

TripAdvisor, Inc.

Company▲

TRIP
Ticker▲

Goldman Sachs Lodging,
Gaming, Restaurant and
Leisure Conference
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— PARTICIPANTS

Corporate Participants

Stephen Kaufer – President, Chief Executive Officer & Director, TripAdvisor, Inc.

Other Participants

Heath P. Terry – Analyst, Goldman Sachs & Co.

— MANAGEMENT DISCUSSION SECTION

Heath P. Terry, Analyst, Goldman Sachs & Co.

Great. Thank you all for joining us. My name is Heath Terry. I cover the Internet sector for Goldman. Steve Kent and I are very happy to have with us today Stephen Kaufer, the President and CEO of TripAdvisor. Stephen, thanks so much for joining us.

Stephen Kaufer, President, Chief Executive Officer & Director

No problem.

QUESTION AND ANSWER SECTION

<Q – Heath Terry – Goldman Sachs & Co.>: We really appreciate it. Obviously, a lot of discussion of TripAdvisor in the previous session, but for people in the room that may not be as familiar with TripAdvisor the company, or you know, know it best as customers, what's the right way for investors to be thinking about TripAdvisor now?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Well, I guess, the best way would be – we're in the travel space looking to help everyone plan and have a perfect trip. And at the moment that's about 260 million unique users a month. They're looking at 150 million reviews and opinions. It's just an amazing amount of really great information to help plan that trip. Extremely global, three quarters of the traffic roughly is from outside of the U.S.

So when we look at helping people plan the trip and we're moving into helping people book the trip, and then we have 100 million downloads of our travel apps, so we're helping people while they're on the trip, and then we built the business from people sharing their opinions of the trip in the form of the reviews and photos. So we have that full lifecycle, and we're really looking to accelerate our own pace of innovation so that we can bring more and more benefits to the travelers.

You hear a lot about product, you hear a lot about audience, because that's how we really do think about the business. And then we also think from a very long-term perspective, long-term as in multiple years, five years plus, where not only do we have a nice play in the full travel lifecycle, but we have moved into vacation rentals. We have a huge amount of traffic looking at our restaurants and attractions. So again, more reviews, more great recommendations, more reasons to stay top of mind for travelers when they're in market, and for locals, when they're looking for a place to eat or something to do.

And then we also have picked up a number of other companies along the way, a couple of dozen acquisitions, to help in other parts of the travel planning process. And then finally, we do have some meaningful investments ongoing in China. So we're not only global in the way that many companies are, but with a meaningful footprint in that part of the world.

<Q – Heath Terry – Goldman Sachs & Co.>: And so we've seen just incredible change in the online travel space just in the last couple of years, acquisitions, divestitures, business model changes, this transition to mobile, the growth of metasearch. When we take a step back from all of that, how do you view online travel as an industry now? Where are we in terms of growth and penetration?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Well, I think it's still relatively early days. As was mentioned in the last presentation, the notion that travel kind of is the perfect Internet-type product, why would you ever need to actually call up a hotel to make a reservation? Nobody calls – almost nobody calls an airline anymore. It's online to book. It's online to cancel, and it's online to do so many of the things – or will be online in so many things when you're actually taking the trip. Be it finding the right tour guide, finding the right place to eat, the walking tour, meeting the guide, all sorts of things are just so natural from that smartphone, that computer in your pocket.

So being able to stay active, being able to stay ahead of the curve, that's one of the things that we think we're pretty good at. But as, again, was said earlier, lots of new entrants into the travel category, many with some pretty interesting new products, so we stay quite abreast on many of them.

<Q – Heath Terry – Goldman Sachs & Co.>: You've said that – and Arne Sorenson also said that – there's lots of competition. But where do you see the differentiation between you and maybe not

just other rating sites, but just the other online travel sites? And can they morph into your world? Can you morph into their world? How does that play out as you look out over the next few years, and how do you keep your edge, most importantly?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So we think of our primary edge as the content moat that we have. Many, many other sites have travel reviews, have hotel reviews, restaurant reviews. But we think of TripAdvisor truly as the best place where someone can come and plan the whole trip, not just the hotel, but what you're actually going to do. But rarely do people travel because, I want to stay at that property, that's why I'm going. No, they're going to a destination to have a great time with the kids or solo, they're going for a business meeting. They're going for another purpose and a hotel can be a delightful part of that experience, as the tour guide can, as the restaurant. So TripAdvisor, we think, does a nice job and we have plans to make it a lot better job – really helping to deliver on that vision of plan and have that perfect trip.

When we compare against a hotel company itself, very natural partner ally for TripAdvisor, because they're providing a key component that we don't provide at all. We want to help the traveler who doesn't know where to stay, find that perfect Marriott, find that perfect Choice hotel. In terms of another online travel agent, they're looking to do some part of what we try to do every day in that they try to match the hotel with the traveler, help find them – help them find the flight, but tend not to have the full breadth of service. So again, a little bit of competition there, but our best partners, in terms of they can help fulfill that booking. And then we can go down the list of...

<Q – Heath Terry – Goldman Sachs & Co.>: But are you viewed as more independent? That if I go to TripAdvisor, I know this is information coming directly from other travelers or other customers. And how does that play out, because the other – I mean you know when you go on to an online travel agent or standard online travel agent or you go to Marriott.com, you know they're trying to sell you something, but when you go to TripAdvisor, it's a different feeling. How do you instill that into the customer base, but also make money?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So fortunately our business model is built around this notion of, we're listing every single place you could stay, every single place you could eat, anything you could do in a location as a traveler, regardless of whether we have a paying relationship with anyone. So we'll have – it's over 1.4 million accommodation choices between vacation rentals, B&Bs, inns, hostels, hotels, whereas a chain will just have their properties. So they're clearly biased just to their properties; and OTA may have a lot of hotels, but not the full set. They only have the hotels that you can buy on their site.

So I don't believe that the reviews on OTA sites are inherently biased one way or the other, but it's certainly true that it's not as comprehensive as TripAdvisor. And their brand is, I don't want to speak for their brand, but when you go to an OTA in general it's, I need to book a flight. I need to book a hotel. When you come to TripAdvisor, it's I'm looking to plan my trip. And finding the right hotel, based upon all those comments, those reviews, the candid photos, that amount of rich information, we think is indelibly set in the minds of the traveler. And that we think will be really hard for anyone else, even Google, to come in and say, no, we're a better spot. Our brand is better at helping the traveler plan the trip than TripAdvisor.

<Q – Heath Terry – Goldman Sachs & Co.>: And so what kind of role does that ultimately end up giving you as the suppliers start to become a little bit more of a direct relationship versus having to go through the OTAs for the booking process?

<A – Stephen Kaufer – TripAdvisor, Inc.>: It's a great question, and it's a very new kind of exciting development for TripAdvisor at this point and that our business model was – open up a new window, send the click-off to a client. When we added metasearch, we did the price comparisons, so now on the site, you can find the best price, you still click off the partner. And

we're clearly in the midst of a major transition to allow someone to finish their booking on TripAdvisor. We're not contracting directly with the hotels. We take the credit card information, we process the booking. We send it off to a Choice hotel or a Getaroom as an OTA.

And we would expect the other OTAs, and we would expect most of the other suppliers to come on board over time, because it's clearly better for the consumer. It's going to be a way for the suppliers to achieve a higher degree of market share on TripAdvisor. It's a way for the OTAs to be able to come in and get kind of their share of the bookings from our traffic, which is continuing to grow worldwide. So again, a natural angle for us to step, not fully into the booking cycle, because again, we're not contracting ourselves, but being the pass-through that lets it be much more convenient for the consumer.

<Q – Heath Terry – Goldman Sachs & Co.>: And so, do you need to do something, at least from a perception standpoint, to address what Arne was saying earlier about this being – online in general – being an expensive channel for them?

<A – Stephen Kaufer – TripAdvisor, Inc.>: I think that the suppliers, the chains, the Marriotts, as well as all the independents would love to take the bookings from kind of whichever site kind of has the traffic. And all of those individuals would love to get their loyal Marriott members to come back to Marriott.com. And from the general perspective, that's fine with us; if you're that loyal to a brand, TripAdvisor isn't adding all that much additional value to that hotel piece of the equation, come to us for the restaurant recommendation, for the tour guide, for the rest of the pieces.

For the huge percentage of travelers that aren't dedicated to a single brand, but just want to shop and find the best opportunity for them, TripAdvisor is going to offer a great price comparison and the convenience of an easy book, so it makes sense for the Marriott to participate. They currently participate in offline travel agencies, online OTAs, they currently buy a text link from TripAdvisor, so that click-off link. So it would just make sense, I would argue to all of the chains, to continue that relationship, taking advantage of the traffic that we have.

<Q – Heath Terry – Goldman Sachs & Co.>: Any questions before we continue? Feel free. Go ahead, Andrew.

<Q>: When you gave your guidance, I mean there's so many variables that you have and a lot of new initiatives are going on this year. So what gives you the degree of confidence to provide the guidance that you gave and what are some of the variables that can maybe be a little bit of a headwind going forward?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So as I've explained before, when we look at offering our guidance, we like to base it upon things that we can already see happening in the market. So we looked at our trends in Q1. We looked at our April numbers and that gave us the confidence, because we had already seen it, to predict what the rest of the year was going to be like. The thing we like to see the most was the uptick in the revenue per hotel shopper, because that was the indication that between pricing and our on-site conversion, things were headed in the right direction.

On-site conversion, there's just not a good thesis in our mind as to how that would get worse. So we felt comfortable banking it going forward. There's a pretty good thesis that says pricing will continue to increase on a marginal basis, but we didn't bank that in. We just said, hey, pricing is stable. And historically, when we look at pricing, all other things being equal, i.e. not a meta-transition, it is stable. So we felt like we had a fair degree of confidence, enough to share it with everyone, in terms of raising our guidance.

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Things that could go wrong, well, certainly, it's an auction. As you know, we don't set our prices. So the auction could tumble down for some reason. Can't think of one off-hand, but pricing does fluctuate. I was going to say, we have a big TV campaign that's started already. Since we didn't bake any of that upside in, it's not like that could be a miss. That's another just kind of in our back pocket; we hope it'll help the quarter. So I don't really see any things that could materially hurt us outside of macroeconomic conditions, which we always live with, and never forecast in.

<Q – Heath Terry – Goldman Sachs & Co.>: Harry did you have a question up there?

<Q>: Yeah. Are there any chances for improvement? I look at your restaurants for instance, and in Boston, you look for restaurants, and the first thing that comes up is a sub-shop, top five in Rome are gelato places.

<A – Stephen Kaufer – TripAdvisor, Inc.>: A fair question; I chuckle because those two examples I happen to have brought up internally just a couple of weeks ago. We have been guilty of being so focused on the hotel space because that is where so much of our money comes from, that you see much better personalization, you see great listings, you see candid photos, you see room tips, you see a lot of innovation in that space and sheer amount of content, staggering. We still have a big team dedicated to making that hotel shopping experience even better based upon what we know about you, what you've done on the site, similar hotels that you've clicked on, et cetera.

But that's a relatively poor excuse for the lack of attention that we've spent on restaurants and attractions. And so with the acquisition of LaFourchette in France, we're now the leading restaurant reservation service in France and Spain, with aggressive expansion plans throughout the rest of the continent there. And that's turned the inside view of, hey, how about restaurants on TripAdvisor into something that we're going to be spending – that we've started to spend and will continue to spend a lot more time on both to make sure that the reservation process is seamless, and it isn't on TripAdvisor now, but we'll make it much, much better as well as the quality of the results.

And so of course, we still want to list the sub-shop and the Gelato place, but when you're looking for a top restaurant to dine at with your significant other in Rome, that's probably not top on your list. And we want to make sure that we're presenting something a lot more sensible. A challenging problem, but very solvable and we're planning to spend the resources this year on tackling that for both restaurants and attractions. Big growth opportunities for us.

<Q – Heath Terry – Goldman Sachs & Co.>: What's the rollout for Instant Book going to look like? Obviously, the big chains or probably the easiest to sign up for something like that. The economics make sense for them. How do you go about getting the depth that you need? Do you need more sales people? Is it more promotion?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So the direction to start establishing better relationships both on the technology side and the customer side with all of the independents began over a year ago with the rollout of TripConnect. So TripConnect is a technology platform that allows the independent hotels to connect into our – what we call our commerce engine. When it was launched about a little less than a year ago, it was aimed at allowing hoteliers, independent hoteliers to buy a cost-per-click lead. A click on TripAdvisor goes over and they would appear in the meta-auction and we've been rolling that out to our business listing customers.

With Instant Booking on the phone now to U.S. customers and soon to be coming on desktop and tablet, all of those independents that before had to decide, well, what's my return on investment for paying a click? Do I pay \$1.50 or \$2.50? How am I going to measure it? I'm not even sure how to measure it, because there's a varying degree of sophistication amongst the independents. All of a sudden, Instant Book allows us to offer them a model that says, hey, it's just like another

distribution channel. You pay only upon bookings, because we now see the bookings in our flow and that's a model that so many are used to. So all of that effort will in no way shape or form replace what the OTA is offered to these independents which is a ton of demand, simple reservations, and that's great, and that we don't see that changing. We see our additional ability to offer a direct booking option for independents as an extra channel for them. And those independents have a lot of channels to choose from and same with the chains. They all have a lot of channels to choose from. We expect TripAdvisor to be one of them.

The question of, does it take a lot more sales reps to go out? I don't think it'll be a meaningful uplift in the number of sales reps that we need, because we already have a very global force that has been selling a business listing, subscription product to independents all around the globe. And so, now it's – and it's a business listing and there's this TripConnect on a CPC basis. And soon there will be this Instant Book capability which should be an even easier thing to sell.

<Q – Heath Terry – Goldman Sachs & Co.>: How do you think – go ahead.

<Q>: Can you talk about the conversion rates that you're seeing on Instant Book?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Can I talk about conversion rates on Instant Book. I can't talk too much at this point. We've seen Choice as sort of the premier supplier, hop on board early, and we see that conversion funnel in particular being really quite strong compared to what we think of when we send the click off to a client site. And that makes sense, because when you're looking at a property and you see the supplier offering the Instant Book capabilities, what is the reason in fact to leave and go somewhere else?

So it's a little early to tell, because again, we've just rolled it out to U.S. travelers on mobile, but what we've seen is certainly encouraging enough for us to continue the rollout on mobile, and we're almost – we're to almost all of our traffic in the U.S. at this point. And I won't say accelerate our plans for desktop, tablet, because they were already accelerated, but gives us more confidence that the rollout on those platforms will also be a positive thing for TripAdvisor.

<Q – Heath Terry – Goldman Sachs & Co.>: What kind of impact do you see Airbnb having on your business, on the broader travel space and how does that impact the way that you're thinking about your own FlipKey business?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So we're very serious about our vacation rental business. At the moment, we look at Airbnb and say, tends to be mostly urban at a price point that the hotels in general can't match as well. And our vacation rental space tends to be more longer vacation periods, a mix of urban, but also a lot of vacation destinations. Don't get me wrong. I think Airbnb has a tremendous product. We have a very similar product in the vacation rental space and all of the hotel options, and the inns, and the B&Bs, and the rest of the trip planning. So it certainly should be a contender in anyone's mindset, but we don't think of it as a particularly strong threat to our business.

<Q – Heath Terry – Goldman Sachs & Co.>: Got time for one last question if somebody has one. Go ahead Morris?

<Q>: I'm just curious, is your experience in metasearch in Europe different than it is in this country; particularly is there anybody who can really compete with Booking.com, so that your revenue won't go up?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So in Europe Booking.com – I mean, globally, Booking.com is a terrific company, quite a powerhouse; trivago has come on quite strong in Europe, just in terms of picking up demand. So that is a counterpart. They're not a client of ours.

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They're a competitor of ours certainly. And I'd say TripAdvisor remains quite a force in terms of drawing domain-direct demand. And as we move through our Instant Book flow, I think a lot of that, whether it's powered by Booking or powered by the supplier, it might well change some of the dynamics there.

We're also doing our TV campaign, and that's U.S. and that's Europe, and we would expect that to be global as well. We'll be spending \$30-odd million dollars over the course of this year, we started beginning in May. We'll finish up by October sometime, is what we currently think. And if that works, and we expect it to work, we would hope to be able to continue in ongoing years, to continue to build our brand. And I mentioned that just because Booking.com and trivago and a number of the other folks in the travel arena have gone on the airways and have shown that it's quite successful. And we just want to make the point that we are there as well.

To the question of an independent or a new OTA making a mark in Europe with both Booking and with the priceline and the Expedia brands and TripAdvisor there, that would be a tough one for me to see.

Heath P. Terry, Analyst, Goldman Sachs & Co.

Great. Stephen thanks so much for joining us. We really, really appreciate it.

Stephen Kaufer, President, Chief Executive Officer & Director

Thank you.

Unverified Participant

Next up we have Hyatt Hotels.

Heath P. Terry, Analyst, Goldman Sachs & Co.

Thank you very much.

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