

1 Dec 2020

Note Before reading:

Dear Client - This is not one of our typically lengthy write-ups for two reasons 1) It's a bit time sensitive; as you'll see below, if valuations get a bit more stretched, it might not make this an ideal time to invest 2) IAC is such a well-covered company I'd just be re-hashing what others have already said, so we're not going to repeat that, but instead provide you with other links on what we think is great research that covers the company as a whole. That said, over-time we will add to our research (and this piece), and provide you with a fuller write-up within a few months.

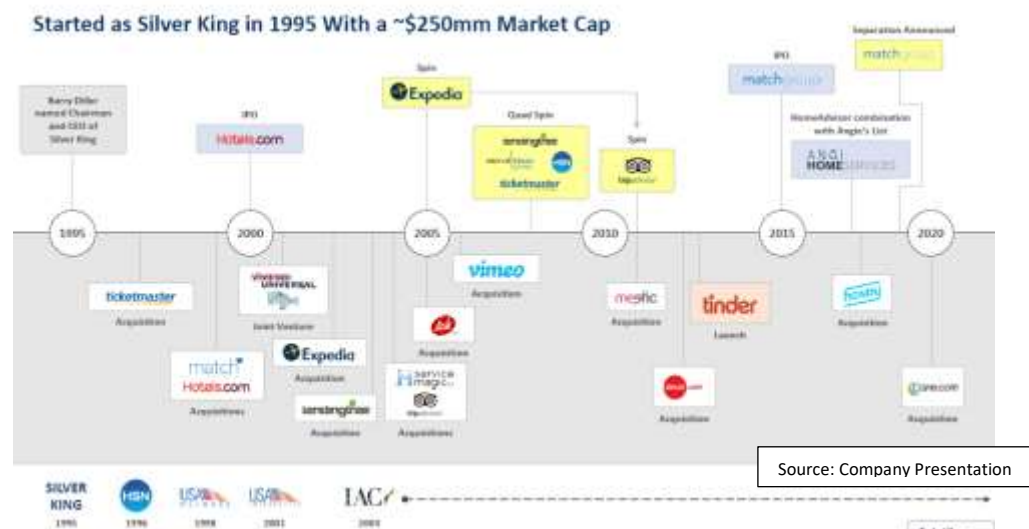
Also as a note, the market has seen double, tripling, quadrupling of value in stocks in short periods of time this year. While this is an unusual year and that's unlikely to continue, please note we do not expect this kind of growth in IAC stock. We believe IAC should for a core part of your portfolio, as it will in ours and as a substitute for long-term holds such as Berkshire Hathaway/S&P 500.

Background:

IAC, is an American Holding company that in one version or another has existed since 1986. Its entire strategy is to buy, build, and spinoff leading internet properties, in a strategy where it dubs itself "The anti-conglomerate." It has owned famous brands such as Expedia, Ticketmaster, Hotels.com, TripAdvisor, Match.com (which owns Tinder, OkCupid, Match, etc). Currently it owns brands such as Vimeo (a subscription based service for video creation and hosting), Angi Homeservices (a listed marketplace that brings together handymen/plumbers/electrician with homeowners), DotDash (a collection of online educational sites such as investopedia.com), and a 12% stake in MGM Resorts International (the MGM investment is an unusual one for them, and will be explained in detail below).

History:

A lot has been written about IAC, so we won't go into too much detail here. However to summarize, the company as we know it today was born in 1995 when Silver King Communications, a media company that owned several television stations was bought by Barry Diller, a media executive who previously helped start the Fox Network. From then on Diller and his team started to buy undervalued internet companies (or companies that would benefit from the internet boom) and



began to grow them. In the mid-2000s, according to Diller, during a conversation with then CEO of Ticketmaster (which IAC owned), he realized that the company needed to stand on its own two-feet, and decided to spin-off the company.¹ Although that spinoff didn't happen till the late 2000s, it did start a new way of thinking for the company. This was the beginning of IAC's modern business model, which is to buy internet businesses (often which are underappreciated), grow them (sometimes by adding new management), and then spin them off into public companies. They have created 10 public companies, and have an impressive alumna including Dara Khosrowshahi (ex-Expedia CEO, now Uber CEO), Mindy Grossman (who is now CEO of Weight Watchers), and several others.



- The results of this process have made for excessive shareholder returns, with IAC's return for the past 15 years (~around the time of the Expedia spinoff) of nearly 20.4% compounded (or ~a 16x return). This does not include the additional value derived from holding the spinoff company. The company increases shareholder value through "1) investing in our businesses through incremental operating capital (which may manifest itself in the form of reduced or negative operating margins), 2) acquiring new businesses, and 3) repurchasing our shares"².

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¹ <https://www.nytimes.com/2015/11/24/business/dealbook/barry-dillers-business-model-bears-fruit.html>

² Q12016 Investor Letter



Current businesses:

Currently IAC holds a number of businesses, both wholly owned, and partially owned (some listed). It's goal is to eventually partially or completely spinoff its key business, and maintain some of its legacy businesses for cash-flow purposes.

Brand/Category	Description	Revenue (Q3 2020, US\$ annualized)	Growth (yoy%)	Adj. EBITDA (Q3 2020, US\$ annualized)	Margin %
Angi Homeservices	~84% owned by IAC, Angi Homeservices is a publically listed company worth ~\$5.3bn. Angi operates marketplaces bringing together homeowners who need work done in their house and services providers (handymen, plumbers, electricians, etc). It owns the brands Angie's List, HomeAdvisor, Handy, etc).	\$ 1,559,652,000	9.1%	\$ 153,948,000	9.9%
Vimeo	Started as a video viewing sight, 3 years ago it quickly pivoted to a video hosting and creation site. Led by the talented Anjali Sud, Vimeo boasts 1.5 million subscribers. Wholly owned by IAC.	\$ 300,520,000	44.1%	\$ 41,052,000	13.7%
MGM Resorts International	A rare minority investment for IAC (~12% of outstanding shares), the MGM shares were acquired in August 2020 as IAC looks to capture MGM's growth in the online gambling space.	\$ 4,504,000,000	-66.0%	-\$ 196,000,000	-4.4%
DotDash	DotDash owns a number of digital publishing brands providing expert information and inspiration in select vertical content categories to over 90 million users each month. It's most famous brand would be Investopedia. Generally revenues in this business is made through advertising and performance marketing.	\$ 203,096,000	26.0%	\$ 64,724,000	31.9%
Search	Consists of consists of Ask Media Group, a collection of websites providing general search services and information and Desktop, which includes their direct-to-consumer downloadable desktop applications and our business-to-business partnership operations. Revenue predominantly through advertising.	\$ 580,832,000	-21.8%	\$ 47,500,000	8.2%
Emerging and Other	consists of Care.com, a leading global platform for finding and managing family care, Mosaic Group, a leading provider of global subscription mobile applications, Bluecrew, NurseFly, a healthcare staffing platform, 2019, The Daily Beast, IAC Films. Revenue is made from subscriptions, marketplace, and advertising.	\$ 509,700,000	82.1%	-\$ 32,244,000	-6.3%

The current opportunity in a nut-shell:

The opportunity in a nut-shell is derived from two parts 1) The undervaluation of IAC and a potential catalyst with the listing of Vimeo 2) An upside driven by the MGM investment.

Undervaluation (As of 30th Nov 2020):

\$MM	
IAC EV (w/o Minority Interest)	\$ 9,019
Remove: ANGI EV (~84% Ownership)	-\$ 5,024
Remove: MGM Current Market Value	-\$ 1,667
Remove: Vimeo EV (At latest raise)	-\$ 2,750
Residual Value	-\$ 422

As of now IAC has an Enterprise Value of \$9,019 not including minority interested, after accounting for the Enterprise Values of Angi Home services and Vimeo, and removing the current value of the MGM shares we're left with a residual value of less than 0. Which implies that the DotDash, Search, and Emerging business are being given away for free. Now one can argue that this is rightfully so as conglomerates typically don't trade at the sum of their parts, but one must remember that that DotDash



itself has \$200MM in revenue (annualized) is growing at 26% with 30%+ EBITDA margins, which would easily put its valuation at over a billion dollars. So getting just that business for free is quite a steal.

The Catalyst:

In the Q32020 Investor Letter, IAC CEO Joey Levin, indicated that after a successful fundraise of \$150MM (Which valued Vimeo at an EV of \$2.75bn), the company is strongly considering spinning off Vimeo. To understand why they are doing this its important to take a bit of a deep dive into Vimeo's history and service.

Vimeo started as an off-shoot of College Humour (which used to be owned by IAC), when its founders, in 2004, wanted to share and tag short-videos with their friends³. For several years it positioning itself as a destination for viewing videos (ie Youtube), even though initially it was "built for the video creator, not the video consumer"⁴

The company soon discovered that it was very difficult to compete for content, and that they'd have to spend a lot more money for it, and pivoted back to a service that was built for the video creator. This shift was driven by current CEO, Anjali Sud, when she was the CMO. So as it stands now, Vimeo allows people to create videos (using stock footage), host those videos, and share them seamlessly across all social media platforms and websites. As industry insiders tell us Vimeo is "the best solution if you want high quality visuals," as part of this is because of high quality uploading (higher bit rate and less compression than Youtube), and further the embedded customizations allow for a greater variety of solutions (ie removing the Vimeo logo). The use cases for Vimeo are huge, as its used for conferences, virtual townhalls, events, church sermons, as its high-quality streaming service allows for a much better participant experience⁵. As we move to a more virtual world, even in a post-covid experience, the use cases for Vimeo will only increase, with more physical events shifting online (or have portions shifted online). This has been shown in the revenue line with Vimeo's flagship enterprise products tripling in in revenue over the last year. In an interesting blog post by Hubspot, consumers are starting to rely more and more on video from brands, with 87% of consumers expecting more video coming from brands in the next year⁶.

Vimeo has a number of different tiers starting with a free tier, which, according to Sud, 60% of paid users start with. This has basic functionality of creating/edit video (using templates or uploading), basic functionality/music, and ability to share the video. The paid tiers can be seen below, and add additional functionality (especially around collaboration).

Currently Vimeo has annualized revenue of \$300MM (annualized from Q3 2020 results).

³ <https://en.wikipedia.org/wiki/Vimeo>

⁴ IAC Q1 2016 Shareholder Letter

⁵ Goldman Sachs 29th Annual Communacopia Conference; 16 Sep 2020

⁶ <https://blog.hubspot.com/marketing/how-video-consumption-is-changing>

Our Plans	Plus \$100/year	Pro \$200/year	Business \$600/year	Premium \$950/year
	10GB every year Single user	1TB every year 2 user accounts	1TB total storage 10 team members	1TB total storage Unlimited user accounts
	\$GD 8 _{max} (total storage)	\$GD 25 _{max} (total storage)	\$GD 63 _{max} (total storage)	\$GD 95 _{max} (total storage)
	Get Plus	Get Pro	Get Business	Get Premium
	Video explanation Private controls	Everything in Plus + Video creation Review and approval Private team projects Customizable shareable links	Everything in Pro + Video creation with custom branding Private video-to-video Live generation Workflow tool Google Analytics	Everything in Business + Unlimited live streams Live stream to multiple destinations Live Q&A, graphics and polls Audience chat
Create +	Not included	Create and publish unlimited videos Customizable video templates Unlimited stock photos, videos, and licensed music	Create and publish unlimited videos Unlimited video templates Unlimited stock photos, videos, and licensed music Add custom colors and logos	Create and publish unlimited videos Customizable video templates Unlimited stock photos, videos, and licensed music Add custom colors and logos
Video Player +	Unlimited bandwidth in the video player 4K & HDR support No ads before, after, or on your video	Unlimited bandwidth in the video player 4K & HDR support No ads before, after, or on your video	Unlimited bandwidth in the video player 4K & HDR support No ads before, after, or on your video	Unlimited bandwidth in the video player 4K & HDR support No ads before, after, or on your video

30% of paid users upgrade to a higher tier during their customer lifetime. Part of this is because of an enhanced feature set, which was augmented with Vimeo's 2019 purchase of Magisto for around \$200MM⁷. Magisto is an AI tool that allows for quick and easy editing and creation of short-form videos.

Another interesting aspect of the businesses is that tiers before "Business" are self-serve and according to Joey Levin, IAC's CEO, that segment is seeing \$5 in profit for every \$1 in marketing spend⁸. Currently, the platform as a whole has over 200 million users, 1.5 million paying subscribers, and 3,500 enterprise customers such as Amazon, Starbucks, Deloitte, Zendesk, Rite Aid and Siemens.

Vimeo Financials:

US\$ MM	Q42018	Q12019	Q22019	Q32019	Q42019	Q12020	Q22020	Q32020
Revenue	44.2	43.6	45.7	52.1	54.6	57	67.3	75.1
%yoy growth					23.5%	30.7%	47.3%	44.1%
Operating Income	-10.1	-17.8	-11.6	-11.2	-11.4	-14.6	-7.7	-3.3
Adj EBITDA	-8.4	-16.2	-9.5	-8	-8.1	-11.4	-4.7	3.4
Total Subscribers	0.952	0.973	1.2	1.20	1.20	1.30	1.4	1.46
%yoy growth					26.1%	33.6%	16.7%	22.0%
ARPU (per month)	15.48	14.94	12.69	14.51	15.17	14.62	16.02	17.15
%yoy growth					-2.0%	-2.2%	26.2%	18.2%

Vimeo is growing at 44% in this latest quarter, and has become EBITDA positive. If we annualize the last quarter's revenues, we get an ARR of \$300MM, which implies that they did this latest raise at 9.15x EV/ARR. Given that SAAS companies trade at an average multiple of 16.5x NTM revenues and at an

⁷ <https://variety.com/2019/digital/news/vimeo-acquires-magisto-1203189606/>

⁸ Q32020 Investor Letter



average trailing growth of 38% growth⁹, the value of Vimeo could increase more than 80% in a spin-off. Considering that Vimeo makes up ~30% of IAC's value, this could imply an upside of 25% for IAC.

The Upside:

We see an exciting upside in IAC's minority purchase of MGM, both as a recovery play, but more importantly as an online-gambling play. The current global gambling market is around \$443bn¹⁰ with the online gambling market size of around \$60bn¹¹ which implies a penetration of around 13% (IAC states its less than 10% in the US). Now the overall gambling market is set to grow at 5.6% CAGR whereas the online market is expected to grow at 11.5% CAGR (between 2020-2027). This implies that not only is the global gambling market going to grow, but the online gambling portion of it will make up more than 20% of the total market by 2027. Just to put this in perspective, the current e-commerce penetration is around that globally, which again implies that online gambling in about 7 years' time will look like how ecommerce looks now (ie most people you know who gamble, will be doing so online).

This above opportunity is reflected in IAC's statement "we believe MGM presented a "once in a decade" opportunity for IAC to own a meaningful piece of a preeminent brand in a large category with great potential to move online."¹² Now, as stated, this is a bit of an unusual investment for IAC. A minority holding in a company is quite rare for them, however the thesis fits their modus operandi like a glove. IAC has always been early in investing in industries that are early in moving offline to online. As can be seen in the chart below¹³

Industry	Relevance	Year of Acquisition / Investment	US Online Market in Year of Acquisition / Investment	US Online Market in 2020
Dating	Match Group	1999	0 Subscribers	10M+ Subscribers
Ticketing	Ticketmaster	2001	\$1 Billion	\$13 Billion
Travel	Expedia	2002	\$9 Billion	\$1.1 Trillion
Homeservices	ANGI Homeservices	2004	2 Million Service Requests	29 Million Service Requests
Gambling	MGM	2020	\$6 Billion	

As you can see several of the investments they have made is early in the shift from offline-to-online and the MGM investment is no difference. Now to understand why MGM is a good play on online gambling, and especially, sports betting, we need to look at the 2019 MGM Annual Report. In it MGM clearly states the impetus for investment in online betting "in May 2018, the United States Supreme Court overturned a federal ban on sports betting that had prohibited single-game gambling in most states, raising the potential for increased competition in sports betting should additional states pass legislation

⁹ <https://cloudedjudgement.substack.com/p/clouded-judgement-11620> (as of 26 Nov 2020)

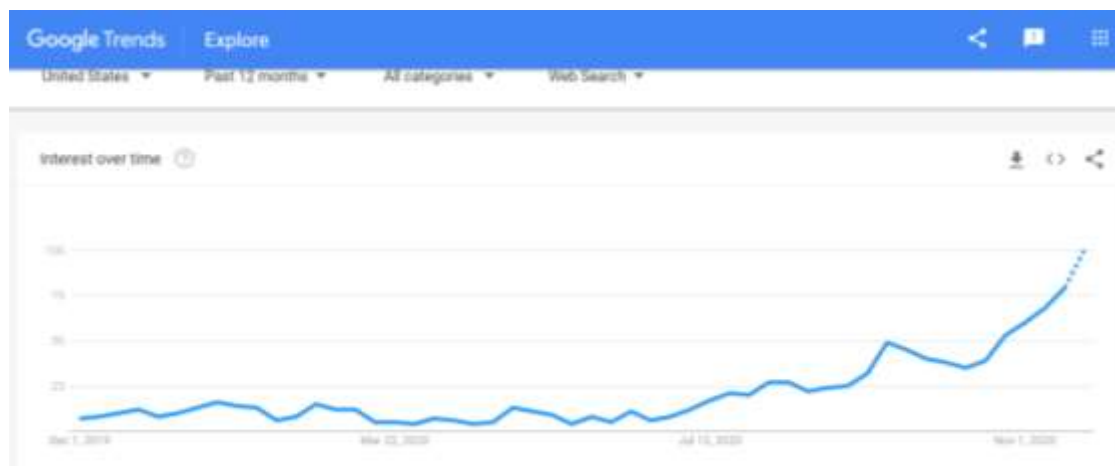
¹⁰ <https://europeangaming.eu/portal/latest-news/2020/10/09/79231/global-gambling-market-analysis-forecasts-2012-2019-2020-2027-u-s-market-is-estimated-at-119-billion-while-china-is-forecast-to-grow-at-12-8-cagr/#:~:text=Global%20Gambling%20Market%20to%20Reach,the%20analysis%20period%202020%2D2027.>

¹¹ <https://www.prnewswire.com/news-releases/global-online-gambling-market-size-share--trends-analysis-report-2020-2027-william-hill-plc-and-paddy-power-betfair-plc-dominate-the-127-3-billion-industry-301139754.html#:~:text=The%20global%20online%20gambling%20market,traction%20over%20the%20forecast%20period.>

¹² IAC Q2 2020 letter

¹³ IAC Q2 2020 letter

to legalize it. The expansion of online gaming, sports betting, and other types of gaming in these and other jurisdictions may further compete with our operations by reducing customer visitation and spend in our casino resorts.” To counter this affect MGM has launched an online service (in collaboration with GVC, a UK based sport betting company which owns the tech) to launch BetMGM where residents from 6 states can gamble/bet online (as of Q2 had committed \$450 million in capital to this venture). The company is expecting to be live in 11 states by year end, and have secured access to 20 states. As of Q3 the company claims BetMGM has already become a top 3 player in markets where such data is available (18% market share). Its on track to deliver \$150MM to \$160MM in revenues in 2020, which is a small slice of the pie, but considering its only launched for just a few months, it’s a good start. They’ve also been drive traffic from their loyalty program, M Life, which drove 28% of its customers to BetMGM (and 28% of customers were driven the other way). This augments the MGM ecosystem, and makes the customer base far more sticky then just with physical gambling.



BetMGM: Google search interest over time.

With regards to a re-opening story, IAC puts it best in its Q2 letter, “When the world returns to normal, MGM will be just as capable post-pandemic as it was pre-pandemic in servicing visitors in over 35% of the Las Vegas Strip’s available rooms, plus eight regional properties across the US, two in Macau, and hopefully in Japan. The 34 million members of MGM’s loyalty program still have their M-life Rewards, and we’re confident that many are eager to return to the properties they love. And when Las Vegas fully re-opens – even if it must wait until a vaccine for that to occur –we expect it to roar back: a new NFL team, a new stadium, a drivable destination, and months of pent-up demand could drive a powerful resurgence.”

As of this writing MGM stock is still 18% below its pre-pandemic high at a 5x Price/2019 EBITDA (10x EV/EBITDA), making it an attractive investment based on a post-vaccine rebound, and general secular of online gambling and sports gaming growth.



Management and Board:

IAC is still chaired by Barry Diller and run by a very talented CEO, Joey Levin. Levin, now 40, has been with IAC since 2003, and became CEO in 2015 at the age of 35, with Barry Diller citing Levin's "youth, energy, and ability to develop" the assets remaining in IAC's portfolio.¹⁴ Currently Joey Levin owns 4.02% of the outstanding shares of IAC, where as Diller owns ~8%, but all of the Class B Shares (which have a 10-1 voting structure to ordinary shares).

Risk:

- Vimeo not valued highly by the market on spin, either trades at current valuations or lower
- Angi Homeservices is a publically listed company that is still 84% owned by IAC. Poor performance of ANGI Home services stock will drive down the value of IAC stock.
- Recovery from lockdowns/virus slower than expected, and continues through 2022.

Conclusion/Thesis:

Considering IAC track record, history, and management, it's easy to conclude that the company knows what it's doing. As the world moves more and more online, the company will look to capture secular trends in their infancy, and incubate them until those opportunities can survive on their own. The spin-out from Vimeo has the potential of a strong upside catalyst, and the recovery of MGM combined with the growth on its online gambling space should provide for an impressive upside. Lastly IAC's strategy of making itself big and then small, and then big and then small, and repeating the cycle makes it a limber "anti-conglomerate" which will allow it to continue its strategy uninterrupted for the foreseeable future.

¹⁴ https://en.wikipedia.org/wiki/Joey_Levin