



## IAC Q4 2017 Shareholder Letter

February 7, 2018

Dear Shareholders,

Five weeks into a roaring 2018, we've got two hands gripped on the wheel and we've almost forgotten 2017 in the rearview. But before we move on, some quick highlights:

- Created a new public subsidiary (ANGI) that's the category leader in the \$400 billion domestic home services market ("unlocking" several billion dollars of value)
- Outperformed the market by 4x over the past year and 2.5x since Barry Diller assumed control in 1995, and also outperformed the market in each of the past 5, 10, and 20 year periods by at least 2.5x<sup>(1)</sup>
- Lowered our cash cost of debt by approximately 200 basis points and extended maturities in a market that has priced risk at historic lows
- Promoted 4 new brand CEO's from within (always our preference)

We began 2017 with an implied value of IAC, excluding both the market value of our publicly traded shares in Match Group (MTCH) and our cash net of our debt, of \$1.6 billion, which at the time included our share of what is now the publicly-traded ANGI Homeservices (ANGI) and our other non-public subsidiaries. The value of that stake in ANGI is now \$5.6 billion, while the implied value of IAC corporate and the remaining non-public operating subsidiaries is now a *negative* \$1.4 billion (reminder: those operating subsidiaries generated a *positive* \$130 million of cash flow last year). See table below.

(1) Returns assume a buyer of the S&P 500 reinvests all dividends and a buyer of IAC reinvests all dividends and continues to hold over the measurement period all shares of any companies spun out by IAC within each respective measurement period.

<b>IAC Valuation Net of Cash &amp; Public Securities</b>			
<i>(\$ in billions)</i>	<b>February 2, 2017</b>	<b>At Close of ANGI Deal</b>	<b>February 6, 2018</b>
<b>IAC Equity Value</b>	<b>\$5.9</b>	<b>\$10.2</b>	<b>\$12.2</b>
Less Match Stake	(3.6)	(5.3)	(7.4)
Less ANGI Stake	n/a	(5.3)	(5.6)
<b>Equity Value</b>	<b>\$2.3</b>	<b>(\$0.4)</b>	<b>(\$0.9)</b>
Less Cash	(1.2)	(1.0)	(1.1)
Plus Debt	0.4	0.4	0.6
<b>Implied Value for Everything Else</b>	<b>\$1.6</b>	<b>(\$1.1)</b>	<b>(\$1.4)</b>

The market, perhaps not unreasonably, still prices a discount into IAC. Investors interested in a bet solely on ANGI Homeservices can directly purchase any of the 13% of ANGI shares IAC doesn't own. And investors interested in participating in just Match Group's growth can directly buy some of the 19% of MTCH shares we don't own, without having to figure out whether they also want to make an investment in the future of ANGI or the rest of IAC. Or IAC could theoretically agree to a taxable transaction to sell our shares in ANGI or MTCH to another party, causing 21% of the value of our stake to go to the IRS instead of shareholders. While we've never done something like that in the past – if we did, such a transaction would typically include a premium to the trading price which would more than offset the tax bill – investors may choose to price that risk into an IAC investment. So to entice investors into the whole IAC portfolio, rather than any of the individual public subsidiaries directly, the market currently prices in a discount. Yet there's still plenty of gas left in this tank, even before we get to eliminating the discount.

For example, IAC's non-public (and negatively valued) subsidiaries, including our Publishing, Applications and Video segments, provide real opportunity. The financial profile of each of these segments is disclosed in our financials, and our expectation for their 2018 performance is laid out very simply on page 10 of this letter. Most of them generate positive cash flow. Some, like Vimeo, operate at a net loss but have real enterprise value – Vimeo will exceed \$100 million of subscription SaaS revenue in 2018, a prized milestone in venture capital markets. But before enumerating the attributes of each individual business, I think worthwhile to elaborate on the way we approach business building generally and some underlying drivers of success.

Our thesis has been consistent: we combine operating control, investment discipline and capital markets expertise with specific category experience, a permanent balance sheet and a long-term investment horizon to build great companies. We de-risk our bets in a number of ways. We recruit, guide and help entrepreneurs avoid the mistakes that we have made ourselves, and provide them enormous incentive on the upside performance. We encourage and reward ambition. Operators get more leverage because they can use our balance sheet and deal experience, and don't have to worry as much about the mundane finance, accounting, or other back office functions. Our breadth is wide enough that we see lots of opportunities, and our scale affords us a cheaper cost of capital than smaller companies who may compete in a particular category. Most importantly, unlike many investors, we have permanent capital, allowing us to operate and invest without a fixed timeline, and the ability (though rarely exercised) to print our own currency.

As a byproduct of our Internet experience, we've developed an expertise in leveraging the infrastructure of the Internet's largest platforms – Google, Facebook, Amazon, Apple, Microsoft – to build scale. The power of these platforms is profound. Google let the world tap into a near infinite collection of information, and in parallel was able to commercialize the expressed intent of billions of users. Facebook did the same for the social graph. Amazon has given the world a storefront and infrastructure such that anyone can be a retailer. And the rise of Apple and Google's ubiquitous mobile operating systems have yielded app stores enabling the world to get powerful software into a user's pocket in an instant.

Importantly, all of these companies encourage others to use their infrastructure and benefit from their economies of unprecedented scale in areas like distribution, marketing, storage, and processing. Each business that chooses to leverage the power of the platforms, in turn, furthers the scale and strength of those platforms. As a result, the platform companies have been vehicles of immense wealth creation not just for themselves, but the thousands of businesses like ours that have grown up in their ecosystem. When properly harnessed and fairly governed, these platforms enable online consumer businesses to scale rapidly on relatively little capital.

Success requires investing in disciplines like online marketing (to find customers efficiently and globally at scale), storage and distribution (to send packets of data around the world at the lowest cost), monetization (using the web's plug-and-play revenue sources – search, programmatic, affiliates, in-app payment – to make more with fewer salespeople), free traffic acquisition (sometimes referred to as search engine optimization or “SEO” and “virality” on social networks), and native app development (to create the next “shake”, “swipe” or “instant booking”). Over the past decades we have invested billions creating the systems and the competitive moat that allow us to execute in these areas, and have learned to deploy these effectively across our portfolio, from startups to category leaders. Tinder is a great recent example, where we used Facebook authentication to power a new dating experience which we then distributed through the world's app stores.

We've spent nearly \$4 billion on Google and Facebook in the last decade with a meaningfully positive return. We've built proprietary software (and generated vast amounts of performance data) that enables us to run millions of ad campaigns simultaneously, targeted to reach audience for our specific products across the globe and down to the neighborhood. On the other side, we've generated nearly \$12 billion in revenue (over \$700 million in 2017) with Google since we first began syndicating their search advertisements on our sites, without hiring a single salesperson to speak to their advertisers. As other forms of “plug-and-play” revenue have emerged such as programmatic ads, we seamlessly embed these solutions into our products. All of this platform expertise can be repeatedly deployed and transferred, so that the next business we build or buy can ramp faster and more effectively.

Of course, relying on these platforms is not without risk. The intense competition from others requires us to build enduring consumer brands and consistently improve. We must constantly innovate and ensure that we have the most accurate information and appealing experience such that our content earns its place on Google's search page, in Facebook's news feed, or inside Amazon or Apple's stores. Even then, the scale of these platforms provides them enormous leverage, and there is always the risk that the platforms favor themselves, such as when they develop their own content or services and prioritize those over others. If we and others cannot distribute our apps through Google or Apple's stores, we cannot distribute apps, period. When

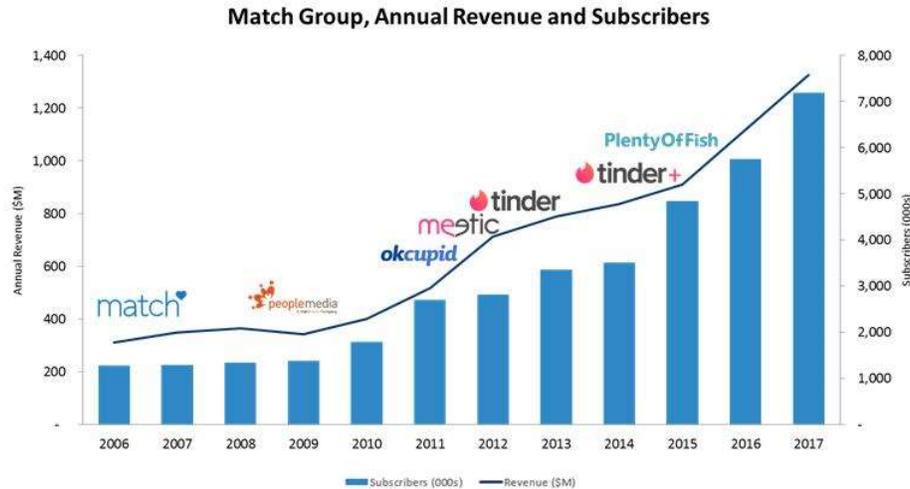
these platforms choose to increase the tolls to access their audience, they can weaken the competitive landscape and impact prices for us and consumers. With great power comes great responsibility.

Notwithstanding the risks, these platforms constitute the modern-days rails of online business and those who figure out how to navigate those rails better, cheaper and faster can achieve strong returns. So long as these platforms continue to allow businesses like ours to ride their rails – and we fully expect that to continue – we will keep building brands and delighting consumers. Yet we need to remain vigilant – as citizens, consumers, regulators, and leaders – because as these platforms continue to aggregate power, we must all be sensitive to how they choose to wield it.

So far in 2018, our locomotives are steaming ahead. The current IAC portfolio could deliver the highest Adjusted EBITDA in IAC's history since our first spin off, Expedia, notwithstanding having since spun off another 80% of our Adjusted EBITDA. Our ultimate performance in 2018 (and for the long term) will depend on the investment decisions we make, the seeds we plant and, of course, our competitive performance. Here's what will be focused on in the coming year...

### *Match Group*

Match Group proved definitively in 2017 that Tinder is not just a moment, nor just a solid business reflecting an enduring commercial testament to the power of love. Tinder gave rise to a massive expansion of Match's market and became one of the largest mobile platforms globally, capable of a profound and positive impact on the world. Nearly every week we read news stories around the world of people celebrating weddings for couples that met on one of our properties.



Match Group ended 2017 with 7 million subscribers globally. The U.S. Census says that there are 109 million unmarried people in America ages 18 and older, and our market opportunity in Europe is even larger. We also see meaningful opportunity to build in developing markets such as India and the rest of Asia, where smartphone usage and adoption of dating products is accelerating. The focus in 2018 is clear:

- Global expansion
- New products tailored to specific audiences and expanded use cases
- Refreshed marketing and product differentiation to reinvigorate the more mature brands

With limited capital expenditures and a favorable tax position expected to deliver over 70% Adjusted EBITDA to free cash flow conversion for 2018, Match Group is in a healthy place.

### *ANGI Homeservices*

We are four months into our combination with Angie's List and happy with the integration so far. Our biggest priorities in 2018 are:

- Complete the integration
- Realize the synergies
- Use the marketplace liquidity to advance the user experience

Success in this area is not just a financial win, but a big win for consumers and service professionals by expanding the liquidity and utility of the marketplace. Last week, we finished migrating 250 salespeople from Angie's List to start selling the marketplace product to keep up with our growth in consumers (service requests were up 36% year-over-year in Q4). We are starting to catch up. In January, we added more than half as many Service Professionals ("SP's") to the platform as we did the entire fourth quarter of last year. We also continue to work towards a frictionless product by simplifying the experience – we need to continually remove steps and clicks between "job imagined" and "job completed". Instant Connect and Instant Booking, as well as Same Day Service and Next Day Service, are meaningful steps in the right direction, and will get continued investment. And the 100,000 SP's (over 2/3 of total SPs) engaging with our mobile app on a daily basis will bring those products to life. When a user asks their device for a plumber, ANGI Homeservices can book one.

We set some pretty ambitious goals when we announced the creation of ANGI Homeservices, and we are well on our way to achieving them. As with all of our forecasts, we won't hold slavishly to a financial figure at the expense of our long-term future – we'll invest if we see the opportunity or address challenges as they arise, notwithstanding our near-term targets. This statement isn't meant to be cryptic nor dampen expectations. We are on pace for our \$270 million Adjusted EBITDA target, but wouldn't be so foolish as to handcuff ourselves to a figure, toss Wall Street the keys, and hand our competitors a bat.

### *Vimeo*

2017 was a breakout year for Vimeo, with new leadership driving a tight strategy and accelerating growth. We believe we have a leading product in a \$15 billion addressable market for video tools, and believe that market can only grow. For 2018 we will simplify even further:

- Integrate our publishing, hosting, live streaming, ad insertion, TVOD and OTT products into one end-to-end solution. Video creators will have a single platform, an intuitive interface, and straightforward pricing.

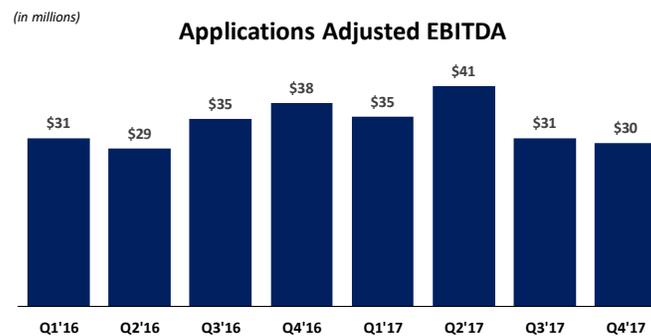
- Deploy more capital. We can acquire customers profitably and add new products onto our platform, whether organically or through acquisitions. We will spend more on both.

### *Applications*

Applications reliably delivered the cash flow while investing in mobile growth, and that plan continues for 2018:

- Deliver the cash flow
- Grow mobile

A majority of our mobile products this year will be subscription-based and we expect to continue to grow – but mobile won't overshadow the desktop business for a while. The desktop business remains dependent on Google, both existentially and in pricing (revenue per query moved more than 20% over the course of the year), so we're moving as fast as we can toward mobile. Inter-quarter volatility notwithstanding, the chart below helps me put periodic performance in context:



### *Publishing*

Publishing is poised for its best year in a while. We're making money here again, and we have a very motivated team that's enjoying winning again. Dotdash has a premium product, and the premium advertisers noticed – over 50% organic audience growth in the fourth quarter helped. Investopedia, Dictionary, and The Daily Beast are all growing too, and it's nice to see The Daily

Beast as a leading voice in the news. We're not declaring victory yet, but we've even got Ask & Other entering 2018 with real momentum. Our priorities are:

- Make Dotdash the model for the modern publisher
- Expand Investopedia's addressable market
- Maintain and expand Dictionary.com's category leadership
- Make The Daily Beast a sustainable business
- Drive cash flow from Ask & Other

### *Outlook*

This year we will look to plant the seeds for future growth through the acquisition of smaller, earlier stage assets and to incubate opportunities both inside and adjacent to our existing businesses. We'll always be active in M&A, but remain wary of bigger deals in the current market.

Thank you all for your support in 2017. We enter 2018 with big expectations. Our teams at IAC and across the subsidiaries are as strong and ambitious as they've ever been. To a person, all of our leaders believe we have the tools we need to continue to perform for you.

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 an attractive opportunity 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>	<b>FY 2018 Guidance</b>
<i>Adjusted EBITDA</i>	
Match Group	\$550-\$600
ANGI Homeservices <sup>(a)</sup>	\$270
Video	(40-30)
Applications	100-120
Publishing	30-40
Corporate	(65-60)
<b>Total IAC Adjusted EBITDA</b>	<b>\$845-\$940</b>
Stock-based compensation expense <sup>(b)</sup>	(230-220)
Depreciation	(80-70)
Amortization of intangibles	(80-70)
<b>Operating income</b>	<b>\$455 - \$580</b>

(a) Excludes costs and deferred revenue write-offs related to the Angie's List transaction.

(b) Includes -\$70 million of charges in connection with the Angie's List transaction.

### Additional Q1/FY 2018 Color

- *Match Group* – In Q1 we expect \$380 to \$390 million revenue and \$115 to \$120 million Adjusted EBITDA. For the FY, we expect \$1.5 to \$1.6 billion revenue.
- *ANGI Homeservices* – In Q1 we expect \$250-\$255 million. We expect Q1 Adjusted EBITDA margins of 12-14%, excluding costs and deferred revenue write-offs in connection with the Angie's List transaction. For the full year, we expect costs and deferred revenue write-offs in connection with the Angie's List transaction to be less than \$10 million each.
- *Video* – In Q1 we expect Video revenue of \$55-\$60 million with the full year growth rate impacted by the delivery of 3 films at IAC Films in the second half of 2017, which is not expected to recur in 2018. We expect the majority of the full year Adjusted EBITDA losses in Q1.
- *Applications* – In Q1 we expect revenue lower than Q4 2017 and quarterly Adjusted EBITDA between \$25 and \$30 million for the foreseeable future with Q1 towards the low end of the range.
- *Publishing* – In Q1 we expect revenue above \$100 million with Adjusted EBITDA of \$5-\$10 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, February 8, 2018 at 8:30 a.m. Eastern Time. The live audiocast will be open to the public at [www.iac.com/Investors](http://www.iac.com/Investors) or [ir.angihomeservices.com](http://ir.angihomeservices.com). This letter will not be read on the call.

### **Non-GAAP Financial Measures**

This letter contains references to Adjusted EBITDA, a non-GAAP measure. This non-GAAP financial measure should be considered in conjunction with, but not as a substitute for, financial information presented in accordance with GAAP.

Applications operating income was \$27.7 million, \$18.9 million, \$29.2 million, \$33.8 million, \$32.8 million, \$39.1 million, \$29.4 million and \$28.9 million for each quarter from Q1 2016 to Q4 2017, respectively.

Please refer to our 4<sup>th</sup> quarter 2017 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 Q4 2017 Investor Presentation for full year and Q4 2017 reconciliations, respectively, for Match Group non-GAAP measures. Please refer to ANGI Homeservices' Q4 2017 press release for full year 2018 reconciliation of ANGI Homeservices non-GAAP measure.

### **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, 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: 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 any of the industries in which IAC's businesses operate, our dependence on third parties in connection with the distribution and use of our products and services, our ability to offer new or alternative products and services that resonate with consumers, our ability to attract and convert visitors to our various websites into users and customers, our ability to build, maintain and/or enhance our various brands, foreign currency exchange rate fluctuations, our ability to develop and monetize mobile versions of our various products and services, changes in industry standards and technology, the integrity and scalability of our systems and infrastructure (and those of third parties), our ability to protect our systems from cyberattacks and to protect personal and confidential user information, our ability to service outstanding indebtedness, dilution with respect to our investments in Match Group and ANGI Homeservices, operational and financial risks relating to acquisitions, our ability to successfully integrate Angie's List, 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 and management as of the date of this letter. IAC does not undertake to update these forward-looking statements.