

Notes for IAC's Q1 2013 Quarterly Earnings Call

Set forth below are IAC management's notes for its prepared remarks for IAC's Q1 2013 conference call held on May 1, 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 May 15, 2013.

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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 May 1, 2013. IAC does not undertake to update these forward-looking statements.

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Financial Review - Jeff Kip

Recap on Q1

- We had a solid first quarter, with 16% revenue growth and 24% OIBA growth on an as reported basis. Pro forma for About.com and News_Beast, revenue and OIBA growth were 8% and 29%, respectively. The shutdown of Newsweek magazine in December effectively reduced the pro forma revenue growth rate by approximately 250 basis points for the quarter.
- It's worth noting that this was IAC's 16th straight quarter of 15% or more OIBA growth and our 9th straight quarter of OIBA margin expansion.

Search & Applications

- Search & Applications had a good 1st quarter, with as reported revenue growth of 16% and OIBA growth of 27%. Our revenue came in a little lower and our OIBA a little higher than expected because of CPC softness at Google, which led us to hold back a little on marketing spend. We did see CPC levels recover by the end of the quarter, however, giving us confidence in our expectations for the full year. Additionally, on a year-over-year basis, we took about \$5 million or so of unprofitable, legacy Pronto revenue out of Websites as part of the restructuring of that business in the first quarter, which contributed to the lower-than-expected revenues there. On an organic basis, Websites revenue was virtually flat sequentially.
- For the full year, we expect solid double digit revenue growth pro forma for About (and somewhat stronger on an as-reported basis) with margin leverage resulting in strong double digit OIBA growth pro forma for About (or approximately 1,000 basis points or so higher on an as-reported basis). This is modestly better than the outlook from our last call.
- In the 2nd quarter, revenue growth will roughly double from the 1st quarter rate on a pro forma basis, with a somewhat less dramatic jump on an as reported basis. OIBA growth will accelerate from the 1st quarter rate, although more modestly than revenue, as we ramp up our marketing, which we've already started doing, after our CPC-related pullback in the 1st quarter.
- In the back half of the year, revenue growth rates will be in line with our 2nd quarter rate on a pro forma basis, driven year-over-year by accelerating query growth in Websites and improved monetization in Applications.
- OIBA growth in the 2nd half on a pro forma basis will be significantly better than the first half of the year, but higher in the 3rd quarter than in the 4th quarter, driven primarily by timing of marketing spend.
- I would also note that, on an as reported basis, both revenue and OIBA growth will be impacted by the anniversary of the About acquisition in the 4th quarter of 2012.

Match

- At Match, we had a great quarter, with 8% revenue growth, strong margin leverage resulting in 24% OIBA growth, and most importantly, solid PMC growth across all of Core, Developing and Meetic.
- In the 2nd quarter, we expect a modest increase in revenue growth over the 1st quarter, and we also expect PMC growth rates to accelerate again across all three PMC buckets, which will drive solid revenue and OIBA growth in the subsequent quarters. The 2nd quarter, however, has very tough marketing comps, especially at Meetic, where we pulled back spending significantly last year, so we only expect single digit OIBA growth year-on-year.

- In the back half of the year, however, we expect to see revenue growth rates in the low to mid-double digits with flattish margins year over year in the 3rd quarter, but significant margin leverage in the 4th quarter, again driven by the timing of various marketing decisions.
- On a consolidated basis for the full year in this segment, we expect low double digit revenue growth and strong double digit OIBA and PMC growth.

Other Segments

- In our remaining segments, we continue to see strong revenue growth at businesses like Vimeo and Electus, and we have dramatically reduced our OIBA loss at News_Beast. Our performances were offset in the 1st quarter and will continue to be offset in the 2nd quarter by underperformance at HomeAdvisor, driven by some technical glitches in the re-branding of the service, which should be resolved by the end of the quarter.
- Revenue growth for the full year for Local, Media and Other combined should be low double digits on an as reported basis, dragged down by the effect of the shuttering of Newsweek magazine.
- In terms of full year OIBA, we now expect low double digit millions in combined losses for the full year for the three segments, which means we expect an OIBA pickup of approximately \$15 million versus the aggregate OIBA from last year, or actually significantly more than double that pro forma for News_Beast. Thus, for the remainder of 2013, we expect to be nearly breakeven on OIBA across the three segments, with minor losses in the 2nd quarter turning to modest profits by the 4th quarter.

Consolidated Outlook

- I'll now conclude with our expectations for the full year and the 2nd quarter on a consolidated basis.
- We are reiterating our full year outlook of solid double digit consolidated revenue growth (or low double digits pro forma) and consolidated OIBA growth of approximately 30% (or mid to high 20s pro forma for About and News_Beast). Our improved outlook for OIBA growth at Search will offset our lower OIBA expectation for our Local, Media and Other segments.
- For the second quarter, we expect solid to strong double digit consolidated revenue and OIBA growth on as reported basis, with OIBA growth only slightly lower on a pro forma basis on low to mid double digit pro forma revenue growth.

Business Overview - Greg Blatt

General

I'll try not to restate what Jeff has just said, other than to say we feel really good about the road ahead. Instead, let me just jump into some of the big reasons why that is, and I'll start with Match.

Match

First, scale. We've now cracked the 3 million subscriber mark for the first time. That's more than double what it was just four years ago. I don't know that we have an exhaustive list, but we're pretty sure that puts us in the handful of largest pure online subscription businesses in the world.

But while size is great, momentum is better, and we're getting it back. At the end of Q3 I said I expected Core PMC growth rates to decline in Q4 and Q1. But that decline never came. Instead we just saw a flattening, with 8% Core PMC growth effectively three quarters in a row. Now, as we've said it would, it'll start to climb again, only from a higher starting level than we'd previously expected. That's a real testament to the product work done in the U.S. business. It demonstrates what I've really come to believe: there is no ceiling on the benefits you get from improving the product, optimizing conversion, etc., especially when these activities serve as a compliment to more fundamental product evolution like the events business we rolled out last year. Really, a great job by the Match team.

As pleased as we are with where Core is heading – which is up – I want to spend some time talking about Meetic and Developing. Haven't really had the numbers recently to talk about in the past, but Q1 marks a major milestone. For the very first time we've had meaningful growth in Core, Developing and Meetic simultaneously. Meetic and Developing have been a drag on things for a while, but now they're all going in the right direction and we expect this to continue. Meetic's team is really doing a great job, and we see momentum building throughout the year. Developing is positively impacted by some small acquisitions, but even on an organic basis it's up high single digits. And we expect the growth rates to increase meaningfully over the rest of the year, with total segment PMC growth rates getting into the high teens by year-end, up from the 11% we're showing in Q1.

An increasing part of our momentum are the dating products that would not traditionally be considered subscription services. We really need to come up with a better name for them, sites like OkCupid, Twoo, Tinder, sites we currently put into our Developing bucket. Looking at monthly active users across our businesses, the numbers for our traditional subscription sites are growing nicely year over year. But when you look at that growth for our other products, it's up nearly 500% year over year. Our global users in these services actually now exceed those of our traditional subscription sites.

Users aren't enough, though, and the key is how great we're doing now on monetizing these users. OkCupid is really the test case. OkCupid has increased its revenue per user nearly 50% since we acquired it two years ago. But that number is burdened by an ad revenue per user number that hasn't really moved since the deal. But if you just focus on revenue directly from users, that's up almost 500% per user in the two years we've owned them. And for the first time direct revenue is now

exceeding ad revenue in total. This was our thesis when we bought the business. That we'd be able to meaningfully increase monetization per user without impacting user growth. And user growth remains at or above pre-acquisition rates. We believe we can leverage this approach globally, and if we succeed across these other properties anywhere like we're succeeding at OkCupid, this is going to be a huge growth overlay on the business. That doesn't mean these products contribution will rival our traditional subscription products anytime soon. But it will now make up an increasing part of incremental revenue growth in these businesses, at even higher margins than the rest of our business. That, coupled with increasing growth rates at Core and Meetic, sets us up quite nicely for the future.

Sometimes we can get lost in the weeds of these businesses, so I think it's nice to step back and focus on the bare bones reasons we're so excited about Match:

- a) It's a high cash flow business with little capex and great margins.
- b) It fills a global need that isn't going away ever.
- c) The domestic and international markets continue to grow
- d) We're the global leader in the category, across multiple brands and multiple products and multiple geographies.
- e) We've shown the ability to both maintain brand superiority and growth in our flagship services, Match and Meetic, while growing additional non-traditional products around them; and
- f) We're now firing on all cylinders, with growth at Core, Developing and Meetic all hitting, and increasing, at the same time.

We love this business.

Search & Applications

Now, let's turn to the Search & Applications business. We said last call that Q1 would be a bit of a re-set quarter, and it was, but it was still very strong, and we expect overall improvement throughout the year.

Focusing first on the Applications side, Google's policy changes have had an impact on the landscape. But because our practices were already more in line with Google's preferences than the market's generally, and because of the nature and quality of the products we distribute, we believe the changes have a different level of impact on us than what the rest of the market is experiencing generally. The policy changes bring down our short term growth rates, but we maintain growth nonetheless. For many others, these changes were much more severe, and the consequence was they had to shift their business to other sponsored listings suppliers. We think this demonstrates what we've been saying for a while: that sound business practices and substantial investment in technology, coupled with access to a well-known, proprietary search and Q & A product like Ask, create an enterprise that is fundamentally different than the others in this space. I also think it's interesting to note how quickly some of the other big sponsored listings players jumped on the opportunity to pick up

the business that was shaken free. The search business associated with downloadable applications is meaningful and valuable to these guys.

I also want to point out again how strong our relationship is with Google. I can't remember it being better. We support them in their effort to make this business more consumer friendly. We're in this together with them, by choice. We're not focused just on dollars today, but on dollars today, tomorrow and the day after, so our decisions about business practices partners are based on the extended time horizon. In total, we believe all this has left us in a better long-term competitive position.

Next, I wanted to talk about mobile applications. We've said for a while that it didn't make sense for Mindspark to jump into mobile until the unit economics improved. This just isn't like many other businesses where it may make sense to invest to acquire customers at a. For us here, there isn't any short or long-term benefit from doing so. But we now believe there are opportunities to go after on a profitable basis, and we just launched our first search-based application. It's a small test, with a proprietary application, but our plan is to bring search to applications generally through a variety of products and distribution techniques. Some are analogous to what we've done on desktop and others are novel and native to these devices. We've talked to the app developers out there and we believe there is a receptive marketplace for what we want to do, that they're eager for additional ways to monetize their products. It will start small, but down the road it's likely to be a meaningful contributor. Given our belief that desktop usage is going to continue to be huge in relation to our overall share of it for some time, we don't think of this as an offset to near-term cannibalization, but rather an additive income stream to help drive growth for Mindspark going forward.

Turning to the rest of the segment, Ask was flattish this quarter due to absorbing the ad policy changes and low Q1 CPCs from Google, but we expect Ask to grow over the remainder of the year. Its fundamentals are solid, we've adapted to the policy changes on the ad side, and we've revamped and restarted our marketing in Q2 and see plenty of runway ahead. Additionally, and importantly, About is proving to be a grand slam. The acquisition was really our first big leap into pure content, and it's beaten our most ambitious expectations. It's clear the skill sets we've developed over the last few years in taking Ask's OIBA and OIBA margin to 7x and 3x, respectively, their 2009 levels are highly transferable to this content area. It's clear this represents a real strategic growth area for us, both within the About business and beyond. I think it's worth reiterating that point. In 4 years we drove 600% OIBA growth at Ask, and in our first year of ownership we expect to grow About's OIBA by well over 50%. This isn't accidental. We believe this can be replicated in other properties, both internally developed and potentially newly acquired. There aren't meaningful headwinds. So this area of generating and distributing and organizing content for distribution, over desktop and mobile devices, is going to be a real part of our growth story going forward, as well as a significant basis for diversification within the segment.

Summing up, it's worth reminding that, like Match, our Search & Applications business is a tremendous cash flow business, with limited cap ex, and an increasingly diversified revenue stream. We're confident it's going to continue to grow nicely for years to come, and is solid enough and diversified enough to grow through the various changes that will inevitably take place in this landscape.

Other

With regard to our other segments, we know in total they're a roughly breakeven proposition, and that we probably won't get much credit for them until one of them busts out. But we really do believe a few of them will. Vimeo continues to crush it for us, with subscriber growth up meaningfully, advertising revenue just starting to come online, and a great and exciting product roadmap. We believe this can be a huge business. HomeAdvisor had some technical stumbles in its re-brand but the brand results themselves are strong, the product roadmap is robust, and we expect HomeAdvisor to get its growth going nicely again by the end of the year. Electus continues to turn out television product far and wide, and the economics of this business are such that as these shows start to anniversary themselves, go international, etc., we should start making real money. And Tutor.com, an asset we recently acquired, is something we really believe in. So much so that we moved Mandy Ginsberg, CEO of Match.com, and Shar Dubey, head of product at Match.com, to head up that business, along with George Cigale, the founder. While I was at Match I worked with Mandy and Shar more closely than anyone else, and I don't know anyone with better chops for building a consumer internet service. Pairing them with the education expertise that already exists there gets us real excited about what this business can be. Not today. And probably not tomorrow. But soon after. So we're not going to spend much time talking about the numbers in these other segments until they pop out but I am very excited.

Wrap Up

In all, we're excited about the growth ahead. In each of our big segments we feel good about the big cash flow machines that anchor them and the earlier stage, higher growth projects and products we're building around them. We're confident they'll generate strong profit growth well into the future. We've also got a whole portfolio of early stage businesses that in aggregate aren't costing us anything meaningful but that are gaining real scale. We expect some of these to be real contributors down the road. All this, coupled with disciplined M & A and continued repatriation of cash to our shareholders, makes us very excited about the road ahead.