



IAC Q3 2017 Shareholder Letter

November 8, 2017

Dear Shareholders,

IAC's second publicly traded subsidiary, ANGI Homeservices, officially began life a few weeks ago, a born leader in one of the largest remaining markets yet to undergo a meaningful online migration: home services. The financial results in the third quarter confound a simple analysis because we closed the acquisition of Angie's List (to combine with our HomeAdvisor) on the last day of the quarter, so we got one day of revenue from Angie's List served with a heaping pile of merger-related costs in the quarter. In other words, the bankers, lawyers, and accountants had a much better quarter than we did. The financial mess shows up primarily on the cost side, so our 36% revenue growth for the new ANGI is a relatively "clean" figure, and a healthy one. If we had not completed the deal in the quarter, we would have posted record Adjusted EBITDA margins. But the accounting does not afford us that luxury, so we'll have to save those records for next year. Regardless, we've shifted our focus to 2018 for this business, as the final months of 2017 for ANGI will be dedicated to getting the people and products in place to deliver the synergies.

Our belief in the combination of HomeAdvisor, which has the largest network of engaged home service professionals ("SPs"), and Angie's List, which has the highest brand recognition in the category, led us to set some big expectations for the future. Since receiving antitrust approval, we've had a few months to start validating our assumptions and I know our shareholders are eager for a progress report. Spoiler Alert: We're on track. Highlights below.

- We are on pace for our target \$270 million Adjusted EBITDA in 2018;
- Expense savings are better (more) than we thought;

- Based on statistically significant data from our tests, relative to our expectations we are driving significantly more service requests through Angie’s List using a HomeAdvisor-like experience, at a slightly lower value per service request;
- One-time transaction costs will be less (possibly substantially so) than the \$100 million we originally estimated;
- As expected, revenue at Angie’s List continues to decline, but we have designs, not yet proven, to change that;
- HomeAdvisor keeps growing strongly in nearly all its key metrics; and
- We need more SPs on the platform to seize the opportunity.

Consumer demand is rising so strongly that it’s now comfortably outpacing our growth in supply. HomeAdvisor domestic SP growth (what we call “supply”) grew 25% in the quarter compared with 36% growth in service requests (what we call “demand”), and we haven’t yet widely released the HomeAdvisor customer experience on Angie’s List, which will drive even more demand. As with all marketplace businesses, we are constantly correcting a relative imbalance in supply or demand growth. We’ve been able to absorb some of the demand within our existing network – better matching algorithms working with a larger pool of data have allowed us to use up 60% of our SPs’ spend capacity, up from 53% last year. More services requests going to a given pool of SPs results in those SPs winning a greater percentage of the potential jobs they receive (we call this the “win rate”), since by definition there are more jobs available for each SP. So the value on average derived by the SP goes up in a very concrete way, as a higher win rate means more revenue for the SP. For us, that means SPs now spend more and stay longer, with revenue per SP up about 6% year-over-year.

But we still need more SPs on the platform. We’ve added around 225 salespeople year-to-date (up 23% since the beginning of the year), most of them in Q3. We weren’t adding salespeople fast enough in the first half of the year – we literally ran out of physical real estate to house them – and now need to catch up. We’ve historically tended to allow our physical infrastructure to lag our business growth, preferring to catch up quickly, if expensively, in success rather than sit on excess capacity in failure. But in this instance, looking through the retrospectoscope, we were penny-wise and pound-foolish to allow our hiring to slow. We’ve solved our real estate issues

and we are now growing our salesforce as quickly as we can, at near-term cost for long-term benefit. We're also moving an additional 250 former Angie's List salespeople into the HomeAdvisor salesforce, well ahead of our initial expectations. Though this "new" class of salespeople is 10x larger than a typical new class, so far they perform at the same rate (which means about 8 months to profitability per rep, down from 9 months a year ago).

We're taking advantage of the opportunity afforded us by running ahead of schedule on our synergy milestones to further increase investment in our salesforce. While our salesforce is more productive than it's ever been, this investment still requires time and capital and will be exceedingly difficult for our competition to replicate. We'll invest without sacrificing our targeted \$270 million of Adjusted EBITDA for next year. We also plan to invest at least all of the profits from the Angie's List acquisition through the end of this year to accelerate the salesforce growth and move quickly on product integration, so we're not going to raise our current 2017 outlook for this business.

Meanwhile, in the rest of IAC, we are trying to savor the occasion when we can report positive momentum across the entire portfolio of assets in the quarter.

Match Group

Led by the launch of the new tier of Tinder, dubbed "Tinder Gold," Match Group had a great quarter. The premium-priced product feature is straight out of Match's playbook, and Match Group continues to extend its lead in a large category with secular growth. The leadership transition at Match Group is going smoothly as expected, with Greg Blatt kindly leaving the business in a nice position for Mandy Ginsberg to officially take the helm.

We also reported in the quarter that Match Group fulfilled its obligation to compensate the management team at Tinder for the substantial value created since its founding within IAC five years ago – an incredible story of capital-light, low-risk value creation. Match used approximately \$500 million of cash to settle the Tinder-related employee options and repurchase some of the underlying shares, eliminating 27 million shares of potential dilution, an effective

buyback without reducing its public float. The dilution as a result was only 10.6 million shares of Match Group, which IAC acquired from Match and in turn IAC issued the Tinder option holders almost 2 million IAC shares. We issued the IAC shares here for two reasons: (1) we thought the purchase price of the Match shares was fair (we purchased the shares at the then average market price of \$18.86, which has so far turned out to be a successful investment) and (2) we wanted to continue to tax consolidate the Match Group, which allows us to more efficiently share tax attributes across all of our businesses. Given the enormity (and tax deductibility) of the payment to the Tinder management team for value created, we don't expect IAC to be a cash tax payer until at least 2020 or 2021, or perhaps longer if the current proposed tax reforms come to pass.

Vimeo

At Vimeo, we are beginning to appreciate the benefit of having a subscription business with long term customers. Vimeo subscribers on average stay with us for more than 4 years, so we start each year with an overwhelming majority of our revenue locked in from customers from the prior year who choose to renew without requiring us to "sell" them again. Customer bookings (a precursor to revenue) accelerated again to 24% year-over-year in Q3, adding to the foundation for next year's revenue. We also acquired Livestream in October, which will accelerate Vimeo's expansion into the market for live video services, far and away the most requested product by Vimeo's existing users. Livestream is another software subscription service for video creators, which increases both the size of our target market and the opportunity for our existing 850,000 subscribers to spend more with us.

We continue to see newer subscribers more valuable than older subscribers and, amazingly, we've also been able to increase average revenue per user (ARPU) trends even amongst our older cohorts by offering new products. That kind of customer engagement suggests we have a real opportunity to drive continued revenue and margin improvement while expanding our ability to market these products globally. If CEO Anjali Sud's first 100 days are any indication, our wait for new leadership was amply rewarded and her confidence in the opportunity well founded.

Applications

The Applications team continues to deliver healthy cash flow, and Q3 was their fifth straight quarter with over \$30 million of Adjusted EBITDA. We'll never shed some of the volatility in our core desktop business, but we still see robust consumer demand for our apps on a global basis and this team knows how to convert that demand into earnings. Our mobile apps business is moving into subscription models with greater potential lifetime value and opening up new categories for our products. We've launched or converted over 8 products to subscription models over the last 2 quarters, which could start to build a meaningful base of recurring revenue, but mobile is still a small piece of this segment overall.

Publishing

Superstitiously, I hesitate to put this in writing, but it does seem that Publishing, completing its first full year under new management, is now on the right side of a turnaround. With three straight quarters of positive Adjusted EBITDA and revenue in Q3 up 18% year-over-year, something is working. I continue to view this segment more for option value than intrinsic value, but we're starting to really like the option (in particular at our budding publishing empire under Dotdash, where revenue was up 20% this quarter) and of course the cash flow, even if some components of this segment remain volatile (this quarter, quite positively so).

Capital Structure

Our balance sheet is healthy: after two recent financings, we have \$1.2 billion of cash at the parent level of IAC, over \$250 million of cash at ANGI Homeservices, comfortable leverage at Match Group, no near term debt maturities, and our lowest cost of capital in a while, plus three public currencies.

We added flexibility with the two recent transactions. First, we raised \$275 million of debt at ANGI Homeservices to pay back to IAC the loan used to refinance the Angie's List debt and add additional firepower and flexibility at the ANGI level. Second, we issued a very low coupon exchangeable bond which potentially converts into IAC equity in the future. We used the

proceeds to retire our bonds maturing in 2018, and to purchase a tax deductible option that further reduced the cost of the new exchangeable bonds and offset the potential future dilution until IAC's stock reaches \$229 per share. While we weren't thrilled with issuing a potentially dilutive security – even at \$229 per share – we significantly lowered our cost of capital, extended maturities and replaced an instrument that had covenants with an instrument that has no covenants. By the law of “take capital with no covenants when you can”, we did. As against refinancing our current debt at market rates, we believe we saved almost \$20 million of pre-tax cash interest cost per annum and increased our strategic flexibility significantly. In addition, Match Group repriced its term loans twice over the last year, lowering its cost of capital by an annualized \$7 million and extending maturities.

Though we have the capital, it's not burning a hole in our pocket. The current M&A market is challenging, assets expensive, capital cheap and sellers' expectations more aspirational than we can recall in recent history. But I believe that in any market, with patience we can find, and always have found, compelling opportunities. For the time being that will probably mean leaning more heavily into our existing businesses, where we have a clear competitive advantage as an acquirer, and finding relatively younger companies, where we can help accelerate with expertise and consolidation capital. Though acquiring a company may be more expensive than we've seen in some time, starting a company is cheaper than ever. Tinder cost us almost nothing up front, and while we paid handsomely for value created, that's money we were happy to spend. Regardless, we'll continue to look for new areas where interactive technology can transform an industry, where scale will improve the product, not just the price, and where we believe we can help a company grow to reach that scale.

Sincerely,

Joey Levin
CEO

Full Year 2017 Outlook

Please find below our updated full year 2017 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>	FY 2017 Guidance
<i>Adjusted EBITDA</i>	
Match Group	\$463-\$468
ANGI Homeservices ^(a)	80-90
Video	(35-30)
Applications	130-135
Publishing	20-25
Other	(2)
Corporate	(65)
Total IAC Adjusted EBITDA	\$591-\$621
Stock-based compensation expense ^(b)	(270-260)
Depreciation	(75-70)
Amortization of intangibles	(40-35)
Acquisition-related fair value adjustments	(5-0)
Operating income	\$201 - \$256

(a) Excludes costs and deferred revenue write-offs related to the Angie's List transaction including \$3.7 million in Q2 2017 and \$26.0 million in Q3 2017.

(b) Includes approximately \$125 million (\$96.9 million in Q3 2017) due to the consummation of the Angie's List transaction in Q3 2017, reflecting the modification of previously issued HomeAdvisor vested equity awards and the acceleration of previously issued Angie's List equity awards.

Additional Q4 2017 Color

- *Match Group* – In Q4 we expect \$355 to \$365 million revenue and \$147 to \$152 million Adjusted EBITDA.
- *ANGI Homeservices* – In Q4 we expect \$210 to \$220 million revenue, including the addition of Angie's List which reflects the shuttering of certain revenue streams and deferred revenue write-offs related to the transaction. FY 2017 reflects approximately \$4 million of incremental public company costs related to the Angie's List transaction.
- *Video* – In Q4 we expect revenue to grow in the mid 20% range, including revenue from an IAC Films project.
- *Applications* – In Q4 we expect revenue consistent to Q3 levels with Adjusted EBITDA continuing to be at about \$30 million per quarter, give or take a little, for the foreseeable future.
- *Publishing* – In Q4 we expect revenue to grow a bit from Q3 levels.

Appendix

Webcast and Conference Call Details

IAC will audiocast a conference call to answer questions regarding IAC's and ANGI Homeservices 3rd quarter financial results on Thursday, November 9, 2017 at 8:30 a.m. Eastern Time. The live audiocast will be open to the public at www.iac.com/Investors. 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 \$29.2 million, \$33.8 million, \$32.8 million, \$39.1 million and \$29.4 million for Q3 2016, Q4 2016, Q1 2017, Q2 2017 and Q3 2017, respectively.

Please refer to our 3rd quarter 2017 press release and the investor relations section of our website for all comparable GAAP measures and full reconciliations for all material non-GAAP measures. Please refer to Match Group's Q3 2017 Investor Presentation for full year and Q3 2017 reconciliations, respectively, for non-GAAP measures.

Cautionary Statement Regarding Forward-Looking Information

This letter and our conference call, which will be held at 8:30 a.m. Eastern Time on November 9, 2017, 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: IAC's future financial performance, IAC's business prospects, strategy and 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 in a cost-effective manner and consumer acceptance of these products and services, 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 and access cash without adversely affecting our operations, 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 press release. IAC do not undertake to update these forward-looking statements.