KerrisdaleCapital

February 2020

Match Group & IAC/InterActiveCorp

Breakin' Up is Hard to Do

We are short shares of Match Group and IAC/InterActiveCorp, two companies trying to break apart before an FTC lawsuit that alleges a disturbing level of civil fraud *and* a parallel DOJ *criminal* investigation leads to the market dumping them both. Last September, the FTC sued Match for tricking customers into signing up for subscriptions. Match.com protected its paid users from fraudsters while deliberately exposing non-paying users because as it turns out: romance scammers are highly effective at encouraging non-paying users to buy online dating subscriptions.

There's a massive problem with this of course. Facilitating and profiting from consumer fraud is a ***criminal*** offense and that it is why **Match is the focus of a DOJ *criminal* investigation**. The terms of a proposed settlement between Match and the FTC from 2018, discussed *before* the DOJ intensified its investigation, are irrelevant and its mention in Match's response to the FTC lawsuit was designed to mislead investors. While the ultimate consequences of a DOJ criminal investigation are unknowable, we do know one thing: it involves the threat of jail time.

We can deduce from IAC's decision-making during this period that *it* knew enough to be concerned. IAC first indicated a heightened interest in pursuing a spin of Match just one day after FTC commissioners unanimously voted to sue Match. And IAC's initial proposal to Match's board came just two weeks after the DOJ served Match with a criminal grand-jury subpoena.

One week before the DOJ served Match with the grand jury subpoena, Sam Yagan, Vice-Chairman of Match's board, resigned with neither notice nor explanation. More recently, Match Director and CEO Mandy Ginsberg also surprisingly announced she would be stepping down. What do Yagan and Ginsberg have in common? They were the only two (now former) members of Match's board who worked at Match.com during the periods when the fraud allegedly took place. The notion that a DOJ criminal investigation, the ensuing departure of the only two Match board members with direct connections to Match.com, *and* IAC's decision to spin-off Match are ***all*** mere coincidence is certainly not a risk we would be underwriting.

It gets worse. The three separate federal investigations not only mean soaring legal costs and potential legal damages but more importantly, they will likely result in a lasting impact to Match's business model. Measures such as requiring users to provide additional information necessary to verify identities will slow subscriber growth and squeeze margins – at a time when the company's main asset, Tinder's operations in North America, is already suffering dramatically decelerating growth. These legitimate, multi-dimensional risks threaten a company trading at an already hard-to-justify 9x sales, and soon to be levered 4.5x if the spin-off moves forward as planned. With recent years' performance inflated by the transitory lift of Tinder Gold subscriber growth, management is now grappling with an increasingly disillusioned user base that is churning off at an alarming pace. The thrill of the unexpected should be confined to going on a new date, not investing in the company that helped you find it. We see significant downside to shares of both Match and IAC.

Table of Contents

I. Executive Summary

<u>IAC is spinning off Match to avoid massive legal, financial and reputational risk.</u> We believe investors of Match and IAC are unaware of the true significance of both a lawsuit alleging fraud that the FTC filed against Match in September 2019, and the ongoing, parallel DOJ *criminal* investigation.

Following a comprehensive 29-month investigation, the FTC concluded that Match <u>knowingly and purposefully</u> benefited from the fraudulent conduct of online dating romance scammers using Match.com to perpetrate their misdeeds. At the core of the most damaging charge is this: *Match.com protected its **paid** subscribers from fraudsters. But it deliberately allowed online dating scammers access to its **non-paying** users in order to sell more Match.com subscriptions and fatten Match's bottom line.*

In a bizarre symbiosis, dating site cybercriminals (who commit some of the worst frauds that the FTC tracks) and Match.com mutually benefited from the conversion of non-paying users to paid subscribers. The problem (if it isn't already clear) is that knowingly facilitating and profiting from consumer fraud is illegal. By doing so, Match runs afoul of FTC statutes and regulations; as a public company, Match violates the federal securities laws; and — worst — it is criminal, and that can lead to prison terms. It's no surprise that Match is the focus of a DOJ *criminal* investigation.

The curious, if not downright suspicious, timing of the resignation of the Vice-Chairman of Match's board, Sam Yagan, *and* the sudden announcement two weeks ago that Match Director and CEO Mandy Ginsberg would be leaving both positions by March 1, 2020, *strongly* suggests that the DOJ's criminal case has teeth. Yagan and Ginsberg were the only two (now former) members of Match's board who worked at Match.com during the periods in which they would have had direct knowledge of the egregious fraud described in the FTC's complaint. Yagan departed shortly (and without explanation) after settlement talks with the FTC failed, but *before* Match disclosed that the DOJ had served it with a *criminal* grand-jury subpoena.[1] The idea that his departure was mere coincidence strains credulity.

Literally, the day after the FTC voted to approve bringing charges against Match Group Inc., IAC CEO Joey Levin told investors on IAC's August 8th 2Q19 earnings call that it had "begun to more seriously consider" the idea of spinning off Match.

About six weeks later, on September 25th, 2019, the FTC filed its lawsuit and, for the first time, publicly charged Match with fraud. The very next day, Match received a <u>DOJ criminal grand-jury subpoena</u>. Two weeks after that, IAC delivered a proposal for full separation of a global, $20 billion company to members of the Match board. Total time from "begin[ning] to more seriously consider" the spin to a formal board proposal: 63 days.

<u>Market perception of risk stemming from the FTC's action is wrong.</u> The FTC's core mission is to protect consumers. We believe that a $60 million payment for a company of Match's size was never the main sticking point for either side; the focus was instead on mandated changes to

[1] On September 27, 2019, Match filed an 8-K. It disclosed that on the previous day, it had received a grand-jury subpoena from the DOJ. As a practical matter, however, both agencies would likely have been working together, conducting parallel investigations, for months. See: Section II for detailed timeline of events.

Match's business practices, which have been downplayed by Match and disregarded by the street. Moreover, the existence of an ongoing DOJ criminal investigation all but confirms that liability is not isolated to Match.com, and it renders any settlement terms proposed in 2018 irrelevant.

IAC's spin-off of Match raises questions of fiduciary duty and conflicts of interest. Corporate governance is an entwined affair between IAC and Match. IAC decision makers — because of their fiduciary responsibilities to Match — presumably have information regarding, among other things, the ongoing DOJ criminal investigation and the circumstances surrounding the director and officer exodus at Match, but they certainly have not disclosed what they know to the market. And all 3 "disinterested directors" (who we believe form the entire "Match Separation Committee" which approved IAC's spin proposal) have formal or informal ties to IAC. Questions about this, as well as questions about other conflicts of interest and potential breaches of fiduciary duties, may well jeopardize the separation itself.

New Match is assuming significant leverage at precisely the wrong time. Match is being separated from IAC at 4.5x LTM EBITDA, a stretched level even if Match's outlook were pristine – but an irresponsibly high one given the myriad serious legal and operational challenges it faces. Consensus forecasts assume legal costs — which jumped in 2H19 and are expected to rise year over year in 2020 (to nearly 10% of EBITDA) — to then fall back to zero (?!?) in 2021. That's absurd. Beyond first order legal costs, however, are the more fundamental concerns. Should Congress choose to act (or if the FTC wins its suit), new regulations and/or legislation would inevitably impose punitive changes on Match, a company that runs 40+ dating properties.

Tinder faces threat from Congress. The FTC lawsuit and the Congressional investigation of online dating companies highlight an overarching issue that will continue to plague Tinder's business: it has enjoyed subscriber growth specifically because of the *lack* of security and protection. Beyond the financial cost of having to implement additional forms of consumer protection (such as identity verification or criminal background checks), Tinder, in particular, has benefited from a simple, frictionless sign-up process. Implementing measures that require users to confirm their identity by disclosing additional personal information and undergoing background checks will have nasty implications for subscriber growth and profit margins.

Tinder subscriber trends are deteriorating. Amid this cauldron of legal risk, Tinder subscriber trends have deteriorated — a function of being unable to replicate the impact of monetization efforts like Tinder Gold. The excuse made by the company for recent underperformance fails to address the bigger picture: Tinder Plus, and later Tinder Gold, helped juice the bottom line, but it also turned online dating into a video game fewer and fewer people felt worth playing. With growing cultural acknowledgement of the hazards of online dating, and with growth from those subscriber waves now over, Tinder has a large, high-churn subscriber base and few easy growth strategies.

II. Key Dates in Rush to Separate Match

Opening of FTC Investigation → **IAC and Match Separation Agreement**

Date	Key Event
March 2017	After receiving a *tripling* in the number of reported cases of online dating scams during the preceding five years, the FTC launches a civil investigation into Match.com's business practices.
March 2017 – Mid-2019	During an in-depth 29-month investigation (6-12 months is average), the FTC uncovers examples of fraudulent and deceptive practices spanning nearly every aspect of Match.com's business. The FTC cites Match.com's internal statistics analyses, suggesting that senior executives at Match.com must have known and authorized these practices.
November 2018	The FTC *first* proposes settlement terms to Match. Match discloses that the FTC's proposed terms include a consent judgement requiring changes to "the company's business practices" as well as a $60 million payment.[2] See: Annotated Press Release on p. 13
May – July 2019	Settlement negotiations between Match and the FTC end without reaching an agreement.[3]
March 2017 to August 2019	At some unknown point in time, the FTC apparently grants DOJ access to its Match.com investigative files, likely providing the DOJ with evidence of ***criminal*** misdoing.
August 7, 2019	In a unanimous decision, the FTC approves the filing of charges against Match Group, Inc., **parent company** of Match.com.
August 8, 2019	One day after the FTC authorizes a lawsuit against Match Group Inc., IAC CEO Joey Levin announces on IAC's 2Q19 earnings call that IAC is starting to seriously consider the idea of spinning-off Match.
September 18, 2019	Exactly one week *before* the public learns of the FTC's fraud charges against Match, Match issues a terse 8-K disclosing, without any explanation, that Sam Yagan had abruptly resigned as Vice-Chairman of Match's board of directors. Yagan had served as CEO of Match.com from 2012-2016, a period during which, according to the FTC, Match.com had engaged in fraud.
September 25, 2019	The FTC publicly sues Match for five counts of deceptive and unfair business practices, including knowingly using fake love interest advertisements to trick hundreds of thousands of consumers into purchasing paid subscriptions on Match.com. To drive conversions of non-paying users to paying subscribers, Match.com exposed millions of consumers to romance scammers and other fraudsters. That same day, Match issues two press releases defending itself. Its stock drops -10% intraday, but recovers to end down less than -2%.
September 26, 2019	Match receives a DOJ grand-jury subpoena. It chooses not to disclose this information until after the market closes the next day, Friday, September 27, 2019 (in an 8-K) .
October 10, 2019	Two weeks after the DOJ's criminal investigation is disclosed, the IAC board makes a preliminary proposal to spin-off Match to the "Match Separation Committee."
December 2, 2019	Columbia Journalism and ProPublica publish results of their 16-month investigation, revealing that Match screens for sexual predators *only for paying users of Match.com*.
December 19, 2019	IAC and Match announce entry into a definitive agreement for full separation of Match from the remaining businesses of IAC. On the M&A call, Match is described as "thriving." Net addition expectations for 3Q19, 4Q19, and 1Q20 have disappointed / reset lower since 2Q19.

[2] Match's disclosures on the nature of the settlement talks are vague. In its 10-Q filed in August 2019, before being sued by the FTC lawsuit, Match describes the settlement negotiations as requiring changes in "the company's" business practices without defining "the company" or hinting at the nature of the requisite changes.

[3] Match's 1Q19 10-Q (filed in May 2019) describes the FTC complaint and the FTC's settlement proposal but does not say that discussions had ended. In the company's 2Q19 10-Q (filed in August 2019), the amended disclosure stated Match and the FTC failed to reach a settlement agreement.

More Recent News

Date	Key Event
January 13, 2020	The New York Times published the findings of cybersecurity firm Mnemonic, which says OkCupid and Tinder are spreading user information like dating choices and precise location to advertising and marketing companies in ways that may violate privacy laws.
January 17, 2020	Fearing for women's safety, an engineer on the New York City Cyber-Assault and White Ops team leaked that Tinder's data had been breached. Over 77,000 Tinder profile pictures were posted on a known website for criminal activity used for catfishing and other forms of extortion.
January 27-31, 2020	Sometime during this period, Match internally announces the departure of Tinder's Chief Product Officer, less than a year after he joined the company.
January 28, 2020	Match Director and CEO Mandy Ginsberg, a 14-year IAC and Match employee, resigns all of her positions, explaining in excruciating detail problems with her breast implants and the upheaval caused by a tornado that struck her home three months earlier.
January 30, 2020	Chairman of the House Subcommittee on Economic and Consumer Policy, Raja Krishnamoorthi, launches an investigation into troubling reports about the use of underage dating applications; and inappropriately selling or sharing personal data, and requests documents specifically from Match.
February 4, 2020	Ireland's Data Protection Commission announces investigation into Tinder after people in Ireland and elsewhere in the EU raised concerns about transparency and compliance with GDPR.
February 5, 2020	Match reports disappointing 4Q earnings. Tinder net adds of 220k subscribers misses consensus estimates. Departure of Tinder's Chief Product Officer becomes public. Match shares drop by 8%.

III. Rushing to Separate Match

IAC's own CEO has highlighted the remarkable speed with which the transaction separating IAC and Match came together last year, and we agree. During a call held the week before Christmas to announce the final deal, IAC CEO Joey Levin thanked the analysts for "squeezing" him in, and expressed gratitude for the efforts of advisers who "[had] been really working around the clock to get these things done." [4] He wasn't exaggerating. Back in August 2019, Levin had said that his company was "going to start evaluating [spinning] more seriously from here."[5] Just 133 days later, despite Thanksgiving, Christmas vacation plans and even an Act of God[6] getting in the way, Levin had secured a signed and complex agreement involving new share classes, special dividends, and even the sale of $120m in Los Angeles real estate.

IAC's agreement to separate Match also includes some rather unusual provisions. According to publicly filed deal documents, IAC retains the option, at its sole discretion, to sell up **to $1.5 billion** worth of New Match equity *before the spin even closes.* According to the December M&A call, IAC plans to complete its spin-off no later than June 30, 2020. IAC has made no attempt to explain the urgency of the transaction. But IAC apparently can't bear to wait six months to sell down its exposure to a company that in the same breath it describes as "thriving." In fact, IAC appears eager to get rid of its holdings in this "thriving" company (that just missed badly on 4Q19 earnings and had its CEO abruptly leave) so badly that—notwithstanding its fiduciary duties or its obligation to comply with federal securities laws—it has literally documented its right to front-run

[4] Agreement to Separate Match Group from IAC conference call transcript, December 19, 2019.
[5] Levin's comments regarding spins also included ANGI Homeservices at the time, but before the next set of earnings this had been abandoned in order to focus exclusively on Match.
[6] On October 24, 2019, a tornado hit now ex-Match CEO Mandy Ginsberg's home making it "unlivable."

its own shareholders, who must wait their turn to receive (and then sell?) their post-spin New Match stock.

Why on earth would IAC do this?

Naturally, IAC isn't saying. However, we note that Barry Diller, who has sole voting rights at IAC through ownership of 100% of IAC Class B common stock, owns roughly 8.3 million shares of IAC common stock and options with an approximate value in New Match terms of: **$1.5 billion**.

In connecting these dots, we think savvy shareholders of both Match and IAC should be asking: If *all* is "thriving" at Match, why the director and officer exodus, and what's with the IAC rush to sell? And if everything *isn't* thriving, what does IAC really know?

IV. Spiraling Legal Risks

Online Dating Romance Scams and Its Victims

Because so much of the financial press is geared to accept and promote Match's side of the story in its battle with the FTC, we thought it would make sense to explain why the FTC was at the company's doorstep in the first place.

Between 2015 to 2018, the number of online romance scams reported to the FTC doubled, and the associated losses jumped fourfold. At $143 million in 2018, online dating romance scams are the #1 source of total losses that the FTC tracks. And, the popular image of a "lone wolf" scammer isn't entirely accurate; a significant amount is conducted by organized cybercriminal groups, often overseas, who use online dating sites to defraud their victims of very large sums of money. Notably, although online romance scams are not the most reported form of fraud by case number, it *is* the largest in financial terms. The median amount lost is *$2,600*, a staggering *7x more than other frauds*.

While all forms of fraud – identify theft, business imposters, fake checks – are by very definition harmful, research on the psychological characteristics of online romance scam victims suggest they tend to be especially vulnerable because they are sensitive, intelligent, lonely, trusting, and impulsive. Historically, victims have skewed toward middle-aged, well-educated women.

All loss statistics we have regarding online dating romance scams are almost certainly grossly underreported. Because of the sums of money involved, and the fact that victims have often established an emotional connection to the very perpetrator of the crime, victims of romance scam fraud are typically *not* outraged. Rather, they are depressed and ashamed when they realize that they have been deceived. There is growing academic literature on the traumatic psychological impact of this crime.

According to one industry consultant with whom we spoke, the single most common scheme used by online romance scam criminals involves impersonating a member of the military who has been injured and needs help with medical bills. The U.S. Army even has a website warning about it.

FTC Lawsuit Count I: Match.com Used Fake Love Interest Ads to Trick Consumers into Paying for Subscriptions

Between 2013 and mid-2018, online romance scammers who set up phony Match.com accounts sent instant messages and "favorites" and "winks" to large numbers of Match.com users. The FTC claims that in some months between 2013 and 2016, *more than half* of instant message initiations and favorites that consumers received originated from accounts that Match.com had specifically identified as "fraudulent."[7]

Once a message from a fraudster was sent to a non-paying user, Match.com quickly followed up with an automated advertisement allowing the user to read this message, but only after he or she became a paying subscriber. The fraudster is using a real paid account (sort of) on Match.com's platform which is why the message that hits a non-paying user looks and feels like official Match.com originated messaging. A message arriving in the inbox of a lonely single under a Match.com banner saying "He just emailed you! You caught his eye and now he's expressed interest in you…could you be the one?" can have a powerful effect.

Indeed, Match.com's *own analysis* showed from June 2016 to May 2018, ***499,691*** consumers were conned into signing up within just the first 24 hours of receiving messages such as the one above, messages which Match.com *knew* came from illegitimate sources.

After this occurred, consumers typically were never told that the fraudulent communications which prompted them to sign up for a paying subscription were *not* from someone actually interested in establishing a dating relationship. In fact, it was company policy at Match.com that, in the event a user signed up but was then unable to contact the scam artist because in the interim Match.com had removed the offender for fraud, Match.com would send a misleading message saying:

> "Please be assured, Match.com does not send members misleading notifications, e-mails or winks professing romantic interest. We have too much respect for our members to ever compromise their trust. If you have received communications from members with profiles that are not immediately available, the member may have temporarily hidden their profile."

When we reviewed this with an online dating marketing executive who has no affiliation with Match, his response was, "Ok, that's just ridiculous."

FTC Lawsuit Count II - Match.com Deliberately Exposed Consumers to the Risk of Falling Victim to Fraud

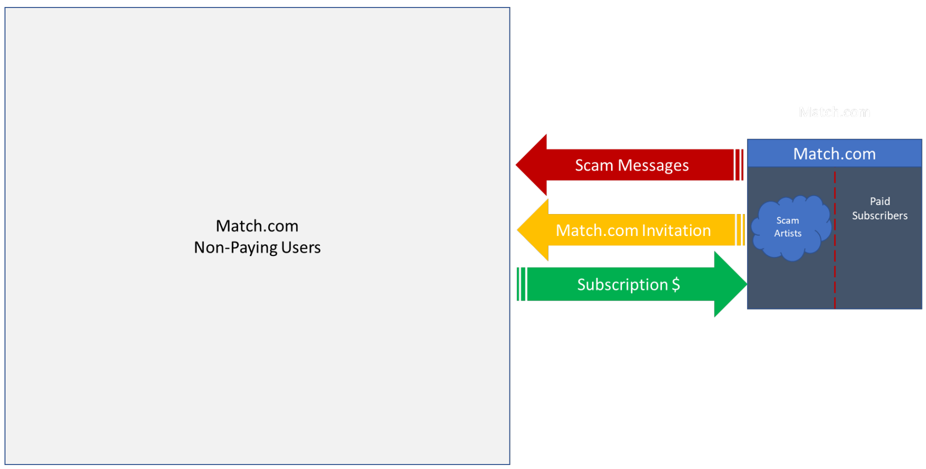
From 2013 to mid-2018, Match protected its paying subscribers from email communications that it had flagged as likely being fraudulent by requiring the messages to be reviewed before transmitted. It did not, however, do the same for its non-paying users. It wasn't that Match.com couldn't meaningfully protect non-paying users; Match was entirely capable of identifying the vast majority of messages from fraudsters. *According to Match.com's own data*, 87.8% of accounts

[7] Match's less than vigorous defense of this statistic has been to say it is "unaware of any data that supports this contention."

sending messages that Match.com withheld for the benefit of its paid subscribers were later confirmed to be fraudulent.

Match.com is a traditional dating site that employs a paywall-based subscription business model: non-paying users who create profiles with basic personal information, pictures, descriptions of interest, etc., can view or “wink” at other users, but cannot fully engage with them unless and until they buy an (automatically renewing) subscription.

Paid Subscribers vs. Non-Paying Users



Source: Kerrisdale. Shown at scale regarding relative size of paid subscribers vs. non-paying users assuming 10% conversion ratio.

As shown above, the pool of non-paying Match.com users is many times the number of paying subscribers. For example, Wall Street’s estimates place monthly active users for Tinder at ~60 million, compared with just under 6 million subscribers (*i.e.*, about 10% conversion). The same ratio for Match.com implies approximately 20 million non-paying users.

Of course, in a numbers game where only 1 in 10 non-paying users actually convert to paying members, Match.com’s large pool of non-paying users (who have already indicated an interest in online dating) constitutes a crucial source of potential paying subscribers. The reason that Match.com did not withhold messages sent to this large non-paying user base from romance fraudsters and scammers is simple: messages from online dating romance scammers were extraordinarily effective at inducing non-paying users to become new paying subscribers.

Between June 2016 and the beginning of May 2018, Match.com delivered approximately *4 million emailed communications* to approximately 2.25 million people who were non-paying users, communications that the company would have withheld as fraudulent had the recipients been paying subscribers. This practice resulted in 250,000 customers signing up within 24 hours of receiving the fraudulent email communications. In short, Match.com knowingly and deliberately allowed millions of consumers to be targeted by online romance scammers in order to directly benefit its own bottom line, and increase its paying subscriber base.

With Tinder dominating Match’s equity story for so long, many investors don’t seem to realize that the level of Match.com’s fraudulently gained subscriber growth could have easily generated what we estimate to be over $70 million of annual EBITDA from 2016 to 2018 (17% of the company's total in 2016). This estimate is simply the number of consumers tricked into subscribing over the 2-year period multiplied by the cost of an annual subscription. (We would use the 6-month subscription rate, but as the complaint also details in another separate deceptive business practice employed by Match.com, virtually no one who signed up for a "match GUARANTEE" 6 month subscription avoided getting automatically billed for an additional 6 months). Match.com was running a business, at the time of Match's IPO, that used fraudsters as highly effective, cost-less recruitment agents. It seems like an unwarranted leap of faith — one we are unwilling to make — to believe that this level of deliberate deception was taking place *only* at Match.com and that *nothing* like it was taking place across Match's *40+ other* online dating websites. It wouldn't surprise us to learn, for example, that some form of this practice took place at Meetic, a European version of Match.com, which is owned by Match and has a very similar paywall structure.

The Importance of the FTC Lawsuit and Ensuing DOJ Criminal Investigation (and Why Wall Street Has Missed It)

The FTC lawsuit and ensuing DOJ criminal investigation represent material, though ultimately unquantifiable, risk for Match. Like all online dating companies, Match's businesses rely on creating trust among strangers looking for human connection – at the very least, fraud and potential criminal misdeeds at Match Group's namesake brand represents substantial reputational risk. Judging by the rapid pace with which IAC is moving to separate Match, IAC is aware of this potential problem, but Wall Street has yet to catch on.

Though the statistics in the FTC lawsuit are staggering, the most damning aspect of the FTC complaint is that *people who worked at Match.com affirmatively **knew** that the company was benefiting from fraud*. In legal terms this is referred to as *mens rea*, and its speaks to criminal intent, the basis for a *DOJ criminal investigation.* The DOJ will not need years to find evidence of criminal wrongdoing, it can move swiftly given the volume of evidence already collected by the FTC during its 2.5-year investigation. The DOJ is also unlikely to concern itself with the potential liability of some lower level IT person. We've all probably watched enough crime dramas on TV to know the score: it's called flipping someone. In exchange for testimony and cooperation, the DOJ can, and will, grant immunity to lower level players in pursuit of evidence implicating senior executives and directors who may have known and directed the criminal activity. Thus, any notion that legal or operational risk is solely and definitively isolated to just one property, Match.com, is hopelessly wishful thinking.

In a complaint that reflects 2.5 years of investigation by the FTC and is replete with Match.com's own statistics, not a single individual is mentioned by name. By contrast, DOJ criminal investigations involve the threat of sending specific people to prison. The DOJ can grant immunity, but this generally requires providing investigators with something of value, something the FBI and/or AUSA doesn't already know. Given the length of the FTC civil case, that almost certainly presents a very high bar.

Neither we, nor anyone else in the public markets, can know the precise nature or extent of an ongoing DOJ criminal investigation involving a grand jury (which by law is secret). Investors who are currently underwriting Match's (and thus IAC's) risk, however, should consider potential signs that the DOJ case is serious. For example, Sam Yagan, Vice-Chairman of Match's board resigned last September, abruptly and without explanation, shortly after settlement talks with the

FTC failed and before Match disclosed that the DOJ had served it with a criminal grand-jury subpoena. And, two weeks ago, in a decision that surprised the street, Match Director and CEO Mandy Ginsberg announced she was stepping down, only one week before earnings and mere months from the biggest moment in Match's corporate history.

Notably, Yagan and Ginsberg were the only two (now former) members of Match's board that worked at Match.com during the periods in which they would have had direct knowledge of alleged fraud at Match.com.

The market has overlooked many of these developments because Match has, admittedly, been brilliant in controlling the narrative. In the wake of the FTC's lawsuit, four key talking points, taken directly from Match's press releases responding to the FTC, were repeated by Wall Street analysts, even though, in our opinion, every point was materially misleading.[8] One can only surmise that Match (and its lawyers) regarded the FTC's allegations as so damaging (which they are) that every effort had to be made to dissuade people from reading the complaint.

The message Match successfully delivered to the street was:

1. The lawsuit is from a previously disclosed investigation, so it isn't news.
2. The investigation and the lawsuit are focused on Match.com. Since the FTC presumably did a comprehensive review of all the dating properties Match owns, the rest of the sites have been vetted and cleared.
3. The FTC referred the matter to the DOJ which declined to pursue a civil case.
4. Match turned down a settlement involving a $60 million payment in 2018, so the impact is limited financially.

It was a masterful piece of spin.

First, the lawsuit was filed against *Match Group, Inc.* not Match.com, which should immediately indicate that the potential liability is *not* limited to Match.com.

Second, many financial analysts simply do not know how the FTC works. There was no review of each and every name under the Match umbrella, because that is not how an overworked government agency like the FTC conducts investigations. The investigation began and ended with Match.com. The FTC doesn't want or need to spend years investigating every individual brand within a company, especially if it determines that there is compelling evidence that senior level employees may have committed a crime. If the FTC finds practices that harm consumers at one brand, it will simply mandate changes across the rest.

Third, the DOJ would *never* pursue a civil case in this situation, because that's precisely what the FTC already did. The FTC, however, has no authority to bring criminal actions; that is the sole purview of the DOJ, and the DOJ *is* pursuing a *criminal* case against Match as evidenced by the grand jury subpoena it served on September 26, 2019. Based on a review of the circumstances of this case with legal experts who have worked closely with the DOJ on other matters, it is by no means a given that the DOJ will launch a white collar criminal investigation merely because a federal civil law enforcement agency asks it to. On the contrary, federal agencies frequently refer matters involving egregious criminal conduct to the DOJ, only to be told that the DOJ lacks the

---

[8] Following news of the FTC lawsuit, sell-side research produced headlines of, FTC Lawsuit Against Match.com Appears Backward Looking, FTC Sues; Initial Mkt Reaction Overblown, FTC Announcement: 1) Not New News; 2) Focused on Match.com, Not Tinder; 3) More Headline Risk Than Real Concern.

resources or the interest to pursue the case. By contrast, in November 2018, the DOJ announced a major initiative to address the problem of online dating victims used as money mules. We believe it is entirely possible that the DOJ could charge some or all of the defendants in the Match case with criminal RICO violations by alleging that Match.com is a criminal enterprise that facilitates and profits from money laundering.

Perhaps the best trick the Match press release pulled however was reiterating its prior disclosure that "In November 2018, the FTC proposed to resolve its claims via consent judgement mandating certain changes in the company's business practices, as well as a payment in the amount of $60 million." "Business practices" is extremely vague, and implies something mundane like bolding the font used in the terms and conditions. It's an easy term to skip over, and instead focus on the proposed $60 million payment, which is an inconsequential sum for a company with a $20 billion market cap. We believe the market has been fixated on that $60 million figure as the maximum financial liability stemming from the FTC lawsuit ever since.

As we described before, online dating romance scams are a priority for the FTC. After a lengthy investigation, it concluded that Match.com was knowingly and willingly *exploiting* the very problem that the FTC was trying to stop. Obviously, therefore, the focus of settlement negotiations would have been on the "business changes" sought by the FTC. A proposed $60 million payment from settlement talks that began in November 2018 is no longer relevant (indeed, it arguably never was), but rather a red herring.

We believe that the FTC's proposed settlement included extensive, substantive changes to Match's business practices such as, for example, improving the protection of non-paying users, removal of certain executives and directors, and independent monitoring and reporting of improvement. In short, the settlement meant significant, wholesale, costly changes to critical aspects of Match's operations that they were simply too onerous for Match to accept. That's why a $20 billion company turned down what appeared to be a paltry $60 million settlement offer; it wasn't about the money, it was about the mandated business changes that came with it.

Below we provide our notes on the press release Match issued in response to the FTC lawsuit.

Match Responds to FTC Lawsuit (Kerrisdale Annotations)

MATCH RESPONDS TO FTC LAWSUIT

September 25, 2019

DALLAS, Sept. 25, 2019 /PRNewswire/ -- As we've previously disclosed in Match Group (NASDAQ: MTCH)'s Annual Report, in March 2017, the Federal Trade Commission ("FTC") requested information and documents in connection with a civil investigation regarding certain business practices of Match.com. The FTC raised certain potential claims relating to Match.com's marketing, chargeback and online cancellation practices. The FTC's investigation pertains to the Match.com brand. In November 2018, the FTC offered to resolve its potential claims via a consent judgment mandating certain changes in the company's business practices, as well as a payment in the amount of $60 million. Discussions between Match Group and the FTC ensued but no resolution was reached. On August 7, 2019, the FTC voted to assert claims against the Company and referred the matter to the U.S. Department of Justice ("DOJ").

The DOJ opted not to pursue the civil case and referred it back to the FTC who then filed a lawsuit against us today making completely meritless allegations supported by consciously misleading figures.

Fraud isn't good for business. That's why we fight it. We catch and neutralize 85% of potentially improper accounts in the first four hours, typically before they are even active on the site, and 96% of improper accounts within a day.

Makes it seem as if the problems are limited to the past, it's been disclosed, no need to read the complaint yourself. Fact: The FTC does not investigate companies for over 2 years only to find evidence of nothing serious, such as defrauding 499k customers.

The release includes mundane sounding chargeback policies instead of mentioning that the FTC accused Match.com of knowingly exposing non-paying users to romance scams in order to drive up profits.

The reader is drawn to the $60 million figure instead of the vaguely worded "company's business practices." The 2018 proposed settlement is irrelevant, since there's an ongoing DOJ criminal investigation. Given Match's market cap, it seems implausible that $60m was the sticking point; the issue must have been the mandated changes to business practices.

Gibberish. The FTC does not "refer" matters to the DOJ and then have it "referred back" as if it's a hot potato. The sentence makes it sound as if the DOJ didn't deem the matter worthy of its time. The complaint alleges that Match.com <u>knowingly exposed consumers to fraud and deliberately benefited from it.</u> That's the classic basis for a DOJ *criminal* investigation.

This neither pertains nor responds to the specific charges in the complaint. Also, from 2013 to mid-2017, users who subscribed before the fraud review process was completed were not notified of the pretext which tricked them into subscribing.

The DOJ in this situation would <u>never</u> pursue a *civil* case in the first place, that's precisely what the FTC was doing. Two days after this release, Match filed an 8K saying it was served with a DOJ *criminal* grand-jury subpoena.

Au contraire! It was <u>great</u> for business between 2016-2018 when we estimate Match generated over $70m per year in excess EBITDA through fraudulent means.

V. Match Separation Transaction Concerns

Conflicts of Interest Raise Serious Questions of Legal and Fiduciary Duty

IAC and Match maintain the pretense that they are distinct, albeit affiliated, public companies, but the truth is far more complex. Match is an exceptionally large holding for IAC, accounting for over 80% of IAC's overall value. Our review of relevant public records also reveals that for all intents and purposes, IAC controls Match at every level. Consider Match's 10-person board: Whereas only two Match directors are also Match executives (and they both previously worked for IAC directly or indirectly), five of Match's directors (including its Chairman) are IAC executives or directors[9]; the remaining three "independent" Match directors actually have longstanding personal or professional ties to IAC or Barry Diller.[10]

<u>The importance of IAC's infiltration of Match's board of directors cannot be overstated.</u> First, it's unimaginable that Match's board was not kept apprised of the FTC's investigation, the FTC's findings that Match had for years engaged — and still was engaging — in fraud, the ensuing settlement negotiations between Match and the FTC, and the FTC's lawsuit against the company (not to mention the parallel private class action that swiftly followed).

It is similarly implausible that Match's board was not informed of the DOJ's *criminal* investigation and has not continued to be updated about it. If decision makers at IAC know of the severity of Match's misdeeds, the full extent of the DOJ's criminal interest, and the myriad legal problems now facing the company — *which they must*, given that they constitute the majority of Match's board — <u>they are in possession of material, non-public information about Match</u>. As such, they have no (legal) business actively trying to get rid of IAC's equity position in Match without disclosing what they know. Yet that is exactly what they have done, at blistering speed. We cannot help but think that IAC was able to push through the entire spin transaction in such little time because, effectively, it was simply negotiating with itself.

Second, we are mindful that approximately 20% of Match's shares are held not by IAC, but by members of the investing public. And every member of the Match board — yes, even the directors from IAC — owe fiduciary duties of care and loyalty to each and every one of the non-insider Match shareholders. We see no possible way for these directors to reconcile their duties to IAC with their duties to non-IAC Match shareholders, and, based on the outrageously pro-IAC terms of the spin, it appears clear where these directors decided their allegiance ultimately lay.

Dissatisfied non-IAC Match shareholders are hardly going to be placated by the composition of the "New Match" board, either. The deal documents explicitly mandate that IAC CEO Joey Levin will be the Chairman of the board of New Match, and that New Match's board will consist of 11 members: the current IAC-laden Match board (minus two resigning directors) plus "three independent directors designated before the completion of the Transaction by IAC…" So much for the independence that Match touts as a benefit of the spin.

---

[9] IAC's CEO Joey Levin sits on the Match Board, along with IAC's CFO Glenn Schiffman, IAC's Chief Strategy Officer Mark Stein, IAC's General Counsel Gregg Winiarski, and 17-year veteran of IAC's Board, Alan Spoon.

[10] Ann McDaniel and Barry Diller formerly sat together on the Washington Post board; Pamela Seymon was a corporate law partner at IAC's primary outside law firm; and Thomas McInerney formerly served as IAC's CFO for over seven years.

Minority Shareholders Are Getting Shortchanged

The deal effectively proposed and accepted by IAC appears to fleece everyone else — in particular, the minority public shareholders of Match. IAC can, and has, effectuated a complicated reorganization that dodges Match's mounting legal risk (just in time) while receiving up to $5 billion in cash in the process (See Appendix I: Spin-Off Overview for more details). IAC can begin a completely new chapter in its corporate history, one that allows it to highlight other elements of its portfolio not that they are no longer under the long shadow cast by Match.

Specifically, the transaction calls for $1.7 billion in IAC debt to travel to Match. Then, Match will drain its cash on hand *and* borrow an additional $500 million in new debt to fund a $3 / share special dividend to all shareholders (81% of which of course goes to IAC). In a clever wrinkle, while IAC shareholders are guaranteed to receive their dividend in cash, Match shareholders have been given the (bad) option of receiving either cash or shares of New Match. And any cash that does not go toward a dividend payment to public Match shareholders, goes to IAC (up to $160 million).

The net result of these transactions is that Match will be levered at approximately 4.5x LTM EBITDA[11] at close. What does Match get in return? The M&A investor presentation — which presumably represents IAC's best effort to market the transaction as fair for both parties — lists the following benefits to Match: elimination of a dual class structure, enhanced trading liquidity, increased strategic flexibility, effective debt-financed stock repurchase, and S&P index eligibility.

First, the potential eligibility for S&P inclusion *and* the elimination of a dual class structure is redundant (the latter enables the former). Second, "increased strategic flexibility" is questionable, at best, when Match is starting its new life with nearly as many federal investigations as turns of leverage (an equal number, if one includes the Irish authorities). Third, effective debt-financed stock repurchases are a luxury that any fiscally responsible company facing potentially hundreds of millions in penalties and legal awards (not to mention legal fees) cannot afford. That leaves trading liquidity as the sole "tangible" benefit of the transaction for minority shareholders. We suppose making it easier to exit positions of a highly levered company with little valuation support is a valid benefit given the terms of the deal.

It's also worth pointing out that Wall Street's leverage figures assume two things: 1) Not a single penny in damages from any current (or new) legal dispute, and 2) Consensus EBITDA continues to treat rising legal costs, which we estimate will top $100 million this year, as a one-time item that terminates at the end of 2020. These both seem wildly unrealistic given the gravity of not just the DOJ criminal investigation and FTC fraud lawsuit, but also the legal costs surrounding private civil litigation stemming from the FTC complaint (which already has begun), the high stakes nature of a $2 billion lawsuit from a co-founder of Tinder, and the opening of what will sure to be a laborious and costly legal process involving the House Oversight and Reform subcommittee investigation. Lastly, in what seems to be an almost weekly announcement of new legal headaches, the Data Protection Commission of Ireland recently launched an inquiry into Match in relation to concerns raised by individuals in Ireland and across the EU about potential data privacy violations. In summary, it appears Match minority shareholders are being asked to surrender considerable financial flexibility at a time of massive legal risk and potential regulatory change, all to secure a façade of independence that is primarily in IAC's interest.

---

[11] Assumes $1.8 billion fair market value of exchangeables.

VI. Tinder Fatigue

Online dating is a linear subscription business. From a subscriber perspective, growth can come from 3 places: at the top of the funnel (more installs/non-paying users), the middle (better conversion of those users to subscription), or retention at the bottom. The three often move in a coordinated fashion around a successful product launch, *i.e.* Tinder Gold. What's currently flowing through subscriber metrics is the fading novelty of that subscription plan and growing disillusionment with Tinder as an effective and efficient tool to meet dating partners.

On June 28, 2017, Tinder introduced Tinder Gold, a premium version of the service priced at $29.99, 3 times higher than a 1-month basic Tinder Plus plan. Tinder Gold granted users all of the same features that Tinder Plus offered, but with a powerful new addition called, "Likes You." Rather than endless swiping in the often vain hope that someone you have swiped right on will also happen to like you back, Tinder Gold gave subscribers a pre-populated list of who had swiped right on them *first*. The New York Times called the enhancement "something like god mode for a dating app."

The new feature and plan was a huge hit. The next several quarters saw the number of Tinder net additions surge from the 224k reported in 2Q17 to 543k in 4Q17. After mostly being flat for the preceding 12 months, Match stock took off in the back half of 2017 as well, advancing 80%.

But, what's been happening lately at Tinder should at least be making bulls question their thesis: rather than typically beating of buyside and sellside expectations, Match has been missing them as net additions continue to decelerate. In the most recently reported quarter, Tinder added just 220k subscribers vs. already lowered expectations of 275k heading into the print, the lowest performance since June 2016.

What is driving this change in subscriber trends? On its 4Q19 call, CFO Gary Swidler blamed the weak Tinder performance on changes in Apple's iOS 13 that make it easier for users to cancel subscriptions. He noted that the new iOS adoption ramped up from under 20% in October to around 85% in January, including a "step change" at the end of December, when users were forced to upgrade to iOS 13. Swidler also stated the iOS impact would last beyond 4Q19 – weighing heavily on 1Q20 net additions and lingering into 2Q20.

There are several issues with this portrayal of what is affecting Tinder subscriber trends. 1) The ease of cancellation only occurs *after* a Tinder subscriber has decided they wish to uninstall the app. During the update (forced or otherwise) iOS does not stop and prompt its users to uninstall Tinder (or any other app). The "new experience" encountered by subscribers with iOS 13 is that once a consumer has already chosen to uninstall Tinder, iOS makes it clear that if they wish to unsubscribe in addition to uninstalling, they may do so at that time. 2) The rise in cancellations is therefore not a one-time "pull forward" as described by management, but a "catch-up" or correction. It implies Match has been over-earning, benefiting from the fact that subscribers who did not value the app previously still unintentionally paid a monthly bill. Apple has simply corrected that tendency.

While we agree that iOS has played *some* role in weakened subscriber trends, a more holistic answer must include who or what is driving the decision to cancel in the first place. Think of it this way: if trying to understand why guests left a party, would it make sense to focus on the size of the back door? Or would it make more sense to question how great a party it really was? Tinder is losing subscribers not because of Apple, but because now that the temporary impact of Tinder

Gold has waned, Tinder has been unable to provide subscribers with additional reasons to keep them paying a monthly bill. It's that inability that probably contributed to Tinder's Chief Product Officer departing after less than a year on the job, one week before 4Q earnings.

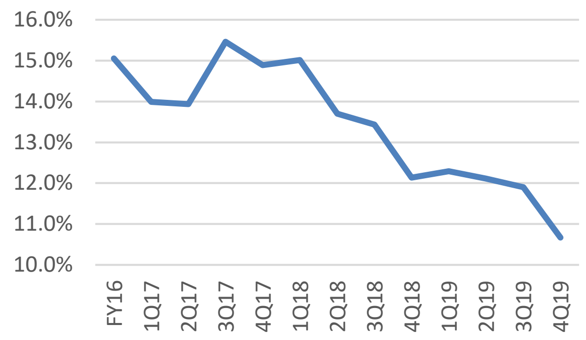
What Comes After "God mode"?

The decision to monetize a user base against a built-in algorithm lies at the heart of the challenge now facing Tinder. The premium features first included in Tinder Plus, and later Tinder Gold, are no longer generating positive buzz, but instead causing increasing user dissatisfaction and frustration. Tinder Plus and Gold come with unlimited likes, and the act of swiping through profile after profile, hoping for a match, but more often being let down, can prove addictive and exhausting. If this is reminiscent of a casino slots player, that's not by accident. In a 2018 documentary, Tinder co-founder, Jonathan Badeen, admitted its algorithm had been inspired by variable-ratio reward schedules, such as those used by slot machines and lottery games, to provide the feel of unexpectedly winning. But the amount of wasted time and rejection takes its toll. There are numerous articles that lament Tinder's very existence, and academic studies have linked usage of the app to eating disorders and low self-esteem. Google "Tinder Fatigue" and "Tinder Burnout" and it's clear that criticism of Tinder is now part of pop culture consciousness.

With broader interest in the app confronting growing backlash, and an inability to follow up on "God mode" with an equally impactful improvement, Tinder has resorted to consumable in-app purchases as a way to extract additional revenue from users who have already demonstrated a willingness to pay. These so-called *a la carte* options, like "Boost" and "Super Boost" are offered only to Tinder Plus and Tinder Gold subscribers and increase the exposure of a subscriber to potential matches by 10x-100x. In effect, revenue growth has shifted ever further toward monetization of a smaller and smaller subset of "power users" who purchase these add-ons. It also creates a dynamic whereby more subscribers (predominantly Tinder's 72% male base) feel like the game is rigged, and the only way they can "win" at finding a match is to pay ever higher fees… or to go to a different app or abandon online altogether.

This is not a sign of healthy, broadening, sustainable growth for a company that enjoys premium growth trading multiples. Efforts to lift conversion rates following Tinder Gold have failed, subscription revenue as a percentage of the mix is declining, replaced instead with variable, non-recurring "Boosts" and "Super Boosts "and "Super Likes, etc. This phenomenon will continue as Match pursues growth in Asian markets where pay-as-you-go in-app models are favored over monthly subscriptions. These negative changes in earnings quality are evidenced by Match's deferred revenue as a percent of total revenue.

Deferred Revenue / Total LTM Revenue

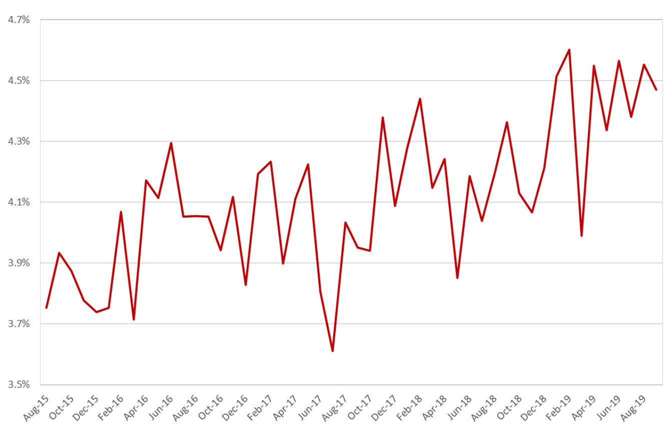


Source: Match public filings, Kerrrisdale analysis

Rising Churn

Churn is arguably the most important metric in any subscription business. The chart below and the conclusions of this section are derived from analysis of metadata collected by a well-known 3rd party data provider.[12] It shows the blended monthly churn rate of 1-month Tinder subscribers across both Tinder Plus and Tinder Gold plans. These two plans account for roughly 66% of total subscription revenue dollars collected in the data provider's scraping of over 1 million credit card receipts. We then sanity-checked the results with a monetization and customer acquisition expert with 6 years of direct experience in the online dating industry.

Tinder 1 Month Subscriptions – Monthly Churn



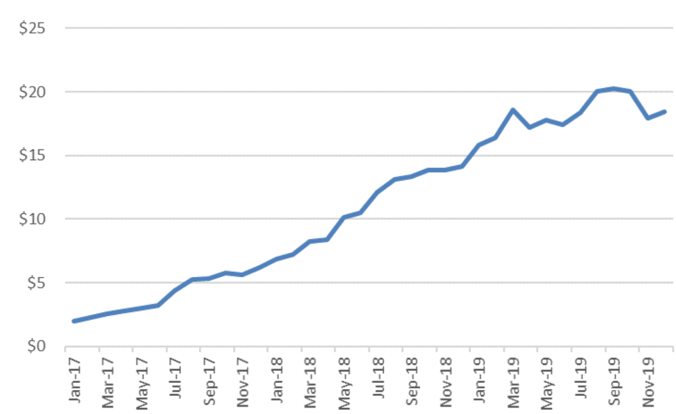
Source: Kerrisdale analysis based on data from by 3rd party data analytics provider.

[12] We were forced to use a 3rd party data provider because Match's disclosures provide investors with no ability assess the composition of subscriber growth. Match does not report: gross adds, active daily or monthly users, conversion ratio, or churn.

We think the analysis is useful for several reasons: the direction of the trend, the relative magnitude of the change, and more importantly, the timing of its start and what it means for the company's ability to combat churn going forward.

The data shows an unmistakable drop in churn that began in the summer of 2017, when Tinder Gold launched, as new $30 subscribers first began testing out the new features. Given that July marked the introduction of the plan, if our analysis is in the ballpark regarding churn rates for the cohort, we should see a surge in gross adds translate to weakening net subscriber results beginning roughly ~22-25 months later (1 / monthly churn % = lifetime in months of subscriber). Sure enough, Match reported 3Q19 results that uncharacteristically came in below buyside expectations on Tinder net additions; what one Wall Street analyst called a "rare hiccup." In hindsight, it was the beginning of a trend. The results of the analysis should also shed doubt on the completeness of the answers provided by the company regarding recent subscriber underperformance. The rise in churn is a result of Tinder Gold's waning influence and the hangover from turning finding a date into a video game. Churn is now higher than before Tinder Gold was first introduced. The subscription plans helped Tinder deliver strong earnings in 2018-2019 but are now resulting in more and more subscribers canceling their plans at the first chance they get (and maybe try a new dating app like Bumble).

Bumble Monthly Revenue



Source: 3rd party data provider.

VII. International Growth

With North America showing clear signs of market saturation (4Q19 represented a sequential decline in both subscribers and revenue), bulls have increasingly turned their gaze to the 300 million singles in Asia that Match promotes as an attractive, underpenetrated market for future growth. The importance of the region cannot be understated. Based on Match public comments, we estimate Asia generated slightly over $300 million of revenue for the company in 2019 (15% of total reported revenue) up 57% year over year, an increase of ~$115 million.[13] Match's stated

[13] On Match's 1Q19 call, CFO Swidler noted how in the year prior, 2018, Asia generated roughly $200 million in revenue (implied 12% of total revenue). On Match's 4Q19 call, CEO Ginsberg noted how the

goal is to generate 25% of total revenue from Asia by 2023. Based on consensus estimates of $3.8 billion for 2023, this would imply revenue from Asia grows at a 30% 4-year CAGR to over $930 million by that time. For context, International revenue as a whole has grown at a 30% CAGR over the *previous* 4 years, when markets were less penetrated than they are now and competition less intense. Is it impossible to sustain this level of growth? No, but it's far from a low bar.

And just what is the right way to think about online dating penetration in Asia? In a 4Q18 earnings presentation, Match provided an estimate of online dating penetration in India at 11%, using "total population" as the denominator in its calculation based on a Match survey of respondents that have ever used a dating app or site (details of the survey were not provided). Once the definition of addressable market is adjusted to those with access to the internet however, penetration as calculated by eMarketer jumps to 48%. Match did not share its survey results for Southeast Asian countries on the same slide but eMarketer placed Thailand, Indonesia, Philippines, and Malaysia as all in a similar range to India at 43-48%[14]. While internet penetration will continue to rise, these metrics suggest familiarity with online dating and overall penetration levels in Southeast Asia are not complete "white space" as we have heard some bulls describe.

Asia is a great opportunity to present to investors, but we think it is a lot harder to bring to fruition in dating than in most other industries. See Appendix III for further discussion on the particular cultural challenges online dating companies face in India.

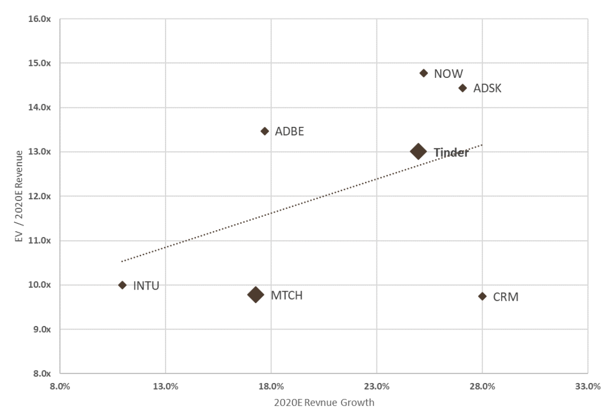
VIII. Match Valuation is Nonsensical

Rarely have we seen a company's value so difficult to justify. Match is a consumer-oriented, high churn, subscription business that is seeing slowing rates of growth across both subscribers and revenue. Growth in an absolute sense, while healthy in the mid-high teens, is hardly eye-popping among peers, nor is its quality improving given the deferred revenue trends discussed in Section VI. Moreover, street forecasts include *nothing* for potential legal liabilities, neither in a direct damages sense nor for potential operational remedies that regulators may impose. Yet Match trades on 2020E consensus estimates of: 9x revenue, 25x EBITDA, and 33x FCF. With these multiples one would think Match was firing on all cylinders but in 2019, a full 40% of total company dating revenue came from non-Tinder properties which posted negative revenue growth for the third straight year. Many bullish analysts adopt a Sum-of-Parts approach to valuing Match, assigning Tinder's revenue contribution (~60%) a multiple of 12-13x revenue, which effectively values the brand in the context of low churn, enterprise-oriented subscription software companies such as ServiceNow, Autodesk, and Salesforce.com. We know which we'd rather own. We think a more appropriately conservative multiple for Tinder combined with an assessment of risk arising from myriad legal challenges results in a much lower stock price for Match and by extension, IAC.

---

region had hit 17% of total revenue in 4Q19. By assuming a rise in contribution to total revenue through the course of the year, we estimate Asia represented 15% of total revenue on an annual basis or $315 million.

[14] Wedbush. Initiate at Neutral: Not Swiping Yet as Growth Opportunities Balanced w/Risks, December 12, 2019.

EV / Revenue vs. Revenue Growth (Internet Peers)	Match and Tinder EV / Revenue vs. Revenue Growth (SaaS Peers)
	

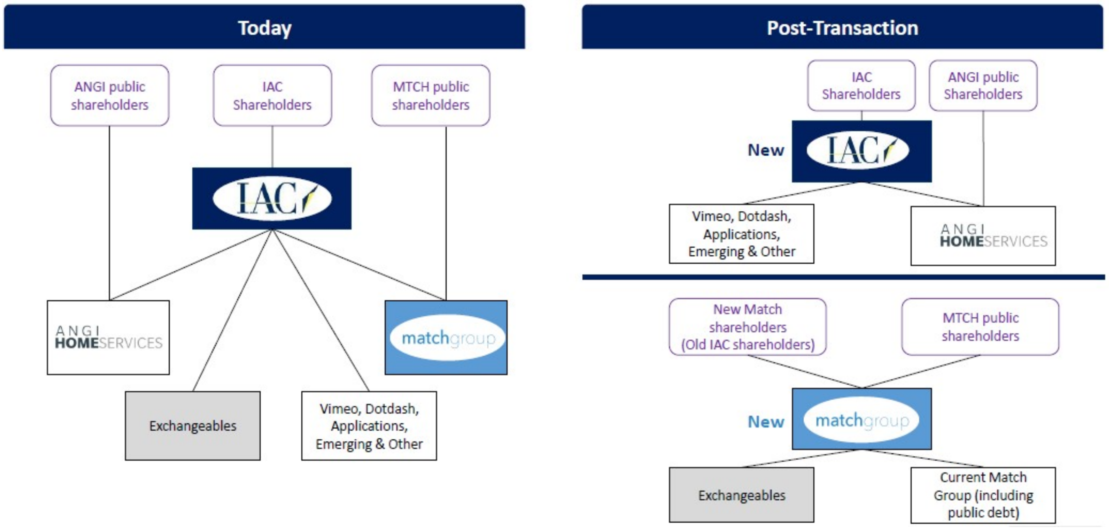
Source: Kerrisdale analysis and Bloomberg.

IX. Conclusion

Taking a defendant in a lawsuit at its word is simply not a responsible way to evaluate risk. When one understands the true nature of the FTC complaint, it becomes clear that an industry previously ignored by regulators has racked up too many abuses – symbiosis with hackers perpetrating romance scams, a blind eye towards sex offenders, inadequate policing of underage users. As Match adapts to the new governing landscape, slower growth and lower margins should result, at a time when the oversaturation and high churn of Tinder in the United States and Western Europe has already forced the company to miss estimates quarter after quarter. With Match still trading at 9x revenue, the market has yet to re-adjust to the new state of affairs – but one party ahead of the curve is InterActiveCorp, which is rushing to spin Match off as quickly as it can. A separation being marketed as setting a “thriving” company on a new path, is really more about kicking Match to the curb.

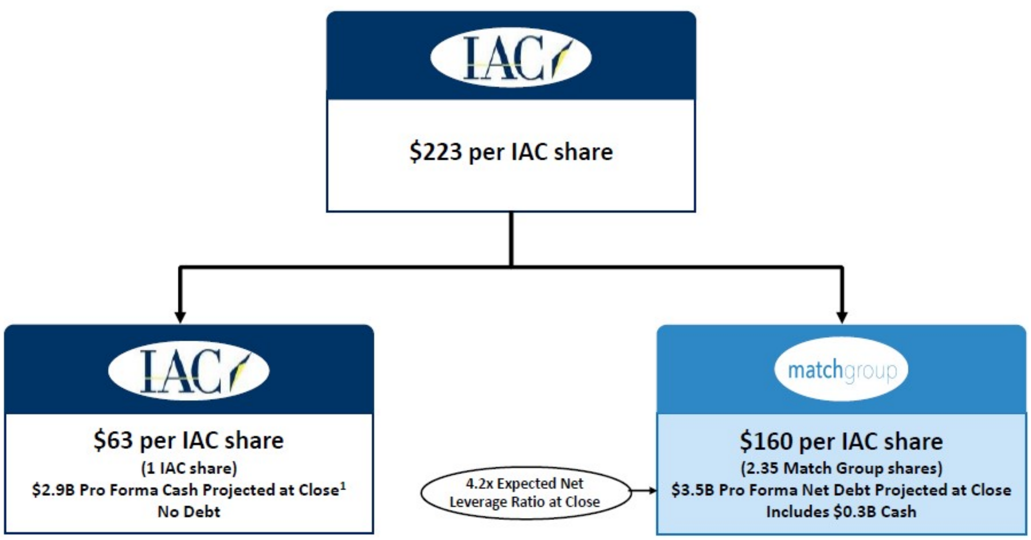
Appendix I: Spin-Off Overview

Transaction Structure Overview



Source: IAC and Match Group Investor Presentation, December 19, 2019

Transaction Summary



Note: Illustrative based on current market values as of December 17, 2019. Actual values to be determined at closing. Assumes Match Group public shareholders all elect to receive $3 per share consideration in cash and excludes potential equity sale of Match Group by IAC.
[1] Increases to $3.0B if Match Group public shareholders all elect stock distribution.

Source: IAC and Match Group Investor Presentation, December 19, 2019

Transaction Terms

Transaction Overview

Stock Options	▪ Outstanding IAC stock options to be split into New IAC (~30%) and New Match (~70%) awards based on the companies' relative valuation at closing – Results in Match Group assuming ~11M options (~$550M "in-the-money value" today pre-tax) ▪ IAC compensates Match Group for ~40% of the total awards assumed (~$225M today)
Real Estate	▪ Match Group to acquire two Tinder-majority occupied buildings in Los Angeles, currently owned by IAC, for $120M in stock (expected ~2M shares) in January 2020
Tax Attributes	▪ New Match to compensate IAC for certain tax attributes (e.g. NOLs) that remain with New Match ($52M)
Match Group Governance	▪ Following the transaction, the Match Group Board to consist of 11 directors and will be classified ▪ The majority of directors will be independent (adding 3 independent directors) ▪ Joey Levin (initially serving as Executive Chairman) and Glenn H. Schiffman to remain on the Board
Potential Equity Sale	▪ Potential sale of up to $1.5B of New Match equity at IAC's election, with proceeds to be paid to New IAC – IAC shareholders' stake in New Match to be reduced by like amount

Note: Illustrative based on current market values as of December 17, 2019. Actual values to be determined at closing.

IAC

Source: IAC and Match Group Investor Presentation, December 19, 2019

Transaction Terms

Transaction Overview

Structure	▪ Separation of IAC and Match Group into two independent public companies ("New IAC" and "New Match"), with IAC shareholders receiving a direct ownership interest in New Match proportionate to IAC's stake in Match Group – New Match to have a single class of common stock (one share/one vote) ▪ Transaction expected to be tax-free to all shareholders (other than the cash consideration described below)
Cash / Stock Consideration	▪ Match Group public shareholders to receive one share of New Match and $3/share in consideration (can elect to receive the consideration in cash or additional shares of New Match) ▪ IAC will receive $3/share in consideration in cash – Aggregate cash not elected by Match Group public shareholders (up to $160M) to be paid to IAC, with IAC shareholders' stake in New Match reduced proportionally ▪ Match Group to fund cash consideration (~$840M) through cash on hand and new borrowings ▪ Each holder of IAC common stock or IAC Class B common stock will receive an equivalent interest in New IAC, and an interest in New Match based on IAC's ownership of Match pre-transaction, subject to transaction-related adjustments
Exchangeables	▪ New Match to retain IAC's $1.7B (face value) of Exchangeable Notes and related hedging instruments ("Exchangeables") – IAC shareholders' stake in New Match to be reduced (at closing) by the market value of the Exchangeables (currently $1.8B) – Exchangeables valuation calculation subject to a +/- 25% collar mechanism and related termination right (see appendix for details)
Anticipated Timing & Closing Conditions	▪ Expected to close at the end of the second quarter of 2020 ▪ Conditioned upon vote of disinterested shareholders of Match Group, IAC shareholder vote, and other customary closing conditions

Note: Illustrative based on current market values as of December 17, 2019. Actual values to be determined at closing.

IAC

Source: IAC and Match Group Investor Presentation, December 19, 2019

Appendix II: House Subcommittee Investigation

On January 30, 2020, in response to a series of extremely disturbing news reports describing the use of its products by underage consumers and sex offenders, the House Subcommittee on Economic and Consumer Policy opened an investigation into Match's user safety policies. There are only two Match properties we are aware of that have some form of background screening policy. One is at Match.com, where after a high profile lawsuit in 2011, Match.com began screening paid users against government sex offender registries. The other is Pairs, a Match brand in Japan where, in response to a torrent of crimes in the 1990s including prostitution, rape, and murder, the Japanese government passed legislation to reinforce security and the site complied with tighter screening, including ensuring users are over 18 before they can start chatting. All other sites under the Match umbrella – both paid and unpaid – do not conduct background checks.

If Congress is serious in its investigation, any move toward legislating tighter identity verification protocols would be an encroachment on the lack of accountability and responsibility that Match currently maintains. While departing Match CEO Ginsberg can describe how trust and security at Tinder is a top priority for 2020, the initiatives she has described are merely a continuation of a corporate policy of doing the minimum, and only in reaction to negative press or regulatory pressure. Match.com implemented its screening for paid users 9 years ago and yet nothing has been carried over to other properties. Ginsberg went out of her way to highlight the debut of photo verification for Tinder on the latest earnings call – a security measure implemented by its closest competitor Bumble over *three years ago*.

The issue is the collection of data and who then bears liability. As described in the December 2019 ProPublica article on sex offenders, the principal reason Match has not implemented a more uniform screening protocol is because it does not collect enough information. This is deliberate. Match undoubtedly understands that if it did collect enough to implement tighter screening, it would then be inviting greater legal liability, both for not having stricter checks in place, and for legal responsibility arising from when a user is the victim of a crime.

The other reason is more financially and operationally motivated. Even relatively small hassles such as two-factor mobile phone authentication, entering a last name, mandatory photo/video verification, biometrics, in sum or in part, could have an impact on conversion ratios across the industry. In time, much like we have all grown accustomed to the identity verification steps that online banking requires, users would of course adapt, but there would be an adjustment period, and the most pronounced effect would be for an app like Tinder. Tinder revolutionized the industry because signing up was so frictionless – no questionnaires or filling out a profile, just a couple clicks and a user had instant access to singles in the vicinity. It found particular appeal among a demographic that skews younger and is less interested in commitment. Injecting friction *back* into dating apps in order to make it safer for all would represent a significant change in user expectation and experience.

In addition, data collected to enhance screening procedures would require a meaningful change in the type of information that online dating apps already struggle to secure. Investment in infrastructure and cybersecurity would need to be undertaken, with negative implications for long-term margins, not to mention reputational risk in the event of a Target or Equifax type data breach. In short, the Congressional inquiry that has just launched has significant implications for the industry. While in the present political climate it is only natural to be skeptical of Congress's ability to pass any significant piece of legislation, if we had to pick one issue that (we hope?)

crosses party lines to unite Republicans and Democrats, it would be the importance of protecting women and children from known sexual predators.

Appendix III: Tinder is Big in India—At Least With Men

India, in particular, is a country held up by Match as an example of the tremendous secular opportunity the region holds. With a macro backdrop of improving internet penetration and income levels, the opportunity for online dating growth is a tantalizing one but India also poses very distinct challenges. The title of this section borrows (plagiarizes) a headline from a Wall Street Journal article describing Tinder's experience in India, because it perfectly encapsulates the stigma attached to online dating in a country where gender roles are still heavily affirmed.

According to an industry expert, though demand is high among men in India, overall subscription yields are very low due to low disposable income levels (a 1-month subscription to Tinder Gold costs about 6x typical wireless plans in India). Given the stigma dating in general (not just online) carries for women, female user adoption has been difficult to stimulate, creating a heavy demographic imbalance in the user base. Women have felt overwhelmed by the resulting attention. "The barrage of messages that hits your inbox is like a swarm of locusts," as one female user in India described the experience. While it is fair of bulls to expect cultural stigma to erode and incomes levels to rise over time, we think short of a generational revolt whereby young Indian women decide to Americanize themselves - monetizing online dating habits in India will be a costly and uneven affair. For all the hoopla over India's potential, we would also remind bulls that Tinder has already been in India for over four years.

Full Legal Disclaimer

As of the publication date of this report, Kerrisdale Capital Management LLC and its affiliates (collectively "Kerrisdale") have short positions in the stock of Match Group, Inc. ("Match") and IAC. In addition, others that contributed research to this report and others that we have shared our research with (collectively with Kerrisdale, the "Authors") likewise may have short positions in the stock of Match and/or IAC. The Authors stand to realize gains in the event that the price of the stock decreases. Following publication of the report, the Authors may transact in the securities of the company covered herein. All content in this report represent the opinions of Kerrisdale. The Authors have obtained all information herein from sources they believe to be accurate and reliable. However, such information is presented "as is," without warranty of any kind – whether express or implied. The Authors make no representation, express or implied, as to the accuracy, timeliness, or completeness of any such information or with regard to the results obtained from its use. All expressions of opinion are subject to change without notice, and the Authors do not undertake to update or supplement this report or any information contained herein. This report is not a recommendation to short the shares of any company, including Match and/or IAC, and is only a discussion of why Kerrisdale is short Match and/or IAC.

This document is for informational purposes only and it is not intended as an official confirmation of any transaction. All market prices, data and other information are not warranted as to completeness or accuracy and are subject to change without notice. The information included in this document is based upon selected public market data and reflects prevailing conditions and the Authors' views as of this date, all of which are accordingly subject to change. The Authors' opinions and estimates constitute a best efforts judgment and should be regarded as indicative, preliminary and for illustrative purposes only.

Any investment involves substantial risks, including, but not limited to, pricing volatility, inadequate liquidity, and the potential complete loss of principal. This report's estimated fundamental value only represents a best efforts estimate of the potential fundamental valuation of a specific security, and is not expressed as, or implied as, assessments of the quality of a security, a summary of past performance, or an actionable investment strategy for an investor.

This document does not in any way constitute an offer or solicitation of an offer to buy or sell any investment, security, or commodity discussed herein or of any of the affiliates of the Authors. Also, this document does not in any way constitute an offer or solicitation of an offer to buy or sell any security in any jurisdiction in which such an offer would be unlawful under the securities laws of such jurisdiction. To the best of the Authors' abilities and beliefs, all information contained herein is accurate and reliable. The Authors reserve the rights for their affiliates, officers, and employees to hold cash or derivative positions in any company discussed in this document at any time. As of the original publication date of this document, investors should assume that the Authors are short shares of Match and/or IAC stand to potentially realize gains in the event that the market valuation of the company's common equity is lower than prior to the original publication date. These affiliates, officers, and individuals shall have no obligation to inform any investor or viewer of this report about their historical, current, and future trading activities. In addition, the Authors may benefit from any change in the valuation of any other companies, securities, or commodities discussed in this document. Analysts who prepared this report are compensated based upon (among other factors) the overall profitability of the Authors' operations and their affiliates. The compensation structure for the Authors' analysts is generally a derivative of their effectiveness in generating and communicating new investment ideas and the performance of recommended strategies for the Authors. This could represent a potential conflict of interest in the statements and opinions in the Authors' documents.

The information contained in this document may include, or incorporate by reference, forward-looking statements, which would include any statements that are not statements of historical fact. Any or all of the Authors' forward-looking assumptions, expectations, projections, intentions or beliefs about future events may turn out to be wrong. These forward-looking statements can be affected by inaccurate assumptions or by known or unknown risks, uncertainties and other factors, most of which are beyond the Authors' control. Investors should conduct independent due diligence, with assistance from professional financial, legal and tax experts, on all securities, companies, and commodities discussed in this document and develop a stand-alone judgment of the relevant markets prior to making any investment decision.