebrand. Our efforts in Search Engine Marketing (SEM) and Search Engine Optimization (SEO) leave real room for improvement on fundamentals like page speed and conversion. We are making substantial investments in **SEM and SEO** this year, and if our history is any guide, we could see a real impact from some straightforward fixes. We're also getting better at targeting our marketing. Given the current size of the Angi Service Professional network, we don't (yet) need every incremental customer on the Internet. Our focus now is on technology to find the *right* customer, cognizant of where we have Service Professionals ready to serve a homeowner. This technology not only drives better margin, it also drives a better customer experience because our customers get matched more often. We also know multiple marketing channels work in concert, and in 2023 we plan to raise our television spend back above the depressed levels we have pursued since the onset of the pandemic, lifting efficiency across all channels.

In a world of limited resources, we've prioritized our efforts toward more certain impact with the opportunity to scale. One of the things we learned performing $1 billion worth of **Services** projects over the past few years was what works well and what does not. Not surprisingly, the simpler the service, the better we can deliver for both the homeowner and the Service Professional. In Q4, we began to focus heavily on high-volume, repeatable, lower average-order-value jobs, and we will exit the more complex services entirely in 2023. The narrowed category focus means improving job scoping and self-serve tools for homeowners and should help Service Professionals deliver more accurate pricing and set up projects for greater success: fewer cancellations, higher repeat use, and better margins. Services will remain an essential element of our future product offering, but we are now focused on the areas where we can delight more consumers with more certainty.

Narrowing our focus allows us to operate with **less costs**. We've cut over $100 million of combined annual operating expenses and capital expenditures and our January 2023 run-rate spend on product development (including capital expenditures) is down 34% from our peak in Q2 last year. We now have a smaller, elite team set up to execute well. Profitability and free cash flow ought to improve meaningfully this year as we drive higher gross margin revenue lines, eliminate inefficient operating expenses, and rationalize excessive capital expenditures – a trend that began to materialize in the fourth quarter, as the business posted 6% total revenue growth, 8% gross profit growth and $16 million in Adjusted EBITDA. Revenue growth is harder to predict as we're making real product changes that impact not only the accounting, but also the relative product presence of each line of business. For now, we're focused on delivering $60 to $100 million of Adjusted EBITDA in 2023 and will consider the revenue tradeoffs as the year progresses.

As we pursue this plan, we have adapted our public disclosures to align with changes to the business and make operational and financial progress clearer by segment. Beginning in 2023, we will report Services revenue on a Net rather than Gross basis, which among other things makes it easier to compare with the Ads and Leads business. With a clear picture, you'll see the good and the bad – which is exactly our intention.

Dotdash Meredith

The ad market softened appreciably in November and December, as many brands froze their marketing spending in a season when budgets normally peak. We saw this trend in both premium direct and programmatic demand, with large holiday campaigns significantly cut back and programmatic CPMs down 10-15%. Consumer internet traffic also trailed the prior year's exceptional numbers, and overall traffic underperformed our expectations, particularly at the historical Dotdash sites. However, the benefits of our investments in faster site speed, reduced ad load and improved content quality at the former Meredith sites are beginning to surface. After organic traffic declines in much of 2022, these acquired properties are now broadly showing stability and growth in traffic while also proving out our thesis that they are ideal sites to integrate the Dotdash ecommerce-content strategy. Ecommerce conversion was excellent across the platform in Q4, with consumers spending solidly on goods at Dotdash Meredith's retail partners, but unfortunately not enough to offset precipitous declines in certain Performance Marketing categories like insurance and investing. In retrospect, the crypto spend wasn't sustainable… who knew?

We updated the traffic chart from the Q3 shareholder letter for the latest on post-migration performance, which appear largely on track, with notable strength in *People*, *Southern Living*, *Real Simple* and *Travel & Leisure.* Of course, the revenue impact of the traffic is muted by the ad market backdrop.

Primary Brands	**Months Post-Migration**	**Traffic Status**
Health	9	🟢
Parents	8	🟡
InStyle	7	🔴
Travel & Leisure	7	🟢
Shape	6	🔴
Better Homes & Gardens	6	🟢
People	5	🟢
Real Simple	5	🟢
Food & Wine	5	🟢
Southern Living	4	🟢
Allrecipes	4	🟡

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

For 2023, our key priorities build off the completion of the integration. We do not expect the advertising market to substantially improve in the near term and anticipate a challenging first quarter but believe we can stabilize the financial picture on the Digital business at some point in the second quarter and begin to grow Digital revenue again in the second half of 2023. Our specific 2023 objectives are:

- **Traffic**: drive stability and then growth by continuing to execute the playbook across the former Meredith properties and investing in content across our entire portfolio; for the year, we see total traffic trends turning positive in the second half of the year and overall growth for full-year 2023.
- **Monetization**: drive premium, digital ad sales across the integrated sales force offering advertisers brand-safe contextual scale paired with audience intent across the most valuable categories on the Internet. Programmatic ad yield should improve in a steady state, but we'll need to see how the ad market plays out over the course of the year.
- **Cost Base**: continue to drive cost efficiencies across the portfolio with expanding Digital margins in 2023, while managing Print profit to offset Corporate expenses.

Care

Care delivered a solid year of 10% revenue growth, despite slowing consumer demand and lapping challenging Enterprise comparables driven by robust corporate demand for back-up care during the pandemic. Three years post-acquisition, investments in platform, product and people should position Care for continued steady growth in revenue and profitability, driven by:

- **Improve Retention of Families**: our new Instant Book platform should help match a caregiver with a family faster, lifting both usage and frequency, and welcome more families to the platform.

- **Drive Caregiver Success**: with better matching and increased communication capabilities, Care can be the primary destination for caregivers to find families and independently manage their careers.
- **Growth in Enterprise Clients and Utilization**: offer new services to drive utilization by client employees and adoption in existing clients while growing new sales in an underpenetrated market.

Vivian

Vivian, a leading health-care jobs marketplace focused on simplifying the hiring process for health care professionals, agencies and hospitals, more than doubled revenue in 2022. Vivian continues to see increasing demand from professionals (with one of the largest active networks of travel nurses in the US), agencies and hospital systems, positioning it for another strong year of growth in 2023. Key priorities for the year are:

- **Drive Increased Clinician Loyalty**: through improved product, loyalty programs and credentialing, position Vivian as the essential career-management tool for health-care employees.
- **Scale Transaction Volumes with Agencies**: continue to improve speed and quality of nurse placement for agencies to capture greater share of existing agency spend.
- **Build Presence in Permanent Job Market**: expand from our strength in travel nurses to capture more permanent job listings from health-system customers.

Capital Allocation

While our primary focus is on execution at our businesses, IAC is a capital allocator and M&A continues to be essential our strategy. We believe the current environment is attractive for deploying capital because, for the first time in a while, prices for growing companies with risk once again reflect an opportunity to create value when we get the thesis right. We are analyzing new opportunities as both standalone companies and combinations with our existing companies and see three main categories of opportunities:

- Unloved public companies: whether former SPACs or small IPOs, markets are littered with companies facing little coverage or interest, similar to Care when we acquired it.
- Diamonds in the rough: the excesses of the last few years have led many companies to pursue too many initiatives with too much spending, losing sight of the "Basics". Investors have little patience for companies to rationalize their costs, but we can look through muddled P&L's and see real value, like we see at Angi.
- Small-ish private companies will face increasing liquidity challenges as the year progresses and could offer attractive opportunities for both investments and acquisitions, just as Turo did when we invested in 2019.

Capital deployment is always unpredictable and lumpy, so we won't set a specific timeframe. As always, we evaluate any new opportunity in comparison to buying the stock of the companies we know the best: IAC, Angi, MGM and Turo.

For now, however, it's just back to 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	
Dotdash Meredith	$250-$300
Angi Inc.	60-100
Search	40-50
Emerging & Other	20-40
Corporate	(100-90)
Total IAC Adjusted EBITDA	**$270-$400**
Stock-based compensation expense	(140-120)
Depreciation	(120-110)
Amortization of intangibles	(225-200)
Total Operating loss	**($215)-($30)**

Webcast and Conference Call Details

IAC and Angi Inc. will host a joint conference call to answer questions on February 13, 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. These non-GAAP measures should be considered in conjunction with, but not as a substitute for, financial information presented in accordance with GAAP.

Angi Inc. 2023 Operating loss to Adjusted EBITDA Reconciliation:

($ in millions)	**FY 2023 Outlook**
Operating loss	**($110-$45)**
Amortization of intangibles	5-10
Depreciation	100-110
Stock-based compensation expense	40-50
Adjusted EBITDA	**$60-$100**

Reconciliation of Product Development Expense and Capital Expenditures:

($ in millions)	**January 2023**	**Q2 2022 Monthly Average**	**% Change**
Product Development Expense	$ 7	$ 7	
Less: Product Development Expense Stock-Based Compensation	(1)	(1)	
Add: Capital Expenditures	5	12	
Total Product Development Expense and Capital Expenditures	**$ 12**	**$ 18**	**-34%**

<u>Cautionary Statement Regarding Forward-Looking Information</u>

This letter and the conference call, which will be held at 8;30 a.m. Eastern Time on Tuesday, February 14, 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 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 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) limitations on our ability 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.