

Notes for IAC's Q3 2013 Quarterly Earnings Call

Set forth below are IAC management's notes for its prepared remarks for IAC's Q3 2013 conference call held on October 29, 2013. 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 November 12, 2013. Management discussed certain non-GAAP measures. Please see IAC's press release issued on October 29, 2013 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 October 29, 2013. IAC does not undertake to update these forward-looking statements.

* * * * *

Business Overview – Greg Blatt

Search & Applications

Turning first to Search & Applications, there was a lot of positives this quarter, but due to two unexpected developments, we fell short of our expectations.

Last call we told you we'd have continued sequential revenue growth in the Websites business, driven by continued strong performance at About and meaningful query growth. Both of these things happened, but implicit in our expectation was relatively constant pricing from Google, and that didn't happen. Instead, over the last part of the quarter we saw a significant drop in CPCs – so we didn't see the sequential Websites growth we forecasted. On the Applications side, we said we'd take a step back

sequentially though still have growth year over year, primarily as a result of some modest declines in our unit economics. We correctly predicted our unit economics, but not an unrelated drop in distribution of some of our key B2B partners – so despite a very strong showing on our B2C business, we took a larger than expected step back in Applications overall.

Taking the pricing issue first, in Google's quest to accurately match pricing of an advertisement to the value delivered to the advertiser, it periodically adjusts its algorithms, taking into account all sorts of data about the way a given advertisement converts for an advertiser on different publishers, variations in value of conversions on a given publisher, the mix of traffic, etc. This particular change seems to have most negatively impacted publishers with concentrations of advertising in a disparate range of categories, and with a user base with less disposable income than the average internet audience, thus the more pronounced impact on our Websites business.

Obviously, no one wants to take a big pricing hit, or take it that suddenly. But one of the reasons we're with Google and not any of the alternatives is they've traditionally been the best at maintaining an efficient ecosystem for advertisers, and we've been really great at adapting to the changes they make. To put it in some perspective, adjusting for mix, our CPCs on Ask are down meaningfully from their August highs, but still nearly 2x what they were 2 years ago. And the volatility isn't new. Over the last three years, we've had month to month CPC swings of greater than 10% 11 times, and greater than 15% 5 times, with roughly a third of those swings in the negative direction. So monetization rates are always changing in this business and, over time, the combination of Google changes and our reactions to them have been extremely positive. Now, as we've done many times before, we're confident we'll grow the business from here. The rollout of this change ended in early October, and as we've rapidly adjusted our systems to the new pricing model we've already seen growth resuming from the bottom.

Despite the CPC issue, the underlying properties in the Websites business performed well. Query growth at Ask has been great, as we expected, up over 30% year over year with solid contributions domestically and really strong growth internationally. We see that trend continuing. About continues to perform well, and we expect that to continue driven by our revamped content production and distribution effort. On the mobile side, page views increased 32% year over year to 35% of all page views, so we're seeing natural momentum there. So while the CPCs were a setback, we feel good about the outlook for the websites business overall.

On the Applications side, we had great performance on the B2C side. Our product portfolio is performing well, and we've got a strong pipeline. As importantly, the competitive landscape in B2C has tilted in our favor, and we're seeing increases in marketing opportunities and efficiencies we haven't seen before.

Unfortunately, this strength was offset by a slowdown in the B2B side. Over the last months we've seen a shift by a number of our competitors in this area to a mix of download practices and monetization techniques we don't employ. Domestically, this has eaten somewhat into our competitive advantage, putting pressure on the ability of certain of our partners to obtain projected distribution. This led to softness in some significant sources of our B2B revenue.

The nature of some of these alternative practices and revenue sources give reason to believe this current dynamic is a bubble. If that's true, then when the bubble bursts our competitive position will meaningfully improve and growth will pop in this area. On the other hand, if these trends prove more lasting, this B2B softness will likely continue, but then it means there are increased long term monetization alternatives for our business, which will ultimately be to our benefit. As you may have seen, we recently signed a sponsored listings agreement with Yahoo for some of our mobile products. They are actively competing for business in the applications area, and having a variety of monetization alternatives is obviously good for us long term.

So it wasn't the best quarter for this segment against expectations, but the downside drivers were discrete items, and despite a wide variety of challenges faced by the segment this year, we'll still show solid revenue and profit growth. We expect to do the same next year. This is a scrappy business, with lots of independent initiatives across multiple fronts, with wins and losses every quarter. These factors make this business more difficult to predict near-term than certain others. This was just as true during 2011 and 2012, when we were under-predicting growth every quarter, as it is now that we've missed our near-term expectations on the negative side for the first time in years. Despite this potential for quarterly volatility, however, we have a proven ability to grow through changes in a dynamic landscape and real confidence in the outlook of the business. So looking ahead, we believe we can see double digit growth over the next multi-year period.

Match

Turning to Match, we had a great third quarter, and to repeat what I've said now for three quarters running, the momentum continues to build, with solid increases in revenue growth, PMC growth and OIBA growth. We think Match is heading into 2014 with lots of strength, more than it's ever had, driven by strong core performance and the portfolio strategy we began putting in place almost 5 years ago.

There are lots of ways to slice and dice our portfolio, but we think looking at it by paywall placement is a helpful construct. Our services are generally based on a freemium business model. With our traditional products, like Match and Meetic, users can complete profiles, search other profiles, get matches and indicate interest to other profiles, all for free. But in order to communicate back and forth, they have to pay. On our other products, like OkCupid and Twoo, we allow some degree of communication before hitting the paywall.

Looking at the traditional subscription products, there's clearly an audience which naturally gravitates to these services. For them, the availability of free alternatives doesn't meaningfully affect their decisions in this space. In fact, for many of them, a modest payment requirement indicates higher quality and a more affluent and more serious minded community. They also respond to the trust factor that comes from our brand marketing. This audience continues to expand, driven primarily by a growing single population over the age of 30, category expansion driven by some of our newer products, and evolving social perceptions, which are driven in part by our marketing. Additionally, we keep putting out a product our users want to pay for. This year alone new user conversion to payers is up double digits at Match.com, driven primarily by improvements in the mobile product. These two factors give us a lot of

confidence we can continue to grow subscribers in this business at, or hopefully above, historical rates, which when you look back over the last 6 years has been approximately 10% annually.

Let's now turn to the other bucket, the non-traditional products. User growth here has been phenomenal, up 90% year over year to over 16.5 million monthly users. For some of these people, saving money is the prime attraction versus our traditional products. No question about it. But it's clear that many of these users aren't driven by price at all. They're drawn to the lighter sensibility of these products, which in many cases is driven by the placement of the paywall. It reduces the perception barrier and allows them to feel in control of the payment decision, which is important to them. These users perceive their value to be equivalent or even greater than the traditional products. And they're willing to pay for that value so long as the way we charge doesn't undermine their attraction to the product to begin with. As we're now demonstrating, we're increasingly finding successful ways to charge for these products, with conversion to payers up 75% year over year, and total payers up 230% year over year. And we're really only at the beginning of this, both in terms of the development and optimization of the feature sets and monetization strategies, and in terms of the audiences we're exposing them to. For instance, we haven't even begun to apply a monetization strategy to Tinder yet. This is currently the fastest growing of these products, with a lot of perceived value among its user base, so I think it's clear we're just scratching at the surface right now.

Just to give you a sense of the opportunity here, or call it fun with numbers, over the last year or so we've close to doubled both the monthly active users and conversion rates for these products. If over the next three years we increase users and conversion by the same amount we have over just the last year, we'd be generating about \$120 million of OIBA from these products in 2016. So even with a dramatic slowdown in growth we get to a very big business. I'm not saying that's exactly what will happen, as we're still formulating our specific strategies for each product, but it's a pretty straightforward and I think fair way to think about the midterm opportunity here.

What's so interesting about all these monetization experiments is what it's teaching us about dynamic pricing, or the ability to collect a lot of money from those willing to pay a lot and a little or no money from those not willing to pay at all. For perspective, on one of these newer services, we've had someone pay us over \$1,800 over the last three months. That's purely anecdotal, but it makes the point. Someone's paid us \$1,800 in three months on a so-called "free site". On Match, the king of so-called paid sites, the most someone can pay us over 3 months is around \$150, or less than one tenth of that. And it turns out 80% of the people paying for non-subscription features on these services are also paying for a base subscription product. In other words, the biggest indicator of who will pay for these dynamic features is the fact that they're already paying for a subscription offering. So our work on the non-traditional sites has ironically led us to what we think is a big rate opportunity back at the traditional products, and over the next two years we think we can move average rate there meaningfully, without having to increase base subscription pricing. The effect of this would be to increase the life time value of a subscriber, thus increasing the amount we can spend on marketing, thus increasing our PMC growth as well as our profit growth. Yet another reason we feel so good about this part of the business going forward.

So where does that leave us? When we take the continued growth in the very large cash flow stream of our traditional products at or above historical levels, and layer on top of it this entirely new piece of outsized growth in the non-traditional products, we see a totally different business than we've had, with accelerating revenue and OIBA growth rates and further expanding profit margins.

For some perspective, and again I'll call it fun with numbers because some of these strategies are still being fleshed out, if you take the 2016 OIBA number for the non-traditional products I just referenced, and then extrapolate out the traditional businesses at historical growth rates, you've got around \$500 million of EBITDA in 2016, nearly doubling current year levels. Again, not a precise prediction, but certainly, we think, a fair way to look at the opportunity over the next three years. We love this business, it's clearly the crown-jewel asset, and it's really hitting its stride.

Other

In addition to Match and Search & Applications, we've got a bunch of other businesses we don't talk about as much. We expect them to do over \$600 million of revenue this year. When you eliminate CityGrid and Newsweek, which were in last year and not all of this year, that's over 20% growth. I wanted to take this opportunity to call out specifically the three subscription businesses in this group, all of which we're very excited about.

First is Vimeo, one of the premier video sites on the web. It's got over 100 million uniques, up over 30% year over year, and mobile uniques have more than doubled since the beginning of the year -- now over 40% of all users. But unlike most other video sites on the web, its primary business model to date has been subscriptions for people uploading their videos. We just crossed the 400,000 subscriber level, with trailing twelve month revenue up 65% year over year to approximately \$37 million, driven by a combination of sub growth and revenue per sub increases. And given the deferred revenue recognition dynamics of a fast growing sub business, actual revenue doesn't reflect true scale. We're confident there's continued upside here, as our growth has come despite the fact that we've yet to bring the same focus on marketing, conversion and other customer acquisition efforts that mark our larger sub businesses. Now we're starting to bring that focus, and feel really good about continued growth.

But there's also another side to Vimeo, one we haven't tapped into yet. Vimeo's now consistently a Top 10 online video content network-- larger than major digital video programmers such as Amazon, Hulu or Microsoft, and approaching Yahoo. But unlike these other video sites, our monetization focus has been almost exclusively on monetizing the uploading of video, not the viewing of video. In that process, though, we've created a huge viewing audience, and we're now turning our attention to it. Our strategy here is to first go after direct monetization in this area, as we begin to curate and promote our content for the first time, and optimize the viewing experience around the pay per view tools we're empowering our creators with. Advertising will be there, too, but will play a smaller or larger role down the road depending on the success of this direct strategy. In either event, we're going to monetize these 100 million and growing video uniques over the next couple years. When you combine both sides of the business, the huge viewing audience and the growing uploaders willing to pay for premium service, it's a

truly unique property, in the hotspot of the web, we know it already has considerable value, and we're looking forward to growing this business substantially.

Additionally, we have two smaller businesses, Tutor.com and Daily Burn, that we think are ready for real growth. At Tutor, we just completed our raid of Match.com, moving the former CTO of Match, a twelve year veteran who basically built the place, to join the former CEO and head of product. They moved over to run Tutor earlier this year. I've been in the trenches with that team, they're stars, and we're putting them where we think the upside is big. It's a slow build, because we're taking the business from what was essentially an institutional product and bringing it directly to consumers, but we're confident that by the end of 2014 we're going to start turning heads in this area.

Daily Burn is an online fitness business that's also ready to take off. It's got real momentum heading into 2014 where we expect to meaningfully increase our customer acquisition efforts, as it continues to benefit from the accelerating adoption of streaming content and smart televisions. We think this is the highest quality fitness service out there, delivered in the right way at the right time, and we think 2014 is going to be a big year for it.

Collectively for these three businesses, we expect to add approximately 200,000 subs by the end of 2014. When you add to that our expected rebound from a difficult year at Home Advisor, Electus' increasingly widespread production efforts, which increase the potential for that breakout hit, and the other irons we have in the fire, we think we have a tremendous amount of unrealized value in this group.

Wrap Up

So overall, we feel great about the portfolio. Our plan is to continue to grow these businesses and look for new opportunities in our key areas of expertise, and we're confident we'll continue to create and realize real shareholder value.

With that, I'll turn it over to Jeff for a deeper dive into the numbers.

Financial Review – Jeff Kip

Starting our financial review with Search & Applications:

- 3rd quarter segment revenue was up 10% vs. the prior year (2.9% pro forma for About), on 17% query growth. OIBA growth for the segment accelerated to 36.8%, 19.4% pro forma for About.
 - o Websites revenues, excluding About and CityGrid Media, were essentially flat sequentially and down year-over-year, driven by the CPC declines in the last 5 to 6 weeks of the quarter, as Greg discussed. Query growth however was very strong, up 11% sequentially and 32% year-over-year driven by international query increases.
 - o Revenue for the Applications business, as expected, was down sequentially, although more than previously anticipated, because our B2B partner revenue came in below expectations, driven largely by the competitive factors Greg described earlier.

- The B2C business, on the other hand, performed well, with solid year over year growth driven in part by expanded marketing opportunities in the quarter.
- For the 4th quarter, we expect total segment revenue to decline mid-single digits sequentially.
 - Websites revenue will be down sequentially low-to-mid-double digits as the 3rd quarter CPC changes roll through for a full quarter.
 - Applications revenue will likely be up slightly sequentially in the 4th quarter as year-over-year growth at B2C offsets the previously discussed issues at B2B.
- 4th quarter OIBA margin will drop sequentially to its lowest levels of the year given the full quarter of reduced CPCs.
- Thus, for full year 2013 for the Search & Applications segment on an as reported basis, we now expect roughly double digit revenue growth with margin leverage yielding solid to strong double digit OIBA growth.
- Looking ahead to 2014, we expect revenue and OIBA growth in the mid-single to low double-digit range for the segment as a whole. The Websites businesses will likely start in the 1st quarter flat to down sequentially from the 4th quarter on seasonality, but then build sequentially from there on the strength of international query growth, About, and the re-optimization of our marketing systems. We expect Applications to continue to build sequentially from the 4th quarter through 2014 on the strength of the B2C business. Overall segment margin for the year will likely be flattish to the 2nd half of 2013.

Match:

Moving on to Match, revenue and OIBA growth for the 3rd quarter accelerated to 13% and 14%, respectively, on strong year-over-year paid member count growth, which accelerated nearly 300 basis points to 17.4% in the 3rd quarter.

- For the 4th quarter, we expect revenue growth to continue at or around its current pace, OIBA growth to accelerate significantly, and PMC growth to increase yet again as well.
- This means that Match will finish 2013 with overall low double digit revenue growth and strong double digit OIBA and PMC growth.

We further expect both revenue and OIBA growth rates to increase from 2013 to 2014, with revenue growth in the mid-teens and OIBA growth meaningfully better than that next year.

LMO

The Local, Media and Other segments combined had \$149 million of revenue in the quarter, below the prior year total of \$166 million, because

- First, we restructured and moved CityGrid Media to Search & Applications this quarter, and
- secondly, we shut down Newsweek print last December and then sold Newsweek digital this quarter.

The three segments together earned \$2.6 million in OIBA in the 3rd quarter,

- however, there were approximately \$14 million of gains included in OIBA, net of related charges, from the asset sales of Newsweek, which netted \$6 million - and Rezbook, which had a gain of approximately \$8 million.

We expect 4th quarter revenue to come in at a level similar to the 3rd quarter and 4th quarter OIBA loss will be in the \$(8) to (10) million range.

For full year 2013, we are now expecting a low-20s million OIBA loss on approximately \$630m in revenue for the three segments combined.

As a side note, the net \$14 million of gains in Local and Media obviously drove up 3rd quarter consolidated OIBA, but it is worth noting that the full year also includes the restructuring and impairment charges taken in the 2nd quarter, as well as several smaller acquisition-related charges, so that these one-time items are effectively a wash within the full year OIBA numbers.

We're still going through our planning process for the Local, Media and Other businesses for 2014, and our investment can move up and down during the year based on shifts in business trajectory and opportunity, but we're confident that we'll continue to grow aggregate revenue solid double digits across these segments, led by materially higher growth at Vimeo, with aggregate losses currently expected to be modestly below this year's level as we continue to invest in our higher growth assets.

With that, we'll open it up to questions.