



IAC Q3 2018 Shareholder Letter

November 7, 2018

Dear Shareholders,

With volatility everywhere – markets, governments, news, tempers – we appreciate the strength and stability of our businesses right now. People may be long on 140-character opinions and short on meaningful dialogue, but a desire for romance remains. And everyone from single people to families are still fixing their boilers, remodeling their bathrooms, and cleaning up their yards. We delivered strong growth across almost all of our businesses and have great confidence in our outlook. By year end we should have over \$1.7 billion of cash at IAC (excluding ANGI Homeservices and Match Group cash) and ample debt capacity across our businesses.

Our largest assets – **Match Group** (MTCH) and **ANGI Homeservices** (ANGI) – have nice secular tailwinds and outsized growth at scale. ANGI once again posted accelerating growth, and exceptional growth continued at Tinder inside MTCH. Both of these category-leading businesses had knockout quarters, continuing truly exceptional years.

Our longstanding stalwarts — **Applications** and **Publishing** — together delivered over \$50 million of Adjusted EBITDA just this quarter, nearly all of it cash flow. But they're more than just earnings now. Each of these segments has quietly built a fast-growing asset within – Mobile in Applications and Dotdash in Publishing — both of which are ready to emerge from the shadows of their larger older businesses with increased disclosure. **At Applications, we've begun disclosing the revenue split between Mobile and Desktop, where you will see Mobile revenue grew 77% before including the impact of acquisitions which take that figure much higher.** This growing (and profitable) Mobile business now counts over 2.5 million subscribers. We are also pulling Dotdash out of Publishing and into its own segment next quarter, and you'll see this business grew revenue 35% with expanding profit margins – performance of a business more than worthy of its own segment. While most competing publishing businesses are missing

their targets, Neil Vogel and the team at Dotdash keep raising theirs. We spent a lonely few years on the sidelines in Publishing, but now that the digital publishing world has gone into retreat, we've put our offense back on the field.

We're also going to make Vimeo its own segment, so shareholders can see progress more granularly through revenue and investment (operating losses) each quarter. The business has the scale and potential to now stand on its own, and we want to begin to put a spotlight on it.

The remaining businesses in Publishing and **Video** will aggregate into one catch-all segment, creatively named "Emerging & Other," which will include a collection of businesses ranging from very promising early stage (e.g., BlueCrew) to mature (e.g., Ask Media Group). This segment will also include The Daily Beast, [DROPOUT](#) (the new subscription service from College Humor), IAC Films and new incubation projects. We may intermittently generate cash or consume cash in this segment, but will definitely be more focused on the next decade than the next quarter. We probably won't communicate about this segment very much, but once any of these businesses has a standalone story ready to tell, we expect to highlight it.

We made a number of other moves in the quarter on capital allocation:

- We generated \$271 million of free cash flow in Q3 (\$612 million year-to-date), including \$175 million at Match Group which will help fund a \$2 per share dividend to MTCH shareholders and continuing share repurchases. That gives \$450 million of cash to IAC.
- The dividend distribution at MTCH, a nearly 5% cash yield at current market prices, represents about a year's worth of free cash flow and enhances Match's levered equity return profile. Over the course of the year MTCH will return over \$650 million of capital to shareholders *while reducing its leverage ratio*. MTCH still has ample debt capacity and growing free cash flow to fund future M&A and return capital to shareholders.
- Since the end of the quarter we entered into an agreement to sell Dictionary and sold our television production company, Electus, for a combined \$130 million. Neither business was a focus for IAC's future, so we thought them better held in more enthusiastic hands. Plus, both businesses were previously included in a pile of assets to which the market

ascribes negative value – \$130 million of cash in the bank will be much easier to value and can now be used to fund ambitions elsewhere.

- We acquired a business called Handy for ANGI and a product called RoboKiller for our Mobile Applications segment. The app kills “robo calls” (not robots, yet) and is widely respected as one of the best in its class. Check it out [here](#).

Match Group

Match Group is doing a great job investing while returning capital to shareholders, and its CEO Mandy Ginsberg tells the story much better than I, so I won't take up much real estate in this letter. The Tinder momentum continues on a global scale, and Tinder now represents almost half of Match Group revenue and is nicely profitable. The Tinder business is truly phenomenal today, and I believe we're still early on the platform's potential. The non-Tinder brands continue to produce real relationships and healthy profits, with potential to improve. Revitalizing established internet brands for a new generation is a rare accomplishment in the digital world, but we've done it before and believe it's possible to do it again. And of course we're alternatively (though simultaneously) working to beat all our brands, and our competition too, with newer products such as Hinge starting to make an impact in key markets – and others coming soon.

ANGI Homeservices

Passing the year anniversary of the closing of the Angie's List acquisition, our latest rollup of figures has us 98% of the way to our original ambitious goal, set 18 months ago upon announcement of the deal, of \$270 million of Adjusted EBITDA in our first full calendar year – a truly outstanding accomplishment and nearly 2.5x the equivalent prior year period. But more important than a single figure in a single year, the integration has gone as well as any integration we've seen – the synergies are real, growth is accelerating, customers are happier, we're innovating across all products, and we're investing into strength. After a year, ANGI Homeservices is now one, great company, rather than a combination of two.

When Chris Terrill arrived seven and a half years ago, he articulated a vision for the category, assembled and galvanized an exceptional team, took some real risks, and endured some harrowing lows before any shoots of real success began to sprout. But eventually the flywheel took hold and the world took notice. The Angie's List integration was the culmination of much of that work, and a great achievement to cap Chris' tenure as he transitions leadership of ANGI to Brandon Ridenour. Internal succession is what we hope and plan for with every business at IAC and, as Chris and I and the Board of Directors discussed regularly, there is no better successor for Chris than his partner, Brandon. Brandon is the vision behind the product and technology and the mastermind behind the ANGI integration. Together with Craig Smith, ANGI's President, who built and motivated our salesforce and operations team and assembled the category's largest and happiest network of service professionals, we are in terrific hands.

With the digestion of Angie's List near complete, we just acquired a much smaller but very ambitious new company called Handy. Handy allows service professionals to connect directly with consumers to perform a specific household service, at a specific time, for a specific price through its platform. Upfront pricing and immediate booking solve a lot of problems – anyone who's had work done on their home knows that the dance of scheduling and pricing projects causes anxiety and friction, impeding a homeowner's willingness to get projects done. And Handy empowers the service professionals by removing the need to "sell" themselves (not all great service professionals are also great sales people) and providing more job opportunities from which to choose. We'll see some natural synergies as Handy brings a network of service professionals who can help fulfill service requests coming from HomeAdvisor and Angie's List, and we can similarly create new service requests from Handy customers for service professionals already in ANGI's network. But the simplicity of pre-priced services – starting with the house cleaning and handyman services categories – is the new big opportunity unlocked.

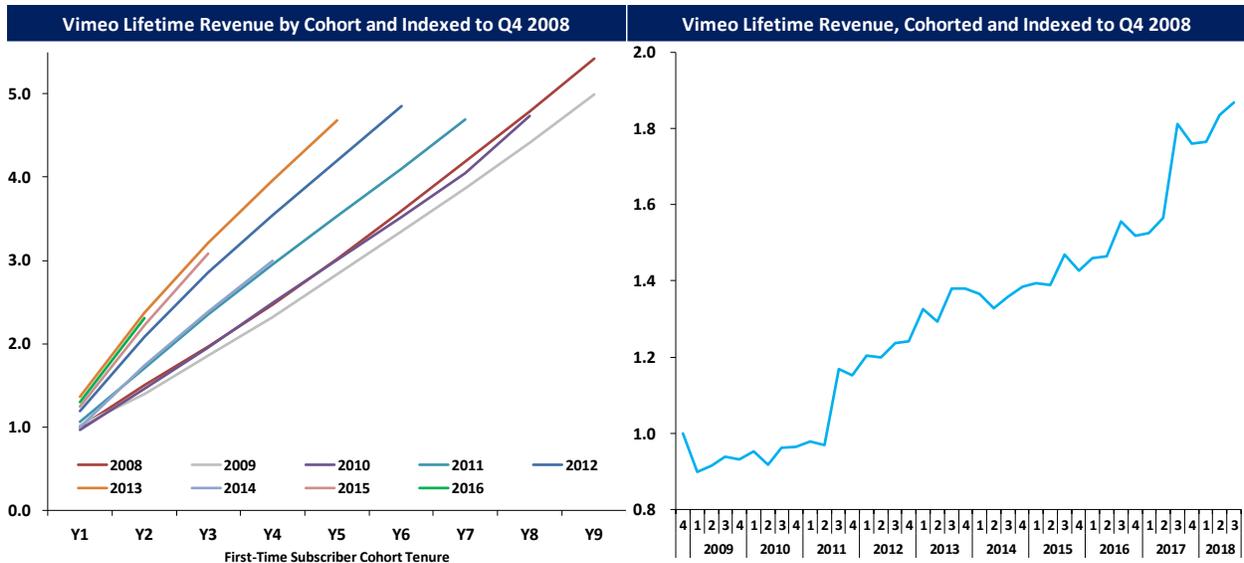
The Handy product can be a real accelerant to changing behavior and getting closer to the transaction between consumers and professionals has long been our goal. Handy takes us a step further in that direction by solving two key elements: (1) appropriate pricing and (2) consistency of service. Handy has also built a unique pipeline to new customers by integrating with retail partners to offer installation and assembly as add-ons to in-store or e-commerce purchases. A

piece of furniture sells more quickly with “no assembly required.” Handy enables that label to go anywhere, and everyone wins: consumers with convenience, service professionals with new work, and retailers with improved sell-through.

Of course, it’s early stage with Handy, but we’re excited by the concept and confident the team can make it work. We continue to consider further investments, both through acquisition and organically, including opportunities like Handy which will sacrifice near-term margin. We’ve proven over the course of 2018 that the profit potential in this model is real, and now we’re going to focus primarily on taking share and building liquidity in the marketplace with the goal of revenue growth accelerating ahead of profit growth. Given the strength we are seeing, we are going to plan for 25% revenue growth in 2019 and will invest some of our margin back into marketing, product and technology to get there. We expect a large, demographic shift of this \$400 billion market from offline to online over the coming years, and we’re pressing a winner to play for the largest share we can get.

Vimeo

The two charts below are my favorite when thinking about the strength of the Vimeo business:



The charts show that on average each individual subscriber expands their relationship with Vimeo over time. And, almost every year, new subscribers start with an even bigger relationship with Vimeo than the prior group of subscribers. “Relationship” in the prior two sentences is a euphemism for propensity to spend money with Vimeo, but sounds less capitalistic. So on the left, you can see that we have customers approaching their 10 year anniversaries, while new customers tend to spend more than previous generations at the same points of maturity. The chart on the right shows that we expect to earn nearly twice as much lifetime revenue from subscribers who sign up today than the subscribers who signed up in 2008.

The foundation of this relationship with our customers has been clear from the beginning – Vimeo always has, and always will, obsessively and relentlessly cater to the needs of creators – not advertisers, not eyeballs, not our own platform, nor anything else. We’ve focused entirely on the creators and they have rewarded Vimeo with their loyalty. The numbers bear this out – Vimeo enjoys incredible retention, an average customer lifetime of nearly 5 years, customers that upgrade over time, and new subscribers that are attracted to fresh, premium offerings at increasingly higher price points. The price points get higher as we add new services and incremental value, and we add services as our user base demands them. Ninety-nine percent of our users are self-serve, meaning they sign up without the direct help or encouragement of a Vimeo employee – they just come to our websites or apps and click. We’ve also added more tools to appeal to our fastest growing segment, business customers, and have begun to service enterprise customers with a salesforce, though we still only respond to inbound calls today.

Conclusion

We have compounded capital at a rate of 25%, 12%, and 14% for the prior one-, three- and five-year periods, respectively. Going back to the beginning when Barry Diller first assumed control of what is now IAC, and assuming a shareholder has held onto all IAC securities which have emerged from those original shares, capital has compounded at an annualized rate of almost 14% versus the S&P’s 9% for 23 years.

Current market volatility is a good reminder that long term success comes from strong execution in favorable environments, as well as careful planning for the opposite. Our teams across the

globe have done excellent work on both fronts. Revenues, margins, and growth rates are near all-time highs, and we've solidified our balance sheets with multi-year capital while it's cheap. We've got plenty of upside ahead, and many levers to pull with our enterprise value still trailing the value of the liquid securities and cash we hold (net of our debt) by approximately \$3 billion. We head toward 2019 with more tools at our disposal than ever: ample cash (we have enough to incubate hundreds of companies for the same it cost us to create Tinder), three publicly traded currencies (each with their own balance sheet), solid earnings, and modest leverage. Whatever lies ahead, we're ready.

Sincerely,
Joey Levin
CEO

Full Year 2018 Outlook

Please find below our updated full year 2018 outlook. We confront investment choices every day, and as stewards of your capital, will deviate from guidance when we have attractive opportunities that drives 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 2018 Guidance
<i>Adjusted EBITDA</i>	
Match Group	\$640-\$650
ANGI Homeservices ^(a)	260-270
Video	(40)
Applications	120-125
Publishing	65-70
Corporate	(75)
Total IAC Adjusted EBITDA	\$970-\$1,000
Stock-based compensation expense ^(b)	(235-230)
Depreciation	(80-75)
Amortization of intangibles	(85-80)
Operating income	\$570 - \$615

(a) Excludes costs and deferred revenue write-offs in connection with the Angie's List transaction (\$3.6 million and \$5.3 million, respectively, YTD through September 30, 2018 with de minimis amounts for the remainder of 2018) and \$1.3 million costs in connection with the Handy acquisition.

(b) Includes -\$95 million of charges in connection with the Angie's List transaction and the modification of certain equity awards.

Additional Q4/FY 2018 Color

- *Match Group – Match Group* – In Q4 we expect \$440 to \$450 million revenue and \$165 to \$170 million Adjusted EBITDA. For the FY, we are on pace to approach the top end of prior revenue outlook of \$1.72 billion and be near the top end of prior Adjusted EBITDA outlook of \$650 million.
- *ANGI Homeservices* – In Q4 we expect around 100 basis points of pro forma revenue growth acceleration from Q3 (21% growth in Q3 2018; Q4 '17 pro forma revenue of \$230.9 million). The FY Adjusted EBITDA range of \$260-\$270 million reflects losses from Handy and additional investment to drive growth in 2019.
- *Video* – In Q4 we expect revenue around \$50 million, reflecting the sale of Electus. We now expect FY Adjusted losses of \$40 million, reflecting the sale of Electus.
- *Applications* – In Q4 we expect revenue around \$145 million.
- *Publishing* – In Q4 we expect revenue around \$145 million reflecting the sale of Dictionary.

Appendix

Webcast and Conference Call Details

IAC executives will participate in the ANGI Homeservices quarterly conference call to answer questions regarding IAC on Thursday, November 8, 2018 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 Q3 2018 net cash provided by operating activities was \$291.9 million and capital expenditures were \$20.4 million. Match Group Q3 2018 net cash provided by operating activities was \$181.8 million and capital expenditures were \$6.5 million.

Please refer to our 2nd and 3rd quarter 2018 press releases 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 2nd and 3rd quarter 2018 press releases and related investor presentations 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 November 8, 2018 (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: future financial performance, business prospects and strategy, anticipated trends 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: (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 against current and future competitors, (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), (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 successfully integrate Angie's List, (xxiv) our ability to expand successfully into international markets, (xxv) regulatory changes and (xxvi) 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 management as of the date of this letter. IAC does not undertake to update these forward-looking statements.