

— PARTICIPANTS

Corporate Participants

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

Other Participants

Michael Graham – Analyst, Canaccord Genuity, Inc.

— MANAGEMENT DISCUSSION SECTION

Michael Graham, Analyst, Canaccord Genuity, Inc.

Thank you, everyone. I'm Michael Graham. I'm the Internet analyst here at Canaccord. Please check your conference book for some extremely important disclosures. We're super excited to have TripAdvisor here for the second year in a row. Steve, thanks so much for coming.

Stephen Kaufer, President, Chief Executive Officer & Director

My pleasure.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Certainly an exciting time, so can we sit down and just get into some questions? So just thought I'd ask a big picture question just to give you a chance to talk about the future for a minute. You guys have certainly revolutionized hotel shopping. My wife insisted that I insert that she's got over 60 reviews on your site.

Stephen Kaufer, President, Chief Executive Officer & Director

Awesome.

Michael Graham, Analyst, Canaccord Genuity, Inc.

She has been a TripAdvisor junky for years. As you look ahead a few years, how is the experience going to be different searching for a hotel, making a booking -- how is it going to be different from the TripAdvisor experience of today?

Stephen Kaufer, President, Chief Executive Officer & Director

So it's a great question. I wouldn't want to reveal too much of the stuff that you might see in a couple years out. But one of the – there are two knocks on TripAdvisor that we're aware of certainly, and that we expect to do a lot better at in the future. The first is sort of personalization. So when you come to TripAdvisor and you look at the hotels in Cancun, you're going to see a top 20 list - you'll see all the hotels - you'll see the top 20 as rated by everyone, not necessarily people

who are like you. And so we feel with the tremendous amount of information that we have about what people like and don't like and putting people into sort of profile buckets, if you want to think of it that way, how can we make a better recommendation; same city, same timeframe, same desire, same leveraging of the wisdom of the crowds, but not treating everyone alike. Making it more personalized. And just as Amazon has done some pretty amazing things, Netflix is another good example. TripAdvisor, we think we're barely scratching the surface in terms of being able to personalize that experience.

It's really nice when it's Facebook connected, because if your wife has connected her Facebook account, she can see where her friends have been and written reviews and stuff like that. But that's still a relatively small portion of our overall audience. So how can we do a better job for everyone?

The second category is more - kind of - inspirational or higher level information. So to take that Cancun example, if I want to go to Cancun, it's like, 'hey, I'm traveling with my kids. I'm looking for kind of a great two-day itinerary. What should I do?' You actually can't really find that too easily on TripAdvisor. And there is a Cancun for kids, there is the Cancun on your honeymoon, there is a Cancun for lots of different types of folks that no general purpose site out there does well, but at our size, at our scale, covering so many cities around the globe, we feel we can do a much better job helping people plan not just the hotel part of the trip, but their kind of overall itinerary. And I think those are two things, plus getting better in mobile and being able to deliver more on the road that come to mind in terms of how you might – how your wife might appreciate it being very different.

Michael Graham, Analyst, Canaccord Genuity, Inc.

How about going from shopping to bookings, like what's your vision there?

Stephen Kaufer, President, Chief Executive Officer & Director

So, we look at it from a consumer perspective first and second and third, and from that perspective as everyone knows, we moved to a meta display, which is really just so much better. So I come to the site, I pick the hotel, 'oh I didn't like that one, I want the next one.' I find the one I like, and now I enter my dates and I see all the different properties, and I see some other properties, sort of, cross-sells that are better or almost as good with different rates and kind of bringing price into the core part of the equation as it is for all travelers.

And so you still click on the link of, say, you want to book from and are handed over to another site to finish the reservation. On the desktop – that's what you're used to, not too much friction. The other account may already have your credit card anyway, so pretty good. And on mobile, pretty unpleasant. And part of our challenge in mobile is travel tends to be a complex purchase, and having someone see the prices on TripAdvisor on your phone and then click over to then go deal with a mobile interface, the smaller screen or heaven forbid, having to enter your credit card with your thumbs – that's just a pain. So we view that as a meaningful consumer challenge. And so we've been public about kind of wanting to address that. In general the friction of, 'hey, I found what I want. Now I want a book it.' that's on the list of things that we look to address, but we always do it prioritized and we think phone is most important and addressing that.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Okay. That's great. Thanks. I wanted to ask about industry structure. You guys are another layer in the hotel selection process now. You get 220 million unique visitors, hotel shopper growth of 41% in the quarter, so you're a major, major force. A lot of your search results pages have links right to the

hotel chains to book and bypass OTAs or just not include them. How you're thinking about the future of OTAs in this industry, and just, you know, how do you see the structure evolving?

Stephen Kaufer, President, Chief Executive Officer & Director

I think OTAs it's the big one. They and the local players have a great part to play in the ecosystem. I have no concern whatsoever that TripAdvisor or anyone else will disintermediate them out of existence as I've seen some folks write. I don't buy into that at all. OTAs will continue to represent a meaningful amount of demand that they bring to the suppliers, that they bring to the individual hotels, who will naturally want to show their inventory on those OTAs. So TripAdvisor certainly comes at it from a bit of a different perspective. It's not just about the bookings; it's about the entire trip planning. And sometimes that's great, because you're planning whole vacation. Sometimes no, I just need – I need to book a room at the Marriott in New York, so I go to Expedia because I'm comfortable doing that and I book it and it's quick and it's easy. And TripAdvisor doesn't actually add a lot of value to that equation. You've been there before, you want to book it. You could have gone to Marriott directly, you could have gone to Expedia, you could have picked up the phone; same with an independent hotel. So there is always that class of traveler.

For the vacation planning, yes, we continue to add more and more to help you figure out where to go, and we've always had the ability to book direct with Marriott or through the OTAs, and now with TripConnect coming down the road, more and more of independents will be able to sort of take that – take that click directly to their website. A meaningful change on TripAdvisor's part from the independent hotels who can now get access to those leads, but in the scheme of the things probably pretty small from an OTA perspective. So we're competitors in that we want all – we, TripAdvisor and the OTAs and the suppliers – all want the traveler to start on their site, but we still occupy different spots in the, sort of, travel ecosystem.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Okay, that's great. So let's shift to metasearch and talk about some of the dynamics that are going on here, and I think it's clear that it's a great upgrade in the user experience. I'd like to address it from the standpoint of your advertising partners. And just for starters, to the extent that the transition so far has impacted some of your OTA partners more than others, do you expect that to persist or unwind and why has it?

Stephen Kaufer, President, Chief Executive Officer & Director

I think it has been maybe choppier than we had expected, different OTAs either the big ones or the local market players have been able to leverage the new bidding structure faster than others. And then there was I think, and I'm guessing here, I think a bit of a philosophical approach that some of the OTAs took that said, 'hey, I want to take advantage of this transition. Bid up, sort of the proverbial 3x that TripAdvisor recommended, in order to make sure I was capturing the most share.' And other folks may have said, 'hey, I'm going to bid up a little bit and see where that places me. And then bid up more if I have to, but why should I just immediately jump my bid 3x; I don't know if that's going to work.' They are both valid approaches. It's an auction, so at end of the day it's going to come out to the same place, we believe, and I think you can speculate that some of the big players immediately bid strong and some of the big players didn't.

And if you look at the site now, you see that correcting, you see some of the second or third or fourth players bidding up more and you see some of the top players as the other guys bid up start

to lose their position. So that can either generate a higher bid or it can say, 'alright, I'm okay in the number two slot. I might lower my bid even.' So the auction is still extremely dynamic. We have pricing swings across our global scale and when you look at each market that are really still pretty big compared to when we were in the classic market. And we're not sure where it's going to settle out. And our kind of message during this transition to internal to the company, to our shareholders, to the clients is it's evolving, and you can expect some choppy times, you can expect looking at the site to see different people in the pole position.

Recently, for instance, we – we're facing some pricing headwinds. Hey, the auction isn't up, up, up all the time as you have another bidder in. We had some people pulling back on the bids. And if you ask me: 'well why are the leads not as efficient?' I'd say no, the leads are quite efficient. Are they pulling back in test? Are they evaluating their own algorithms? Are they doing it in response to different bidder? It's an auction. And I think as Google has proven, hey, those auction dynamics, if you have enough bidders, work really well for you in the long-term in terms of delivering a fair value for the lead. And we always compare ourselves to Google, because our client spend – the two biggest channels, in our opinion, are 'I'm spending on Google SEM' or 'I'm spending on TripAdvisor'.

And so where they choose to spend the next dollar is where they're going to get the next incremental booking. So, it's not a question of wallet share. Our big clients have unlimited budgets. It's a question of where can I be smart enough to bid next. And that leads me right down the path in terms of the new bidding tools and the reports that we're giving the clients to say, 'hey, look, for these properties in this market bid up \$0.10 and you can get a meaningful amount of additional traffic. Someone else may bid above you, in which case you can lower your bid. And you can now bid daily.' So there is a lot of flexibility there, but I am hard-pressed to forecast what our quarterly results, or where the auction is going to settle out, in all the different properties, and it causes me some heartache too.

Michael Graham, Analyst, Canaccord Genuity, Inc.

You rolled out a platform in the U.S. only in June, and so I imagine each new week brings a lot of incremental learning. One of the interesting things on the call was that the lead volumes are down by about the same amount as the pricing is up. Is that still the case? Any new learnings from updates since the call?

Stephen Kaufer, President, Chief Executive Officer & Director

Yes, so if it was – hey, lead volume is down by the same amount the pricing is up, that's kind of my definition of revenue neutral, and we haven't got there yet. And we still think we can get there by the end of the year. I don't – as I learn more, I'm not gaining any confidence that we'll get there sooner. It's not a magic target for us, either. We have a revenue optimization team and our meta team that is looking to generate as many clicks that convert downstream as possible. And so their job isn't finished at the end of the year. Their job started a while ago and continues. And God forbid, we may never hit revenue neutral. Oh well, I am running the business going forward.

I'm not as optimistic as I once was about being able to get to revenue neutral earlier in the year and then we said, 'hey, hopefully by the end of the year.' I'm not seeing signs that says, 'and we're going to beat that internal target.' In fact, in the – this summer so far it's been bumpier than I had forecast. So our traffic is holding but not as strong as we had expected given the comp over the Olympics of last year. Pricing, as I said, has actually been down a little bit, and that wasn't what we expected. And we have told everyone, 'hey, the big meta headwind for us is in Q3, because our biggest points of sale are a 100%' and that remains absolutely true. But I don't generally provide

updates in the quarter, but if I have to, the update this quarter it's like I am not seeing a lot of positive stuff.

When I look down stream and I always look down stream, so a year from now, two years from now, that is clearly the right thing to do. The economics don't end up being revenue neutral, oh well. And with TripConnect, we're making the right steps to bring other players into the auction, and other players who weren't online at all, so I can monetize a higher percentage of online traffic. So it's like very comfortable we've got the right long-term steps are in play, even if quarter-to-quarter it's going to be bumpier than we thought.

Michael Graham, Analyst, Canaccord Genuity, Inc.

And just to follow up on that, in Q3 is the major reason why – I mean you've mentioned that you expect this to be the biggest headwind quarter – is it just because of the timing of rolling out in the U.S. now and are you confident that Q4 will be up from Q3 in terms of the path towards revenue?

Stephen Kaufer, President, Chief Executive Officer & Director

Yes, I think Q4 will be up from Q3, again, looking year on year, because we will have had more time in the revenue optimization. Auction dynamics could completely offset that and that's really hard for me to predict. So, I look – I try to look through your lens and say, 'wow, good Q1, better than expected Q2', well, not really that much better than we expected, because we were in control of the roll out. And if you look and say, 'oh, things must have been going so much better. They rolled it out at the end of May, instead of at the end of Q2', that's the wrong conclusion. The reason we rolled it out earlier is we love the experience and wanted our customers to see that even faster, being more willing to take the revenue hit. And so, yes, so Q3 isn't going to be the one for the exciting books, and we reiterated our overall numbers for the year, which I'm sticking with, but Q3 is the pain.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Okay, all right. Sounds good. I do want to go back to – you mentioned the bidding platform, and I think it's really interesting. Can you just talk about some of the innovations that are happening there and are there more on the way?

Stephen Kaufer, President, Chief Executive Officer & Director

What we're focused on now – I mean the innovation that's hard for me as a technologist to say 'innovations' when other people have been doing it for a while, but it's still new to us being able to offer our clients daily bidding, daily bid changes, at scale, by all the markets that they bid in, and reports that say and here are the best properties where a small bid change will get you the most incremental traffic, those sorts of aids. And our customers certainly appreciate all those. The challenge for our bigger clients is to get it in a form that's completely automated from their end and our end. And I think they're generally pleased with what we've been able to do and generally pleased with the timeframe that we're talking about getting to that automation stage, but that will happen. You know it's more over the course of the rest of the year.

TripAdvisor, Inc.

Company▲

TRIP
Ticker▲Canaccord Genuity Growth
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I'd love to talk about vacation rentals. It's a topic that's been – you guys have been little more vocal about lately. Just talk generally about your approach to the market, what's your strategy for growing inventory, and maybe just some comments on why you think the transactional model or the pay-per-booking model is the best one?

Stephen Kaufer, President, Chief Executive Officer & Director

So when you look at it again from a consumer perspective and again from a long-term perspective, we started in subscription and found that while it's a profitable business model, it gives the site like ours a perverse incentive to feature the properties that no one else wants to click on in order to generate enough leads for the properties so that they will renew in the following year. Good for your economics, kind of bad for the consumer. There might have been a reason why no one else wanted to click on that. When you move to the transaction model, then I'm incented to put the properties up there that are going to actually be booked, not even just looked at but booked because I'm getting that transaction fee. So it works really well from a 'I'm aligned with the consumer' and it provides the absolute right incentives for the homeowner to upload better photos to add to their menu list and to otherwise make their place more attractive, earn the better review, and so that the good stuff floats up to the top. That's a model that we have to transition in, but we think it's the right long-term one and we're willing to bite the bullet.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Do you have any feel for what portion of your hotel shoppers are interested in possibly dual tracking, renting a home versus staying at a hotel?

Stephen Kaufer, President, Chief Executive Officer & Director

It's a good question. We do a fair amount of cross-sell on the site, if we see someone looking at a property for a week in a vacation rental-rich geography they may get a special message, where someone shopping for one day wouldn't have gotten that message. And we feel one of our assets in the vacation rental market is that we have people planning a trip, period. They may not even be in a hotel shop mode or lodging shop mode and they may be just looking at attractions and deciding where to go where get to introduce vacation rentals. Whereas the other vacation rental sites they have good inventory but it's for people who are already planning to rent a vacation rental; that's how they got to that site. So bringing in that additional customer, we honestly don't care if it ends up being cannibalistic to our hotel shoppers. We want to make sure the consumer gets the best thing that they are interested in. So they'll remember TripAdvisor is the place that they want to come back to, to plan their next trip. If we introduce them to a vacation rental and that was a better choice for them and I lost a hotel click-through, that's fine.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Do you have any targets in mind or milestones regarding listings or just how you're thinking about the key metrics you need to hit to kind of ensure that that business is progressing?

TripAdvisor, Inc.*Company▲*TRIP
*Ticker▲*Canaccord Genuity Growth
Conference
*Event Type▲*Aug. 14, 2013
*Date▲***Stephen Kaufer, President, Chief Executive Officer & Director**

Well, we look at inventory, we look at inventory by city or by region that's of interest to us. We don't have the best inventory in some cities around the world. It's hard to collect hundreds of thousands of properties. But we're very strong in many markets and we look to make sure we're strong kind of across the board to different types of vacation rental units, and we do our price comparison on sites. Do we have good pricing in that market compared to other sites and then from a transaction perspective, but we have a lot of subscriptions, we have transactions. How many can we get to go through the transaction funnel, because we think that that's a better experience for the consumer. They're not sending a check to a PO – a certified check to a PO box. They are engaging in a transaction that feels safer to them, so they tell us. And it's safer from a actual transaction perspective, because yes, we're holding the money to make sure someone actually stays there. Or even if we're not holding the money, it's through a partner of ours who we've gone to some lengths to vet, as opposed to just someone is listing a property.

Michael Graham, Analyst, Canaccord Genuity, Inc.

We do have a couple minutes if there is a question or two in the room. Happy to take one. Go ahead [ph] Drew (21:43).

QUESTION AND ANSWER SECTION

<Q>: [Question Inaudible] (21:44 – 21:51).

<A – Steve Kaufer – TripAdvisor, Inc.>: Google is an intermediate and long-term threat. When I ask, 'hey who is the competition that kind of worries me the most in the two-year to five-year timeframe,' Google still tops the list mostly at this point from a mind share perspective. When I talk to travelers, 'hey you're thinking about going on vacation, where do you start?' The answer more often than I'd like to hear is Google. And so as Google learns how to build the travel product and I'd still say they're learning, they've launched a bunch of stuff, but it's in progress. Google can do a lot. They've shown a lot of appetite to invest heavily in this area. To my biased perspective, I don't think they've built something that is as compelling as a TripAdvisor or even an OTA in terms of planning a trip, but I will never be known for underestimating what Google can do if they choose to.

<Q – Michael Graham – Canaccord Genuity, Inc.>: One last quick one or pretty much at – okay one more, go ahead.

<Q>: [Question Inaudible] (22:57 – 23:47).

<A – Steve Kaufer – TripAdvisor, Inc.>: Yeah, I mean you asked do I worry about that, no I don't. So our audience is so global at this point, less than a third of our traffic comes from the U.S., that it's people all over the world dining at that restaurant or staying at the hotel that are saying good things about us such that they are proud to display their rating. We are firm believers in that social support. Other people like this, therefore I should be more comfortable with it, actually works, but it's also just truism for human nature. And so I think more – the more of that we see from a marketing perspective the happier we are.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Steve, thank you so much. That was great.

Stephen Kaufer, President, Chief Executive Officer & Director

All right, my pleasure. Thanks.

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