November 2, 2016

Dear Shareholders,

Before we get to Vimeo, the main subject of this letter, I want to quickly highlight the performance from the broader IAC portfolio, which was largely very good. The businesses with strong positive momentum continued on their trajectory, and one of our two more challenged businesses, Applications, stabilized. Match had another record quarter with Adjusted EBITDA growing 34% to nearly $111 million, driven by continued strength at Tinder, which now has an astounding 1.5 million people paying to subscribe only 19 months since global launch. Coupled with an attractive free cash flow yield, Match has the complete package any mother would love – beauty, brains, and a wealthy parent.

HomeAdvisor also had another record quarter with domestic revenue growing 39% and a new record Adjusted EBITDA, up nearly 80% year over year. High quality service professionals continue to join our platform in big numbers – the network was up nearly 50% year over year again – which helps improve the overall experience by enabling more consumers to find a professional to get the job done right. To put this growth in perspective, since we offered to acquire Angie’s List in Q3 of last year, we have added a net number of service professionals roughly equivalent to the size of Angie’s entire network. On the international front, HomeAdvisor made its first big move into Europe in nearly a decade – agreeing to acquire approximately 70% of the leading home services marketplace in Germany called MyHammer. We’ll soon own the market leader in Germany, France and the Netherlands as well as an emerging asset in Italy, with international revenue growth at its highest since 2014 and accelerating. We think the total addressable market in Europe is roughly equal to that of the US and the same playbook applies, hopefully easier the second time around. We should achieve the high end of our previous guidance at HomeAdvisor this year and aim to grow Adjusted EBITDA 50%-100% next year while investing aggressively both in the US and abroad.

Applications also had a strong quarter, stabilizing as we expected, and delivering nearly $35 million of Adjusted EBITDA as revenue per query finally began to recover sequentially, we settled into the new Google agreement, and growth in our mobile business continued. We continue to expect the business to
stabilize around $25-$30 million of quarterly Adjusted EBITDA, and given the strong Q3 figures, we are increasing guidance for the year.

Publishing did what we expected, beginning to climb its way out of the hole and showing some green shoots on a turnaround, with plenty of work still to be done. The 4th quarter will be profitable and our expectations for the year remain unchanged, excluding approximately $10 million in restructuring charges related to vacating a data center we no longer need. In aggregate, by the end of the year we will likely have incurred almost $17 million of restructuring charges, and have removed approximately $50 million of run-rate expenses to position Publishing for a profitable 2017.

We repurchased $33 million of our shares this quarter, taking our year-to-date buy backs to nearly $250 million, or 6.5% of the company, approximately half of which was funded with 2016 free cash flow and asset sales, as we continue to deploy capital where we see attractive bargains—currently, in our own shares. While we’re pleased to see the value of our Match stake increase, the implied market value of IAC excluding our Match stake and our cash net of our debt still averaged only $700 million this quarter, notwithstanding terrific growth and margins at HomeAdvisor, a bright future at Vimeo, and stabilization in Applications.

When we first outlined our perceived disconnect in the math of valuing IAC, we thought the market was making a mistake. But a mistake when repeated is not a mistake anymore, it’s a decision. Our failure to show the value of the assets in IAC suggests we are either delusional in our view of those businesses, or doing a poor job communicating – neither choice is particularly appealing. But we can be patient, will communicate our ambition clearly, and have ample capacity to repurchase shares.

At some point during the quarter we stopped buying stock because we expected that we would announce a proposal to create a new class of non-voting common stock. I encourage all our shareholders to read the proxy statement for our annual shareholder meeting that we filed earlier today, which describes the proposal.

**Vimeo**

I've just completed my first full quarter as interim Vimeo CEO. I've always believed that if you choose a job you love, you never have to work a day in your life. Turns out that if you take on two jobs you love, you can actually spend nearly every waking minute not working. It’s been invigorating and illuminating
– we have a smart and energetic young team that loves our product and our customers and each other, and we have a real business in Vimeo.

Vimeo has the potential to be one of the biggest and most disruptive opportunities we’ve seen at IAC, and I’m not prone to hyperbole. With a brand built authentically to empower the world’s most talented video creators to share their work globally, Vimeo is a beloved and critical component of the video ecosystem today. Talk to any content professional, and if they’re not already a subscriber directly, they’re certainly using Vimeo regularly to share, view, or interact with video through our platform, often using Vimeo as their calling card. Vimeo has already spawned a community and marketplace that is producing valuable content, attracting a massive audience and getting consumers to open their wallets. Now we need to fuel this system with marketing, programming acumen, product innovation and the raw energy and unbridled ambition of a disrupting start up to take a share of the $500 billion TV and film market.

Vimeo Creator SaaS Platform

Vimeo has always done things differently. When the prevailing wisdom on the Internet was “post video, drive views, sell ads,” Vimeo shunned ads. We focused on attracting a community of professionals, outside the constraints of the traditional media ecosystem, by building a platform that ensured a beautiful video viewing experience with cutting edge technology. We avoided interruptive advertising, not simply because of its impact on the viewing experience, but because it encumbered the creative process. We also provided a set of cloud-based tools for creators to manage their work (hosting, collaboration, sharing, and selling) and interact directly with their audience. Instead of figuring out how to serve a pop-up or interstitial ad at the optimal level of annoyance, we focused on professional features like encryption, integrations with other platforms, private sharing, commenting and analytics. Creators appreciated a platform that serves their work and not itself, and we now have over 750 thousand creators paying for our services on a subscription basis, and growing nicely. It’s a testament to the power of the platform that Vimeo has become the de facto industry standard for sharing amongst media professionals.

We aren’t big on buzzwords at IAC, but in today’s parlance, Vimeo is a SaaS (software as a service) business and, for the benefit of Vimeo’s enterprise value in a world where investors assign very high revenue multiples to such businesses, we’ll adopt the lingo. But Vimeo’s SaaS business is more than just a business model with loyal customers and recurring revenues. The beauty of our platform is that in the course of using it, our subscribers generate great quality video content which attracts a sophisticated audience. So unlike a SaaS accounting software platform that delivers the same service to each customer
individually, every incremental subscriber to Vimeo helps increase the potency of the platform for all customers by contributing to the consumer destination and marketplace at Vimeo, where now thousands of creators sell to millions of buyers. This flywheel is a unique competitive advantage. Like with all leading marketplace businesses, we serve fragmented audiences on both sides, with each side reinforcing the utility of the platform.

We currently offer three premium SaaS membership plans for video creators, filmmakers, and businesses: Vimeo Plus, Vimeo PRO and Vimeo Business. More than 90% of paying customers choose an annual membership, and the average customer stays more than 4 years. Vimeo Plus, our entry level product, primarily serves video professionals and small businesses, but at a lower budget with less features, and often serves as a gateway to our PRO and Business accounts. Vimeo PRO provides more customizable features for video professionals, an addressable market in the tens of millions of customers globally, and enables video on demand sales in over 150 countries through the Vimeo platform. Our latest product, Vimeo Business, officially launched in September with advanced analytics, team collaboration, and marketing tools for business customers. Vimeo Business reached $1 million in bookings faster than any product in Vimeo’s history. The tens of millions of potential customers for Vimeo Business ranges from small to medium sized businesses to studios and large enterprises such as GoPro, Red Bull, Spotify, and Expedia who use video to tell their story and constitute an addressable market of several billion dollars globally. Pro and Business solutions account for 27% of customers and provide nearly 50% of revenue.

The product line is complemented by a growing in-house marketing expertise, a discipline that IAC has mastered in many areas. We are now able to deliver about $2 in gross margin lifetime value (subscription revenue less hosting, bandwidth, and credit card fees) for every $1 we spend on marketing. We’ve also had great success through marketing and business partnerships with companies like Adobe, Dropbox, Google, and Apple to provide seamless integration into Vimeo for their users’ videos. We can accelerate growth by localizing our product and marketing around the globe. About half of our paying customers today reside outside the U.S. even though the vast majority of our marketing spend to date has been domestic. It doesn’t take a wildcatter to approve a virtually unlimited marketing budget when we see global opportunities to spend a dollar on customer acquisition which returns meaningfully more than that dollar, and the math holds up as we scale. So we’ll step on the gas for our SaaS products in 2017 to see how far the marketing can take us.

We also see plenty of opportunity to expand product and price tiers as we segment customer needs further, just as we did with Vimeo Business. We’re seeing strong demand for more features in areas like
CRM and marketing services, and in new formats like 360-degree video and live video streaming (customer feedback from our community of three quarters of a million paying customers paints a very clear picture of unmet needs) and will be rolling out enhancements continuously.

Vimeo Over the Top (OTT) SaaS Services

The rise of OTT video distribution services creates another opportunity for Vimeo. The proliferation of thousands of video subscription channels, unhitched from traditional pay TV distributors, has begun. Creating a video channel no longer requires established media brands nor carriage agreements with established distributors. Channels can be built today with just content and promotion. We haven’t seen such an explosion of video content and curation since the arrival of cable saw four broadcast networks give way to hundreds of cable channels over the course of 30 years. There are twice as many domestic subscription OTT channels available as we close out 2016 as compared to just 2 years ago and as with all things Internet, the process by which cable channels give way to OTT will happen much faster, a bit messier, and with much more creative destruction.

Our software suite, enhanced by our acquisition of VHX, enables anyone to launch a video channel with zero upfront technology costs, at the simple push of a button. Anyone from an individual creator to a global media company can now build and customize their own subscription channel, made instantly available both on Vimeo and other major distribution platforms (including full mobile and connected TV apps), and avail themselves of Vimeo’s scale in hosting, bandwidth, and credit-card processing. While the number of individuals and enterprises capable of launching a subscription channel is much smaller than those interested in simply storing, sharing or selling their videos, each potential OTT subscription customer can materially be more valuable over time. Our model here is to take a small portion of the monthly subscription at only $1 per subscriber per month with the goal to share in the success of channels and not extract dollars upfront from the emerging ecosystem. As a result, each sale takes a bit longer with the dreaded human intervention necessary to launch new channels here, but we’re growing quickly with a seamless solution and cost-effective sales. Since the acquisition in May, we’ve seen nearly 100 new channels launched on our platform and grown paying subscribers on partner SVOD channels by 50%.

If we do nothing else, between the core creator platform and the OTT services, Vimeo has a fantastic SaaS business that’s a leader in a growing category. But, our ambitions are large, and the gold rush in the transformation of pay TV and movies is showing too much opportunity to pass up. We will supply the picks and axes as others go for the gold, and as we expand beyond SaaS, we will mine a bit ourselves.
Beyond SaaS

I believe we can build a compelling new consumer experience to complement the services we currently provide to creators, and in doing so help transform the industry. At IAC we select an investment opportunity based on the market in which it competes, and our perceived edge to execute within it. Execution will only be proven with results, though we have some unique advantages to bring to a consumer product at Vimeo.

The changes affecting the pay TV and film industry are not news anymore. The amazing thing about media is that the patterns always repeat themselves. When HBO entered the market to disrupt broadcast television and movie theaters, the commentary at the time was nearly identical to what they say about Netflix today. The New York Times recently resurfaced an article, printed almost 40 years ago to the day, which could have been written this past Sunday if you substitute Netflix in for HBO. And HBO then, like Netflix today, ushered in the era of consumer video subscriptions – then via cable, today via consumer direct. Hundreds of tremendously successful subscription channels launched in HBO’s wake.

Now, the market is shifting again. Pay TV subscribers have been declining for 4 years, movie ticket sales peaked 16 years ago, and while revenue for television and movie theaters has grown with price increases, that growth will end just as it ended in print media (in print, it happened about 10 years after the subscriber declines began). This is why David Zaslav boldly called Discovery’s linear television a “legacy” business in a letter to his employees, notwithstanding growing revenue and viewership, even bucking a trend seen at most of Discovery’s network competitors. The inevitable outcome is clear in data which shows a nearly 40% drop over the last six years in hours of traditional television viewed by 18-24 year olds. While most of those kids won’t grow up to become linear television subscribers, they haven’t given up on video entertainment, they’ve just moved on from the format. In fact, they’re likely consuming more video as previously un-programmable hours (the train, the lunch line, the bathroom stall) have created a massive growth in available viewing hours, and ubiquitous access has changed the rules.

All the rules of modern media – like the “windowing” of content, opaque distribution fees, or fuzzy accounting designed to conceal profits from participants – will eventually go away, and the intermediaries protecting those antiquated rules will go away with them. Geographic windows were invented because no single distributor could reach the entire globe. Time-based windows and channels existed because distribution was scarce, controlled by a few, and content could be rationed. And fuzzy accounting could
be masked because access to data and analytics was non-existent. Vimeo can now launch a title for sale almost anywhere in the world instantly, on almost any device, at any time, and share all information with the creators in real-time.

The new scarcity will become direct relationships between subscribers and brands. Purely ad-supported models can’t support high quality content at current ad rates (this is why YouTube, supported by perhaps the greatest advertising platform of all time, has launched YouTube Red), and platforms that have aggregated subscribers through access will find that consumers will avail themselves of choice as soon as they have the opportunity.

Vimeo has the once-in-a-generation opportunity to, following in Netflix’s footsteps, deliver compelling subscription viewing experiences for consumers in the market for pay TV. I believe we can do so at a fraction of the cost of other major competitors by virtue of the audience and content benefits conferred upon Vimeo through our existing marketplace. And I believe we can do it in a way that empowers the content creators.

The main differentiator between us and others at play in this new OTT market is that unlike all others who have to start from scratch, we begin with over a billion monthly video views, 115 million videos available, 240 million monthly viewers – over 100 million of whom are on Vimeo properties, 24 million of whom watch 3 or more videos on Vimeo per month, and millions of whom have already purchased content on the Vimeo platform from a Vimeo creator. Not bad for approximately $65 million aggregate investment into Vimeo, the vast majority of which built the SaaS business.

Rather than sell ads on Vimeo, or try to launch a linear channel through existing access providers, we will begin to experiment with proprietary consumer subscription services on Vimeo in addition to the existing experience that enables consumers to purchase from or subscribe directly to the creators on Vimeo’s platform. To succeed, we’ll need great content, effective distribution, and an experience designed to cater to a paying consumer audience. On content, we start with a massive existing library (and associated viewing data) and a community of creators capable of producing superb content cost-effectively. Unlike other video platforms which focus on building celebrities and influencers, Vimeo is home to the world’s best behind the camera talent – emerging filmmakers, editors and directors. We’ve seeded quality content already with titles like *High Maintenance*, which just released on HBO after its first two seasons on Vimeo and has already been renewed for another season on HBO, with their first episodes exceeding all expectations. Three out of four Oscar nominees for shorts are from directors on Vimeo, and some of the
best television shows (*Atlanta*, *Transparent*, *Key and Peele*, *Adventure Time*) and major movies (*Swiss Army Man*, *Keanu*, *Earth to Echo*, *Teenage Mutant Ninja Turtles: Out of the Shadows*) are made by creators who began by publishing on Vimeo. In addition, Vimeo received its first Emmy nomination this year for *Garfunkel and Oates: Trying to be Special*, a Vimeo Original production. The data generated on Vimeo’s platform provides valuable insight into programming, so we have a better sense of who to back and what to make. So we’ll strategically fund content, but unlike larger players, will focus our efforts and leverage our community in order to compete on quality and originality versus simple magnitude of spend. We believe there’s room in the market, as there always has been, for programming that breaks the mold, both in terms of content and format, at high production values without outrageous budgets – we’ve already done it.

On distribution, we start not just with a built-in audience, but one with a strong propensity to spend. Our own studies suggest that our audience is 2x as likely to spend on programming online versus other online video viewers, and organic transactional video on Demand (TVOD) sales in our existing marketplace are growing nearly 50% year over year. “Organic” in this case means we did not pay to bring the video or the consumer to our platform – a creator chose to upload a title for sale, and drove the consumer to purchase – Vimeo put no capital at risk. This product works for individual creators and, as of September, Vimeo announced its first ever studio partnership with Lionsgate, which brings Lionsgate and Starz TV shows (such as *Mad Men* and *Orange is the New Black*) on a TVOD basis to global audiences via Vimeo.

In order to pull it all together, we need a new consumer experience and are in the midst of a redesign to bring together original programming, our massive library, and the marketplace generated by creators on Vimeo in a comprehensive offering to drive transactions. This will include not only transactions directly between creators and consumers, but new services that establish a direct relationship with Vimeo, including subscriptions and sales offerings. Ultimately, our goal is for Vimeo to drive millions of subscriptions and transactions for our creators while also growing a proprietary subscriber base with millions of consumers directly. If we can begin to drive more than 10% of a creator’s transactions through our platform (relative to the 90% driven by the creator’s own promotion today) to a number similar to other global marketplaces (eBay, Etsy, Airbnb, etc), we’ll create enormous value for our creators.

Of course, we face competition on all fronts – MLBAM (Disney just purchased a 33% percent stake) and others on the SaaS side, and Netflix, Amazon, Hulu, YouTube and countless others on the consumer side. But it’s the combination of both the tools and the audience in one platform – a one-stop shop for creators...
to bypass the entire existing media infrastructure – and a brand known for quality that we believe allows Vimeo to continue to stand out uniquely.

Obviously a big question here will be around our programming expenditures and approach. We will spend on programming, but don’t need to spend near the levels of our competitors in order to deliver 1000’s of hours of engaging content, first to an English speaking audience and eventually to the world. As always, our approach will seek to strengthen and support our creators, in this case by providing a pathway for those who aspire to get their content into a Vimeo subscription layer (on top of still always being able to share their content for free, sell their content via TVOD, or build their own SVOD channels). We will supplement our creators with original and licensed programming, and can fill out a robust slate of programming for tens of millions, not billions, of dollars. And if we can convert just a small portion of our audience, we have a very large business.

Given the still-nascent stage of Vimeo’s business model, we won’t start disclosing financials yet as the scrutiny of the public market doesn’t well serve an emerging business focused on long-term revenue at the expense of short-term. We start with greater than $75 million of revenue in the profitable core SaaS tools business, but overall the business loses money and near-term profit is still not our priority.

Our ambitions with Vimeo are bold, but grounded in the strength of our platform and inspired by the unprecedented opportunities in the marketplace. Barry's strived to instill in IAC a passion to innovate in areas being disrupted by the incredible and lasting digital revolution. The safest path at Vimeo would be to focus our efforts solely on the thriving business we have selling cloud software to creators. And we are going to nail that with passion and a fervent desire to help every creator succeed. But we shouldn’t stop there. We are in one of those rare moments where technology (a combination of bandwidth, devices, payments) has improved to the point where creative destruction in media will create new opportunities just like it did in the digital colonization of travel, dating, and home services. It’s the kind of moment that IAC looks for – we’ll do it our way by investing prudently yet aggressively. But now that the moment is here, we'll most definitely take our shot.

Sincerely,

Joey Levin
CEO
Full Year 2016 Outlook

Please find below our updated full year 2016 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:

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<th>(in millions)</th>
<th>FY 2016 Guidance</th>
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<tbody>
<tr>
<td><strong>Adjusted EBITDA</strong></td>
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<td>Match Group</td>
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<tr>
<td>HomeAdvisor (a)</td>
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<td>Video</td>
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<tr>
<td>Applications (b)</td>
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<tr>
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<tr>
<td><strong>Operating (loss) income</strong></td>
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</tr>
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(a) HomeAdvisor should achieve the high end of this range.
(b) Includes $7.0 million and $2.6 million restructuring costs year-to-date at Publishing and Applications, respectively.
(c) Excludes an expected restructuring charge of approximately $10 million related to vacating a data center we no longer need.

There is no material change to the revenue guidance provided in the Q2 2016 shareholder letter.
Appendix

Webcast and Conference Call Details
IAC will audiocast a conference call to answer questions regarding the Company’s 3rd quarter financial results on Thursday, November 3, 2016 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. The comparable GAAP measure for Q3 2016 Adjusted EBITDA is as follows: operating income for Match Group, HomeAdvisor and Applications is $91.8 million, $12.8 million and $29.2 million, respectively. Please refer to our 3rd quarter 2016 press release and the investor relations section of our website for all comparable GAAP measures and full reconciliations for all material non-GAAP measures.

Safe Harbor Statement
This letter and our conference call, which will be held at 8:30 a.m. Eastern Time on November 3, 2016, 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 (primarily the online advertising, general advertising and dating industries), our dependence on third parties to drive traffic to our various websites and distribute our products and services in a cost-effective manner, our ability to attract and 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, our ability to build, maintain and/or enhance our various brands, our ability to develop and monetize mobile versions of our various products and services, foreign currency exchange rate fluctuations, 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, operational and financial risks relating to acquisitions, 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 the date of this letter. IAC does not undertake to update these forward-looking statements.