Notes for IAC's Q2 2013 Quarterly Earnings Call

Set forth below are IAC management's notes for its prepared remarks for IAC's Q2 2013 conference call held on July 31, 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 August 14, 2013. Management discussed certain non-GAAP measures. Please see IAC's press release issued on July 31, 2013 and the Investor Relations section of IAC's website for all comparable GAAP measures and full reconciliations for all material non-GAAP measures.

Safe Harbor

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 July 31, 2013. IAC does not undertake to update these forward-looking statements.

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Financial Review – Jeff Kip

Consolidated Introduction

- The 2nd quarter was another solid quarter for IAC – on an as reported basis, consolidated revenue was up 17% and OIBA was up 20% versus the prior year, excluding a restructuring charge at Citygrid of approximately $(5) million and about a $(3) million write down of capitalized labor for projects started pre-acquisition at the About Group.

- Pro forma for About and News_Beast, consolidated revenue and OIBA were up 11% and 13%, or 19% excluding the accounting charges, respectively.

- This was our 14th straight quarter of double-digit revenue growth and our 17th straight quarter of double-digit OIBA growth. Looking at OIBA excluding the accounting charges, the 2nd quarter was also our 10th straight quarter of OIBA margin expansion.

- Let's move on to our segment performances:

Search & Applications

- Search & Applications had a strong second quarter. Pro forma for About, revenue growth versus the prior year nearly doubled to 14% in the 2nd quarter from 8% in the 1st quarter, and pro forma OIBA growth accelerated as well, though not as much, to 16% in the 2nd quarter from 14% in the 1st.

    - Without the capitalized labor adjustment I just mentioned, OIBA growth for the segment would have been around 19%, again pro forma for About.

- As you know, in our websites business, we took a hit in the 4th quarter which led to both the 4th and the 1st quarters being down sequentially in revenue, excluding About, for the first time in 8 quarters. However, as we said previously, the 1st quarter represented a new base from which to build with improving product quality and a revamped marketing approach. In fact, we saw 5% sequential revenue growth in the 2nd quarter, and we expect yet better sequential growth over the remainder of the year, driven primarily by query growth.

- About also had a great quarter, with 45% revenue growth and 48% OIBA growth year over year, even with the negative impact of the capitalized labor accounting charge.

- The Applications business had a strong 2nd quarter with 26% revenue growth year over year, but will see an impact from certain amendments to our agreement with Google in the back half of the year. We expect 3rd quarter Applications revenue to be at roughly the same level as the 1st quarter and to then begin to grow sequentially again from there, although very modestly in the 4th quarter. On a y-o-y basis in the 2nd half of the year, Applications revenue growth will be solidly positive.

- Looking ahead at the segment as a whole, we expect aggregate second half revenue and OIBA growth rates, pro forma for About, to be roughly the same or a little higher than our 2nd quarter levels.

    - The 3rd quarter will have modestly lower revenue growth and significantly higher OIBA growth than the 2nd quarter, and the 4th quarter will have modestly higher revenue growth and somewhat lower OIBA growth than the 2nd quarter, driven largely by the timing of marketing spend and the amendments to our agreement impacting the applications business.

- The net of all this is that performance within the segment thus far has played out just as anticipated and we are reiterating our expectations for full year 2013:

    - Pro forma for About, we continue to expect solid double digit revenue growth with margin leverage yielding strong double digit OIBA growth, primarily driven in the second half by the strength of the Websites business.

Match

- Moving on to Match, the segment delivered 9% revenue growth in the 2nd quarter, a modest acceleration over the 1st quarter.

- More importantly, aggregate PMC growth continued to accelerate – to 15%, up from 11% in the 1st quarter. These levels of PMC growth will in turn accelerate revenue growth, which we expect to reach double digits in the back half of the year.

- OIBA growth in the second quarter was approximately 8%, which we expect to be Match's lowest quarterly OIBA growth for the year, due primarily to the timing of marketing spend.

    - We expect OIBA growth to be modestly higher in the 3rd quarter than the 2nd and then dramatically higher in the 4th quarter, driven by continued PMC growth and, again, the timing of marketing spend.

- Thus for the full year for the segment, our expectations remain the same: low double digit revenue growth and strong double digit OIBA and PMC growth.

Local, Media and Other

- In our remaining segments, our 2nd quarter numbers were impacted by the $(5) million restructuring charge at Citygrid I mentioned previously, without which Local, Media and Other would have been, collectively. breakeven.

- For the full year, we now expect the total OIBA loss for these segments to be $(25) million or so – with the difference between this number and the number we gave you last quarter driven primarily by the 2nd quarter Citygrid charge and underperformance versus expectations at Home Advisor.

    - We expect the 4th quarter to be essentially breakeven in these businesses, meaning the majority of the remaining OIBA loss will hit in the 3rd quarter**.**

    - Additionally, we expect the Local segment's OIBA in the 2nd half to recover from its first half declines and grow double digits percent over last year as HomeAdvisor recovers sequentially and its OIBA returns to 2nd half 2012 levels.

Consolidated Close

- Taking everything together, on a consolidated basis for the 3rd quarter, pro forma for About, we expect high single digit revenue growth and strong double digit growth in OIBA. Revenue growth for the quarter would be in the double digits but for the presence of Newsweek print revenue in the 3rd quarter of 2012.

- For full year 2013, our consolidated expectations remain unchanged from our last call: we anticipate solid double digit consolidated revenue growth driving consolidated OIBA growth in the range of 30%, on an as reported basis.

Business Overview – Greg Blatt

General

So … another good quarter behind us, finishing the first half of the year with OIBA growth of approximately 18%. But '13 is really going to be a second half story, and we think we'll nearly double that growth rate in the back half. Momentum's solid and we're feeling good about where we're headed.

Match

Let's talk first about Match.

After growing revenue nearly 9% in the first half, we think second half growth will increase to low double digit rates. PMC growth rates in Core, Developing and Meetic each increased from Q1, aggregating to almost 15% year over year, up from 11% in Q1 and 4% at year-end 12. We still expect PMC growth rates to continue to accelerate throughout the year, leaving us with high teens growth at year-end. That'll be in the range of 4x the PMC growth rate we ended last year with. That's pretty significant acceleration.

And Match continues to show the strength of our portfolio approach. Just look at the past few months. If you're in New York, LA, or any number of other cities, all you hear about is our newest product, Tinder, with rapid user growth domestically and growing momentum internationally. But the success of Tinder isn't cannibalizing Match. During the same period Tinder has been thriving, our Core business growth is accelerating. And a similar dynamic's been playing out with OkCupid over the last stretch of years. From year end 2009 through the end of Q2 2013, OkCupid increased its monthly active users by 250% (from an already significant base), while during the same period, Match increased core subscribers by a very healthy 60%. Services like Tinder and OkCupid acclimate new groups of people to meeting online. That meaningfully expands the market. And once people have used technology to meet other people, no matter what the service was they initially used, a barrier's been broken and they're more likely to do it again. Almost 50% of first time Match.com subscribers have previously used another service for meeting someone online. So the more people we can get to try these services, whether we own them or not, the more likely they are to use our other services. Of course, it's better when we own them, thus our multi-product approach.

And that's not to say these sites simply work as acquisition tools for our Core business. Far from it. As I mentioned on the last call, we're meaningfully increasing the contribution from these businesses. During the same period OkCupid grew monthly users 250%, it grew monthly revenue by 700%, and it's now a meaningful contributor to this business. Tinder is early stage, we're not monetizing it now, and we probably won't monetize it in earnest for a while, but I assure you if its growth continues and it truly takes hold, it's going to be a very valuable asset.

Up to now, the portfolio's been primarily a North American story, but we think it'll also work in other markets. As I mentioned last time, Twoo, which we bought in January, adds a second brand in Europe, and we'll likely add others. The same in Latin America. I really think we'll reach a point where everyone single will be using technology in some way to help them make romantic connections, and it's been proven time and again, really over the history of the internet, that this is one of the things people are willing to pay for online, even when there are free alternatives. So we're confident our multiple products, multiple price points, multiple business models and global reach are going to put us in an optimal position to keep capturing a big part of that expanding activity.

I made a historical reference there, and I think it's appropriate. Match launched in 1995. It's not like there isn't data on this category. We've taken on hundreds if not thousands of attempts at disruption and continue our growth. In fact, we're one of the few consumer internet businesses from that period, along with Amazon, eBay and a handful of others, which has maintained its leadership position throughout. We're operating businesses in over 40 countries, we've had positive OIBA growth for 8 years running, and double digit OIBA growth in 7 of those 8. 2013 is going to make it 8 in the last 9. And with our PMC growth and its implications for future revenue growth, we're expecting 2014 to be a double digit revenue and mid-to-high double digit OIBA growth year, which will give Match double digit profit growth for 9 out of the last 10 years.

Momentum continues to build here.

Search & Applications

Now, let's turn to Search & Applications. Again, a solid first half completed, but as with Match it's a momentum build in the second half. First half of the year, pro forma for About, we saw around 11% revenue growth and 15% OIBA growth, where in the back half of the year we're expecting modest improvement on the revenue side and meaningful improvement on the OIBA side. Very solid for a so-called transition year in this business.

As Jeff mentioned, after a Q4/Q1 reset, the websites business is performing well and starting to grow again sequentially, and we expect this to continue throughout the remainder of the year and beyond. This is driven by a continued focus on product quality improvement, continuously refining our marketing and distribution efforts, and international expansion.

About is also continuing its strong performance. In fact, we're so pleased with the About playbook that as of the beginning of Q3 we moved our Citygrid and Urban Spoon businesses out of our Local segment and into Search & Applications, where we'll manage them similarly. We expect these businesses to generate $25 m to $30 m of revenue in the second half of the year. They've been modest money losers through the first half, but a big reason we've moved these business into this operation is that we think they can turn them to profitability in the near term.

Applications is the one area that's going to buck the stronger second half trend, though it will still turn in a solid performance. As Jeff mentioned, we're going to see a Q3 sequential hit as a result of the impact of our first quarter amendment to our Google agreement, and then we're going to start building again from there. 13 of our last 14 quarters have seen sequential growth, and we expect that trend to continue again after this re-set. This is essentially a repeat of what we saw with the websites business in Q4, only less severe, and we should enter 2014 with renewed momentum.

This whole segment, stepping back, has really evolved into a collection of branded properties centered around information discovery – Ask, About, Dictionary, Urban Spoon, Citysearch. On these properties, as opposed to content properties generally, a user takes an action that indicates a specific intent, whether a query or some other equivalent. This allows us to serve more targeted ads, generally sponsored listings, than you're able to do on a more passive content experience. As a result, these are generally much higher monetizing properties than average content sites. But it's not just the characteristics of the sites themselves. As the performance of About has shown since the acquisition, we're getting good at operating these properties in a way that optimizes these dynamics. Our properties now represent one of the largest, if not the largest, third party networks of high quality audiences in this area. And given our strong partnership with the premier sponsored listings supplier, we think this is a pretty attractive place to sit. Overall, we think there's real opportunity for growth here, both organically and through opportunistic acquisition.

So again, we're enthusiastic about where this business is going, and just like with Match, the second half momentum bodes well for 2014, where we expect another year of mid to high double digit revenue and OIBA growth in this segment.

Local, Media and Other

Now a little time on our other segments. For Home Advisor, 13's a transition year. In the first half we re-branded and now we're working on rolling out some alternate business models to help make the business stickier with our service professionals. While this caused us to take a step back financially, strategically we think we're taking big steps forward. We'll know a lot more by the end of the year, but consumer traffic has rebounded to pre-re-branding levels, and I think we're going to go into 14 a lot stronger.

Regarding our Media and Other businesses, they generally fall along two lines of focus, with several of them sitting right where the two lines intersect.

The first area of focus is video, where we have Vimeo, Electus, Daily Burn, CollegeHumor, and our minority investment in Aereo. Video consumption is at an all-time high and growing incredibly fast. With the explosion of IP delivered video and proliferation of devices for video consumption, the entire spectrum of production and distribution is in play, and we've got assets nibbling at various points along the line. This area is in part a sector play for us. We're using video as an investment principle similarly to how IAC used the internet as an investment principle back in the late 90s and early 2000s. In other words, we think video businesses will grow and generally be worth more tomorrow than they are today. But we also think we've got institutional strength and track record in this area, and our instinct here is that video can become an operating principle in the way internet never fully did. In other words, we ultimately determined that there weren't significant benefits to owning both HSN and Ticketmaster, even though they were both being transformed by the internet. In this case, however, we think there's a real possibility that benefits emerge down the road to owning a combination of businesses at various stages of the video production, programming and distribution chain.

The second line of focus, online services, isn't based on a particular area, like video, but on a common set of competencies. These are businesses where many of the skill sets essential to success are the same as those at Match: building around customer lifetime values, the costs of acquiring consumer registrations, the art of converting registrations to paying users, some form of freemium business model, and all the UI and intense analytics that go along with these disciplines. Just as we learned to leverage expertise in these areas across companies within Match (as shown by the Meetic acquisition), we're increasingly organizing to leverage that expertise across these businesses outside of Match. In this group are Tutor.com and the subscriber-based video businesses from the previous category: Vimeo, Daily Burn, Aereo. We're excited about the opportunities here, and as we continue to institutionalize these skill sets we think we can leverage them into real incremental growth opportunities.

Our ambition in these segments is high, but our net investments are modest. Collectively, losses from these segments represent less than 5% of our Match and Search & Applications OIBA this year, while generating well over $600 million in revenue, with solid growth and real opportunity ahead. We're confident these continued investments will pay real dividends to shareholders.

Mobile

Let's talk now a little about mobile globally. At Match, our mobile logins are now more than 40% of all logins. It's a service our users want to access from all their devices, and while the experience is customized for each screensize, we maintain continuity across them all. Tinder, on the other hand, is a mobile only product, and a product that probably will stay mobile only. So we're coming at it from all angles in the Match businesses.

Moving to Search & Applications, mobile page views are close to 30% of total page views in our websites businesses, and this is really without the concerted effort to drive mobile traffic we have on desktop, though that's starting to change. These properties, through sponsored listings, tend to monetize comparably on tablets as desktops, though less favorably on handhelds. But the combined usage of desktop and tablets will continue to grow, and monetization on handhelds will continue to improve, so we don't see longterm issues with monetization. On the applications side, we've made less progress but we've launched several proprietary apps and are now offering our suite of monetization solutions to mobile app developers. We're live with a set of partners. Still very small and early, but there's good progress and we think we have plenty of time to grow this before we start feeling the pinch on our applications growth from mobile.

And finally you look at Vimeo, where almost 40% of traffic is happening now on mobile devices worldwide, growing rapidly. So we feel pretty good about our management of the mobile evolution without major disruption or outsized investment.

Wrap Up

Wrapping up, we bought back approximately 1.5 million shares in the quarter for $73 million at an average price of $49.41. Our dividend continues. We continue to look at strategic acquisitions in areas of expertise and focus, while keeping a sober eye on risk/reward. Over the last four quarters, we've had approximately $304 million of free cash flow and spent $487 million on repurchases, with another $85 million in dividends. In other words, we returned 188% of free cash flow to our shareholders, while still managing to get key acquisitions done like About.com. With our standard caveat that we're always opportunistic, and that no one quarter sets the standard for any other, we expect first half capital allocation philosophy to generally continue.

Looking at 2014, we expect the combined profit engine of Search & Applications and Match to generate double digit revenue growth and mid to high double digit profit growth, while net investments in our other areas should continue to represent a small percentage of overall profit. This sustained profit growth, coupled with continued investment in new growth areas and a disciplined approach to capital management, should yield real value creation for years to come.