



IAC Q2 2019 Shareholder Letter

August 7, 2019

Dear Shareholders,

We recently took three notable steps in IAC's evolution worth highlighting before we get into this quarter's financial performance. First, we said that we are considering spinning our two large publicly traded subsidiaries, MTCH and ANGI. We don't yet know where that process will lead – there's lots of work to be done and details to consider – and we may ultimately choose to spin off both, one or neither. This isn't just legalese to preserve IAC's options with an expected outcome in mind – we sincerely haven't yet decided what's best. But given the heightened interest in the topic among shareholders, we thought it appropriate to keep you apprised of our thinking before any more formal evaluation process is underway, and since that will commence shortly we decided to include that information in this update. Second, we made our largest minority investment ever, becoming the biggest shareholder in an exciting new global marketplace called Turo, which we believe has large and far-reaching potential. And third, we raised new capital on very attractive terms, taking our cash balance to a 15-year high.

With our \$250 million initial investment in Turo, we are now the single largest shareholder in the largest car sharing platform in the world. Turo's platform is quite simple: car owners can share their idle cars for income, and those in need of a car can access this vast and unique inventory on demand on Turo's platform, all done through a simple and intuitive mobile application. And the car can even be delivered!

Urban transportation has changed dramatically in the last few years, led by the ride hailing services, upending the fundamentals of car ownership. The modern city now has bikes or scooters to travel a few blocks, ride shares to travel a few miles, and Turo for when a car is needed for a day or longer. Turo now serves over 6,000 cities in 4 countries, with 400,000 vehicles listed on the platform and 500,000 guests booking a Turo car in 2018. Relative to over

a billion cars globally, which remain idle over 90% of the time, Turo has plenty of room to grow in an enormous asset class. Much like Airbnb helped homeowners cover their mortgage by turning empty rooms into income, Turo allows many capable car owners to cover their entire lease payment by sharing their car 10 days a month. And the guest's experience is vastly superior to the typical rental car wrangle.

Turo has many things we love: a large and growing addressable market transitioning online, disaggregated supply and demand, true network effects where each incremental user makes the platform better for everyone, a product meaningfully more satisfying to users than the incumbent, and a talented and ambitious entrepreneurial team. Turo also had something we didn't love: no opportunity for IAC to take a control position. However, we found great alignment with Andre Haddad, Turo's CEO, and we were able to get comfortable making a large bet as a minority shareholder. We will have two seats on the board and hope to have active and on-going involvement and increase our ownership over time. We now have nearly as much invested in Turo as we've invested in Vimeo. While we aren't changing our investment philosophy broadly, we realize that holding out for control shrinks the market, and we will pursue opportunities as we find them and look to increase our ownership as things succeed.

We also raised over a billion dollars of convertible debt this quarter, taking our cash balance at IAC excluding ANGI and MTCH to \$2.7 billion. Our current businesses should generate well over \$10 billion of free cash flow over the next decade – providing plenty of opportunity to invest without requiring more borrowing. But we wanted the option to opportunistically deploy some of that cash sooner, whether investing in our existing businesses, acquiring new ones, or repurchasing equity. The convertible securities we issued had a blended after-tax cost of capital of 2%, very few restrictions on our strategic or operating flexibility, and we will not suffer dilution until our stock price exceeds \$457 per share. Meanwhile, we're earning a little more than 2% pre-tax on the cash while it sits idle. Of course money is never free, and the good news and bad news is we hope these securities become dilutive. To do that we need to create another \$20 billion of equity value – which means either Match needs to double in value, ANGI needs to increase by 5x or everything else needs to increase a few times more than that. Of course any of

those outcomes – or, more likely, some combination of them – is possible and we believe the new capital improves our odds, and we always want to be ready and liquid to seize opportunities.

So far, 2019 has seen us investing incremental profits back into each of our businesses and we expect that trend to continue. The opportunity in places like ANGI’s marketplace, MTCH’s international expansion, Dotdash’s content and category expansion and Vimeo’s enterprise sales efforts are all attractive, and the returns are relatively clear. As a result, we’re not hesitating to invest through our P&L, taking down margins this year for the first time since 2015 and Q2 revenue growth accelerated from Q1 and should accelerate every quarter this year.

Reinvesting in our existing businesses through lower margins or delivering less immediate profit will inevitably be judged more harshly by the market than reinvesting through share repurchases or new and riskier investments such as acquisitions or minority investments. Paradoxically, the market applauds a riskier bet involving more capital, while harshly judging an investment with less capital and often dramatically less risk when it impacts quarterly profits. But to us, a dollar of investment is a dollar of investment no matter how the accounting works, and we usually have better information guiding investments into our own operations than into businesses currently owned by others. Regardless, we always have and always will make the best risk-adjusted bets we can, independent of near-term market reactions.

On the acquisition front, our pace has accelerated as we’ve seen a number of attractive opportunities across IAC. Year-to-date our growth engines have added lines of business that expand their addressable markets and leverage areas of existing expertise. MTCH brought in a team to focus on the Muslim market and accelerate international expansion efforts, ANGI acquired a home warranty solution in four markets (which will expand into another 3 markets this year), and Vimeo brought in AI-powered video creation capabilities to serve customers earlier in their video-creation workflow. In addition, Dotdash entered a new publishing category with the acquisition of Brides from Condé Nast, and we placed another bet on the “Future of Work” by acquiring a small team called NurseFly seeking to transform the nursing category. Of course, not all of these acquisitions will go according to plan, but they all present interesting new opportunities.

Financial Performance

We had another solid quarter with our six growth engines all posting greater than 16% revenue growth and most will accelerate for the remainder of the year. MTCH crushed it (again), and as we beat even our own big expectations, we are focusing our energies and capital on 2020. ANGI grew 20% in aggregate, despite some headwinds midway through the quarter. The marketplace component of ANGI's business generated 27% revenue growth – marking the 19th straight quarter of greater than 25% growth – but we also unearthed some issues in the quarter that we'll need to address. Vimeo and Dotdash both delivered accelerating revenue growth and Applications, fueled by 68% Mosaic Group growth, once again generated \$25 million of Adjusted EBITDA. And in our Emerging & Other segment, Bluecrew continued to scale nicely from a very small base.

ANGI Homeservices

The good news and bad news is Pro Forma revenue grew 20% in the quarter. We have a big, healthy, growing business that's a clear leader in an enormous category and gaining market share. We have the largest active and engaged network of service professionals in five countries, serving over 15 million homeowners getting more than \$20 billion worth of projects done through our platform. But we are behind where we wanted to be at this point largely due to a combination of issues around marketing and an increasingly tight supply of service professionals in certain categories. At the same time we grapple with these issues, our product is winning: we're adding more service professionals, they're spending more money on our platform, and more consumers are visiting our brands and submitting more service requests to connect with those service professionals. So while we do have some work to do perfecting our marketing and continually balancing supply and demand as we grow, we're also going to continue investing in product improvements that over the long term will cement our leadership in this \$400 billion market.

A number of issues surfaced in the quarter – we didn't appreciate the impact on 2019 of some significant shifts in marketing spend in 2018 and we underinvested in marketing optimizations –

but the largest contributor was an unanticipated increase in the cost of customers from Google, which remains our largest source of traffic (free and paid customers from Google account for a little under 40% of service requests). Google has continued to devote more page real estate to its own products over time, but I believe our most recent issue was as much tripping over our own feet as it was changes in the Google ecosystem. When we cut spend in 2018 due to the tidal wave of consumer demand from the integration with Angie's List, we lost the rhythm on our search engine marketing spend and turned our attention to other areas. This became all too apparent midway through the quarter when Google released a change that resulted in a pronounced shift of clicks from free to paid, and we weren't prepared to absorb it. As a result, users arriving to our properties through Google's unpaid search results were down from the prior year, while users arriving through paid search results were up substantially, but considerably more expensive. We are now optimizing marketing efficiency to adjust and replacing our search engine marketing systems with strong early results off the new baseline.

While the decreased marketing efficiency will be an unfortunate drag on this year's figures, it doesn't impact either the size of the \$400 billion opportunity in this category, nor our ambition pursuing it. The higher expenses mask significant operational progress at ANGI over the last 18 months. We increased the availability of fixed price, on-demand and subscription services for homeowners (this quarter we pierced through a million such service requests - 16% of total), rolled out a more granular pricing system (enabling us to charge service professionals and bid more accurately for traffic at the ZIP Code level and in the process increase overall yield), set a quarterly record for new contract value for advertisers on Angie's List, and grew service requests from proprietary non-Google channels over 25% year-over-year. While in aggregate the progress won't offset the cost increases at the very top of the search funnel, our success in these areas leaves us confident in the path ahead.

Our product innovation continues to bring consumers and service professionals closer to completing the transaction on our platform, with a focus on pre-priced services. The data shows clearly that service professionals using our on-demand products (instant book, instant connect, same day service and real-time opportunities) see higher win rates and retention, which makes for happier homeowners and higher repeat usage. As service professionals find more and better

customers they spend more money with us. Meanwhile, customers have evolved from expecting information to expecting a solution at the push of a button, evidenced by Handy's growing momentum in pre-priced services, with significantly higher NPS scores, repeat usage and take rates. We started to offer Handy's pre-priced services on HomeAdvisor when we don't have a service professional available for that customer, and we're now seeing 5% of customers purchase a service on our site or in our app when presented with a pre-priced offer. As a result, we've rolled this concept out to another 19 categories nationwide and we are investing to significantly expand our footprint in pre-priced and on-demand services, aiming to reach nearly 100 categories by the beginning of next year. We will manage fulfillment on our platform – curating the discovery process, handling payments and delivering service professionals the pre-priced jobs (paying them instead of charging them) – with the goal to take the number of unmatched service requests (40% of total today) dramatically lower and the number of our on-demand, pre-priced tasks dramatically higher. And the best part is we've already paid to bring these homeowners to our platform, so there's no incremental marketing cost. This pre-priced product will take time and capital to deploy more broadly (and won't satisfy every service request), but continues our inexorable march closer to the transaction.

With perfect hindsight, we should have started these efforts six months ago, but our operational focus was overwhelmed by the integration of HomeAdvisor and Angie's List and absorbing the consumer demand. While we're thrilled with the acquisition, its execution, and results to date, it's clear that we underestimated the opportunity cost on the organization as we put innovation in key areas such as customer acquisition on hold while we gorged on execution against the acquisition plan, and we're now experiencing the headache of that hangover.

Our goal for the year was 25% revenue growth as we tried to press to the high end of our originally-estimated growth range. We are now targeting 20-25% revenue growth at ANGI, the range we articulated when we announced the Angie's List combination. We're also adjusting our 2019 Adjusted EBITDA target to \$200-\$230 million. Most of that adjustment is driven by increased marketing costs through the remainder of the year, and the rest is to invest in accelerating the rollout of pre-priced transactions. Our long-term goals remain unchanged. We know the market is there, and there's no doubt as to the raw need for a better solution in home

services, which we believe we've found. We may not get it right every quarter – and this latest one was far from our best – but by prioritizing the right product for both sides of the marketplace, I have absolute confidence that we have the winner in this category, and we will continue to demonstrate the size of this opportunity with results over time.

Future Possibilities

One thing that we've always been consistent about at IAC is our willingness to embrace change. We've never been empire builders – we've always preferred to be the anti-conglomerate. Over our nearly 25-year history, we've consistently separated out our businesses as they've grown in scale and maturity – and today IAC and its progeny have grown into nine publicly-traded companies, several of which have joined with other companies to pursue even bigger strategic opportunities. Of course we're always evaluating the proper configuration for our portfolio, including disaggregation, so our statements above that we've begun to explore the separation of MTCH and ANGI are not really “news.” But given the healthy prospects for those businesses, we're taking a fresh look at whether each business is prepared for separation from the IAC mothership, and expect to reach a conclusion in the coming months.

Sincerely,
Joey Levin
CEO

Full Year 2019 Outlook

Please find below our updated full year 2019 outlook. We confront investment choices every day, and as stewards of your capital, will deviate from guidance 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 for the year:

<i>(in millions)</i>	FY 2019 Guidance
<i>Adjusted EBITDA</i>	
Match Group	\$770-\$800
ANGI Homeservices	200-230
Vimeo	(40-35)
Dotdash	40-45
Applications	95-105
Emerging & Other	(10)-0
Corporate	(75)
Total IAC Adjusted EBITDA	\$980-\$1,070
Stock-based compensation expense ^(a)	(240-230)
Depreciation	(90-80)
Amortization of intangibles	(85-75)
Acquisition-related fair value adjustments	(10-5)
Operating income	\$555 - \$680

(a) Includes -\$50 million of charges in connection with the Angie's List transaction and the modification of certain equity awards.

Additional Q3/FY 2019 Color

- *Match Group – Match Group* – In Q3 we expect revenue of \$535 to \$545 million and Adjusted EBITDA of \$200 to \$205 million. We now expect high-teens revenue growth for the full year.
- *ANGI Homeservices* – In Q3 we expect Pro Forma Revenue growth to accelerate from Q2 (excluding Felix in the prior year period as Felix was sold on December 31, 2018); Pro Forma revenue excluding Felix in Q3 2018 was \$293.7 million). We expect Q3 Adjusted EBITDA of \$55-\$65 million.
- *Vimeo* – In Q3 we expect 25% total revenue growth (reflecting the sale of the hardware business and Magisto acquisition) and Adjusted EBITDA losses under \$10 million.
- *Dotdash* – In Q3 we expect revenue growth around 30% and Adjusted EBITDA of \$7-\$10 million.
- *Applications* – In Q3 we expect revenue around \$125 million. We expect Adjusted EBITDA in the \$20-\$25 million range for the foreseeable future.
- *Emerging & Other* – In Q3 we expect revenue over \$125 million and Adjusted EBITDA losses up to \$5 million.

Appendix

Webcast and Conference Call Details

IAC executives will participate in the ANGI Homeservices quarterly conference call to answer questions regarding IAC on Thursday, August 8, 2019 at 8:30 a.m. Eastern Time. The live audiocast will be open to the public at www.iac.com/Investors or ir.angihomeservices.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 Homeservices and Applications Q3 2019 Operating Income to Adjusted EBITDA Guidance Reconciliation

<i>(\$ in millions)</i>	ANGI	
	Homeservices	Applications
Operating income	\$15- \$25	\$17- \$22
Amortization of intangibles	14	2
Depreciation	9	1
Stock-based compensation expense	17	-
Adjusted EBITDA	\$55-\$65	\$20-\$25

For reconciliations of GAAP measures to material non-GAAP measures not set forth above, please refer to our 2nd quarter 2019 press release, the investor relations section (quarterly earnings tab) of our website, Match Group's 2nd quarter 2019 press release and Match Group's related investor presentation.

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 August 8, 2019 (with IAC executives participating to answer questions regarding IAC), 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," "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, including the possibility of distributing interests in our public subsidiaries to our shareholders, 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: our continued ability to successfully market, distribute and monetize our products and services through search engines, social media platforms and digital app stores, the failure or delay of the markets and industries in which our businesses operate to migrate online, 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, adverse economic events or trends, either generally and/or in any of the markets in which our businesses operate, our continued ability to communicate with users and consumers via e-mail (or other sufficient means), our ability to successfully offset increasing digital app store fees, our ability to establish and maintain relationships with quality service professionals, changes in our relationship with (or policies implemented by) Google, foreign exchange currency rate fluctuations, 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 investments in Match Group and ANGI Homeservices, operational and financial risks relating to acquisitions and our continued ability to identify suitable acquisition candidates, our ability to expand successfully into international markets, regulatory changes, our ability to adequately protect our intellectual property rights and not infringe the intellectual property rights of third parties and the determination of whether to proceed with the distribution transactions referenced above and risks related thereto. 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.