

— PARTICIPANTS

Corporate Participants

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

Other Participants

Mark S. Mahaney – Analyst, RBC Capital Markets LLC

— MANAGEMENT DISCUSSION SECTION

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

This is a packed room. I'm Mark Mahaney, Director of Internet Research here at RBC. We're really lucky with this conference; we've had really great high-level participation from some of the leading companies in the Internet space, particularly in the Internet travel space and that would have to include Steve Kaufer, one of the co-founders and the CEO of TripAdvisor, which I think everybody in the room would know, may be as an investor, definitely as a consumer. So, we don't need to spend too much time giving an overview, but I did ask Steve just to give a quick two-minute overview of the company. I will go into questions and then I'll leave a little bit of time at the end for the Q&A. Thanks everybody for joining. Thank you Steve for being here. The mic is yours.

Stephen Kaufer, President, Chief Executive Officer & Director

All right. Well, thank you all. TripAdvisor is the world's largest travel planning site. We have a tremendous number of points of sale as well as number of different brands in the TripAdvisor Media Group portfolio family. We focus and make most of our money around hotels, hotel bookings, and that's very global perspective. We look at vacation rentals and flights and restaurants and attractions as additional parts of the travel planning process that we cover. And it's of course, on all devices, all platforms. We have a tremendous number of growth opportunities ahead of us when we look at the different segments of the business, and I will be perfectly happy and delighted to talk to you more about them as we go on.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

Okay, thanks, Steve. I guess, there are at least three, and there may be more, three major initiatives that you're undertaking now. One is this metasearch transition, and one is this relatively large advertising branding campaign, and maybe, third, is this kind of bookings optionality that you're adding to the platform. And I don't know whether you'd consider those the top three biggest initiatives going on at the company. I would, so, can we go through those -

Stephen Kaufer, President, Chief Executive Officer & Director

Sure.

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- and if you think there are others, let's talk about them, but first, let's hit through metasearch, how you think that's progressing for the company, the goal behind it?

Stephen Kaufer, President, Chief Executive Officer & Director

So, metasearch was certainly the phenomenally large transition for us over this past year, much talked about, much commented, but nobody can argue that it's been a fantastic benefit to our travelers. And we've always been in it for the long-term, and this is a clear engagement win. It helps qualify the consumers, you get to see all the prices. And so when we compare ourselves to other choices travelers have when planning a trip, if you come to TripAdvisor, you get the best content in the world, you get the best price comparison, helping you find the best deal for the hotel that's right for you. And then, we'll talk about it a little bit later, the instant booking capabilities that are coming, but that metasearch capability is just delivering a better experience.

Higher quality leads downstream for our clients, so they convert better. And it's – the only question mark, about hey, how can this go, or how is it going, is in the revenue neutrality aspect for us. We're sending fewer clicks to our clients. The clicks are converting at a higher rate, the clients are therefore paying us a higher amount for each of the clicks. And how is that working out at the end of the day? We haven't been able to get it to be the revenue neutral objective that we had had when we launched it, when we started talking about it late last year, but we've been very pleased with our progress. And at the end of the day, it was the right decision for the company to move down that road. There is no consideration about going back to the pop-up way that we used to have.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

Is it clear from the – I would assume it's clear from the consumer perspective that it's a better user experience, the evidence of that should be the hotel shopper growth, or what would we see as the evidence of that?

Stephen Kaufer, President, Chief Executive Officer & Director

That's a little harder to decide or to measure because travel remains an episodic purchase. So, the consumer experience from every way we can measure in terms of on-site behavior, in terms of focus groups, in terms of people saying, "thank goodness you got rid of those darn pop-up windows", it's the clear win.

And when you look at it, the only question I ask myself is, should we have done it several years earlier, not, gosh, was it a mistake, because you didn't get to revenue neutral.

No, I mean, the company continues to grow phenomenally well, there is kind of no challenges, there are no huge challenges in sight as to why we won't continue to grow well, and history always shows, when you do things that's clearly in the benefit to your consumer, your brand is going to do even better.

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And on the advertiser side, it should be pretty clear that the quality of the leads is higher, and therefore, people should be willing to bid more. Is there, if you point to evidence, or is there evidence already in the marketplace of where you've seen that trend occur, maybe in a particular geography or particular customer, or they're willing to bid more, they're convinced that the lead is worth more?

Stephen Kaufer, President, Chief Executive Officer & Director

Every customer, to be clear, is bidding more. I don't think there's a single client that isn't. The question is if I'm sending three times fewer clicks, are they bidding three times more, and that's what it kind of takes to make it revenue neutral, and so that very much varies by client and by property and by market. And so, at the end of the day, we'll have lapped the transition completely by the end of Q2 next year, and so the whole transition piece will be behind us and it will be continued growth based on our hotel shopper numbers, and the rest of our ongoing conversion improvements that we work on every week.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

The – switching over to the branding campaign, so this is something – I mean, you've achieved almost ubiquity without a branding campaign. But now, you want to try a branding campaign, you're not the only one; other companies have done it, relatively successfully. So, where do you think you are in terms of the effectiveness of it, are you still in experimental mode, how much of a commitment are you willing to make to it?

Stephen Kaufer, President, Chief Executive Officer & Director

So, a great question. So, we spent, if I can recall, we spent a couple of million in Q2, maybe a couple of million more at the end of September Q3 when we launched the campaign. And by the time Q4 finishes, we'll probably have spent close to \$30 million or so. So, you can add it all up and see this is a meaningful campaign. It's still in test mode in terms of us trying to figure out how much we're going to spend next year. We've seen sort of clear lift in some of the metrics we were looking at in some markets. Others have been much harder to read, in part because U.S. in particular, because it's already a really big market for us.

And so, we wanted to go heavy in order to be able to detect a lift that we felt comfortable that we could correlate with the specific TV spend. And we've been in market a lot in October and that will continue in November as well. And I'll report back in early Q1 with a more definitive, hey look, this is what we've learned from everything we were doing in TV. We have a lot of different opportunities, because we are such a global company to spend our marketing dollars in so many different areas. We felt others had proven TV can work for a travel company. We wanted to get the message out that, hey, meta was here, it's a new part of the experience and some of our TV campaigns do talk specifically about that price shopping experience. Though the overall campaigns are emphasizing the community, the choice, the feeling that people get when they use TripAdvisor and have that great experience.

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Can you talk about whether you're running that branding campaign overseas as well, or is it mostly a U.S. test?

Stephen Kaufer, President, Chief Executive Officer & Director

So, the majority of the money is clearly spent in the U.S., but we've also picked France and Spain and Argentina as other sort of markets to test in. For a variety of reasons we picked those markets but at the end of the day, all of the TV things that we were doing, that we are doing is aimed at proving to ourselves that this is a worthwhile investment to scale globally. So, Argentina is a relatively small market for us, so we thought we would be able to see it a stronger signal for the TV spend. France and Spain, key European markets for us. Picked two as opposed to going broad based and the U.S. is home market where we have the most traffic, hey, will we be able to see the results that we're looking for.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

And then the third initiative, this TripConnect, you've got all these consumers on the site, you've got a lot of lodging hotel companies, there is more ways to generate, to monetize in a way that's a win-win. What's the end game there? How big do you think that opportunity will be? Will that always be a small part of TripAdvisor or do you want to be open-minded about it and let it grow and grow naturally?

Stephen Kaufer, President, Chief Executive Officer & Director

So, again, if you come back to the consumer perspective, we've had options to book a hotel if it's sold through an OTA. We've had options to book a hotel if it's sold sort of through a brand, and those have always been part of our auction. But the small independent hotel that perhaps was never part of an OTA couldn't get their rates and availability shown on TripAdvisor. And it was too difficult for us to kind of one by one sign up each of these and develop feeds and all this. So, TripConnect is the technology that allows us to talk to the Internet booking engines, the several hundred that power all of these independent properties, so that all of those folks can buy leads directly from TripAdvisor. To the consumer coming and looking at a property that didn't used to have an ability to book online, now they can book it online, that's a win for the consumer. The hotelier is happy to get the booking. We're happy to make a little bit of money in the process.

For the hotelier that already has their inventory on an OTA, hey, they're also trying to get people to come to their own website, and now they can do that again through TripConnect. So, for us, it's just kind of the next step in the evolution of trying to connect all the folks that have the rooms with the traffic that we have globally. As a process, the independent hotelier still has to buy a Business Listing, an annual subscription fee in order to participate in the auction. And so we expect it to be a relatively slow ramp up as the independent hoteliers realize we have this offering. As they decide whether it's in their economic interest, of course it should be, but they still have to come to that conclusion themselves. And then learn how to do the self service bidding. A smart Internet-savvy hotelier in New York may well be able to say, oh cool, I'm doing that on Google, I'm going to go do it on TripAdvisor. I already have a business listing, checkmark, done. But a smaller property in Asia may not have the sophistication or the experience to be able to immediately pop on to the system. The opportunity is kind of all hotels that can take a reservation online that aren't part of a brand,

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which is hundreds of thousands of properties. So, we think it is a very meaningful effort over the several year timeframe for us.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

I'm sorry. Your last point was that there is no reason why it has to be limited to small independent hotels, you could expand beyond that.

Stephen Kaufer, President, Chief Executive Officer & Director

Well, we already have relationships with most of the chains. So we're kind of set there, but most of the properties that you can stay in worldwide are not part of a chain. And so they haven't been able to do anything more than buy a Business Listing for us, their representation was primarily through the OTAs. And so this gives them another chance to get a booking directly from TripAdvisor.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

One of the single biggest themes in the consumer Internet space is mobile, and TripAdvisor is generally been perceived as a beneficiary of the dramatically expanded use of mobile devices to access Internet services. Any reason why there would be a challenge in there? Is mobile just an outright win for a company like TripAdvisor? Do you feel like you have all the assets you need to satisfy consumers who are coming at you via mobile devices?

Stephen Kaufer, President, Chief Executive Officer & Director

All right, a great question. So, we think we're in an awesome position to now be able to help a traveler when they are in market. So without TripAdvisor, you might be able to use maps, but there hasn't been much else available. With TripAdvisor, wow, you have all this incredible functionality. You can get restaurants and attractions, things to do, buy your tickets, make your reservations, all of that with this phenomenally good computer that's in your pocket.

We have access to all of the information in our incredible database of things to do, places to stay, places to eat with access to our forums and our community, allowing you to sort of dialog with other people who might also be in market at the same time. All of this can deliver a great experience, and we're in the early chapters of doing that so far. It's a big opportunity to cement our relationship with the traveler when they are in market that few other companies have the resources, have the data, have the point-of-interest database to be able to help with. The flipside is, when it comes to our core making money on the hotel transaction, yikes, that's been hard for us. We have a lot of hotel shoppers on the phone and you can imagine the used case of – I'm sitting at the bus stop, I'm thinking about taking a trip, I'm doing my shopping and I see the prices, great, that's fine. I now click through to one of our clients to actually book a hotel and I'm not quite ready to book yet because the phone makes me a little uncomfortable or I want to show it to my spouse or a lot of reasons to delay that purchase. But we've really helped the consumer figure out where they want to go, where they want to stay, and even which provider they might want to book it through and we don't get credit for that transaction.

The conversion rate of our leads downstream on mobile is quite low compared to what the OTAs report as mobile bookings. So, we feel we're missing out on a piece of this pie, the CPCs that we

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get paid from mobile reflect that. There may be one-third of our desktop CPCs, so it's really a much lower average CPC for us and that was a broad generalization on the number. When you look at what we're doing to close that leak, I talked about on our last earnings call, is this instant booking on the phone, helping the traveler finish the reservation process while still being in the TripAdvisor app or mobile web version. We feel like we're providing the service of which hotel, we're providing the service of the price comparison and so, the thing we're missing is the ability to close the loop, to plug the leakage of we've done all the work, but somebody else is getting the credit and finish the reservation. We're not going to be selling the hotel reservations ourselves. It's likely to be or will be through partners, through OTA partners, through brand partners, eventually through independent partners that will fulfill the reservation, but you won't have to go to another site, you won't have to interrupt your experience in order to do that. And so plugging that leak, we feel it helps us quite a bit in taking our mobile experience and turning it into a better experience for the consumer and a more lucrative experience from our perspective.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

And the timing of plugging that leak, it seems like a great opportunity and how long does it take to do that?

Stephen Kaufer, President, Chief Executive Officer & Director

So, what we're looking at is – what I've said is sort of 2014 and if you look at how TripAdvisor historically delivers projects, it's perhaps we're known as faster than some other companies, so, yeah, I think earlier part of 2014 than later part of 2014 because it is kind of the next best thing we feel we can do on the mobile front. We have a lot of installs. We're still pre-installed on Samsung S4. We've got new native apps, Android and iPhone, that just rolled out, nice engagement we're seeing on both of those, but we're missing that booking functionality, so that's the clear next phase for our mobile strategy.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

One of the things that street seems to have focus on or maybe over focus on is this gap between your hotel shopper growth, which is strong double digits 30%, 40%, and your per-click advertising revenue growth and you talked about different factors that caused that gap. Do you think we are over-focused on it? Do you expect that gap to naturally close over time and particular reasons that would cause that gap to close?

Stephen Kaufer, President, Chief Executive Officer & Director

No, I think it's actually a fair question. We usually talk about sort of international growth being faster than domestic. We talk about mobile and we talk about meta. So we've made nice improvements in meta, and by middle of next year, we'll have lapped it completely. We look at mobile, and I just talked about how, while we don't necessarily expect to close the gap, mobile shoppers are clearly growing faster than our desktop shoppers, but we're looking at improving our mobile monetization so that becomes not a tailwind, but it'll become less of a headwind in terms of the mobile shopper growth.

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So meta over and done with, mobile less of a headwind. In international, will remain a bit of a headwind. Hopefully, we can acknowledge that as an ongoing headwind, but make it up elsewhere in the company as we improve our overall monetization of the site.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

Can you maybe single out some of the international markets where you feel like you're particularly well positioned, and one or two where there are greater challenges?

Stephen Kaufer, President, Chief Executive Officer & Director

So, I'd say our brand strength and our conversion numbers in the U.K. is outstanding, arguably sort of best in the world, and Brits like to travel a lot, so that's good for us; Australia is a pretty strong market for us; Japan has some structural weaknesses in terms of the commission rates that the local players are able to collect on hotels. And so, when the local OTA isn't making as much money on the bookings, they can't pay us as much, but we continue to grow in all of our markets. Europe, the Northern European markets are better than the Southern European markets. I don't think that has anything to do with TripAdvisor per se. I just think that's the macroeconomic climate for all travel providers.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

Okay. I know we have a lot of people in the room. Does anybody want to ask a question? It's an unusual in a large packed room. So if not, I'm going to keep going, or I will come back. Acquisitions, this company has had a relatively limited number of acquisitions, I think, over the years. Any particular thoughts on if there is something about the business that actually requires very few acquisitions? You've just got enough of a presence and the growth options are all internal to you, so there's little need for external acquisitions?

Stephen Kaufer, President, Chief Executive Officer & Director

Well, by saying few acquisitions, I'd flip and say, we've done zero large acquisitions as a way of powering growth. I think we've done a half a dozen acquisitions over the past six months to nine months. So, we have a pretty good stream of small-scale acquisitions that we're getting either for the people, the technology, the combination, or in the vacation rental space where we're buying and consolidating some inventory. So, we're very happy with the dozen or couple dozen acquisitions we've done so far. The bigger acquisitions always have to be on the case-by-case. There's nothing in our DNA that says we're against acquisitions of any size, and frankly, we view ourselves as quite successful with the ones that we've done.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

In terms of your marketing mix, where you spend your ad dollars, I think you kind of made a pointed effort to kind of switch dollars or to switch some of your focus over to maybe towards Facebook and maybe away from Google, 9 months, 12 months ago, maybe I'm overstating it, but that was the perception. Do you feel like that's worked out? Do you feel like the social networking channels like Facebook have been high-quality lead generators for you?

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So I wouldn't say that we switched any dollars away from Google, or any of our other traffic acquisition vehicles, which we run on a fairly strict analytical model, hey, can I buy traffic, have that traffic have a good experience and make a little bit more than what it cost me to buy the traffic? And so, we'll spend infinite amounts in any traffic acquisition channel that can deliver. And we have team working against Google in particular, but search engines in general, to maximize our spend there. Because, hey, if we get a new traveler coming in from a search engine that tries our product, if we can just breakeven on that, it may hurt my overall margin, but I don't care about that. I'm looking to get that to be a successful trial of our product.

Facebook was, hey, wow, global company, huge audience. If we can target the travelers and develop another channel that I could buy on essentially the same metrics, that would be great. We weren't able to get the type of traveler in shopping mode from Facebook to come over to TripAdvisor at any scale that would approximate Google. So we were spending, we're still doing some spend with Facebook wherever we can find the pocket that will produce revenue for us.

We had spent a fair amount with Facebook to promote our Cities I've Visited application and get Facebook-connected users because that really fuels our personalization effort and our whole Wisdom of Friends initiative, so that if you're signed in through Facebook, you get a lot better experience on TripAdvisor and that proved its worth in terms of better engagement, better monetization, and just a better, more sticky experience for that Facebook connected user. So that part worked out fine for us.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

One last minute, last minute, anybody, last questions from the audience. Did we cover all the growth areas when you think about the growth initiatives for the company? We talked about meta, branding campaign, mobile booking functionality then the mobile instant purchase possibility, anything else we should know about?

Stephen Kaufer, President, Chief Executive Officer & Director

So again the one we barely touched upon, the vacation rentals and the growth there, we view it as a tremendous market. There are several other players. There's no reason to think it should be a winner-take-all market. We bring 260 million unique travelers planning a trip each month. Some percentage of them are interested in the better lodging alternative than a week's stay in the hotel and that's a vacation rental. So we have a unique position to grow that space. And then we still continue to invest in China, and so we still have a couple of points-of-sale that are growing in China. We like the investment, we're well positioned for the future, we're not commenting on the overall timeframe when that turns profitable, but it positions us well down the road with that growing market or worse comes to worse, we could curtail our investments and take those dollars and put them elsewhere.

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Great, thanks. We've run to the end of our time. Steve Kaufer with TripAdvisor, thank you very much. Thanks, everybody.

Stephen Kaufer, President, Chief Executive Officer & Director

Thank you all.

Mark S. Mahaney, Analyst, RBC Capital Markets LLC

And we have a breakout session starting in five minutes.

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