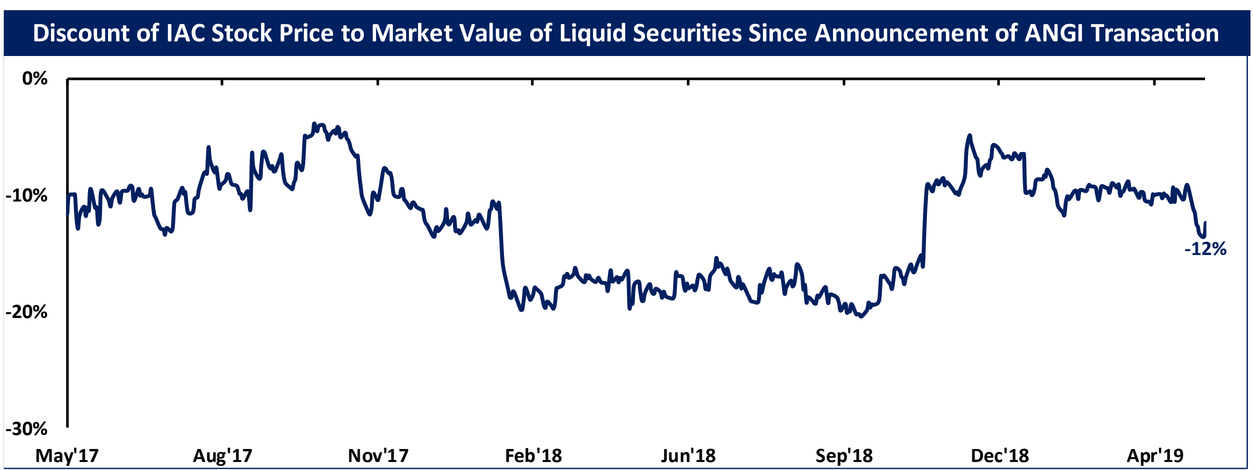
IAC Q1 2019 Shareholder Letter

May 8, 2019

Dear Shareholders,

As of yesterday, we hold $22.5 billion of net cash and liquid securities (226 million shares of MTCH, 421 million shares of ANGI, and $1.1 billion of cash net of debt). With 87 million IAC shares outstanding, IAC's equity market value is currently $19.7 billion, which is $2.8 billion below the value of those securities, a discount of approximately $32/share, or 12%. All that math entirely excludes any value for our non-public assets: Vimeo, Dotdash, Applications, and our Emerging & Other segment – those still come free with the purchase of an IAC share today. As you can see in the chart below, the discount has been shrinking, but persistent.



Clearly, we still have work to do to help investors understand the many components of IAC. The performance of our publicly-traded assets (MTCH and ANGI) is well covered in their respective filings, and valued every day in the stock market, so we'll go a bit deeper in this letter on Dotdash, a wholly-owned business in which we're increasingly confident.

Before that, a quick summary: All of our segments, including our non-public assets, had a strong quarter on track for their goals this year. All the growth engines – MTCH, ANGI, Vimeo, Dotdash, Mobile Applications (now called Mosaic) and BlueCrew – will grow revenue in excess of 15% and remain early in penetrating the large markets in which they compete. We are investing into strength as we prioritize market penetration and healthy revenue growth, and even in our seasonally weakest quarter we still generated nearly $200 million of Adjusted EBITDA.

Match Group

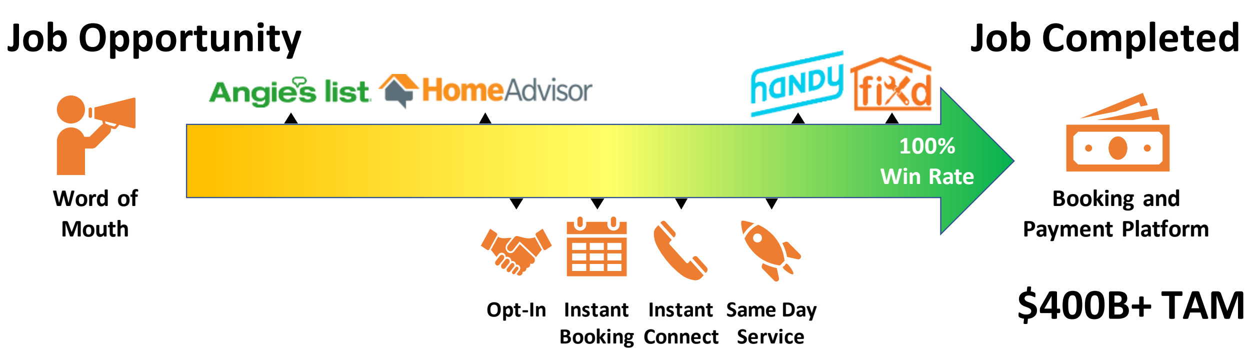
Tinder, our leading global dating product, continues its winning streak. Average subscribers increased by almost 400,000 in just one quarter, and since the end of the quarter total subscribers surpassed 5 million (more than the rest of Match Group combined). To put that in context, the original Match.com site took 7 years to get to its first 400,000 subscribers, and another 3 years after that to add its *next* 400,000 subscribers. Tinder is global, it's viral, and it serves one of the most basic human needs incredibly well – and it's not stopping. The Tinder success also allows us time and room to advance other opportunities including a big international push, some new brands, and a major product overhaul at Match.com. Tinder appropriately holds the focus, but potential remains throughout the brands.

ANGI Homeservices

Revenue growth in Q1 accelerated again from the prior quarter and we're on track for 25% Pro Forma Revenue growth for the year. Service professionals (SPs) again spent more as we increased the value delivered. "Value" from the SPs' perspective comes in two forms today: *more* customers and *more valuable* customers. A more valuable customer may be a customer contemplating a bigger job, but more often it's just a customer closer to doing a job, period. The roadmap at ANGI, from product and technology to sales and marketing, now focuses entirely on increasing the *value* of those connections between homeowners and SPs.

In product, that's on-demand features like same day service, next day service, appointment booking and actual transaction booking, most of which we've launched in the last 24 months to bring more jobs to our SPs, and which in aggregate now represent over 15% of service requests. In marketing, that focus on *value* requires us to evaluate our marketing spend from the SPs' perspective. Bringing homeowners to a website at a low cost is relatively easy – that's why we frequently see new entrants to the category ramp quickly to a tiny bit of scale. That approach may bring venture capital to the start-ups, but bringing "shovel ready" *jobs* to the SP at a low cost is considerably harder, and we optimize our marketing to drive SPs' revenue, not the platform's short-term statistics. As we get closer to the actual transaction, and thereby get more exact information on which service requests are the most likely to result in a booked job, we can increasingly use that information to get much more targeted in our marketing spend. This past quarter we cut marketing channels generating service requests worth $50 million of annualized revenue (and quite profitable to us) because the customers they brought in didn't complete enough jobs with our SPs. Our ability to prune marketing and enhance the quality and performance of the marketplace overall builds a growing competitive advantage.

Meanwhile, the Marketplace continues to grow over 30% annually and the Angie's List advertising business posted a meaningful milestone this quarter: the highest new quarterly bookings in its history, making growth in that business possible by the end of the year. With the marketplace in relative balance, we are investing to drive frequency and evolve along the spectrum below, from presenting job opportunities to facilitating jobs completed.



Investments in pre-priced services, warranties, and more on-demand transactions all help bring more jobs to SPs and remove friction for homeowners. Of course not all of these bets will work, or one may work so well that we decide to go "all-in", but we'll always evolve toward a better and more complete experience for both sides of our marketplace, continuing an inexorable march closer to the transaction and further penetration of the $400 billion market in home services.

Vimeo

With the acquisition of Magisto, Vimeo will begin to offer turnkey video-creation capabilities on a mobile-first platform (and pick up another 200,000 subscribers). Every business needs video to tell its story today, just as every business realized it needed a website to tell its story years ago. Yet, if you're a small business owner, and that business is not videography, odds overwhelmingly suggest that you're not going to be particularly good at making videos. That's where Magisto comes in. Using a combination of templates, footage from various sources and artificial intelligence in an intuitive editing tool, Magisto enables anyone to make compelling short videos in minutes and for a fraction of the cost of a professional video shoot (click here for a product demonstration). We'll integrate Magisto's creation capabilities into the Vimeo platform and also offer Vimeo's hosting and distribution features to Magisto's users. These features will allow us to find customers *before* they've created a video, not just after (which is where Vimeo has focused to date). As a result, Magisto opens up a larger (and easier to reach) potential subscriber base for Vimeo, and as with every new feature, furthers our new brand campaign: *Vimeo Can Help*.

Applications

The first quarter was another outstanding one for our mobile business, with revenue up 69% before acquisitions (230% with acquisitions). While 69% won't be a sustainable growth rate for us in this category, it's clear that mobile subscribers are spending more money with us and sticking around longer with our products, which means we can afford to acquire more customers through profitable marketing, using many of the tools we built over a decade in the desktop business. We'll also probably keep making relatively small mobile app acquisitions, where we've found success with quick breakthroughs in marketing and monetization when we integrate apps onto our platform. Fortunately, the ramp of mobile can offset a meaningful portion of the ongoing desktop declines in this segment.

Dotdash

Without much fanfare, clickbait content, intrusive ads, or paid traffic, we have built a sustainable, growing and profitable publishing business – a rare trifecta in digital publishing. We avoided chasing the sugar high of social networks' referrals or "pivoting to video" in favor of a relentless focus on our core product, and it's finally starting to pay off.

When we acquired About.com, the predecessor to Dotdash, its roots as a broad information site gave us a long tail of content and traffic across the web, and plenty of space to optimize. We nearly doubled cash flow instantly. But as the Internet evolved, users, search engines and advertisers increasingly favored category-specific websites over "horizontal" sites like About.com, which covered topics ranging from diabetes to dinosaurs. Then the business started to look like a dinosaur itself as traffic, revenue and profits fell to the point where we were actually losing money, with losses peaking in 2016 while we were fielding questions from investors about extinction.

So, the team took About.com apart down to the studs and rebuilt it, one category at a time, beginning with the health category and the launch of Verywell.com. We re-worked the entire corpus of content to focus intensely on quality, re-architected and rebuilt the site infrastructure for speed and performance, and created a dedicated health brand and voice to resonate with users and advertisers. We were rewarded almost instantly with a 17% reduction in visitors to the site. One month later, we were down another 20%.

But then people started to take notice. We had the best content, the fastest site, and the fewest ads, and search engine algorithms that prioritize quality experiences for users began to respond. The audience slowly started to come back (and then some): Verywell now receives 3x more visitors than About.com's health section received prior to Verywell's launch, with a substantially smaller corpus of substantially better content. And the advertisers followed the audience. With the thesis validated, we followed Verywell with several more "vertical" sites:

Vertical	Vertical launch / acquisition date	Unique visitors	Growth since vertical launch
verywell	May'16	39M	223%
the balance	Sep'16	20M	209%
Investopedia	Jun'18	12M	29%
the spruce	Mar'17	26M	203%
Lifewire Tech Untangled	Nov'16	9M	157%
tripsavvy	Jun'17	9M	184%
ThoughtCo.	Mar'17	13M	170%
BYRDIE	Jan'19	3M	N/A

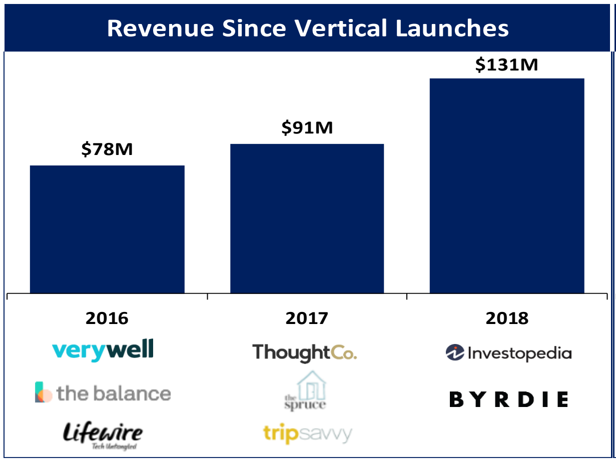
Though ubiquitous distribution and zero-cost publishing on the Internet, once heralded as the great democratizer of content, did not go as planned, we learned how to master the new reality. The publishers built on "social" were caught with their pants down when the social networks' tide turned, and the crystallization of another new publishing reality brought a fresh round of carnage in the industry. When the honeymoon on socially-driven digital publishing ended, Dotdash was thriving where few others had been investing.

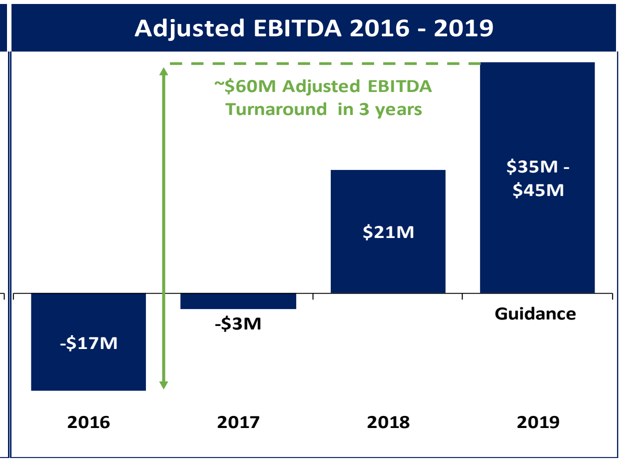
Dotdash doesn't publish news, entertainment, gossip, or any of the "sexier" parts of digital media that are defined by big headlines and short shelf-lives. Dotdash only publishes reliable evergreen content on intent-driven topics: health, home, beauty, fitness, food, technology, and finance. Whether our readers are Gen-X, Gen-Y, or Gen-Z, they're all going to need to open a bank account, or a crypto-account, and we'll be there to tell them how to do it. We don't seek to write the stories that an editor thinks audiences may enjoy at that moment, we simply answer the questions that we know audiences will always ask. The Internet's gatekeepers – search engines and social media platforms – thus don't decide whether our topics are worthy, they only decide whether we've answered the query *better than everyone else*. And that's where we're trying to build our moat because we can measurably outperform the competition, and improve with scale.

We've distilled "being better than everyone else" down to a focus on three simple, measurable elements: speed, accuracy, and fewer (but better) ads. We built the fastest sites in our categories because milliseconds matter when delivering content, as proven by user preference and engagement. We have an army of editors, contributors, and technological infrastructure to ensure that all of our content is the most accurate, current, and reliable in its category – freshness and accuracy are measurable. We've spent almost $100 million on content since the rebranding, and we're not stopping. And we've built ad sales teams and technology that allows us to reduce advertising to the bare minimum while maximizing performance (for which advertisers pay more). The proof is in the results: 18 of our top 25 advertisers have spent with us for five straight quarters, and average spend per account, average deal size, and effective price per media impression have all increased every year since the relaunch.

Effective Display Ad Rates	Number of Advertisers	Average Spend per Advertiser
Up 25%	**Up 37%**	**Up 41%**
2018 vs. 2016		

Our ad technology sits on top of an audience with dramatically higher purchase intent than news or entertainment, but advertisers don't need to take our word for it. We're increasingly migrating to deals where we take a piece of a consumer's purchases rather than charging advertisers by impression, and this is now our fastest growing revenue stream. The result is a reinforcing system driving more visitors to our sites, more advertisers interested in those visitors, better revenue from those ads, and more dollars to invest in our content – and the flywheel continues.





While certainly possible, we don't see new entrants or existing competitors spending the capital to compete. We amassed our content library over decades of investment, we honed the monetization with years of performance data and massive audience scale, and we built the underlying tech infrastructure with substantial investment in speed and other advantages. Now we're focused on building our brands and growing direct traffic, and if we can pull that off, we've got quite a business, generating some cash flow along the way.

Conclusion

We entered 2019 with a plan to invest throughout the portfolio, deepen the moats around our businesses, and take share, prioritizing accelerating revenue growth over near-term margins. Our biggest businesses, with real advantages, still likely generate the best risk-adjusted returns with incremental capital. Tinder is winning, ANGI is accelerating, Applications has a mobile plot working, and cash continues accumulating. But the IAC model, with patience and accountability, drives the smaller businesses too. Dotdash is tasting victory – at current growth and margins, we'll have messed up if we don't have a multi-billion dollar business there soon. BlueCrew's growth curve would turn heads in Silicon Valley (we moved it to Chicago), and Vimeo just acquired a big new capability for a larger market. We're not ready to celebrate, but we're making progress along the tracks we've laid, and as always, we're building.

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:

(in millions)	FY 2019 Guidance
Adjusted EBITDA	
Match Group	$740-$790
ANGI Homeservices	280-300
Vimeo	(35-25)
Dotdash	35-45
Applications	90-110
Emerging & Other	(10)-10
Corporate	(75)
Total IAC Adjusted EBITDA	**$1,025-$1,155**
Stock-based compensation expense [(a)]	(250-240)
Depreciation	(80-75)
Amortization of intangibles	(85-75)
Acquisition-related fair value adjustments	(5-0)
Operating income	**$605 - $765**

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

Additional Q2/FY 2019 Color

- *Match Group* – *Match Group* – In Q2 we expect revenue of $480 to $490 million and Adjusted EBITDA of $190 to $195 million. Increased confidence in FY financial performance. Expect to deliver expanded margins, even with potential additional 2H long-term investment opportunities.

- *ANGI Homeservices* – In Q2 we expect Pro Forma Revenue growth to accelerate a bit from Q1 2019 (excluding Q2 2018 deferred revenue write-offs of $1.8 million in connection with the Angie's List transaction and revenue of $10.0 million from Felix, which was sold on December 31, 2018; Pro Forma Revenue in Q2 2018 was $286.6 million). We expect Q2 Adjusted EBITDA of $55-$60 million reflecting incremental investment.

- *Vimeo* – In Q2 we expect 25% Platform revenue growth and Adjusted EBITDA losses of $7-$10 million, reflecting the sale of the Hardware business.

- *Dotdash* – In Q2 we expect revenue growth around 20% and Adjusted EBITDA of $5-$10 million.

- *Applications* – In Q2 we expect revenue between $135-$140 million and Adjusted EBITDA around $25 million for the foreseeable future, with potential variability as we invest in Mobile.

- *Emerging & Other* – In Q2 we expect revenue around $120 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, May 9, 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 Full Year 2019 Revenue to Pro Forma Revenue reconciliation:

	Full Year		
	2019	2018	% Growth
Revenue	**$ 1,376**	**$ 1,132**	**22%**
Add back: Angie's List and Handy deferred revenue write-offs	-	6	
Less: Felix revenue (sold on December 31, 2018)	-	(37)	
Pro Forma Revenue	**$ 1,376**	**$ 1,101**	**25%**

Dotdash Operating Income to Adjusted EBITDA reconciliation:

	FY 2016	FY 2017	FY 2018	2019 Guidance
Operating income (loss)	**$ (248.7)**	**$ (15.7)**	**$ 18.8**	**$24 - $34**
Depreciation	2.8	2.3	1.0	1
Amortization of intangibles	30.8	10.7	1.6	10
Goodwill impairment	198.3	-	-	-
Adjusted EBITDA	**$ (16.8)**	**$ (2.8)**	**$ 21.4**	**$35 - $45**

For reconciliations of GAAP measures to material non-GAAP measures not set forth above, please refer to our 1st quarter 2019 press release, the investor relations section (quarterly earnings tab) of our website, Match Group's 1st 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 May 9, 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, 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 and 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.