FACTSET: callstreet

TripAdvisor, Inc.	TRIP	Q2 2013 Earnings Call	Jul. 24, 2013
Company▲	*Ticker▲*	*Event Type▲*	*Date▲*

PARTICIPANTS

Corporate Participants

Will Lyons – Senior Director-Investor Relations, TripAdvisor, Inc.
Stephen Kaufer – President, Chief Executive Officer & Director, TripAdvisor, Inc.
Julie M.B. Bradley – Chief Financial Officer, Treasurer, TripAdvisor, Inc.

Other Participants

Lloyd Walmsley – Analyst, Deutsche Bank Securities, Inc.
Michael B. Purcell – Analyst, Stifel, Nicolaus & Co., Inc.
Nathaniel Holmes Schindler – Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.
Bo H. Nam – Analyst, JPMorgan Securities LLC
Tom Cauthorn White – Analyst, Macquarie Capital (USA), Inc.
Michael J. Olson – Analyst, Piper Jaffray, Inc.
Heath Patrick Terry – Analyst, Goldman Sachs & Co.
Nishant Verma – Analyst, Morgan Stanley & Co. LLC
Andrew McNellis – Analyst, Evercore Partners (Securities)
Mark S. Mahaney – Analyst, RBC Capital Markets LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the TripAdvisor Second Quarter 2013 Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Will Lyons. Sir, you may begin.

Will Lyons, Senior Director-Investor Relations

Thank you, Sam. Good afternoon, everyone, and welcome to TripAdvisor's second quarter 2013 earnings conference call. I'm Will Lyons, Senior Director of Investor Relations for TripAdvisor, and joining me on the call today are our CEO, Steve Kaufer; and our CFO, Julie Bradley.

Before we begin, I'd like to remind you that the estimates and other forward-looking statements included in this call represent the company's views as of today, July 24, 2013. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to today's earnings release and TripAdvisor's filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements.

You'll also find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call in our Q2 earnings release, which is available on our IR site, ir.tripadvisor.com.

Finally, unless otherwise stated, all references to selling and marketing expense, general and administrative expense and technology and content expense excludes stock-based compensation, and all comparisons on this call will be against our results for the comparable period of 2012.

corrected transcript

With that, I will now turn the call over to Steve.

Stephen Kaufer, President, Chief Executive Officer & Director

Thank you, Will, and welcome, everyone.

I'm going to take a few minutes and highlight some key metrics and discuss some notable developments on our technology and growth initiatives. Julie will then give color on our financials and outlook before we take your questions.

Our core hotel shopper growth metric remained strong and was up 41% during Q2, with broad strength across both our core and emerging markets. This drove 21% click-based revenue growth for the period. Our other revenue lines also fared very well, as 18% display revenue growth and 68% subscription, transaction and other revenue growth were ahead of our expectations. Collectively, this led to a strong Q2 total revenue and EBITDA growth of 25% and 16%, respectively.

More users across the globe are engaging with TripAdvisor sites, whether it's on desktop, tablet or smartphone. Our average unique monthly visitors grew approximately 57% in Q2. At an average of more than 220 million monthly unique visitors, according to Google Analytics, TripAdvisor-branded sites had more than 1 billion unique visitors during the first half of the year. Roughly 79 million of these monthly uniques visited us via a tablet or smartphone device, up 216% year-over-year, highlighting our continued strong mobile user uptake.

We also accelerated user-generated content growth to an average of more than 70 contributions per minute on the strength of our social, email, badging and permanent branding campaigns. More recently, we introduced Review Express, which allows hoteliers to automate the post-stay review solicitations that will help drive even more fresh content to help travelers plan their trips.

Review Express is just one of the many new features we've been working on to improve the TripAdvisor experience for our users and partners alike. The most notable and visible new feature, which is now live to all of our global traffic is hotel metasearch functionality.

With the launch of meta, we now have the world's best travel content, combined with real-time pricing and availability, all in one place. Because of a lot of outstanding work from the team here, we were able to rollout meta in 100% of our markets in early June, slightly ahead of our original plan. Everyone on the TripAdvisor team is proud that we've able to delight hotel shoppers around the world with a new and improved interface. There hasn't been a bigger upgrade to our user experience in our history.

From a meta monetization standpoint, as we predicted, the number of paid clicks is down multiples, and conversion and CPCs are up multiples, relative to our classic bidding model. We continue to expect to see the biggest negative impact to revenue during Q3, as this will be the first full quarter at a 100% meta rollout and as partners optimize and find equilibrium within our new meta bidding landscape.

We've not yet reached revenue neutrality, but based upon the progress we've made, we continue to expect that this transition to meta will be revenue neutral by the end of the year. To get there, our core product and engineering teams continue testing and optimizing the site for commerce, making progress on generating more clicks through our onsite conversion initiatives. Simultaneously, our engineering and sales teams are helping the auction dynamics mature by working closely with partners to improve our client-facing tools to help more partners spend and spend more effectively on our platform.

Along those lines, we've heard a growing number of independent hoteliers, partners that traditionally haven't – that we haven't traditionally supported in our CPC business tell us that they are interested in buying clicks. For years, small budgets and technology bottlenecks have stood in the way of addressing this vast, underserved customer set, but they are increasingly interested in working with TripAdvisor, given our growing importance in the hotel shopping funnel.

Just earlier this month, we announced our new TripAdvisor Connect platform, which enables Internet booking engine providers to connect directly to our commerce engine. This allows them to provide their independent hotelier clients with the necessary technology connection that will allow them to bid in our metasearch auction.

We have received very positive initial feedback from our announcement, and we expect that many of the largest companies that provide Internet booking engines to independent hotels will be working with us soon. Later this year, we intend to launch the second part of the TripAdvisor Connect platform, namely, a self-service bidding interface that will allow hoteliers to bid directly for our traffic.

We believe this is an exciting development for a large number of independent hotels, especially those that are not currently represented by an online travel agency, as the hotel will be able to advertise their rates and availability for the first time to our massive travel audience.

Another exciting aspect of TripAdvisor Connect is that it includes an adapted Review Express product, which can automatically generate post-stay review solicitation emails. This will help hoteliers engage guests on a more frequent basis and will help them add more fresh, valuable content about their properties on TripAdvisor.

To be clear, we don't expect material impact to our results from this TripAdvisor Connect platform in 2013. We do, however, think that this will improve our value proposition to travelers by providing them rates and availability for more properties, as well as help independent hoteliers advertise in our growing, global marketplace.

I'll now touch upon some interesting developments in a few of our growth initiatives.

Earlier, I alluded to our rapidly growing mobile usage, reaching over 35% of total unique visitors. We've also reached more than 50 million cumulative app downloads, including those from our new Jetsetter and GateGuru apps, which is up over 125% year-over-year. This download number also includes nice early traction in our new Samsung partnership, as we've seen a better than 10% app initialization rate on the reported 20 million Samsung Galaxy S4s that have been sold to-date.

In terms of mobile monetization, as expected, tablet hotel shopper monetization has matched that of desktop and I am excited by how our team has continued to refine and improve the user experience on that device.

On smartphone, our hotel shopper growth continues at a triple-digit rate, but monetization remains at less than 20% of desktop. We attribute this to our ongoing priority in mobile on engaging and delighting as many users as we can on a more frequent basis, whether it's to read hotel reviews, send a postcard to a friend, or reserve a table at a restaurant. Moreover, our smartphone team is dedicating significant resources to building native iPhone and Android apps, which we believe will allow a user to take better advantage of all that TripAdvisor has to offer on those devices.

In our fast-growing subscription, transaction and other line, we've seen a nice uptick in Business Listings sales productivity as we have more fully-trained sales reps in more parts of the world. We are also excited by the prospect that our forthcoming TripAdvisor Connect platform may bring, which gives more property owners around the globe another reason to work with Trip.

In our Vacation Rental business, early results from free-to-list remain positive as overall listings are up, as well as mailable users, traffic and inquiries. On the consumer side, we've increased the percentage of our listings that are online-bookable properties from zero last year to over 20% this year, and we shortened the booking flow to improve conversion. We've integrated the majority of FlipKey and Holiday Lettings properties onto the main TripAdvisor site and we're working on integrating Niumba's inventory to give vacation renters more choice in Spain.

On the international front, we are working on three new TripAdvisor domains in localized Spanish language: Columbia, Chile, and Venezuela to better serve the local travelers and to better align our offerings with the local OTA partners in that region.

Late in the quarter, we added the leading mobile resource for flight and airport information around the world, GateGuru, to the TripAdvisor family. Also, at the end of June, we decided to sunset the SniqueAway brand, combining its assets with our recently acquired Jetsetter brand. We believe this change will be positive for the business, our partners, and SniqueAway members.

In summary, the second quarter closed out a strong first half of 2013 for TripAdvisor as we made great progress to create the best experience for every user, on every device, in every geography. All TripAdvisor employees deserve thanks, especially, the meta team, who, in a true speed wins fashion delivered a fantastic product upgrade in a short amount of time. I thank you and I think travelers around the world thank you, as well.

I'll now turn the call over to Julie, who will provide some color on the financial results as well as our outlook.

Julie M.B. Bradley, Chief Financial Officer, Treasurer

Thanks, Steve, and good afternoon, everyone. As Steve just described, during Q2 we saw continued strong traffic trends that provided a nice backdrop for our revenue growth. Second quarter revenue growth of 25% was driven by continued strong hotel shopper growth and strength across our product suite. Currency had a less than 1% impact this past quarter. Adjusted EBITDA growth slowed sequentially to 16% versus 30% in Q1. Impact from the meta rollout, hiring and adding costs through our acquisition were the key drivers.

Our Q2 click-based revenue was up 21%, fueled by hotel shopper growth of 41%. As we rolled out meta to a 100% throughout the quarter, it negatively impacted growth by approximately 6% to 9%. Hotel shoppers on smartphones and from international geos continue to monetize at lower rates and each accounted for approximately 5% to 10% of the delta between hotel shopper growth and click-based revenue growth.

Specific to geographic mix, revenue from international points-of-sale was 49% of total revenue during the quarter, which was slightly lower than Q1 due to the timing of our metasearch rollout to various geographies, with our core U.S. market being among the last markets to move to a 100% deployment. Hotel shoppers continued to grow rapidly throughout the globe with notable continued strength in core U.S. and European markets.

On the display-based line, revenue growth accelerated to 18% due to traffic growth and better sell-through rates. This past quarter, we saw some summer-specific ad spend, nice sales traction from our Delayed Ad Call innovation, improved customer targeting functionality and deeper industry relationships with DMOs, hoteliers and airlines.

Subscription transaction and other revenue, which includes Business Listings, Vacation Rentals and our transaction businesses; Tingo and Jetsetter, accelerated to 68% growth, ahead of our full year expectation. Beyond having nearly a full quarter contribution from Jetsetter and nearly two months contribution from Niumba, we owe this acceleration to increase Business Listings sales productivity and higher Vacation Rentals velocity from our new transaction-based offering.

On the expense side, our hiring pace quickened in Q2, as we pursued our product, platform and global growth initiative. Direct marketing costs increased slightly versus last quarter, as we started testing our new TV campaigns in six U.S. markets in an effort to promote TripAdvisor brand awareness and diversify traffic. We expect to increase TV spend materially in the second half of the year, as we broaden our testing domestically and internationally.

Moving on to taxes. Our Q2 GAAP effective tax rate was 26%, which is consistent with our ongoing mid-to-high 20s expectation for the year. CapEx was $14.3 million for the quarter, or 6% of revenue. This increase is primarily related to leaseholds improvements in several new and existing offices.

From a liquidity standpoint, we ended the quarter with $616 million in cash, cash equivalents, and short-term and long-term marketable securities. At the end of Q2, we had outstanding borrowings of $360 million as well as an undrawn credit facility of $200 million. In terms of capital allocation, we paid approximately $30 million net of cash acquired to complete our four acquisitions in the quarter. Also, we repurchased 675,000 shares of our common stock for approximately $42 million. Subject to prevailing market conditions, we remain focus on offsetting expected employee equity dilution during 2013 with share repurchases.

Finally, you will notice a new deferred merchant payable line on our June 30 balance sheet. This represents cash, net of commissions that we receive from travelers at the time of the booking, which we ultimately use to pay hotels and vacation rental owners in some of our transaction based and Vacation Rentals businesses. As of June 30, our current balance was $31.3 million, of which $14.5 million was acquired through our M&A transactions during the quarter. As long as these businesses continue to grow, we expect the changes in working capital related to these balances will positively impact operating cash flow.

With that, let me provide updated thoughts on our 2013 outlook. For click-based revenue, our thoughts from last quarter remain largely unchanged. We are very pleased with the positive user feedback on our new meta display and have made great progress driving more clicks and helping partners better determine their bidding efficiencies. However, the bidding landscape is still maturing. Given that Q3 is the first full quarter of a 100% meta, we continue to expect the transition to have a larger negative impact on Q3 revenue than it did on Q2. Assuming continued onsite conversion improvements and stable partner pricing, we continue to expect click-based revenue growth reacceleration in Q4, 2013. For full year 2013, we are reiterating our click-based revenue growth guidance of high-teens to low-20s.

As it relates to display, based on our strong first half results, we now expect mid-to-high teens growth for the full year with Q4 being our strongest quarter for this product.

For subscription, transaction and other business lines, we believe continued sales productivity in Business Listings, Vacation Rentals traction a nice contribution from our recent acquisition will now yield high 50s growth for the full year. Remember, that traction of our Vacation Rentals free-to-list product and flash sales will contribute similar seasonality to click-based revenue, where Q3 is seasonally strong and Q4 is seasonally weak.

In sum, we are reiterating our total revenue growth expectations of low 20s for the full year. I'd like to again remind everyone that our business is sensitive to fluctuations in hotel shopper growth and that partner CPC pricing, both of which are risks.

On the flip side, remember that our forecast does not include any meaningful traffic or repeat visitor list from our planned offline ad campaign, so that represents some potential upside from a traffic and revenue standpoint.

On the expense side, our investment and hiring plans remain unchanged giving our growth initiative and large market opportunities ahead of us. From a forecasting standpoint, we have considered our strong results in the first half of the year offset by our ongoing meta transition, offline ad spend, and our recent acquisition. Net, net, we are reiterating our expectations of mid-single digit EBITDA growth for the full year of 2013, which assumes negative Q3 and Q4 year-over-year EBITDA growth due to the timing of our offline ad spend.

In conclusion, we are very pleased with our continued improvements to the TripAdvisor experience for our users and partners.

We will now open the call up to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] We ask that you please limit yourself to one question and one follow-up. Our first question comes from Lloyd Walmsley of Deutsche Bank. Your line is now open.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: Thanks, guys. Wondering if you can just give us a little bit of color on how metasearch is changing the user experience, and activity. So, when you look at the activation of hotel shoppers into monetized hotel shoppers, are you seeing a higher percentage in metasearch actually click on ad units versus the traditional? And just as a follow-up, can you kind of parse out the puts and takes of metasearch in terms of how much increase you're seeing from end-users, and then what you're seeing in terms of volume and price on the paid click side?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. Thanks, Lloyd, a good question. So, the engagement metrics are basically all in the right direction when we look at how the new experiences rolled out. So, page views per session, how much are people searching around, that's up by north of 10%. Bounce rate is something else that we measure, hey, how often when people come to the sites, they leave without doing anything and that's gone down across the vast majority of our points of sale. People are staying longer on the site, so in general, that's a good thing. They're doing some more searching with some more researching.

To the question of, well, are more people – if I'm understanding the question correctly, are more people shopping on TripAdvisor entering their dates, and then clicking off to our clients, the Expedias and Hiltons of the world, the answer is, no. It's a meaningfully smaller percentage of visitors that finished their shopping experience with a click off. That's entirely what we expected and what we expect to see frankly going forward, because the traveler in our old classic model, upon getting interested in a hotel, would naturally want to know, hey, how much is it? Is it available? And the only way to find out would be to click the show prices button, which would generate a paid event off to a client site, only to find out that the hotel is sold out or that it's a $1,000 a night.

So it's a potentially very low converting click, but it was a paid event for us, and it did count as a shopper who went downstream to click, went downstream to a client site. Whereas now, they put in their dates and they see that, oh, the hotel sold is out or its way too expensive for me, and a bunch of them kind of finish their shopping experience at that time. They don't click to a client, so they don't generate a paid event for us.

We're fine with that, because it's actually keeping that shopper on TripAdvisor to help find their right hotel, not only from reviews but also price and availability, and maybe that shopper comes back the next day, maybe that shopper shops around a little bit more on the site or maybe they were just looking anyways and weren't planning to book anything, in which case, I had sent in the old model a very low-qualified click off to a partner site that wasn't going to buy anything, so at the end of the day, I wasn't going to get paid.

So we're still sending -or, in the new model - we're sending meaningfully fewer clicks to our clients, but they're converting at a meaningfully higher conversion rates and the clients in turn are paying us more. And all of that net, net in Q2 was coming in at that, hey, we were estimating a 6% to 9% headwind when we did all that math and when we counted all the clicks.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: And then just in terms of what you are seeing – in terms of volume versus price, can you give us any color there on how metasearch is transitioning?

<A – Steve Kaufer – TripAdvisor, Inc.>: So you'd – what we had, had actually predicted in the beginning in terms of kind of on average and this, again, varies a lot by partner and by placement and by position on the site. But, on average, we're seeing the click volume for these meta hotel clicks being down, call it 3x, and the conversion rate and the pricing being up, call it 3x. And those are approximations - and to be clear they don't represent all of the clicks that we send to our clients - but for these priced hotel clicks, those are the kind of multiples that we're seeing.

In the end, to reiterate, not all partners see the same thing and its different in different geographies, but I'm trying to give you a general average on what it looks like.

What I'd also add, we did mention in the prepared remarks is that, we had rolled out meta over the course of Q2. So Q3 - and we'd rolled out - we kind of finished the rollout at end of May, early June by finally moving our U.S. point-of-sale, our biggest point-of-sale over to a 100% traffic after trying it at much lower percentages. So the biggest and one of the most profitable segments, one of the richest CPC segments for us, the U.S. market, rolled to a full rollout only for the last month. So, when we talk about Q3 being a bigger meta headwind, that's because we've got that whole rollout in front of us. The whole site is on meta now and we're making progress on improving the conversion, but we're dealing with the 100% of our traffic. So, there is just a lot of different things that are changing. The full meta rollout is a bigger headwind. The fact that we've made some conversion improvements along the way is a bit of a tailwind. We expect to make some more conversion improvements.

And then, we've got a whole bunch of other external events that have already kicked off Q3, which are, frankly, mostly headwinds. So, we have our wonderful new citizen in the world, Prince George, who no doubt is causing various people to stay at home and watch TV, waiting the news before they travel. We have a big heat wave in the UK and in parts of U.S., and other parts of the world that we believe have slowed down some of the traffic to our site. We had an airline crash, it's probably more shorter-term than longer-term, but we have seen for the first couple of weeks in July a noticeable headwind on the traffic, which naturally becomes a headwind on the revenue. We hope that that's not a longstanding thing, but it hasn't been a great beginning in July for us.

Operator: Thank you. Our next question comes from Michael Purcell of Stifel. Your line is now opened.

<Q – Michael Purcell – Stifel, Nicolaus & Co., Inc.>: Yes. Thanks. Great quarter. My question for you is on the hotel shoppers. Steve, I was wondering, could you give some insights into that 41% growth? If you can kind of give us some insights into geographically where that's coming from? And then secondly, if you maybe just offer some comments on what you're seeing in terms of your test markets, ad campaign, and how that is rolling forward? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Okay. So to the first part on the traffic, so in general our core markets are doing fine in traffic over the quarter, as we had alluded to. Some of our newer markets aren't growing at quite the rate that they were last year, but overall our mature markets are hanging in there quite nicely. Again - sort of UK in particular, for the first couple of weeks in July, haven't been as robust a growth as we had seen in the course of Q2. When we look at our TV test markets, we have been working on six different markets. We've been doing our best to understand the pieces that we get to measure comparing city to city, as well as comparing what happens immediately post running a spot. So we've got some great data coming in. We knew it would be a learning experience for us. So again, we only spent a couple of million dollars so far, but we have no reason at this point to be pulling back on our expectations to spend kind of the full budgeted amount going forward.

We're thrilled with the addition of Anne Bologne, who is our new VP of Brand, who will be helping us properly allocate and carefully track the spend for us. And again, you'll be seeing us on air not only nationally in the U.S., but also at least in several additional international markets over the course of the second half of the yea**<Q – Michael Purcell – Stifel, Nicolaus & Co., Inc.>:** Thank you.

Operator: Thank you. Our next question comes from Nat Schindler of Bank of America Merrill Lynch. Your line is now open.

<Q – Nat Schindler – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Yes. Hi. Thank you. And great quarter. Can you just talk a little bit about what you're seeing in the disparity in clicks from users as well as what you're getting in differential pricing between the top spot, the second spot and the third spot on your normal meta display and I know that tends to change? Additionally, could you talk a little bit about any impact you're seeing from Google Carousel? And finally, and I think this is all one related question because you asked for it that way. Could you talk a little bit about why you saw such a striking acceleration in click-based revenue growth from your non-Expedia clients? And who particularly were they? Were they hoteliers or other OTAs? Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure, Nat. I'll do my best to remember all three parts of the question here. So just like Google search and most other placement-based offerings being in the top position for a property yields meaningfully more clicks than being in position two and three. A little different than Google search in that the actual price that gets displayed of course does weigh the click behavior. It's an almost guarantee for a client to get more traffic if they bid up to that first position.

When you are in the one, two or three position, you're getting the vast majority of the clicks, positions four through whatever, get a – let's just call it a tiny fraction. So, to the fourth player, to the fifth player, we're always making suggestions on how to get into the top three, because the lift in traffic from having a big button placement versus the text link is quite meaningful. Even if you have the lower price in the text link area, sort of beneath the button, it's always best to get into that top three.

Again, the analogy is, in a Google search result, you've got three placements right at the top of the page and then a bunch of others in the right-hand rail, and everyone knows the right-hand rail gets the small fraction of the clicks that go to the one from the top three.

Google Carousel, yeah, we saw it come out. If you notice when you click on it, it actually just redoes the search on the name of the hotel, that the picture is for, and that's what we found – or what I personally found when playing around is that, TripAdvisor usually ranks pretty darn well for that individual hotel search. I have no insight whatsoever as to how many people are actually clicking on the Carousel. It's nice to see pictures, but it's really not much of a hotel selection tool, so maybe it's helpful in engaging the searcher, but I don't view it as a particularly strong shot across our bow in terms of hotel selection.

We continue to have, obviously, strong hotel shopper growth, and we have frankly no way of knowing whether it would has been stronger but for that or it made no difference at all. So we're, let's say jaded on the number of things that Google does in the search results page, and most of them at the end of the day tend not to affect us. They rolled out several new search engine algorithm updates over the course of the quarter, and we've got a pretty powerful brand with pretty strong placements. So we tend not to see any interesting changes. Again, if history is something to judge on, we tend not to see too many interesting changes when they've rolled out their algorithms.

And then last part of the questions, CPC growth acceleration from non-Expedia, it's an auction. And so this was the case where we rolled out meta and some partners were a little faster on the uptake than others, some partners measure things a little bit differently than others, and as you could guess, maybe Expedia wasn't in as top position as they had been across all of our markets, not to say that they won't reclaim that position where they were, or that people are just taking a different approach to getting started in our auction. I don't really have any comment as to who would have taken their place or who would have taken their click share.

<Q – Nat Schindler – Merrill Lynch, Pierce, Fenner & Smith, Inc.>: Great. Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Okay. Thanks.

Operator: Thank you. Our next question comes from Douglas Anmuth of JPMorgan. Your line is now open.

<Q – Bo Nam – JPMorgan Securities LLC>: Hi. This is Bo on behalf of Doug. Thanks for taking our questions. Just one kind of related to Nat Schindler's end question was just on the reduction on Expedia, if you can give any more details? And related to Expedia and other partners, we know that your bidding platform has been getting a lot better and how the bidding – how dynamic the platform is at this point? And then just secondly, a quick question on just traffic sources. How has that changed over time and have you, maybe shifted some traffic – incoming traffic away from Google and towards some other sources? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So don't really have any more comments on the Expedia piece. The bidding platform we have made sort of great strides in automating components certainly on our end. Our larger partners have the ability to bid every single day if they want. I don't believe any of the big partners are leveraging that fact. I'm not surprised because there is just a lot of data to analyze each day. And at the end of the day, they want to make sure they were getting conversions out of it. So, again, I can't speak for them. I don't want to speak for them. But if I were in their shoes, getting to daily bidding wouldn't be top on my list. I'd want to make sure, I'm getting all the information I can from TripAdvisor, and that's exactly what we're providing.

We're providing the ranking reports, we're providing the bid recommendation reports, we're providing them on a super frequent basis by markets for all the individual properties. And I would venture a guess that many of the bigger partners are now saying that while they love some additional API automation –which we are working on – but while they love some of that automation, they're getting plenty of data right now and it's a – the onus is on them to find new ways to consume it and analyze it.

And then traffic sources, again we don't really go into quarterly commentary on traffic sources. It's always been known that I'm always interested in growing additional traffic sources in all cases. The TV is certainly a meaningful strategic opportunity for us to drive more domain direct, more awareness of TripAdvisor, thereby reducing our dependency on any and all pay traffic or search traffic in general.

<Q – Bo Nam – JPMorgan Securities LLC>: Great. Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure.

Operator: Our next question comes from Tom White of Macquarie. Your line is now open.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great. Thanks for taking my question. I was hoping you guys could maybe talk a bit about the ways, you still have opportunities to maximize onsite conversion, I imagine you are focused on stuff like improving the speed of the site and the search results. But are there are other search specific examples of things you guys are focusing on to drive that? And then just secondly on the shift to meta, I realize it's still very early, but if I think about sort of the two main monetization parts of the site, the hotel specific pages and then kind of the more general travel metasearch, can you give us any sense of sort of what is the breakdown of the percentage of paid clicks that's coming from both of those two areas and maybe where you envision that breakdown being in the next 12 months, 24 months or so? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: So the – certainly, the vast majority of our clicks are in the hotel category. We have air clicks and we have some restaurant clicks and we have some other clicks. We use Google AdSense as a backfill in many cases and we don't even know what types of clicks those are. When I think about the business and when I think about over in the next year or two, I'm still thinking mostly hotel clicks, because there is a lot of money there. There is a tremendous amount of demand. We are still tapping into a relatively small portion of the online travelers and that's our core, that's absolutely what we are best at. When you combine the price comparison, the rates and availability, the home metasearch piece with our content, we feel we stand meaningfully above all the competitors in providing a complete solution for that hotel search.

To back up to the first onsite conversion, yes, yes, in fact we do a lot of different aspects to improve the conversion I can – an example might be I'm going to Prince Edward Island, and I'm looking for some interesting places to stay. I land you at a page that might be just hotels, but we may not have a lot of hotels, so I want to make sure that you also see that we have some bed and breakfast. We have some other specialty lodging and integrating those cross-sells onto the right page helps the user and likely generate another commerce click for us.

When we look at personalization, we have a tremendous amount of information that's a bit hard to bring to bear at real-time. I've told you before that when I can use the information from your Facebook friends and you are friend-connected, you become a more valuable consumer, more valuable traveler to me, you stay a bit longer and you do a bit more commerce. As that continues to grow, we get some additional benefit. But even if you're not instantly personalized, even if you're not Facebook-connected, we have efforts underway to help understand a better property to cross-sell you to if in fact the one that you're looking at is sold out or more expensive than you want. And since we already have you on our site, getting an extra 10% of activity from you, wow, that's huge opportunity for us and it tends to happen by experience in increments of 1% here or 1% there, but adding up in our volume turns it into real money.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great. Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Okay.

Operator: Our next question comes from Mike Olson of Piper Jaffray. Your line is now open.

<Q – Mike Olson – Piper Jaffray, Inc.>: Hey. Good afternoon. For Vacation Rentals, can you just talk a little bit more about the traction of the transaction-based offering and remind us when that kind of fully got rolled out and how widespread it is, et cetera? And do you believe that it's being used by new customers or our existing subscription customers switching to a transaction-based listing to any significant degree?

<A – Steve Kaufer – TripAdvisor, Inc.>: Good questions. I don't have all those figures with me. Certainly, we're pulling in a lot of new customers that might have said, 'well, I'm not really sure it's worth a couple of hundred dollars for the subscription, oh you have a Free-to-List option now, great I've got nothing to lose.' So, we get to add that new inventory. It just makes it a much easier sale. We do have some owners that upon renewal time especially because that's when we frequently deal with them, say 'all right, well let me try that free-to-list transaction model.' And to the extent that we get more and more of those folks converting over, that's great for us. We're fully in the transaction angle, because at the end of the day, we think that that is what's right for the consumer.

We want our incentives in Vacation Rentals to be wholly aligned with providing the best experience. And the challenge, as we articulated before with the subscription model, is that the internal dynamics are that – I'm going to want to try to keep a subscription member live on the site, but if they are not getting enough leads because the property isn't good enough or it's overpriced, I end up having to feature that property high in the sort order or high on the page. And therefore asking the consumer, 'hey you should try this property' by virtue of where I placed it on the page even though it's kind of the wrong answer for the consumer, the right answer for my business, because I want to renewal it's the wrong answer for the consumer because there is probably a reason why that property didn't get a lot of clicks.

As we move to a transaction model, poof, that all that goes away, I'm hugely incented to put the property first that's going to get the best conversion rate because at the end of the day it's a transaction, that's how I get paid. If you are on a subscription model and you try to add a transaction model, but then you allow subscription people to pay to get ahead of the listing – ahead of the transaction listing – then you kinda got a mixed model that says, well we want to do what's best for the consumer on the transaction side, but we are still going to let other people kind of buy their way to the top of the recommendation order. And, again, it's I guess better than pure subscription, but not entirely in the camp of what's best for the consumer. So we do have a subscription model. We're not planning to get rid of the subscription model, but when you look at the pages on our sites, we always want to have firmly in our mind that we're going to be showing you the best possible property based upon what we know of you and how well that property ends up becoming a successful transaction for our shoppers. Business is growing nicely, and we continue to invest in it, such as our recent acquisition, and we're putting a lot of effort against it and feel it's a great aspect to the overall TripAdvisor story.

<Q – Mike Olson – Piper Jaffray, Inc.>: Great. Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Thank you.

Operator: Our next question comes from Heath Terry of Goldman Sachs. Your line is now opened. Heath, please check your mute button.

<Q – Heath Terry – Goldman Sachs & Co.>: Thank you. Can you give us a sense of how meta is impacting revenue concentration for particularly to the extent that it's impacting supplier direct relationships? And then, on the mobile side of the business, any sense of sort of the different consumer behavior, whether it's direct or through search or conversion, that you're seeing app versus mobile web and how that may be impacting the way you're thinking about growing your app installed base through marketing?

<A – Steve Kaufer – TripAdvisor, Inc.>: Okay. So the two pieces, has revenue concentration changed much, does supplier direct matter, I'd say at this point, you shouldn't think of the revenue concentration between OTAs and suppliers as having changed in any meaningful way. I wouldn't think of it – I wouldn't expect it to change in any meaningfully way going forward either. We're always trying to get more suppliers to recognize the savings they can achieve if they bid into first position, but that was just as true in classic as it is in meta. So, suppliers with good rate parity enforcement, probably do pretty well on TripAdvisor, because of the occasional bias towards the supplier direct.

To the question of consumer behavior and mobile app versus web, we're still early into the Samsung arrangement, so we think that there is a nice potential to learn something new about how an app - now pre-installed - gets a different style or perhaps a different level of engagement. We've gotten a lot of trial. We'll see over time how we get used when it comes time for that individual to go take a trip.

I'm not sure if there is a lot, I can add in terms of marketing or customer acquisition channels between the two. We obviously get a whole lot of downloads of our app, because when you're searching on your mobile web, on your phone using your web browser and you land on TripAdvisor, we're sure to give you a message saying, hey, come on down – come on, let's download the app. It's a faster, better experience. And just by the sheer nature of our traffic that drives a fair number downloads, which we're very pleased to have.

I think the bigger shift will happen after we release our truly native app, because most of our mobile app is technically on a web view, so it's not as fast as it should be. So we are quite pleased with the redesign that we did in the past six months to the mobile app, but we know going entirely native on the iPhone and Android, we expect will give us a meaningful boost in usage and engagement and that can be great for the consumer and great for us.

<Q – Heath Terry – Goldman Sachs & Co.>: Great. Thanks, Steve.

<A – Steve Kaufer – TripAdvisor, Inc.>: Thanks.

Operator: Our next question comes from Scott Devitt of Morgan Stanley. Your line is now open.

<Q – Nishant Verma – Morgan Stanley & Co. LLC>: Hi. This is Nishant for Scott Devitt. First, on the markets where you rolled out metasearch early such as the UK, are you close to or at revenue neutrality that makes you confident to achieve revenue neutrality for all sites by the end of the year?

<A – Steve Kaufer – TripAdvisor, Inc.>: No. It doesn't really work like that. We get to revenue neutrality by rolling out improved placement of the meta widget, improved cross-sell, improved engagements, improve the different ways that folks interact with commerce on a page. So, we rolled it out in the UK and one of the reasons, hey, we can get our clients used to the bidding. Some of the clients did get used to bidding there and the initial rollout, the initial implementation, was really quite painful on the revenue side, which was good that we only rolled it out through a small percentage of our traffic. And so we saved the biggest for the end, which is when we rolled the U.S. to 100% in June because we were able to apply the learnings in April and May so that when we rolled it out in June, we already had the benefit of the meaningful conversion uplift. So, we don't expect to be kind of revenue neutral country by country. It's more the optimizations we make on the site improve conversion pretty much everywhere at the same time, and then the pricing on a per country basis is what will, at the end of the day, I think, make some points of sale might be up a little bit from classic and other points of sale maybe down a little bit, and will claim success when the overall net, net is rev neutral for all of our points of sale.

<Q – Nishant Verma – Morgan Stanley & Co. LLC>: All right. Thank you, Steve.

<A – Steve Kaufer – TripAdvisor, Inc.>: Okay.

Operator: Thank you. Our next question comes from Ken Sena of Evercore Partners. Your line is now opened.

<Q – Andrew McNellis – Evercore Partners (Securities)>: All right. Thank you. This is Andrew in for Ken. We were hoping you could provide a little more clarity on the definitions of marketable members versus hotel shoppers, the difference between them and how you measure them?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So, a marketable member is an e-mail address of the traveler, whom we have permission to e-mail, essentially at any frequency, but we typically e-mail them weekly. And we gain new members everyday as new people write new reviews, they become marketable members, and then people unsubscribe from time to time and so we will lose marketable members. They don't drop their TripAdvisor account. They just go to the subscription page and unsubscribe. So, that's our marketable member.

Our hotel shoppers are the subset of all traffic hitting all TripAdvisor points-of-sale, all devices that touch a hotel related page, so either a specific property page, a page about the Newton Marriott hotel specifically, or a page that lists all of the properties in Newton or all of the properties in any city. So that's our rough definition of – an intent for a someone on our site to visit, to do a hotel booking.

To be clear, we still get and it's fast-growing, a lot of traffic around the globe in great categories like restaurants and attractions, and overview categories like a city page for us. And we love the traffic, we tend not to buy any traffic to those pages, because the folks are looking for attractions or restaurants, or things to do in a city which is great from a brand experience, great for travel planning, part of the complete solution that we offer, and none of our online travel agency clients offer, the Google doesn't offer, and all the rest. But, since that number fluctuates a lot and can go up and can go down or recently it's just going up, up, up. Since we don't monetize those folks as well, we stick to the metric of hotel shoppers. It's a more meaningful number to report on.

<Q – Andrew McNellis – Evercore Partners (Securities)>: All right. Perfect. Thank you.

Operator: Our next question comes from Mark Mahaney of RBC Capital Markets. Your line is now opened.

<Q – Mark Mahaney – RBC Capital Markets LLC>: Thanks. I just wanted to ask Steve a broad question about, your latest thinking on how far down the transactions funnel you would like to see TripAdvisor go, I know it's something you've thought about over time and you've been moving a little bit. But what's your latest thinking on the risks and rewards of doing that? Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. It's an excellent question. We always come at it from the perspective of how can we help the consumer have a better experience. And so, moving from classic to meta, pretty clear. Moving from meta to an assisted book or to some additional help in the booking, all right, well, there are some pros and cons if there is assisted book or we helping you to book a hotel, the more expensive room then – or more expensive price, then you could book it somewhere else. Is that helping really? Well, it might be a little bit more convenient, but we don't want to imply that the room is going to be any different, because you're paying us potentially a higher price than you're paying someone else who is advertising on our site. Where I think there is good room for improvement, that is pretty clear, to us at least, is on the phone side of things, where it's just not a very pleasant experience still to go from our meta, we'll show you the price to the supplier site or the online travel agency site, where you're still in the – all right, well, I'm still selecting my room, and then heaven forbid I'm having to enter in my credit card at that point.

And so, a lot of friction, and we think that some of that friction is why our phone monetization is so much lower than our desktop, and we feel that there is just meaningful room for improvement. We haven't articulated how we plan to improve it, but there is – it fits in with our goal of helping the consumer. And so, that is an issue or a challenge that we look to help our travelers with.

Beyond that, we feel it's great to be able to offer choice to the consumer, so a price comparison that really does find you the best rate, that really does search all available partners and I can pull back to the earlier announcement of TripConnect as yet another way where we're going to help show you some availability that OTAs may not have or that the individual hotelier may not be even be on any OTA let alone be sold out on that OTA. So, again, to be able to offer that direct connection for the consumers and the hoteliers that are interested, it helps the user experience.

<Q – Mark Mahaney – RBC Capital Markets LLC>: Thank you, Steve.

<A – Steve Kaufer – TripAdvisor, Inc.>: Thanks.

Operator: Thank you. And at this time, I would like to turn the call back to our CEO, Steve Kaufer for any closing comments.

Stephen Kaufer, President, Chief Executive Officer & Director

Oh! Very good. I certainly appreciate and thank everyone for joining us today. We look forward to updating everyone in just a few months. Thanks so much.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a great day.