IAC Q2 2020 Shareholder Letter

August 10, 2020

Dear Shareholders,

We published a letter to shareholders this morning, which we've re-published here, with some added brief commentary at the end regarding IAC's most recent financial performance and included our monthly metrics as is now our custom. IAC's performance for the quarter was exceptional in all of our growing businesses, but the big news for the quarter is the investment we've made in MGM, introducing a new opportunity for IAC. Over the last few months we've accumulated a 12% interest in MGM Resorts International ("MGM") for an aggregate $1 billion. Investors reading that prior sentence may be surprised by some, or quite possibly all, of its components. First, we accumulated a large minority position in a public company, which is not our usual methodology. Second, the securities we purchased are common equity securities, the exact same securities that any investor with exactly $19 could buy and sell any day in the market. Third, we bought securities in a business that has relatively little to do with the Internet today. Fourth, we invested a portion of our cash in a new direction for IAC. The answer to all four of those concerns is that we believe MGM presented a "once in a decade" opportunity for IAC to own a meaningful piece of a preeminent brand in a large category with great potential to move online. IAC has always been opportunistic with its capital, and if ever there was a time, this moment is unique. We believe we can generate compelling returns for our shareholders and hope our expertise will be additive to MGM's opportunities, but even if we never advance our involvement from here, the value was too compelling to ignore. Having taken this step, we have a very long-term view of this investment and will be open to all the opportunities it presents along the way.

MGM is a leader in gaming, hospitality, and leisure with a storied brand and an enviable market position. The current pandemic brought revenue (though not expenses) to a temporary halt, and required MGM to repurpose cash it had wisely stockpiled for share repurchases to instead defend the solvency of the company. The good news is, we believe MGM has enough cash and access to capital to make it to the other side competitively stronger.

When the world returns to normal, MGM will be just as capable post-pandemic as it was pre-pandemic in servicing visitors in over 35% of the Las Vegas Strip's available rooms, plus eight regional properties across the US, two in Macau, and hopefully in Japan. The 34 million members of MGM's loyalty program still have their M-life Rewards, and we're confident that many are eager to return to the properties they love. And when Las Vegas fully re-opens – even if it must wait until a vaccine for that to occur –we expect it to roar back: a new NFL team, a new stadium, a drivable destination, and months of pent-up demand could drive a powerful resurgence.

But that's not what originally drove us to MGM, nor in large part drove our final decision to invest. We have a history and much experience in online commerce. So we began our analysis with a focus on a small piece of MGM, a portion of its revenue so small that it rounds down to zero: its online gaming revenue. We've followed the online gaming space for a while, looking for an opportunity to enter, but we were generally unsatisfied with the landscape we saw. The regulations in this $450 billion global industry, with less than 10% U.S. online penetration, have required a physical presence and geographic boundaries in each state to operate the product consumers demanded – anathema to the borderless environment in which we've operated our businesses. To operate true sports betting and digital gaming, a provider is currently required to partner with a local casino operator. And while we believe that regulatory environments generally catch up with consumer demand, it's taken quite a while in this category, so we found one of the leading players operating in 7 going on 11 states by the end of 2020: MGM, which pairs a strong physical presence and brand with talented online operators in a fast-growing joint venture in online gaming. Similar to Disney's advantages over pure-play streaming companies with an iconic brand and multiple avenues to monetize the same intellectual property between streaming, theatrical releases, merchandise, and theme parks, we believe MGM also is an aspirational brand, which could be delivered with daily accessibility and offer gaming consumers (including the 34 million M-life Rewards members) a wider range of services, both physical and digital, than any competitor. And MGM, with its highly capable joint venture partner GVC, has only just barely begun to deliver these products.

Our history in driving off-line to on-line conversion gives us confidence in the path and, like other industries we've seen transform, a conviction that it will be assisted by natural tailwinds.

Industry	Relevance	Year of Acquisition / Investment	US Online Market in Year of Acquisition / Investment	US Online Market in 2020
Dating	Match Group	1999	0 Subscribers	10M+ Subscribers
Ticketing	Ticketmaster	2001	$1 Billion	$13 Billion
Travel	Expedia	2002	$9 Billion	$1.1 Trillion
Homeservices	ANGI Homeservices	2004	2 Million Service Requests	29 Million Service Requests
Gambling	**MGM**	**2020**	**$6 Billion**	

Turns out, MGM also has a $2.5 billion EBITDAR (a gaming industry metric designed to reflect profitability before taxes, capital expenses, and real estate expenses and simplify comparisons between those operators that own real estate and those that do not) operation domestically that comes alongside the opportunity in digital sports betting and table games, at a normalized free cash flow yield over 10%. This combination doesn't exist in any growing internet opportunity.

As we looked further into MGM, we recognized a familiar sum-of-the-parts story with publicly-traded subsidiaries. MGM's implied "stub" – the domestic business without the real estate – trades at an implied value of nearly zero. That's not unlike IAC's "stub" – which is perennially valued at zero (or less). When we saw the collection of well-run businesses (check), a sturdy balance sheet (check), and the undervalued "stub" after accounting for cash and publicly-traded securities (check), we realized that the MGM situation is remarkably similar to that of IAC.

Implied MGM Domestic Value	
($ in billions, except per share data)	
MGM Share Price	$19
Shares Outstanding(1)	493
Market Capitalization	$9.4
(-) MGP stake(2)	(4.9)
(-) MGM China stake(2)	(2.6)
(+) Domestic Net Debt(3)	1.4
(-) Value of equity investments(4)	(1.7)
Implied Enterprise Value - MGM Domestic	**$1.5**

We will be a minority investor in MGM, but given the size of our financial commitment, we'd welcome the opportunity to contribute to MGM's success in any number of areas. We think MGM could be one of the largest direct marketers on the internet as online gaming grows, and online direct marketing is an area we know well. We also see transformative opportunities beyond gaming for theatrical onsite activities, including in the regional casinos, and we'd bring our relationships and ideas to make that happen, as well as the potential for expansion into new worlds of media and wagering with innovative and exclusive content. And having served nearly 15 million paying subscribers throughout IAC's businesses last year – and an order of magnitude more customers who don't yet pay to subscribe to our products but use free or "freemium" versions of our services – we'd love to help MGM optimize its "funnel" of M-life loyalty customers and attract new digital-first audiences. The good news is, from the outside looking in, it seems clear to us that MGM's leadership sees these same opportunities, and we will cheer them on as partners.

Over the next decade, free cash flow at MGM could be in excess of its current valuation, and we believe the business will have ample opportunities to invest that capital. If nothing else, of course, our ownership will steadily accrete up if MGM continues to use that free cash flow to shrink its capital base. Regardless of how MGM chooses to put its cash flow to work, the power of that cash flow doesn't appear to be getting much value in the market, and we believe that those financial dynamics – on top of all the other positives – make this investment and its potential return every bit as worthy as other opportunities we may have to deploy our capital.

Although we would never "bet the company", we know that this is a large bet for IAC. We have long been driven to look opportunistically for chances to build great interactive businesses and compound capital for our shareholders, and MGM has a rare but clear opportunity to deliver on that promise. And while we can't say where our investment goes from here, we do believe this is the first step in what will hopefully be a very long and productive relationship. We begin in total alignment with MGM shareholders, management, and the board and we intend to assist and support them in all their ambitions.

As is now our custom, we've also included below our monthly metrics across our businesses. As the global pandemic continues to change consumer and business behavior in ways none of us can truly predict, the volatility of our monthly results will continue and this July is no different. IAC's second quarter was unusually profitable as the pullback on expenses didn't impede the unexpectedly quick snapback of revenues, but as we've said all along, we're not going to optimize for any individual month, quarter, or year, and don't expect this past quarter's profits to be the norm while we invest for the future. We won't get everything right in the short-term, but our goal over the long-term is to build great products in industries undergoing digital transformations, and we believe there are ample opportunities to create value over time, both in our existing businesses and in new opportunities such as MGM.

Sincerely,

Barry Diller & Joey Levin

[1] *Shares outstanding per Q2 2020 10-Q*

[2] *Reflects MGM's 56% ownership of MGM China at $1.24 per share and 57% ownership of MGM Growth Properties at $28.22 per share as of 8/7/20*

[3] *Net debt for MGM Domestic as of Q2 2020 10-Q excludes debt of subsidiaries (MGM China and MGM Growth Properties); includes $163 million secured note receivable from sale of Circus Circus on 12/20/19 and redeemable non-controlling interest of $59 million for non-controlling parties in MGM National Harbor redeemable beginning 12/31/19*

[4] *Equity investments represents ownership in CityCenter based on research average of $1.5 billion; includes other equity affiliates at $226 million book value and excludes MGP equity investment in MGP BREIT Venture of $806 million as it is held at MGP subsidiary and counted in MGP's equity market capitalization*

2020 Monthly Trends through July [a]:

	Y/Y Growth						
	Jan '20	Feb '20	Mar '20	Apr '20	May '20	Jun '20	July '20
ANGI Homeservices							
Marketplace Revenue	25%	27%	3%	-2%	20%	18%	10%
Advertising & Other Revenue	7%	8%	4%	4%	1%	0%	-2%
Total North America Revenue	21%	23%	3%	-1%	16%	15%	7%
Europe Revenue	3%	-3%	-27%	-28%	-7%	8%	-5%
Total ANGI Homeservices Revenue	**19%**	**21%**	**1%**	**-2%**	**15%**	**14%**	**7%**
Other ANGI Homeservices Metrics							
Marketplace Service Requests	11%	13%	-12%	-8%	27%	34%	24%
Marketplace Monetized Transactions	4%	11%	-11%	-11%	8%	10%	5%
Marketplace Transacting Service Professionals	8%	8%	5%	4%	4%	3%	7%
Advertising Service Professionals	4%	7%	4%	4%	3%	4%	5%
Vimeo							
Total Revenue	**30%**	**34%**	**29%**	**46%**	**52%**	**43%**	**40%**
Ending Subscribers	29%	29%	31%	35%	39%	16%	17%
Dotdash							
Display Advertising Revenue	17%	17%	12%	-5%	-13%	-6%	3%
Performance Marketing Revenue	70%	65%	96%	114%	121%	87%	68%
Total Revenue	**31%**	**29%**	**30%**	**23%**	**17%**	**16%**	**22%**
Search							
Ask Media Group Revenue	-1%	9%	-4%	-22%	-26%	-11%	-13%
Desktop Revenue	-42%	-43%	-47%	-47%	-51%	-47%	-44%
Total Revenue	**-21%**	**-17%**	**-25%**	**-33%**	**-37%**	**-27%**	**-26%**
Emerging & Other							
Total Revenue	**8%**	**26%**	**63%**	**67%**	**49%**	**65%**	**76%**

(a) As of the date of this shareholder letter, the Company has not yet completed its financial close process for July 2020. As a result, the information herein is preliminary and based upon information available to the Company as of the date of this shareholder letter. During the course of the financial close process the Company may identify items that would require it to make adjustments, which may be material, to the information presented above.

Webcast and Conference Call Details

IAC executives will participate in the ANGI Homeservices quarterly conference call to answer questions regarding IAC on August 11, 2020 at 8:30 a.m. Eastern Time. The live virtual conference call will be open to the public at **www.iac.com/Investors** or **ir.angihomeservices.com**. This letter will not be read on the call.

Cautionary Statement Regarding Forward-Looking Information

This letter and the ANGI Homeservices conference call, which will be held at 8:30 a.m. Eastern Time on Tuesday, August 11, 2020 (with IAC executives participating to answer questions regarding IAC), 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: the impact of the COVID-19 outbreak on our businesses, our continued ability to successfully market, distribute and monetize our products and services through search engines, digital app stores and social media platforms, our ability to market our products and services in a successful and cost-effective manner, the continued display of links to websites offering our products and services in a prominent manner in search results, changes in our relationship with (or policies implemented by) Google, our ability to compete, the failure or delay of the markets and industries in which our businesses operate to migrate online, 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, our ability to build, maintain and/or enhance our various brands, our ability to develop and monetize versions of our products and services for mobile and other digital devices, our ability to establish and maintain relationships with quality service professionals and caregivers, our continued ability to communicate with users and consumers via e-mail (or other sufficient means), our ability to access, collect and use personal data about our users and subscribers, our ability to successfully offset increasing digital app store fees, our ability to protect our systems from cyberattacks and to protect personal and confidential user information, the occurrence of data security breaches, fraud and/or additional regulation involving or impacting credit card payments, the integrity, quality, scalability and redundancy of our systems, technology and infrastructure (and those of third parties with whom we do business), changes in key personnel, our ability to service our outstanding indebtedness and interest rate risk, dilution with respect to our investment in ANGI Homeservices, foreign exchange currency rate fluctuations, operational and financial risks relating to acquisitions and our continued ability to identify suitable acquisition candidates, our ability to operate in (and expand into) international markets successfully, regulatory changes, our ability to adequately protect our intellectual property rights and not infringe the intellectual property rights of third parties and the possibility that our historical consolidated and combined results may not be indicative of our future results. 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 press release. IAC does not undertake to update these forward-looking statements.