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TRIP - TripAdvisor Inc at RBC Capital Markets Technology, Internet, Media & Telecom Conference

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PRESENTATION

Mark Mahaney - *RBC Capital Markets - Analyst*

I am Mark Mahaney, head of the Internet research team here at RBC. Our next Company is TripAdvisor with CFO Julie Bradley. Julie was just going to spend 1 minute just giving a quick overview on Trip. I will ask a series of questions, I will leave a little bit of time at the end for Q&A. There is Q&A right after this in the breakout room. Julie, thank you very much for coming. TripAdvisor in a minute.

Julie Bradley - *TripAdvisor, Inc. - CFO*

Okay, great. I just said, I said to Mark, I'm sure most people around know our store. Maybe just a show of hands of who has used TripAdvisor to plan a trip?

Mark Mahaney - *RBC Capital Markets - Analyst*

In the last day (laughter)?

Julie Bradley - *TripAdvisor, Inc. - CFO*

Two hands, all right, great. For those of you that don't know us, we are the world's largest online travel website. Last quarter we had over 315 million unique monthly users to the site. They come there primarily to research hotels, price discovery, rich reviews and ratings -- we get well over I think 115 new reviews and ratings every single minute. We are very global and most recently we have made an entree into the restaurant and attractions online booking and reservation site.

QUESTIONS AND ANSWERS

Mark Mahaney - *RBC Capital Markets - Analyst*

Okay, super. So what happens with these companies is they get like hundreds of millions of users and then they start layering in more and more monetization opportunities and it is called building out and monetizing the platform. How much of TripAdvisor's usage today do you think is under monetized? Or un-monetized?

Julie Bradley - *TripAdvisor, Inc. - CFO*

Sure. Let's start with un-monetized, that is the easy point. So of the couple billion users that came to TripAdvisor last year about half of them came to search for a hotel. And that is really where our focus has been over -- since we were founded is to provide rich hotel content. And we monetize that through a media model. So cost per click and we are moving into instant book, kind of being able to book your hotel online.



But directly, to answer your question, the other half of our traffic is coming to look at restaurants and attractions and to a lesser extent vacation rentals, which in the restaurant and attraction space we don't monetize at all. And we are slowly starting to monetize the vacation rental space. So there is lots of upside in our existing traffic coming to Trip today.

Mark Mahaney - RBC Capital Markets - Analyst

So, instant bookings, the market maybe gets ahead of expectations, sometimes it gets behind -- expectations get too high, get too low. Lay out for us, this is -- instant bookings is a very large project for TripAdvisor. How should we think about the rate of adoption of instant bookings amongst your customers?

Julie Bradley - TripAdvisor, Inc. - CFO

Sure. I would say it is a much more measured path than we did when we rolled out Meta last year. So in 2012 in order to find price and availability we served many different pop up windows for you and last year we rolled out the Meta display so you had in line pricing and availability, you're able to stay on TripAdvisor engaging with the site.

And then when you are further down the booking path you could click off to one of our partners and book that hotel. But we still saw some leakage in the model. And so if you were -- you clicked onto one of the sites and then decided that, oh, I am not ready to book, you would probably go back directly to where you were before.

So we got credit for that first click but not for the subsequent clicks when you eventually booked, which kind of led us to instant booking so you would stay on the site and we would send a completed booking off to one of our partners. The great thing from a timing perspective is, unlike Meta, it is not all or nothing.

Our plan is to have both the Meta display and instant booking together because we believe it is the best consumer experience. The consumers will be able to see price discovery. They'll know that we kind of search the Web for the best pricing for you and then you will have a choice of booking with one of our partners or staying on TripAdvisor and booking it in line.

So from a roll out standpoint we are in the process of -- we are live on a small section of our traffic, we are in the process of implementing many more partners. And so, we are focusing first on the OTAs, the chains and the independents. But because it is not all or nothing we are able to do it in a more measured fashion to make sure that we have the best consumer experience, partner experience and the right monetization for Trip.

Mark Mahaney - RBC Capital Markets - Analyst

Is there anything about the economics or the use case for partners that makes the adoption more measured?

Julie Bradley - TripAdvisor, Inc. - CFO

I think for the independents, it is very interesting for them to be able to take a direct booking. We are in the -- from an economic standpoint we are in the middle of a pure media spend for a cost per click for a lead generation. And from the OTAs from a full-service model we clearly for the consumer's will know that we are handing the booking off, and it's being fulfilled by one of our partners and that they will be doing the customer service, so it is in between the two.

Mark Mahaney - RBC Capital Markets - Analyst

Let me try the question again or a different way. How much of the slowness of the take up by partners is due to just real push back just on not wanting to sign a per commission model?

Julie Bradley - *TripAdvisor, Inc. - CFO*

I actually think that the partners like commission models because they are paying for direct bookings versus the lead aspect of it. I think it is, if I look at some of the smaller chains and clearly the independents, it is a highly fragmented market. So that's why our efforts have been with working with the Internet booking engines that kind of sit on top of the independent hotels to get their mind share and to help us roll it out more broadly.

Mark Mahaney - *RBC Capital Markets - Analyst*

Okay. One of the -- let me switch gears a little bit. One of the bigger initiatives at the Company was an off-line brand campaign over the last 12 months. And it sounds like you've been very happy with it, it sounds like you are going to redo it or continue to do that just in 2015. Is it clear to you that it has been successful? Looking at the external -- looking at the Company externally it is kind of hard for us to see it.

Julie Bradley - *TripAdvisor, Inc. - CFO*

Yes, so, I think TV is tough to measure. In Q4 of last year it was brand-new for us. We spent a lot of time testing creative, testing different measuring techniques, the timing of it and we had a lot of learnings in that period which put us in a position to retool our creative - for this year really focusing on some brand awareness, the TripAdvisor destination is better than the destination itself.

But looking at Google Analytics and our measuring tools we clearly see a positive impact from the TV ad spend. Probably it's more visible in some of our smaller markets. But it has put us in a position to work on plans for next year.

Mark Mahaney - *RBC Capital Markets - Analyst*

Should we expect roughly similar levels, accelerated levels or decelerated levels?

Julie Bradley - *TripAdvisor, Inc. - CFO*

That's a great question. We are right in the throws of our planning process. Just looking at our competitors in the broader travel landscape, it is definitely a channel that is working. And we would like it to work more for us as well. So we are in the process of putting together those plans and to support at or higher levels of spend in 2015.

Mark Mahaney - *RBC Capital Markets - Analyst*

And then with your online marketing TripAdvisor was a little bit unique about a year and a half ago really talking about the use of social media advertising platforms. But it seems like it has waxed and waned for you. Like what is the latest, what do you think about paid search versus social media versus others just in terms of the online marketing channels? Any major learnings as you have experimented a lot over the last year and a half?

Julie Bradley - *TripAdvisor, Inc. - CFO*

Well, that is the one thing you got with TripAdvisor. We believe we have this huge market opportunity and we're always looking for new ways to invest today for benefits in the future. So we did experiment quite a bit with social media, Facebook in particular. Part of I think one of our challenges is our scale. Amongst ourselves we could move this needle quite a bit in some of those channels.



So we have things like personalization and showing friends usage on our site tends to work better than on some of the paid campaigns. But we still continue to evaluate those channels. We do like SEM. I think one is the clear kind of 1 to 1 payback. It is very measurable. And especially -- so it drives users to the site.

It also helps us open up new geographies as getting those users in so that we can start getting more content, commerce coverage, so that we can drive -- it's a vehicle to help us drive more organic search as well. So we tend to use all of those channels.

Mark Mahaney - RBC Capital Markets - Analyst

Okay. TripAdvisor is a little bit unusual in the revenue concentration that you have. You disclosed that 40%-45% of your revenue comes from two companies. Could you describe the relationship today? Listing to the Expedia earnings call, it seemed like there were a couple of unnecessary statements made about the pricing and efficacy of TripAdvisor marketing channels.

And you can always have disagreements over a couple new marketing tools, instant booking or not. But overall describe your relations with Priceline and Expedia?

Julie Bradley - TripAdvisor, Inc. - CFO

Sure. So, Priceline and Expedia are very important companies to TripAdvisor and I think we are very important to them as well. And they've definitely chosen Trip to invest in this channel because it yields results from them.

You are right, (inaudible)we're going to time to time have product discrepancies about everyone trying to get that first and last for the consumer. But I would say that I'd characterize the relationship as mutual respect and we will both continue to evolve and probably brings everybody's game up a bit.

Mark Mahaney - RBC Capital Markets - Analyst

Okay. And that 50% that's been relatively either un-monetized or under monetized, the non-hotels part of the business. Can you just do a quick overview there, what the efforts are and how much of that going forward would be organic versus acquisition?

Julie Bradley - TripAdvisor, Inc. - CFO

Sure. So, since our founding we have been squarely focused on hotels. It wasn't until May this year that we started to -- we acquired La Fourchette, which is the leader in online restaurant booking in France and Spain. That matched up really well against our traffic, we tend to have about,75% our traffic comes from outside the US. So going with an international player was important to us.

And we like -- and then later this year we just bought Viator, which is the online attraction bookings site. So we believe we have two leaders in restaurants and attractions, really focused on both growing those businesses intact and also integrating them into the TripAdvisor which tends to increase your frequency on Trip. And also skewsnicely to mobile.

So we believe we have a strategy that not only starts to monetize the 60% of the traffic that is coming to our site but it is also kind of a halo effect on our hotel business. Because if you are in market on your trip and you are using our TripAdvisor app to find some museums tickets or where you are going to dine that evening, you are more likely to carry that behavior over when you are at home. So we are going to be more top of mind such that when it's time to book that important vacation you are going to start with TripAdvisor and our hotel business.

Mark Mahaney - RBC Capital Markets - Analyst

How far along are you already in terms of integrating those assets? Especially -- I know Viator was very recent. And how long does it take to integrate them the way you want to? Do you just let those run independently? So how do you not miss out on revenue synergies?

Julie Bradley - TripAdvisor, Inc. - CFO

Sure. So, Viator is -- just closed mid August. So we are in the process of drawing up more of those plans and doing some basic integrations but kind of looking at a more fulsome approach. With La Fourchette, which closed in May, we have already integrated them into -- for the restaurants they have primarily in France and Spain, into we call it a restaurant availability chart.

So instead of -- on TripAdvisor instead of needing to go to each individual restaurant to determine if they have some bookings for you -- if they have availability that evening or a reservation you are now able to search all of their properties and find party of four for dinner in Paris. And we will service the ones that have availability.

And that has increased the bookings from TripAdvisor to La Fourchette threefold. So I think with our traffic we have the ability to move the needle fairly quickly on the acquisitions. We are also in the process of doing some rolling out to other geographies. So we're pretty excited about what we can do in that space.

Mark Mahaney - RBC Capital Markets - Analyst

Do you think -- just in those two verticals, restaurants and attractions, do you have all the assets you need? Do you think you could still see some tuck-ins or do you need to do a lot of organic development beyond what you have got from La Fourchette and Viator??

Julie Bradley - TripAdvisor, Inc. - CFO

I think we have a lot of content. If we just take restaurants for a second, we have over 2.1 million restaurants and more restaurants than any other player in the world. With deep user generated content and photos. But because it hasn't been our primary focus of date, you could go and search for restaurants in a certain location and a bakery comes up ahead of the Michelin Star Restaurant.

So what we are trying to do now is really cull our inventory and to organize it such that the way that consumers are looking for it. I think that is a lot of improvement we can make on the organic side. And then both through organic global expansion and some inorganic expansion we have the opportunity to go more global with it.

Mark Mahaney - RBC Capital Markets - Analyst

Are there other verticals then after this -- after restaurants and attractions?

Julie Bradley - TripAdvisor, Inc. - CFO

So seeing that we just entered restaurants and attractions this year, I think our slate is pretty full for new stuff. We also continue to invest both organically and inorganically in vacation rentals, which is part of that other 50% traffic. But I can see a use case for other types of businesses that skews towards travelers and then it can be reinforced in the local markets as well.



Mark Mahaney - RBC Capital Markets - Analyst

Vacation rentals. So I guess there is a couple of companies, Expedia is building out its vacation rentals business through HomeAway and Priceline is trying to do it mostly organically. Do you have a sense of what is actually happening, is this creating a lot of incremental demand across the industry, is it more cannibalistic and so you are finding people instead of going to hotels doing vacation rentals? Do you have any sense about behavior shift?

Julie Bradley - TripAdvisor, Inc. - CFO

I actually think it tends to capture more mind share, but not necessarily cannibalistic. I think the vacation rental phenomena it is not new. If you are a family of five going to Orlando for a week with three small children, that probably skews towards vacation rentals versus a hotel. And by offering that we are making sure that we have what the consumer is looking for.

So I think it is additive to the space. I think that the movement towards subscription to free to listor pay per booking it raises the level of quality across all vacation rental businesses because now it is more of a CPA model than a subscription model and that resonates with the property owners.

Mark Mahaney - RBC Capital Markets - Analyst

There has been another on the consumer behavior side, we have this message shift in this industry -- I mean the Internet to mobile usage, and it has become a material channel for every major Internet Company over the last 12 to 24 months and for some companies well it has happened well before that. But really for the entire industry.

And I sometimes wonder, when we have these dramatic changes do we understand what impacts they are having on consumer behavior? Like when you think about it in that use case for TripAdvisor and what these people running around with smartphones and the millennials what that means for TripAdvisor, does that mean a more complicated environment, a harder environment, easier growth, just any thoughts on what mobile has done. It's a huge shift and I wonder if we really understand the implications.

Julie Bradley - TripAdvisor, Inc. - CFO

Yes, I really like our position in the mobile space. We have over 150 million app downloads and about 50% of our traffic between tablet and smartphone comes from mobile. So we are getting that demand. I tend to think from a use case scenario we are all multi-device people.

So if we are able to give you a great mobile experience and be able to capture your mind set while you are waiting for a meeting or waiting to get on the train, and are -- being able to continue on.

So even if you do and up end up booking on desktop, the reason that you are there is because of your rich mobile experience. And then also being able to with instant book and mobile we have kind of rolled that out first, because if you do want to book a hotel we've got to make it much easier for you on your smartphone.

And that is what we have done with instant book. And in adding more in-market touch points at our restaurants and attractions basically we have a pretty good position in the mobile market.

Mark Mahaney - RBC Capital Markets - Analyst

Gonna switch gears a little bit and talk about margins. Can margins -- I guess the simple question is, can margins ever recover to where they were in the past? And maybe this is a structural question across online travel. But specifically for TripAdvisor your margins -- this is coming (inaudible) consistently at 50% and then it has come down a little bit. And I don't know what we are doing this year like 37%. Like is there a path to margin expansion within the next 12 to 24 months or should we be thinking longer-term than that?



Julie Bradley - TripAdvisor, Inc. - CFO

Yes. So, we do not manage our business to EBITDA margins. Thankfully we have a healthy growth and very profitable hotel business that we have been able to allocate some of that profit over to expanding our total addressable market with these adjacent spaces and vacation rentals restaurants and attractions. So as long as we can see the opportunities to expand our reach we are going to allocate our profits and do so.

Mark Mahaney - RBC Capital Markets - Analyst

We only have three minutes left. I don't know if anybody wants to ask a question or two, if not I will keep going and there is a breakout right afterwards. Okay. The other parts of the advertising business, we have gone through subscriptions, we have gone through core click based business, the other parts of the business, how we should think about advertising revenue for you going forward.

Julie Bradley - TripAdvisor, Inc. - CFO

Sure, we have display that has been seeing kind of the mid-high teen's growth. We are very careful with how we use display because we want to make sure that it is the best consumer experience. So primarily on desktop we've talked about bringing some of it to mobile but more of an additive to your experience.

We have also discussed being a little bit more strategic in the data that we have. And in the display business, what we know about the consumer that's coming to our site and how we can use that with our advertisers to make sure that we target you with the most appropriate ads.

And with all of our users to the site it is a pretty meaningful amount of information that we have I think we can enhance our display business. But I wouldn't look at it as a growth driver going forward.

Mark Mahaney - RBC Capital Markets - Analyst

Have the same displays had the same challenges with mobile adoption as every other Company?

Julie Bradley - TripAdvisor, Inc. - CFO

Yes, we haven't been out on smartphone, but we are looking to kind of weave it in. But we tend to be on the right-hand side for display.

Mark Mahaney - RBC Capital Markets - Analyst

I will wrap this up unless anybody wants to ask a question. Nick? Okay, breakout starts in just a minute or two right across the hall. Julie Bradley from TripAdvisor thank you very much.

Julie Bradley - TripAdvisor, Inc. - CFO

Great, thank you.



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