



IAC Q4 2018 Shareholder Letter

February 7, 2019

Dear Shareholders,

By the time we get to celebrate success, it's usually old news, and the early rush of 2019 makes this a distant memory – but let's hit the highlights from 2018 quickly:

- \$4.3 billion of revenue (up 29% year-over-year) and \$1.0 billion of Adjusted EBITDA (+70% year-over-year) driven by substantial growth across the portfolio;
- \$900 million of free cash flow;
- 6 acquisitions and 4 divestitures as we continue to focus our capital;
- Over \$200 million of share repurchases (between IAC and Match Group); and
- A \$556 million dividend to Match shareholders (the largest of whom happens to be IAC)

We generated more profit in 2018 than we generated in the 12 months *before* we spun off four companies in 2008. Ten years ago, we gave our shareholders businesses representing almost \$650 million of Adjusted EBITDA; today those shares are worth approximately \$15 billion separate from IAC, and as of this past year, we've now more than replaced all those earnings in IAC. We've outperformed the S&P 500 by 1.6x since Barry Diller took control in 1995, 4x for the last 3 years, and over 2x for the last 5 and 10-year periods. This process of constant rebirth on an infinite time horizon is the core of our investment and operating thesis. Though we're always adjusting our plans, this first letter of the calendar year will, as usual, lay out our current priorities by business.

We start 2019 with more cash (\$1.7 billion at the IAC level) than we have had in 10 years, significant debt capacity (billions) and plans to generate close to another \$1 billion in cash this year – providing us ample resources for investment, M&A, and buybacks, irrespective of the

market environment. We don't root for a downturn or correction, but if one were to come we are well prepared, with financial flexibility and diversity in our businesses.

Reflecting on the lessons of 2018, and perhaps the confidence born of a couple of consistent years of good execution, I think the biggest mistake we made was not investing more in our businesses. That's not to imply we borrowed from the future to fund 2018 – in fact, we did the opposite. In each of our major businesses, we invested with an eye toward confirming the capacity of that business to sustain additional growth investment. Now that we've proven our theories on monetization at Tinder, the power of liquidity in the ANGI marketplace, the size of the addressable customer base for Vimeo's cloud software, sustainable margins at Dotdash, and a subscription model for new mobile applications, I wish we had been investing more, earlier. We want to adjust our frame of reference a bit for investment in our businesses, prioritizing share gains and revenue acceleration in our big untapped markets.

Paradoxically, with early stage businesses that have yet to reach profitability (e.g., Vimeo, BlueCrew), investing is well understood – the ongoing operating losses are measured against the size of the market opportunity. But in more advanced and profitable businesses (e.g., ANGI, MTCH), the standard of investment is often judged relative to prior years' performance rather than future opportunity. The result is that we may hamstring the biggest and strongest businesses, with the most pronounced competitive advantages, by an overreliance on backward-looking comparisons rather than forward-looking opportunities. We need to fix that.

For example, we bought a majority stake in BlueCrew, a temp labor marketplace, early in 2018 with some pocket change. Revenue has nearly doubled each quarter since we've owned it. The good news and bad news is that today's eight-figure revenue at BlueCrew is almost irrelevant in the \$300 billion temp staffing category in which it competes. But the best news is that we seem to have a thesis around a disruptive new marketplace that, while early with lots to prove, seems to be working. We see a real opportunity to put more capital (and people) to work. So we'll be running that business at an expanding operating loss for a little while as we build liquidity in the marketplace, and we'll continue to judge the BlueCrew investment against the value of seizing that future opportunity.

At ANGI, we made the mistake of allowing our investment appetite to be more heavily burdened by figures from our past than the opportunity ahead. We have precise opportunities to invest, a high probability of success, and with our scale we can quickly determine whether we're succeeding. Extra profits aren't nearly as valuable as accelerating revenue to capture a \$400 billion market opportunity while we can. When the future is clear and capital is cheap, we're going to invest and take share.

I'll lay out the specific initiatives and focus for each of our business below, but we're going to lean into our investment opportunities throughout the portfolio to accelerate revenue growth, all toward our very simple goal: build great companies.

Match Group

Match finished the year with 30% revenue growth and over \$570 million of free cash flow, all of which was distributed to Match Group's shareholders. Even after paying the 5% dividend, Match Group exited 2018 with greater financial flexibility than it had when it began the year.

At the beginning of the year, we thought Tinder would grow less than 1 million subscribers. By the end of the year, that figure turned out to be well over 1 million, and the average customer was spending more than at the start of the year. Both figures are a drop in the ocean relative to the 600 million global singles, the vast majority of which have never used dating products. The total number of freshman entering college each year in the US is still greater than the total number of paying Tinder subscribers globally.

Our focus in 2019:

1. International expansion: The stigma around platforms for dating continues to melt away globally, and we'll expand several brands in key markets, especially Asia.
2. Emerging Brands: Hinge, Chispa, BLK and Ship have all launched or been acquired within the last 18 months. If we don't keep disrupting ourselves, someone else will.

And there will be lots of free cash flow.

ANGI Homeservices

2018 was a transformational year for ANGI Homeservices with the integration of Angie's List and HomeAdvisor – the company is now operating as one winning team with enough scale to matter. Over \$20 billion worth of home improvement jobs flowed through the platform, while serving 13 million homeowners in our marketplace and generating over \$1 billion of revenues.

We set a goal two years ago when we announced the transaction that we'd achieve \$270 million of Adjusted EBITDA in the first calendar year together – a 4x increase over the prior year – while investing in the future. We hit 96% of that ambitious goal. That's a rare accomplishment in advanced financial planning, and even rarer among financial prophecies made in the heat of acquisitions. But we definitely made (and fixed) a few mistakes along the way. We'll wallow in the mistakes a moment because I think they're informative towards understanding our future.

We made one central misjudgment going into the transaction – we didn't appreciate that service requests coming from the combination of homeowners visiting the Angie's List and HomeAdvisor properties could exceed our existing capacity to absorb those requests. We had plenty of good reasons for our confidence going in – almost 160,000 service professionals on the HomeAdvisor platform who had contractually agreed to spend over \$200 million more than they were spending at the time if we could just bring them the customers. In fact, we entered 2018 confident enough to spend aggressively on marketing to attract *even more* homeowners. But we quickly learned that we needed to tune our algorithms to more precisely match supply with demand, and we needed to do real work to prepare our service professional network for the sudden firehose of demand. We made a number of fixes, which drove a healthy evolution:

- We reduced marketing after Q1 2018 to hunker down on satisfying the homeowners already on the platform. Optimizing our marketing proved a great learning and lasting improvement to our ecosystem.
- We redirected a portion of our team to focus on helping existing service professionals grow their budgets precisely in the areas with excess demand. Spend per service professional moved up nicely over the course of the year as service professionals began

to understand the opportunity to expand their business with attractive returns for spending on our platform.

- We built products to harness untapped capacity among our existing service professionals, which allowed us to evolve beyond fixed, time-bound budgets. For example, we gave certain service professionals the opportunity to determine whether to accept a potential job in real time – a service analogous to “on-demand” platforms like Uber. We’ve always believed this form of interaction between consumer and service professional can be the future of the category, and made the most progress on the product here as necessity drove invention.

The business has been accelerating revenue growth since the start of the year toward our 25% target for the year. We believe some base level of profit growth is healthy, so we’ll try to deliver double-digit profit growth at ANGI to keep ourselves honest on the earnings potential of the business, but taking the lesson from 2018, we’ll invest everything else we productively can back into the business to accelerate revenue growth and take share. Whether through M&A, pressing on existing levers like sales and marketing, or putting more into product, investing further in this business will be among the easiest decisions we make this year.

In 2019 we will:

1. Press aggressively ahead on sales and marketing to build both sides of the marketplace.
2. Drive more “on-demand” and pre-priced transactions.
3. Build tools for repeat usage: We want to become the one-stop hub for managing your home. We believe home warranties can help here.
4. Enter adjacent categories through M&A.

Vimeo

More people and businesses are creating and relying upon video today than in any time in history, and we believe that fact will hold true every day for the next decade. Unlike the other video platforms that compete for viewers, we built Vimeo to serve creators and businesses.

Vimeo is the only agnostic end-to-end video solution on the market with a suite of services that would otherwise require a user to piece together multiple solutions at dramatically higher cost.

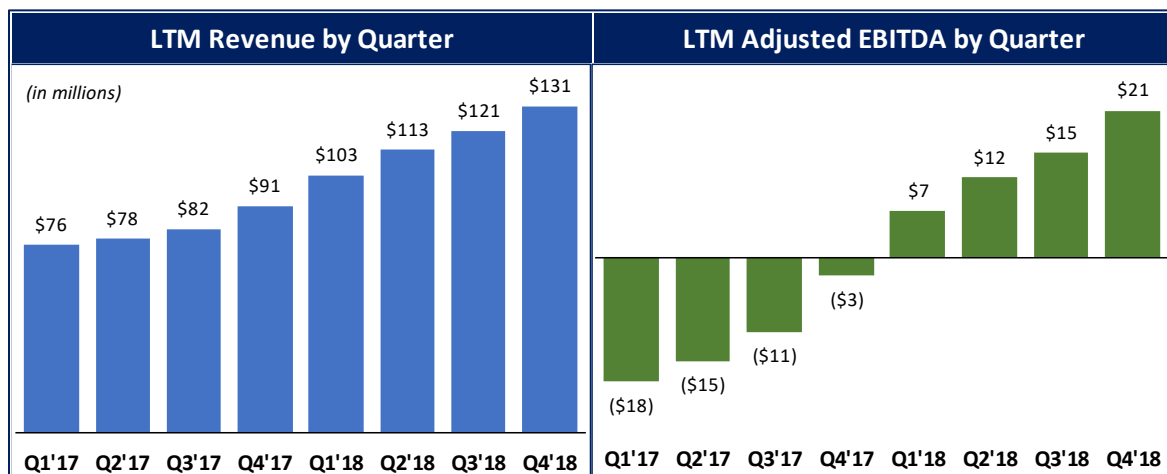
The vast majority of Vimeo’s revenue comes from customers purchasing software subscriptions (or Software as a Service – SaaS) to store, manage, review and share their videos on our platform. The beauty of a sticky subscription software business is that most of that revenue will return next year without any incremental outreach or sales effort on Vimeo’s part. Meeting 20-30% annual growth objectives is much easier when you don’t need to rebuild the base each year.

In 2019 we will:

1. Grow subscribers (of course), but especially higher value enterprise customers.
2. Add new features, faster: Live streaming, stock video, social media integrations all debuted in the last year. Expect a faster pace of new releases in 2019.
3. Expand global marketing: While Vimeo has high brand awareness in the U.S., people here and especially abroad aren’t aware of the breadth of tools available on the platform.

Dotdash

Dotdash grew revenue 44% in 2018 while delivering \$21 million of Adjusted EBITDA. Very few publishing assets can show charts like the following:



Dotdash has a disarmingly simple approach centered on quality content, site speed, and respectful monetization. The company doesn't buy traffic nor rely heavily on social networks. Dotdash's brands simply help people to answer questions, solve problems and find inspiration when they're searching for answers. Our readers come with specific intent, enabling us to connect advertisers to consumers based on stated interests using high-performing ads in a safe online environment. We reached 87 million unique users across our properties in December – up from 51 million when we broke About.com into six vertical properties in 2016. With the acquisition of Byrdie, we recently announced our entry into a seventh category: beauty.

Key areas of investment focus in 2019 include:

1. Brand awareness. We have more audience than brand – a challenge and opportunity.
2. E-commerce. Send more than just eyeballs to partners, send verified customers.
3. Content. Fresh and compelling content is our moat – keep digging deeper and wider.

Applications

Through a mix of organic growth and acquisitions, the IAC Applications Mobile business, now called Mosaic, accelerated revenue growth every quarter and represents nearly a third of the segment's total revenue – almost entirely in subscriptions. We're winning [awards](#) for mobile product design and now have over 3 million subscribers across 35 different products. Non-game mobile apps are already a \$9 billion market today, and that market is expected to triple over the next decade. For the first time in a long while in this segment, we can comfortably say with mobile we now have years of runway ahead. It won't be long before Mosaic revenues surpass our entire Desktop applications business, and it's fun to be growing again in a mobile market with tailwinds.

This coming year will largely be about putting more fuel in the same engine:

1. Double profitable mobile marketing spend: From the first quarter to the last quarter of 2018, we grew marketing 4x, as lifetime value of subscribers comfortably exceeded customer acquisition costs. We have more to spend.

2. Expand the product line through M&A and internal development.
3. Generate significant cash at Desktop.

While mobile is the focus, we still have plenty of cash flow coming from the Desktop business.

Conclusion

Last year the numbers were good, but more importantly we proved that the key drivers of growth in our most important businesses are working and our markets have room. The table below very simply lays out our roadmap going forward:

Business	Match	ANGI	Vimeo	Dotdash	Mobile	BlueCrew
Market Share	~1% (paid penetration)	<4-5%	<1%	<1%	1-2%	<1%
TAM	600M (global singles)	\$400B	\$20B	\$28B	\$9B	\$300B

We have a clear path to take share in most of our existing businesses, and accelerate penetration of the large categories in which they compete. We have the vision, conviction, assets, capital structure, and leaders to do it. If we act smartly, and resist the shackles of short-term thinking, I believe we will take advantage of the opportunity and build great companies.

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	\$740-\$790
ANGI Homeservices	280-300
Vimeo	(35-25)
Dotdash	30-40
Applications	90-110
Emerging & Other	0-20
Corporate	(75)
Total IAC Adjusted EBITDA	\$1,030-\$1,160
Stock-based compensation expense ^(a)	(260-250)
Depreciation	(80-75)
Amortization of intangibles	(85-75)
Operating income	\$605 - \$760

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

Additional Q1/FY 2019 Color

- *Match Group* – In Q1 we expect \$455 to \$465 million of revenue and \$150 to \$155 million of Adjusted EBITDA.
- *ANGI Homeservices* – In Q1 we expect pro forma revenue growth to begin to accelerate (excluding Felix in the prior year period as Felix was sold in Q4 2018; Pro forma revenue excluding Felix in Q1 2018 was \$249.7 million). We expect Q1 Adjusted EBITDA of \$35-\$40 million reflecting incremental investment.
- *Vimeo* – In Q1 we expect slightly below 20% revenue growth impacted by the Hardware business and about half of the FY Adjusted EBITDA losses in the first quarter related to a marketing campaign in Q1.
- *Dotdash* – In Q1 we expect revenue growth around 10% (targeting 20% growth for the year) and Adjusted EBITDA of \$4-\$5 million.
- *Applications* – In Q1 we expect revenue around \$140 million, down from Q4 due to seasonality and the impact on the Desktop business from the Google Chrome browser policy change in September 2018. We expect Adjusted EBITDA around \$25 million each quarter for the foreseeable future, with potential variability as we invest in Mobile.
- *Emerging & Other* – In Q1 we expect revenue around \$110 million (reflecting the sale of Dictionary, Electus and CityGrid in Q4) and Adjusted EBITDA around breakeven.

Appendix

Webcast and Conference Call Details

IAC executives will participate in the ANGI Homeservices quarterly conference call to answer questions regarding IAC on Friday, February 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 Adjusted EBITDA and free cash flow, 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.

IAC FY 2018 net cash provided by operating activities was \$988.1 million and capital expenditures were \$85.6 million. Match Group FY 2018 net cash provided by operating activities was \$603.5 million and capital expenditures were \$31.0 million.

Dotdash LTM:

<i>Dotdash LTM (\$ in millions)</i>	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Operating income (loss)	\$ (253.4)	\$ (39.1)	\$ (29.3)	\$ (15.7)	\$ (1.2)	\$ 8.1	\$ 11.9	\$ 18.8
Depreciation	3.0	2.7	2.7	2.3	1.7	1.5	1.1	1.0
Amortization of intangibles	34.0	21.2	15.7	10.7	6.2	2.1	2.2	1.6
Goodwill impairment	198.3	-	-	-	-	-	-	-
Adjusted EBITDA	\$ (18.1)	\$ (15.2)	\$ (10.9)	\$ (2.8)	\$ 6.7	\$ 11.6	\$ 15.2	\$ 21.4

Please refer to our 4th quarter 2018 press release and the investor relations section (quarterly earnings tab) of our website for all comparable GAAP measures and full reconciliations for all material non-GAAP measures. Please refer to Match Group's 4th 2018 press release and related investor presentation for all comparable GAAP measures and full reconciliations for all material non-GAAP measures.

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 February 8, 2019 (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: (i) our continued ability to market, distribute and monetize our products and services through search engines, social media platforms and digital app stores, (ii) the failure or delay of the markets and industries in which our businesses operate to migrate online, (iii) our continued ability to introduce new and enhanced products and services that resonate with consumers, (iv) our ability to market our various products and services in a successful and cost-effective manner, (v) our ability to compete effectively, (vi) our ability to build, maintain and/or enhance our various brands, (vii) our ability to develop and monetize versions of our products and services for mobile and other digital devices, (viii) our continued ability to rely on third parties in connection with the distribution and use of our products and services, (ix) adverse economic events or trends, either generally and/or in any of the markets in which our businesses operate, (x) our continued ability to communicate with users and consumers via e-mail or an effective alternative means of communication, (xi) the migration of users from our higher monetizing dating products to our lower monetizing dating products, (xii) our ability to successfully offset increasing digital app store fees, (xiii) our ability to establish and maintain relationships with quality service professionals, (xiv) changes in our relationship with, or policies implemented by, Google, (xv) foreign exchange currency rate fluctuations, (xvi) our ability to protect our systems from cyberattacks and to protect personal and confidential user information, (xvii) the occurrence of data security breaches, fraud and/or additional regulation involving or impacting credit card payments, (xviii) the integrity, quality, scalability and redundancy of our systems, technology and infrastructure (and those of third parties with whom we do business), (xix) changes in key personnel, (xx) our ability to service our outstanding indebtedness, (xxi) dilution with respect to our investments in Match Group and ANGI Homeservices, (xxii) operational and financial risks relating to acquisitions and our continued ability to identify suitable acquisition candidates, (xxiii) our ability to expand successfully into international markets, (xxiv) regulatory changes and (xxv) our ability to adequately protect our intellectual property rights and not infringe the intellectual property rights of third parties. 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.