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TRIP - TripAdvisor Inc at RBC Capital Markets TMT Investor Conference

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CORPORATE PARTICIPANTS

Steve Kaufer *TripAdvisor, Inc. - President & CEO*

PRESENTATION

Unidentified Participant

(Audio in progress) head of internet research here at RBC. And Andrew Bruckner should be here. He and I co-cover TRIP. Thank you, Andrew.

We are thrilled to have Steve Kaufer here, the CEO of TripAdvisor. I'm going to go through a series of questions with him and then I'll leave a little bit of time for Q&A. There's obviously a lot of interest in this entire conference in online travel and in this particular session, too.

So, let me start off with a high-level question. It's what we wrote, which means it could well be wrong, but we've described TripAdvisor as a great asset embarking on a risky strategy. So, there's your kickoff question.

So what I wonder about is you've done this great job of monetizing meta-search and now you're going down and there's all these little headwinds that you're facing. Maybe it's a little bit of timing. Maybe you have to build up liquidity amongst the hotels. Maybe there's an issue of antagonism with some of your largest customers, like Priceline, although he seems to have overcome that, and Expedia.

But talk about -- do you really need to embark on this kind of strategy where the monetization path is uncertain, even for you? Is it the right thing to do? Big picture question.

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Absolutely the right thing to do. There was nothing wrong with the meta model per se, and some other companies might have stuck with that as the monetization model because it was clearly working. But we always want to look forward. We always want to look a couple years out and say -- how is that world going to be different than what we have today?

And you could be doing a heck of a lot more bookings on your phone. And that meta model on the phone isn't going to yield the convenience, the one-touch book that I think consumers are going to expect, especially on that device.

So, you've got the phone saying -- hmm, meta isn't the great model in our mind. Let's make it bookable. And then you have the broader scheme of the other OTAs have been able to add reviews and more decision support content. TripAdvisor, clearly we're, we would argue, the best in the travel planning category.

And now with the plan we have the comparison, the meta engine. Always find you the best hotel you want to stay at. Always get all the best content buildup with that community. Go into the compare mode. Make sure you're getting the best price, all the different options. And hand you to someone else on the booking side where we just never felt like we were getting the fair cut at monetization that we deserved, and therefore those folks getting the benefits.

And now, with the book, we're hanging on to the consumer for a bit longer. If you prefer to book through a different channel, by all means click on the meta. Away you go. That's fine. We make money. If you're part of that Plan, Compare and Book, then you get to stay on the site for the convenience, find the best price, and book. And we've got to believe that that's just a better end game for the traveler.

The risk, if there is one, versus doing nothing is that, yes, we run into some short-term financial headwinds because it's not quite revenue neutral yet. Okay. And it may take quarters and quarters to get there. It may not be a -- or, it is not, I should be clear, it is not a Q4 transition period. It's much longer than that.

But it's where we end up a year from now. Plan, Compare, Book, wow, what a great experience for our travelers. And you've booked and now we know where you are in market. We know where you're traveling to. We can offer you things to do from our attractions acquisition of Viator to fill in the rest of the memories around that trip. And that's a much nicer story than where we are today.

Unidentified Participant

Does meta-search fade over time under that scenario? In three to five years there's no meta-search?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

I don't think so at all. Because I believe consumers three to five or ten years from now are always going to be interested in making sure that they've found the best price. And are they going to do that by popping around to a bunch of different apps or a bunch of different websites? Or are they going to do that on TripAdvisor or any other site that allows them, the consumer, to compare the prices, find the right combination of price and brand and room type and all the rest, to make them comfortable that they're booking at a safe place with a great value.

So planning, we've got it. Comparing, we want to have meta for as far as I can see. And booking, if we're the right spot for you to book because we have the right price, we have the right flow for you, then great, we're there to help.

Unidentified Participant

Getting consumers to think about TripAdvisor as a booking engine, the challenge associated with doing that? And then why -- you said you were going to cut back a little bit on your TV campaign. Maybe this is exactly when you should be spending money on your TV campaign, to tell people about the booking opportunity.

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Great question. So, we do feel like we have a multiyear educational process ahead of us to help get people who are thinking -- TripAdvisor's that great source of reviews. I always use them to -- TripAdvisor's that great source of reviews, I always use them, and that's where I'm going to find the best price and to finish the transaction to book it. And the ads that we ran were all about booking, booking.

Unlike some other companies, it's not really a we need to teach you that TripAdvisor exists. It was to drive home a particular sort of functional message. You can now book on TripAdvisor. And we tried it. Modestly pleased with the results. Could see it going forward.

But right now we're faced with the decision -- do we amp it up? Do we keep it the same? Do we pull it back? We've got a couple years of testing under our belt. Our instant-book product, it's not yet at the level that we really love it. I've talked a lot about how it's a work in progress where we need to have a more -- an easier-flow, better content, better room descriptions in the flow, so that when you all try the product you're left with a -- yes, it was so easy to just finish the booking here. Trip Advisor gave me all the information I wanted.

And so rather than move forward, double down on the TV, we've decided to take a pause and say -- let's make sure the product globally is working really well so that we can amp up and see a better return on that investment when the product's there.

Unidentified Participant

One of the biggest steps you're taking to improve the content is bringing in the king of online travel content, maybe, Priceline. How do you hope that this plays out, that other companies, other booking companies, get in and improve their content to match Priceline's level? Like, do you have the hope this has a ripple effect on the product out there?



Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

I'd say the biggest effect for us is what we hope for a nice improvement in the conversion rate on all those instantly bookable properties kind of day one.

Second order -- the, wow, we get to roll it out internationally. We've been held back for even testing internationally because we don't have the room description and the payment types in French and Japanese and all the different languages for all the different populations that we serve. And in one fell swoop, Priceline let us get there. Wow, that's great.

To your question or your point on the content from all the other hotel providers, the chains, the independents, actually, no, it doesn't really change those plans. We are going out and getting the best content we can from all of the chains and all of the independents, any which way we can.

From the brands it's discussions -- the brands want to have a great converting experience on TripAdvisor. That's why they signed the deals with us in the first place. But they don't always have the technical feeds in place. So we're working with them. And we will get there for every chain that we've signed. I don't doubt that.

For the independents, we're not getting as good content automatically as we want. We're getting good rates and availability and that's the thing that always has to stay up to date. And we're getting a good feed on that. But, some of the room descriptions that you see on the site, not to sound too apologetic, but they're just not good enough to be highly converting. Yet when you look at that hotel's own website, it converts great. When you look at Booking.com or Expedia, those websites convert really well for those properties.

TripAdvisor can do that. It will just take a little while. We have to get the content. We have to plug it in to our content management system and then publish it. And now we're just talking about hundreds of thousands of hotels, which is no small feat. But with the Priceline deal we get to roll out without having to wait for all of that. And that's really nice.

Unidentified Participant

Is that going to give you critical mass? When I described Priceline as the king of online travel content, that wasn't quite right. Online travel, the hotel booking content was what I really meant. So, do you have enough critical mass for that? Because the booking industry has consolidated towards two names, really. It's a duopoly. And so you wonder anybody else has got good enough content.

So are just going to be trying to get -- you're going to have suboptimal booking content unless you get Expedia on there and, I don't know, just --

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

So, with Priceline we have a really strong baseline of content for all the hotels that are available on [their own], booking brand as well as a (inaudible) Priceline. That's a phenomenal base. It allows us the international rollout. That's what we're most excited about.

When I go and sign up all the individual hoteliers around the world, each one of those folks, there is a portion of our audience that really wants to be able to book directly with that property. They don't want to go through an OTA, they want to book direct. That's great. We want to service that demand.

In order to service that demand we have to have on TripAdvisor great room-level content for that property, which we will get by working directly with that hotel. And we get it and we kind of have to get it once and then we're done and we get to move on to the next property. And now we have another instantly bookable property through an OTA, Priceline, through supplier-direct, direct, hopefully through Expedia if they're willing to join the store.

Unidentified Participant

The terms and conditions that Priceline got in terms of branding and maybe economics, is that a reasonable template for all potential booking partners?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

In general, I would say yes. I won't go into the details of the Booking.com or Priceline contract, but it's a very fair, equitable deal. It took a long time to negotiate with Priceline. But we're happy with where it ended up.

We think they're going to gain share in our marketplace for bookings. That's one of the key things that they're driving for. We're looking at that instant international rollout, one of the key things we're looking for. And the economics are such that I'm looking forward to rolling this out globally as opposed to being worried about having to take a massive financial hit because of poor terms. That's not the case. We're excited about being able to rollout.

Unidentified Participant

One of the monetization challenges that I think has come up recently is maybe CPC pricing in the meta-search industry is declining. I think you may have mentioned industry consolidation, a dramatic amount of industry consolidation. Is that something we should worry about long term, that pricing is peaked because of industry consolidation?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

So, I've said for a while that I think we're getting a fair share in the meta auction of the profit dollars that are being generated from our bookings. And I think some other OTA CEOs have echoed the same in terms of, well, if you lose share in the TripAdvisor marketplace it might hurt the top line but not the bottom line, because that's not one of our most profitable channels.

I think us, TripAdvisor as a channel, is profitable for everyone. It's just a question of by how much. And, of course, our clients, when the meta click goes over get the value of a lifetime member because they've done a booking on that platform.

When we look at improving our meta auction, because it will stay around forever, we look at how do we drive higher value clicks. How do we get people to come back to TripAdvisor after they've initially thought about travel, maybe clicked around a bit, undecided and now they are deciding to come back to TripAdvisor?

Because when I send that click off to Expedia or Priceline or anybody, or in the instant-book flow, but if I'm sending it out to meta I'm sending out someone that is that much further into the booking funnel. That person will convert more. As that individual converts more, my CPCs will rise, because what I get paid is in very direct correlation to how well our traffic performs.

Unidentified Participant

Okay. Can you peel apart a little bit the subscription and other segments, the non-hotels businesses, and describe where you think the growth looks most robust and where the most work needs to be done?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

So, there's several fascinating chunks in there. When I look at our attractions business as a for-instance, I see a business that looks very similar to hotels maybe 20 years ago, very fragmented supply, no great sort of individual websites of demand for attractions. And, while there are a lot of

companies that are helping bringing attraction and tour bookability online, where do people go to go plan what they want to do when they get there.

They kind of go to TripAdvisor or they go to a search engine. Well, great. So, TripAdvisor already has this traffic that for the first 12 years or 14 years of our existence we said -- great. Love the traffic, happy to have it building up a 10,000 or 50,000 reviews of the Eiffel Tower. That's wonderful, but it's otherwise hands off. And now we're monetizing it.

So I look at that other category and say, with the Viator acquisition, plugging in the TripAdvisor traffic, reinvesting every dollar that we're getting into further growth of that category, I say, I'm planting the seeds for another \$1 billion business some number of years out that should have the same profit margin structure as the hotel business.

I'm not looking to take profit today, because I don't need to. I've got another great business, this hotel stuff, with huge potential. So I've got my seeds planting in attractions that can be a big growth driver going forward, with very little competition. It's kind of hard to articulate who the competitors are.

Now, you take restaurants, you say, all right, we have a strong footprint in restaurant reservations in Europe, in Australia. Where can we take that? Well, the US is pretty crowded with OpenTable already here. But there's a whole bunch of other parts of the world that don't have a strong primary player. And OpenTable economics -- pretty strong, very sticky, nice.

You take that restaurant reservation business in Europe, combine it with the 3 million restaurants that we have globally, and all of the restaurant reviews and attractions and all of the people that turn to TripAdvisor globally for where am I going to eat tonight, as a restaurant review site, even though Trip is in our name, a restaurant review site to those people, that's a lot of engagement.

How do I take that engagement in this one category, restaurants, turn it into a memorable dinner or a memorable event, a memorable moment, which turns into -- and I have the opportunity to stand in front of you when you're ready to book the trip, during which I'll make money on my other components.

Happy to go on with some of the other segments, but they're the two biggest in the past year.

Unidentified Participant

M&A -- trying to think what the last major acquisition. You did a slew and then you kind of tapered off for a little bit. You've got enough to do in terms of the instant book and the focus of that?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

So, we're always on the lookout for the smaller tuck-in acquisitions into any of our business lines. We think we're pretty good at that. We do many each year. Last year was different in that we bought both Viator and La Fourchette, two big footprint, big new category openings. And in the La Fourchette case, now rebranded as The Fork, a handful of other restaurant companies kind of folded into that.

So, I'm not ready to go into other big new categories. But it would be reasonable to suspect similar smaller acquisitions going forward as we have in the past.

Unidentified Participant

We just heard Priceline earlier at lunch say that the largest outbound market now is China, the largest source of traffic into hotels in San Francisco, and I think they had another city in there, is Chinese travelers. Are you in front of the outbound Chinese travelers enough?



Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Enough? No. Are we in front of some of them? Yes. So, we have TripAdvisor.cn. It was rebranded from DaoDao a little while ago. And we have a focus internally on that outbound traveler. Just not aiming for the domestic now at all.

Ton of followers on WeChat, playing around in a bunch of different areas, leveraging this global database of content because if you're on any site that a Chinese traveler has access to, you can't find the best restaurants near the hotel you're looking to stay at in any major city around the globe. TripAdvisor is the one that has that, tripadvisor.cn. So we have that in Mandarin. We have that available to the consumer. And we need more awareness. We need more partnerships. We need a better method to get in front of the next 100 million people there that don't even know we exist.

Unidentified Participant

Maybe one other broad question. We have a lot of people here, so I'll leave it open to anybody else wants to ask a question. Alternative accommodations and Airbnb in a vacation rental market really seems like it's exploded, at least the alternative accommodations.

What is this for TripAdvisor, an opportunity? Is it something that to the extent that people look for nontraditional ways to do lodging that -- maybe at the margins -- that cut into your traffic? How do you think about the alternative accommodations market that seems to have come up pretty aggressively in the last three to four years?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

So, in alternative accommodations I'll put it in the -- I'll clarify my definition of it's not a hotel, inn, or B&B. It's either a vacation rental, traditional I'm going to stay a week or a long weekend in a vacation rental geography, Myrtle Beach, Orlando. Or, it's an apartment in a city with a very different price point value proposition than your typical hotel.

So, we've played in the vacation rental space for many years now. We have a decent size footprint. And now you've got the big three of us, Priceline, TripAdvisor, Expedia, presuming their acquisition goes through, all with a strong arm in the vacation rental inventory category.

And we're all looking at the urban inventory category as an alternative, or as augmentation to that higher-priced hotel room, both from a price point as well as from a -- what does the accommodation provide? Give me the two bedrooms and the kitchen as opposed to one small hotel room.

So we view it as additive. We view it as there's a segment of the population that we do not serve well right now, for the traveler going to New York that wants two bedrooms and a kitchen in the City. And that's an apartment. And that's something that Booking.com has recognized, that we recognize, I presume that Expedia would recognize the same thing if you asked them, and represents a lot of the current Airbnb demand.

Speaking personally, I'm less as interested in the shared-bedroom spaces. We have that, but it's not really a focus of ours to pursue.

Unidentified Participant

Okay. We only have four minutes. Does anybody want to ask a question? We have a lot of people here. Maybe that will beget questions or maybe it won't. The investment cycle associated with instant-book and quarters -- what would the investment be? You're cutting back on TV marketing for next year. So, does that mean margins next year can be kind of similar to what they were this year? Is there a reason why the margins of the business should come down materially next year?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

The way I look at it is we've got a really clear vision for where we want to be a year from now, three years from now, in terms of the product offering. And it is centered around instant booking, helping people plan, compare and book.

We acknowledge that there was a revenue headwind this past quarter in rolling out instant book. But that headwind has gotten less and less since we first launched instant book. We've been bringing it forward to the point where it's not revenue-neutral yet, but we're close enough, ready to pull the trigger, roll on out.

Now, we've got Priceline in the door. Cool. I can both accelerate my global rollout, as well as see how does that Priceline inventory compare economically to where I am right now with my instant book. But the vision is for that year or two from now, where is the company going to be. How are we able to hang on to those travelers on their same trip, on their repeat trip, plugging that monetization leak that we feel is our future going forward in terms of growth?

If it means some revenue headwinds, which it does, and we talked about it in Q3, we're going to have similar headwinds magnified in Q4 by the total length of time -it was only partially rolled out in Q3. Those headwinds are going to continue into next year, with a lot of uncertainty around it on our end.

And it's not that I'm not sharing, but it's uncertainty because is Priceline going to help? If so, by how much? When we roll out internationally, is that going to be a net win for us, a neutral, or heaven forbid, another headwind as we roll it out? But it could be, because it could mimic the US.

Once we got there, and the reason for my optimism on where this story ends, is because we've seen from instant-book rollout, we've seen the improved conversion, slow but very steady. We know what we need to do to improve the conversion going forward, with Priceline and the room content management system and all the rest of getting those economics in shape, and, over time, training the user.

In our mobile we've seen better monetization over time. Instant book is going to be part of that. More optimization is going to be part of it. And having more travelers just used to booking things on their phone is part of it. But that's also been a headwind to us as our shoppers have shifted to mobile.

So the story looks really nice when you play it out over time. And we're in it for that long term. So if there's another revenue trough, so be it. We know where we want to get to.

Unidentified Participant

How long do you think the implementation of Priceline will take?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

We'll see it on a small slice of our traffic in days, not even weeks or months. And Priceline is one of those great companies where I don't worry about the scalability of our traffic. They have a ton of traffic. So, once we find that there's no bugs with it, we'll be able to roll it out quickly in our current markets, which is US and UK.

And then it's a longer stretch to roll it out internationally, because we don't have some of the capabilities. But I think we'll probably be the bottleneck, rather than the partner.

Unidentified Participant

Okay. Please.

QUESTIONS AND ANSWERS

Unidentified Audience Member

You mentioned that with Priceline - they give you kind of the room description, the content comes up. But if Priceline were ever to have a change of heart, would you still keep the room descriptions and -- not all the content, but just the --

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

No, --

Unidentified Audience Member

-- just the information they have -a sense of scale. Do you still keep that or does that go away?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

The Priceline deal allows us to show their rich content to help them make a sale, an instant-booking sale. So, if they were to pull out of instant booking at some point in the future, their content would go with them. At that point, since we've been gathering content on our own, we're not left high and dry. But it is their content, to be sure, that room description piece.

Unidentified Audience Member

...pictures with the room descriptions goes with them?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

That would go with them, just as, if you went down the instant-book flow direct to Marriott, you're looking at Marriott's content, not Priceline's constant. If you go down the instant-book flow with Priceline, you see their content.

Unidentified Participant

Last quick question right here?

Unidentified Audience Member

I notice you do have flights, and then obviously lodging. Is that an area of emphasis going forward or not so much?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

I'd say on flights in general we look to have the most competitive product that we can. It's not going to be an area of massive differentiator for us vis a vis an OTA like Expedia, who has a terrific flights product. When it comes to - you're on your phone, you want to plan a trip, flight is part of it. We want to have that forevermore as part of our offering.



So, yes we have it. We want it to be as good as possible. It's not going to be the big sort of revenue driver I would push you towards.

Unidentified Participant

Okay. Thank you, Steve Kaufer from TripAdvisor. Thank you very much.

Steve Kaufer - *TriAdvisor, Inc. - President & CEO*

Thank you.

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