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TRIP - Q4 2015 TripAdvisor Inc Earnings Call

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PRESENTATION

Operator

Good day ladies and gentlemen and welcome to the TripAdvisor fourth-quarter 2015 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Will Lyons, Senior Director of Investor Relations. You may begin.

Will Lyons - TripAdvisor Inc. - Senior Director of IR

Thanks, Abigail. Good morning everyone and welcome to TripAdvisor's fourth-quarter and year-end 2015 earnings conference call. Joining me today are Steve Kaufer, our CEO, and Ernst Teunissen, our CFO.

Earlier today we distributed our Q4 earnings release on our investor relations website located at IR.tripadvisor.com. In the release you will find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call. Also, on our investor relations website you will find supplemental financial information which includes certain non-GAAP financial measures discussed on this call, as well as other performance metrics.

Before we begin, I would like to remind you that estimates and other forward-looking statements included in this call represent the Company's views as of today, February 11, 2016. 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.

Finally, unless otherwise stated, all comparisons on this call will be against our results for the comparable period of 2014.



With that I will turn the call over to Steve.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Thank you, Will, and thank you everyone for joining the call. TripAdvisor is rapidly building the best end-to-end user experience in travel. Helping users plan and book the perfect trip is our North Star, and 2015 was a foundational year in pursuit of this mission.

We are reinventing how users book and have awesome trips. Think about how it has been for the past five to 10 years. You've gone online, you have likely searched on TripAdvisor, you have looked on search engines, you have searched destination sites, you have checked travel booking sites, you have checked supplier sites. At the end of it all, you have searched at least 15 to 20 different sites to try to figure out where you want to go, where are you going to have a great time, where are you going to stay, how are you going to book it and then you've got to go do the whole search all over again to go find the best price and feel safe about where you are booking.

At TripAdvisor, we have sought to solve these inefficiencies in that travel booking journey. Recently, we have done this in three ways. First, we have widened our content moat, reinforcing our leadership position as the most trusted brand in travel research. Since 2011, network effects have intensified as user content has accelerated from 30 contributions per minute to more than 200 per minute. In 2015 alone, users added 82 million contributions on TripAdvisor and we now offer users 320 million reviews and opinions on 6.2 million businesses around the globe.

Second in 2013 anticipating changing consumer preferences, we added hotel metasearch, enabling users to find all the best prices for more than 200 different booking engines across the web.

Third, over the past couple of years again anticipating consumer's growing desire to transact in a one-stop shopping fashion on mobile devices, we have started to add bookability to our offering.

So now imagine this, rather than visiting those 15 to 20 sites again, then again to make sure that you are finding the best hotel and getting the best price and booking with the brand you trust, consider this more efficient booking journey.

The user goes to TripAdvisor for the trusted review content to find out where to go. We have all the information you need to plan that perfect trip. And when they are shopping for a hotel, they stay on TripAdvisor because we have all the best prices and information regarding availability on the web. When they are comparing prices on TripAdvisor, they see that book on TripAdvisor button which has room prices that are at least as good or better than the metasearch options. They connect that TripAdvisor is the brand I trust with TripAdvisor is where I find the lowest price, with the TripAdvisor is where I can find and book the lowest price. So they click, they book, they are done right then and there.

This improved hotel shopping experience isn't just a hypothetical future, it is here today. It is the improved travel booking journey TripAdvisor is delivering to more and more users and more and more markets today. In 2015, we took some major steps in establishing instant booking as a strong platform. As you may know we partner with eight of the 10 largest hotel chains and in October we announced an instant booking partnership with the Priceline Group, the largest OTA in the world. As a result, users are able to book 450,000 hotels worldwide on TripAdvisor. Following our full Instant Book launch to US and UK users in September, we launched to all English-language countries this January. Instant Booking is diluting our near-term financial results but we see good leading indicators of success. Conversion rates are comparable to metasearch, users are coming back to TripAdvisor more frequently and repeat booking rates are up, all suggesting that more users are coming to know TripAdvisor as a great place to book.

As a result, we are moving quickly with Instant Booking. In February, we rolled out to the rest of our major European markets. In March, our plan is to roll out additional countries in Asia-Pacific and Latin American markets. And the exciting result is that, in Q2, in time for the seasonal pickup in travel planning, we will be live to be vast majority of our hotel shoppers around the globe.

Our job doesn't end there. We are working to improve the room level content, the descriptions and photos that give users more confidence to book. We are working to onboard more partners, including more hotel chains, like Starwood, and more independent hotels to give users the

comfort of booking supplier direct. It may take a year or two to perfect our Instant Booking offering, to get all the room content right, to make an even better, more seamless booking experience and to educate more users about our unbeatable offering.

Over the past two years, we have leveraged our strong profitable hotel base to invest in our next-generation booking technology. While the global instant booking launch will mask our core growth this year, it is an imperative step as we follow our North Star, navigating the path towards creating the best user experience in travel.

Now shifting gears a bit, how many people book a vacation simply because they want to stay at a particular hotel? Answer, not many. We travel because we want to relax, we want to discover, we seek adventure, we want to create great memories with friends or family. In short, we want to do stuff. TripAdvisor is in the business of delivering these memorable experiences. The TripAdvisor brand is synonymous with inspiration, discovery and helping users plan and have a great trip.

Unlike most other travel brands, users bring TripAdvisor with them on the trip. Over 50% of our traffic visits are on mobile devices, the majority of that on the phone and users have downloaded our apps more than 290 million times. When you arrive at your destination, TripAdvisor is your own personal travel guide helping you find what to do, where to eat and what businesses to visit and which to avoid.

Our profitable hotel business enables us to invest in complementary categories, attractions, restaurants and vacation rentals. These are businesses that help users have a great trip, engage more users and more moments and create a stickier end-to-end travel experience. The category has also opened up our global platform to more advertising partners helping them grow their business.

Drilling down on this Other segment, over the long-term we believe attractions can be our next \$1 billion revenue business. It is a fragmented \$80 billion market opportunity in the US and Europe alone. It has attractive commission rates. We are already the clear leader in terms of content and audience and adding Viator transaction capabilities reinforces our lead. We are growing quickly, leveraging the best of what TripAdvisor and Viator have to offer.

In 2015, the Viator team did a great job launching Marketplace, nearly tripling the number of bookable properties from 11,000 to 32,000. Matching great attractions content with more supply choice for more consumers, we saw TripAdvisor source bookings on Viator grow rapidly in 2015.

In 2016, we are focused on making it even easier for users to book. This quarter we are launching Instant Booking on TripAdvisor for attractions on both mobile and desktop. We are leveraging our large installed base of app users to deliver timely app notifications making bookings an easier experience for travelers when they are in market. We believe that capturing only single-digit market share will enable attractions to become our next \$1 billion revenue business.

We have a great opportunity in restaurants as well. We have rapidly expanded TheFork both organically and inorganically, launching on Team Denmark during the fourth quarter. We now operate in 12 countries and have more than 33,000 bookable restaurants for travelers and locals alike.

User demand is growing rapidly as well. We love restaurants for a few reasons. One, we are delighting users more frequently with helpful rich content all around the world. Two, through the fore, we are helping users seamlessly book great places to eat. And three, our content drives millions of visitors to TripAdvisor more frequently keeping us top of mind even when the user isn't in travel planning mode.

Rounding out the other segment, our vacation rentals business continues to post great results as it hones its free to list transaction model. We generated more than 65% of vacation rental's revenue from free-to-list in 2015 and more than 70% of the 770,000 properties are now bookable online.

As I conclude, 2016 is another important year in our journey to build the best user experience in travel. We are in a great position right now, but our industry continues to evolve and competition abounds. For these reasons, we have to move quickly and launch Instant Booking around the globe. We also need to continue to invest in our end-to-end user experience, invest in mobile, and invest in growing supply and driving higher conversion in all of our major product categories.



As a result, expenses will likely grow faster than revenues this year, as they did in 2015, but this is the right path forward on our journey. We always manage our business for the long-term. It is the best way to build a business that creates the most value for our users, our clients and our shareholders. Now here is Ernst.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Thank you, Steve, and good morning, everyone. My first three months on the job have allowed me to understand our business close up and what strikes me is that while the Company has achieved so much in its short history, from Steve all the way down in the organization, the Company is deeply committed to make sure our future is even better still.

This commitment to improve and willingness to adapt to achieve greatness is very unique to our Company culture.

When I look at the \$1.3 trillion travel market and I compare TripAdvisor's significant influence on travel commerce with how under monetized we are, I see a massive growth opportunity ahead. We are experiencing near-term headwinds as we roll out Instant Booking but once we have established our end-to-end product offering we will have positioned ourselves to drive growth and better monetization in the future.

With that as a backdrop, let's review our Q4 and our full-year 2015 results.

First comment is that our financial results should be viewed in light of significant currency headwinds. Full-year 2015 revenue grew 20% in reported currency versus 27% in constant currency and adjusted EBITDA was flat in reported currency versus 14% growth in constant currency. Q4 revenue grew 7% in reported currency or 12% in constant currency and adjusted EBITDA growth in Q4 was negative 11% in reported currency versus negative 2% in constant currency.

Note that our Q4 GAAP net income of \$3 million, or \$0.02 per diluted share, was largely impacted by a one-time non-cash item to settle our pledge obligation with the TripAdvisor charitable foundation. A total of \$67 million was paid in company common stock. This one-time settlement means that moving forward we will not contribute part of our profits to the foundation which will be a net benefit to EBITDA.

To give you a sense of the size of this impact, this would have been a net reduction of \$8 million in 2015 without the settlement.

Q4 hotel segment revenue growth was 4%, or approximately 8% in constant currency, and Hotel adjusted EBITDA margin was 37%. Digging into the Hotel business as expected, Q4 click-based revenue declined 1% in reported currency, or grew 5% in constant currency.

2015 can really be characterized as a tale of two halves. We had nice growth in the first half, followed by deceleration due to lower meta and CPC pricing, as well as dilution from our Instant Booking rollout in the USA and the UK. These trends were most pronounced in Q4.

We estimate that our accelerated Instant Booking rollout in the US and the UK, our two largest markets, negatively impacted Q4 revenue by \$9 million and EBITDA by \$6 million. For the full-year 2015, we estimate Instant Booking negatively impacted revenue by \$36 million and EBITDA by \$26 million.

Another trend is the ongoing consumer shift to mobile devices. Phone hotel shoppers grew 36% during 2015, while combined desktop and tablet shoppers grew 10%. Phone hotel shoppers accounted for approximately 30% of our total hotel shoppers during Q4 and monetized at approximately 30% the rate of desktop and tablet in Q4. This compares to a 19% rate last year. Obviously, the continued lower monetization rate relative to other devices poses a continuous headwind to aggregate revenue per shopper growth, resulting in revenue per shopper growth decelerating even while both desktop and phone individually are growing in revenue per shopper.

This ongoing US user shift to mobile is a key strategic driver for Instant Booking, as the frequency of use and smaller screen size places an even higher premium on delivering a simple end-to-end value proposition. We are seeing strong repeat booking rates on our mobile app experience and we continue to optimize, helping more users find and book hotels with ease.

Now moving to our others segment, revenue growth normalized to 32% in Q4 as we fully lapped our 2014 acquisitions. Q4 adjusted EBITDA margins were negative 16% due to this category's high revenue seasonality and, therefore, low relative Q4 revenues against this largely fixed cost structure.

Moving on to consolidated expenses and cash flow, consolidated expenses grew ahead of revenue for Q4 and for the full year reflecting the continued investment in our future growth.

As for taxes, our Q4 GAAP effective tax rate was 17%, which was lower than our expectations due to a change in jurisdictional earnings and certain discrete items. We expect our 2016 GAAP effective tax rate to be in the mid-20s and is dependent, of course, on international revenue and expense mix among other factors.

Cash flow. On cash flow, we generated \$74 million of cash from operations during the fourth quarter or 24% of revenue. CapEx for the quarter was \$16 million, or 5% of revenue. In 2016, we expect CapEx to decrease. Q4 free cash flow was \$58 million or 19% of revenue and we generated \$273 million of free cash flow during the full year.

Our liquidity remains strong, as our cash, cash equivalents and short-term and long-term marketable securities balance was \$698 million at the end of Q4. We also ended the year with an undrawn balance of about \$800 million from our \$1 billion credit facility. We also have \$104 million remaining under our share repurchase program.

That was my summary of the 2015 financial results. Now let's look ahead to 2016 and beyond.

We operate in a very dynamic travel market space, and within that dynamic marketplace, we are shifting our business rapidly to capture the long-term opportunity. We will be faced with important decision points throughout 2016 as we execute such as how to best promote this great new bookings experience. Because we manage our business for the long-term, throughout 2016 we will do what we think is necessary to optimize the multiyear financial outcome, not necessarily what will make us hit any specific 2016 financial results.

For this reason we are discontinuing our past practice of providing a guidance range for annual revenue and EBITDA. Instead, I will provide you with directional expectations for 2016 and 2017 for our two reporting segments, as well as for total expenses. We believe that these building blocks provide a good foundation for modeling our business and actually provide greater insight into underlying trends than we have offered in the past. Moreover, I will share some early data points of our Instant Booking progress.

So let's start with the hotel segment. As we think about 2016, we need to first start with our 2015 exit rates. We exited Q4 2015 with 4% growth in the hotel segment and a negative 1% growth for click-based revenue. Note that these growth rates decelerated from 8% and 6% respectively in Q3. As we look at the first half of 2016, we expect that these growth rates will decelerate further due to the tougher first half of 2015 meta CPC comps as well as near-term dilution from our Instant Booking rollout this quarter and next.

Importantly we anticipate that revenue per hotel shopper and therefore both click-based revenue growth and hotel segment growth rates will reaccelerate in the back half of the year, as we start lapping the Instant Booking rollout in the USA and the UK and also meet easier meta CPC pricing comps. Despite this reacceleration in the second half, we expect growth for the full-year to be muted.

Throughout 2016, we will continue to invest to improve supply, content and marketing, and as such, we expect expense growth to outpace revenue growth in the hotel segment resulting in margin contraction in the hotel segment. As we look out to 2017, we believe the higher second half 2016 exit rates and lapping the full instant booking rollout portend to growth acceleration. We also believe our hotel segment margins will stabilize in 2017 and potentially expand as revenue reacceleration does not require similar expense growth.

So a reasonable question is why are we willing to take such significant near-term financial impact from this Instant Booking rollout. Firstly, we believe Instant Booking presents a massive long-term growth opportunity for us. Our revenue per hotel shopper is currently in order of magnitude lower than that of our largest partners. That monetization difference represents a multibillion-dollar opportunity for us. Instant Booking plays a key role.

Looking at our longest standing cohort, the US, Instant Booking is already more than 50% of revenues on our mobile app. That percentage is much lower on other devices, but it speaks to the Instant Booking's potential to become a substantial part of our business over the next few years.

Our second reason is that we are seeing some positive trends. One, Instant Booking conversion rates improved throughout 2015 and are now comparable to meta showing that we are improving the product and the users are getting increasingly comfortable booking on TripAdvisor. We fully expect to improve conversion rates further.

Two, average booking values increased by more than 10% over the course of the year. We attribute this to our success partnering with big, global hotel partners as well as adding the Priceline Group onto the platform.

Three, partners are paying double-digit commission rates for bookings on average and we think this is perhaps misunderstood. This is consistent across each of our different partner types, OTAs, chains and independents.

Four and perhaps most importantly, we are seeing positive early signs of repeat usage. Hotel shoppers are increasingly returning to TripAdvisor to complete a booking that was previously attempted but abandoned. Additionally, 10% of instant bookings are coming from users who have booked with us before which is great because this is still such a new product for most of our users.

Now the addition of Instant Booking doesn't mean metasearch is going away; far from it. We expect metasearch will remain a large part of our total revenues and we see significant opportunity to continue to grow. A huge number of hotel shoppers are in research mode and we are aiming to turn most of these lookers into clickers. In meta, only a fraction of hotel shoppers click on a paid link. This represents an additional source of leakage in our hotel business and is a large monetization opportunity in its own right.

Additionally, given the success other Internet companies have had with retargeting, we are launching a similar product this year enabling metasearch partners to buy in a more targeted profitable fashion.

In 2016, our focus as a management team is on revenue per hotel shopper, as this metric is key to the long-term growth of our hotel segment. Revenue per hotel shopper includes both Instant Booking and meta and growing this aggregate total is ultimately what we are after. We expect revenue per shopper growth to decelerate as a result of our Instant Booking launch and later in the year, we believe that growth will improve similar to what we saw in our metasearch rollout in 2013.

Now turning our attention to the 2016 trends in the other segment. Our Other segment exited 2015 at a 32% growth in Q4 and we expect continued solid topline growth in 2016. We've operated this segment at slightly below breakeven EBITDA margins over the past year and we will continue to reinvest in 2016 as we focus on product improvements and supply acquisition. Therefore, EBITDA margins are likely to contract and lower absolute EBITDA could result.

In line with the three- to five-year time horizon we outlined for this segment last year in 2017, we believe margins will begin to stabilize and could potentially expand as greater revenue scale does not require similar levels of investment. Of course these trends do not include any acquisitions that we may make over this timeframe.

Finally, some specific thoughts on our 2016 organic investments as well as how we might deploy capital during the year. We have built a business with significant operational scale, one that enables us to execute this major business shift at speed and maintain our focus on the long-term. In 2016, we will continue to invest in people to pursue our product and sales initiatives and indirect expense growth rates should be similar to 2015.

We expect that our direct sales and marketing expenses to continue to grow, but at a materially lower rate than the 48% growth we experienced in 2015. In addition to organic investments, we continue to have significant financial capacity for inorganic growth. We are very pleased with the acquisitions we have made over the last few years and remain open to similar opportunities to consolidate great businesses with innovative products and great management teams.



Although we look at many opportunities, we remain very selective and are focused on return on investment and long-term value creation. We also continue to evaluate alternative ways to deploy our capital, including share repurchases.

In conclusion, I leave you with four structural advantages unique to our business. First, we are extending our lead as the trusted brand and user generated content which is making our product better every day driving audience and help support low overall customer acquisition costs.

Second, we have a superior consumer value proposition helping users plan, compare prices, and book hotels all in one place.

Third, we have complementary businesses that help users throughout their entire trip driving increased loyalty, usage frequency, and additional revenue streams.

Fourth, our ownership structure is an advantage, as Liberty TripAdvisor Holdings supports our long-term view.

So to summarize, we believe we are on the right path to create long-term value. After some near-term pressures on revenues and profits, we believe our results will improve later this year and into 2017.

We will now open up the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Lloyd Walmsley, Deutsche Bank.

Lloyd Walmsley - Deutsche Bank - Analyst

Thanks. I guess first I think if I heard you right you said the Instant Book headwind in the fourth quarter was only \$9 million versus \$10 million last quarter despite having it rolled out across the entire quarter. Can you just talk about what drove that improvement? Was it take-rate driven? Was it conversion driven? Can you give us some color there? I guess that is the first question I have.

Ernst Teunissen - TripAdvisor Inc. - CFO

I will take that question. What you do have to keep in mind is that Q4 is a smaller quarter than Q3 of course, and you have to look at the gap in that light. But we are seeing as I was highlighting, we are seeing improvements in our Instant Book business that we believe will over time help us reduce that monetization gap. I highlighted continued improvement in conversion rates, improvement in the average booking value of the business. And so despite the fact that we are rolling it out further and our Instant Book revenue as a percentage of our total revenues is increasing, we were able to maintain a similar type of headwind.

Lloyd Walmsley - Deutsche Bank - Analyst

Great. As a follow-up, I guess when you look at other international markets like EMEA on a revenue per user basis, it is a fraction of what North America is. Can you just talk about how much of that is the lower monetization of hotel shoppers versus just a traffic skew away from hotel shoppers more towards the other that might explain that. And kind of is Instant Book when you look at this early international markets, is it less of a drag relative to meta, is there kind of a bigger opportunity there?



Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, if you look at EMEA, the only market where we rolled out Instant Book in 2015 is the UK. And so that is a very dilutive impact on the total EMEA number that you look at. But our monetization revenue per shopper outside of the United States is lower which is driven by lower CPCs in those markets.

Operator

Mark Mahaney, RBC.

Mark Mahaney - *RBC Capital Markets - Analyst*

Two questions please. If you could just comment on whether you are seeing any macro drags in any of the international markets? And then any updated thoughts on brand awareness, TV advertising campaigns? Last quarter I think you decided to trim that back a little bit. Is that still the same? Or in terms of the expense guide for this year being greater than revenue guide is there a rethink on the usefulness of running a broader TV campaign? Thank you.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

I will take the first question and give the second to Steve. In terms of the macro in the fourth quarter, we saw some impact from the Paris attacks, we believe in order of magnitude, impacted our fourth-quarter revenues by 1.5% to 2% of our revenues. Into January, we don't see a discernible impact of the macro environment, but we are keeping our eye on it very closely, obviously.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

And this is Steve. On the TV branding campaign, as I indicated before, we plan to pull back on that or separately focus instead on the traffic that is already on our site because we have so many hotel shoppers that are already in the intent to purchase and in many cases the booking path. So turning our sites on converting those folks rather than a broader based campaign.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thank you very much. Just maybe one on the theme of conversion. You talked about conversion now being comparable to meta. What have you seen over the last six months in the improvements in conversion? And maybe you could tease out a little bit of how desktop versus mobile has evolved and what some of the partnerships that have come in, like Marriott and Priceline, have meant for those conversion improvements and how we should be thinking about conversion going forward? Thanks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

So clearly the huge impact on conversion for us was being able to bring on, over the course of 2015, all of the, or almost all of the, big brands and the whole Priceline Group bringing their very strong inventory, excellent content and great pricing. So it really kind of upped the opportunity for TripAdvisor to be showing a great price with all of this content. Very hard for us to tease out exactly what causes conversion rate to lift, but we are confident in saying the extra or the better content that we added to the site certainly helped.



As we look forward, it is mostly tuning if you will. There's a lot of properties that are available, we want to make sure that we have great pricing on as many of them or all of them as we can. We want to make sure we have a great experience in terms of someone entering the booking flow and getting all the information that they need in order to make that, in order to trust us with their credit card or storing the credit card.

So we are doing all the things and that is why we are seeing the improved rate. I'm not sure I would point to a single big win factor that is going to be out there versus incremental improvement. And I said the incremental improvement will likely translate to all points of sale at the same time, we are not seeing a big difference per market in terms of how consumers are behaving.

Conversion, you asked about the phone versus desktop and so the conversion naturally is different. Some of that I believe is going to be structural for quite some time. But we measure when we talk about revenue per shopper with you folks, we are also of course measuring it both mobile web, mobile app, tablet, desktop. We've got it broken down in lots of different ways here and we are constantly making improvements in each of those categories.

Operator

Chris Merwin, Barclays.

Chris Merwin - Barclays Capital - Analyst

Thank you. I just had a couple. One of the changes that you made Instant Book is to feature the brand of your partners in the booking process. So what is the feedback then from your partners to date in terms of their satisfaction with the product? And you talked a bit about how they repeat, booking rates are getting better so does that mean that you are starting to see some of these repeat economics accrue to TripAdvisor rather than necessarily the supplier?

And then just a second question as you rollout Instant Book internationally, have you been able to get all of the content you need globally especially after the Priceline deal to drive further improvements in conversion? And maybe relative to the domestic rollout, can you just tell us a bit about how the international rollout has been performing at this stage of the game? Thanks.

Steve Kaufer - TripAdvisor Inc. - President and CEO

Going in reverse order, so we are very happy with the Priceline deal, the content that it provides, the pricing, and their ability to handle the infrastructure of payments in all these different countries. And as I alluded to last quarter, we thought that would allow us to roll it out fairly quickly and we have delivered on that. The Priceline team has been great to work with.

So as you know as we disclosed, we launched in Europe, launching LatAm and other markets so that will mostly be done over the next 90 to 120 days. So that is great. It absolutely was the meaningful factor in us accelerating our global rollout, which kind of starts the training purpose or training clock going. Because we know we have a hill to climb to teach people that TripAdvisor is not only also awesome for research, but a safe place to book and by offering great content, great prices we think we are doing that where it is available. So we are not doing that yet in a bunch of countries because we don't have any Instant Booking rolled out in those countries.

So backing up a little bit, when we look at this consumer journey I talk about instead of searching around lots and lots of different sites for all the information and then all of the prices, our vision, our strategic plan here is you come to TripAdvisor because of all that great content and then of course you see that we have done the work for you. We have searched the web, we have pulled back all of these prices. And with Instant Booking odds are good and becoming great that we will be able to feature the lowest price if you want to book on TripAdvisor. If in fact you have loyalty to a different site that is great, there is a meta-button that clicks over there.



If you prefer booking brand direct and you really want to be on that brand site, great, there is a brand click. If you are happy booking on TripAdvisor with it being fulfilled by brand, we will have that option. If you are happy booking on TripAdvisor fulfilled by a great OTA partner, excellent. We would like to look at it as no matter what your preferences are we will have you, we will be able to address your need in our store.

And then you made the purchase, you stay at the hotel. You are in market, you get to use all of our attractions, you are using our app as so many people do and so we have stayed with you during this travel purchase and all of that is supposed to yield more rate. I'm now used to TripAdvisor as a research and a booking tool.

And the leading indicator I like to look at the most is that repeat rate. Is it exactly a perfect metric for showing that Instant Booking is working? Can't tell, or time will tell, but it is the thing that we are looking to address and build as a long-term advantage in the Instant Booking path versus the meta path because as people are comfortable booking with us and for some people trial is the only way they're going to get comfortable, then we are delivering a good experience, the product works and they come back and book again.

So that is why I love the repeat rate. Did I forget your question though, the first half of your question?

Chris Merwin - *Barclays Capital - Analyst*

No, I think that was mostly it. It was just really on, I guess, maybe the pace of the international rollout relative to domestic just how that is going so far, if it is on the same trend line?

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Well, since we were already rolled out in all of our English markets or rolled out US, UK first and that is a lot of our traffic, we were able to test a lot of the scalability question marks that we had and we passed those and that was a slower rollout as we went up percentage of traffic, percentage of traffic.

And then as we rolled out to the rest of the world, we are a lot more comfortable that our infrastructure can handle load and so we tend to roll out quicker. Again, as example in the past 45 days, rolled out to probably a dozen more markets since beginning of the year and as I indicated, we expect the pace to continue at that rate such that we will be out in the next quarter or so with all or almost all of our major markets.

The product looks good. When we say we launched it, it gives us instant booking capabilities primarily with Booking.com as our partner and then we are working aggressively to bring the rest of our suppliers, all the different brands and obviously the independents to all these markets. One thing that slows us down is that, for some of our partners, we don't have all of the room content in the language that we are rolling out in. So we need to go back and get that before we can turn some of those partners live.

When I talk about it being a year or two to get Instant Booking to really be fully rolled out with all of the value that I talk about, all the room content, all the best pricing, it is because there is a lot of work still to be done to get all the partners with all the content in all the languages handling payments in all the markets and we are on that road and we are accelerating our pace.

Chris Merwin - *Barclays Capital - Analyst*

Thanks, Steve.

Operator

Ken Sena, Evercore.



Ken Sena - *Evercore ISI - Analyst*

Thanks. When Expedia reported yesterday, there was mention Airbnb on the margin is a positive. And I just was wondering if you would agree with that statement in terms of what you are seeing? And also you mentioned speed a few time in the slides, there was a mention that the mobile product has been the perfect travel companion. How pleased are you with the current mobile experience from a product standpoint and are you concerned at all by some of the recent iterations that you are seeing from Google on the SEO side? Thank you.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure. Airbnb offers an interesting product. We have a very competitive product in that space but we come at it more from a look, the individual who is looking for a great place to stay in London and they might pick a hotel, they might pick an apartment, they might pick even a more traditional vacation rental. Our supply footprint covers them all and we are growing that around the globe. So in a sense, Airbnb is a competitor, we don't particularly view their traffic or the person looking for the shared room as someone that is naturally on TripAdvisor, but for the other piece, for the city or for the urban inventory we do.

Hard to say given the strength of the hotel industry currently that Airbnb is a problem. They just added a lot of supply into the equation and I personally believe that they are generating more travel on the part of consumers because of the supply that they have added. I have no data point to back that up, but it is kind of logical to me as they continue to grow with the hotel companies and folks like us and other OTAs continue to be very strong in our markets.

In terms of the mobile experience, boy, tough question. There's aspects of our app and our experience that I think are just terrific. You can find great places to eat nearby where you are standing all around the globe. You can book the hotel, we've stored your credit cards, two clicks and you are done. There is tremendous amount of benefit that we have achieved I believe by delivering a great user experience for close in hotel shopping, places to eat, things to do, bringing the bookability of our attraction inventory onto the phone. Really, really nice.

From a, is there more to do? Absolutely. I just think the amount of data that TripAdvisor has that can help you plan a trip that is so hard for us to figure out how to surface at the right time really hard to read your mind to know what you are going to be looking for next. But we have got it because we have so many users, we have so much data on all topics related to travel. Plus we've got the community standing behind us.

So do we bring that all to the forefront in a perfect way on the mobile small screen? No. So I still think we are in very early days in what we can do but we are incredibly well positioned because of the rich content across all travel categories and because of our installed app footprint which is as you know just huge. So I would say way more opportunity ahead of us than we have tackled already.

Ken Sena - *Evercore ISI - Analyst*

Thank you. Just maybe anything on the Google front in terms of the Micro-Moment and some of the recent iterations that they have been making there?

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

We certainly keep an eye on them, but we never are able to detect whether their products have an impact on our business. We are at such a scale, and that is a very recent release on their part. There could be a factor at some point down the road, who knows? I think I have said that to eight or 10 different Google product iterations over the past decade and my answer is still the same.

Operator

Robert Peck, SunTrust.

Robert Peck - SunTrust Robinson Humphrey - Analyst

Thanks for taking my questions. Two quick questions, if I can. One, hotel shopper growth decelerated in the quarter a little bit albeit off of much tougher comp. Steve, as we think about that going forward, how should we think modeling that going forward and what expectations would be there?

Then, Ernst, on M&A you talked about that a little bit today. I know you can't say what you would acquire, but as you look at the portfolio of assets you have, can you just give us directionally some areas that are more interesting than others? Thanks so much.

Ernst Teunissen - TripAdvisor Inc. - CFO

I will take both questions. So on the revenue per shopper, as you pointed out, we did decelerate in Q4 on revenue per hotel shopper. In total, revenue per hotel chopper declined by 12%. And there's a couple of things if you unpack that and if you think about modeling that for the future, there's a couple of things going on there.

One important driver is currency, which had a significant impact on that, in the fourth quarter in particular. The second factor you have to consider is that this is an aggregate number across all devices, and our mobile revenue per shopper is growing much more quickly -- sorry, our number of mobile shoppers is growing much more quickly. So you've got a mix shift which drags down the average.

Having said that, we are very seriously improving our revenue per shopper in mobile in constant currency terms. In 2015, we improved revenue per shopper in mobile by about 30%. So we are improving, but it is still significantly lower monetization than desktop which is a negative impact.

Then we had, of course, Instant Book in the fourth quarter, which also negatively impacts that revenue per hotel shopper growth. So as you think about that going forward, we do expect further pressure if you just aggregate now the desktop revenue per hotel shopper and the mobile revenue per hotel shopper.

Particularly on desktop but also on mobile, we expect negative pressure on that in the first half before the growth rate improves again on revenue per hotel shopper.

Steve Kaufer - TripAdvisor Inc. - President and CEO

Let me just pop in for a second. To the part of the question on the kind of absolute number of hotel shoppers, it is clearly growing stronger on the phone. We are not projecting a lot of growth going forward on the desktop/tablet, simply because the user behavior is shifting.

When we look at modeling going forward, it is tough for us to do as well. But I would point out the cycle, if you will, of as our revenue per hotel shopper improves, we are able to acquire more traffic on ours for breakeven traffic basis. And of course, we are always trying to acquire more hotel shopper traffic growth.

Simply put, if we make more money per hotel shopper visitor, we can bid more on search engines and other traffic generating sources. So some of the decline in the hotel shopper absolute number in Q4 would be related to our lower revenue per shopper number, which in turn means we were able to buy a bit less. As that flips around second half of next year or whenever it does, you will get to see some of that growth reappear.

Will Lyons - TripAdvisor Inc. - Senior Director of IR

This is Will. Let me jump in on the revenue per hotel shopper growth because there are some questions coming in. Just note that revenue per hotel shopper is a TA number. So we are taking the hotel shoppers from TripAdvisor not including TripAdvisor -- excuse me -- not including the hotel shoppers from our subsidiary sites, whereas if you are doing the math on the supplemental file, you will be using TripAdvisor hotel shoppers and

if you are dividing the revenue from a consolidated basis, you are including subsidiary revenue. So just keep that in mind as you are looking at that ratio.

Operator

Tom White, Macquarie.

Tom White - *Macquarie Research - Analyst*

Great. Thanks for taking my question. Just a clarifying definitional question. When you say that conversion rates on instant booking are comparable to meta, what exactly do you mean there? Does that mean that it is comparable to downstream conversion at your partner resulting from meta-clicks?

And then just also in terms of the impact of Instant Booking on meta now that you've got a bit more data, are you seeing any signs that kind of your highest quality users the ones that are kind of closest to converting are disproportionately entering the Instant Booking funnel potentially at the expense of CPC pricing in the meta auction if that is kind of where the lower quality or less likely to convert users are going? Just trying to get a sense of maybe any changes to CPC pricing in the meta auction? Thanks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure. So yes, from the definitional perspective when we talk about IB conversion it is folks that enter our booking funnel and come out the other end as a transaction. Compared to meta, we send the click off to a partner and some of those partners we have some conversion related information, so we can tell what percent of the leads we send turn into a transaction. So right, we say it is comparable. It varies a lot of course, type of property, point of sale, even time of year. So we are just trying to point out that we have achieved comparable to meta.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

And to your second question what trends do we see within, it is a little bit early to say exactly what trends we see of which type of users would migrate from meta to Instant Book. But it is something we are watching quite closely. You are by the way identifying also why we are really focused on the aggregate revenue per shopper improvements because some of these interplays between meta and Instant Book are a little bit more complex than you may think on the surface.

Tom White - *Macquarie Research - Analyst*

Great, very helpful. And then just one follow-up. On the conversion rate issue Steve, is it fair to think that you guys could actually get Instant Booking conversion rates that are higher than kind of the downstream conversions in meta just based on the fact that there is one less kind of step you don't have to click-off and kind of the opportunities to drop off the funnel in meta? Thanks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure, in some cases. A lot has to do with the user intent, so we presume our big meta partners have a lot of user intent that says I am going to their site and I am ready to book. So I drive right through the funnel conversion rate very high. We have some percentage of our traffic coming to TripAdvisor or arguably most of our traffic coming to TripAdvisor right now with a high research intent and we pull them through the funnel and get them to click off to a partner. Sometimes they convert.



If we are able to train folks to come to TripAdvisor when they are ready to book then they are we believe more likely to go down the Instant Book path, so our conversion rate would be higher than our average traffic we send off to meta. Yes, that is a very believable, it is a thesis that we would love to prove to be true sooner rather than later.

I wouldn't say it makes our meta leads any less quality, I think it is just a testament to that we have been successful at driving a higher intent purchaser to TripAdvisor when they are ready to do that booking.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Great, thanks. I was just wondering if you could just give us a sense as you present more of the sort of dual-track options within your search result giving people the option of choosing between meta and Instant Book on desktop, can you give us a sense of what proportion they are sort of choosing each one of those options? And as you have added more partners within Instant Book to the extent that it is having any impact on the way that the customers or the rate the customers are choosing Instant Book versus meta?

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

We have a lot of options there. So the display that you currently see on our site I can almost promise you it will change somehow at some point because we are still iterating. What you are referring to I believe is what we internally called the click distribution. So when someone is looking at a hotel page, what percentage are clicking on Instant Book versus the top meta offering versus the second, third, etc. So a majority of the clicks are still going into the meta flow versus Instant Book on average. And we don't necessarily view that as a bad thing for where we are today.

We know we can influence that a lot depending on how we choose to present Instant Book as an option. We do carefully measure, I don't disclose, but we carefully measure the conversion rate for Instant Book, when our prices are as good versus not as good versus better than the meta options and you can imagine that has an impact.

The biggest thing that we can do to your question is to actually get Instant Booking available on more properties in more markets then sort of build more partners underneath the instant booking placement. So in the US for instance, we have really good coverage right now. You look at most any city or most any hotel and there is probably if it is bookable online there is probably an Instant Booking option because we have a good selection of partners between the brands and the OTAs. Not as good in one of our newer foreign language markets because we don't have some of that room level content yet.

Heath Terry - *Goldman Sachs - Analyst*

Great. Thanks, Steve.

Operator

Brian Fitzgerald, Jefferies

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thanks. As you introduce new formats like meta or Instant Book, hotel's marketers have to become familiar and comfortable with the new format and kind of integrate it into their campaigns and for that matter hotel shoppers do too become comfortable with it. Could you maybe compare/contrast the meta ramp versus Instant Book ramp from this regard? Any insights there? Were there lessons learned that you rolled out meta that are making the Instant Book ramp or rollout easier or more efficient? Thanks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Excellent question. The meta rollout, some of those challenges were more driven by our clients' ability to upgrade or change their bidding mechanism and styles and measurement based upon what we were doing and we have a lot of partners, a lot of clients. So they all had to move forward on the change.

With Instant Booking, a client who is an Instant Booking partner has to do a decent amount or some technical work to get integrated but it doesn't really have much of an effect on all the rest of the partner. So the rollout schedule and timing is much more under our control because, especially with the Priceline Group now, we can basically roll out in just about any market that we want to and we don't need the other partners to do any technical work. So lessons learned.

Look, with the meta we needed to have given our partners more warning, more sample, more time, a bunch of things but it doesn't apply quite as well to the IB rollout here.

To the question of users changing the behavior well, I think meta was a lot easier on the users back then because they put in their dates and they just got more information. Hip-hip-hurray. Here we actually have to teach them what this book on TripAdvisor button means because it is not what they are used to getting on our site. And that is new ground for us and we are doing a bunch of stuff right and I am sure -- I know we will be doing a bunch of stuff differently in the coming year to help drive home this new functionality and the benefits our travelers will receive when they experience Instant Booking.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Great. Thanks, Steve.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Great, thanks. Can you provide any color on how much revenue, Viator revenue contributed to 2015 and give us a sense on how you expect Viator to grow in 2016? And then any chance to introduce Instant Booking to China outbound travel, to China outbound travelers through Priceline's investment Ctrip?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

I'll take the first one. So we don't break out within our Other segment, which as you know comprises of Viator, but also TheFork and our vacation rental business. We don't break out separately the revenues, but Viator is a healthy part of that and also has very healthy growth rates within that. That is as much as we want to say about that.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

In terms of China when we talk about a global IB rollout, China is certainly included in that. We have a deal with the Priceline Group, which has a tremendous amount of global inventory, as well as inventory inside of China directly through Priceline and the ability to transact. So we actually don't need an additional relationship with Ctrip in order to provide Instant Booking for Chinese travelers, domestic or international. Though obviously we would welcome additional Instant Booking relationships with every OTA, including Ctrip all around the globe.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Thank you.

Operator

That does conclude our Q&A session. I would like to turn the call back to Steve Kaufer for closing remarks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Great. Thank you all for joining on the call and thank you to all TripAdvisor employees for your hard work in 2015. I'm very thankful to be able to work with such a great team. 2016 is another important year for our business and we are moving quickly to deliver the best user experience in travel. Thanks all and talk to you soon.

Operator

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

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