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TRIP - TripAdvisor Inc at Raymond James Institutional Investors Conference

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CORPORATE PARTICIPANTS

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CONFERENCE CALL PARTICIPANTS

Justin Patterson *Raymond James & Associates, Inc. - Analyst*

PRESENTATION

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

All right, so top of the hour. We are going to go ahead and get started.

Really pleased to have Ernst, the CFO of TripAdvisor, here with us today. Thank you very much for coming.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Pleasure to be here, Justin.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Great. So just as a way of background you've been at the Company for about year now. Can you talk about just where TripAdvisor was when you came in and kind of the destination you see for the business in 2017?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Absolutely. So TripAdvisor is a Company that has traditionally always been very, very strong in what we call content and community, very strong products around reviews, close to 500 million reviews, and then also content on hotels, fresh content, photos generated by users, etc. We have always been used for that.

Always been known for our community. We have in any given month close to 400 million unique users on our site. So a lot of people using the product historically very much for planning and reviewing as an activity, so freely up-funnel, as we call it, in the travel industry.

The journey that we have been on is for our Hotel business to add more and more products that allow us to play across the funnel. And so what you have seen us do in 2013 is add a meta-auction and then in 2015 and 2016 add an instant booking product as well which is really down funnel which is a booking product. And along the way adding products that not just are not only hotel but are allowing you to book things when you are on the trip itself: so places to eat, restaurants or things to do, attractions, tours, which we have been adding a lot of supply to, too.

So what I've seen since I've joined, which is indeed a little over a year ago, is a significant investment in 2016, first in rolling out our instant booking product globally. And so we were successful in doing that. We are now available with instant booking in all markets in the world.

We have been optimizing that product. We have been adding more and more supply and suppliers, so in the fourth quarter we announced that Expedia was now also coming on board and being a partner of us in instant booking as well as Hilton. And so with that we have both the Priceline group and the Expedia group as partners in instant booking and most of the big hotel chains. So a big push there.

In the second half of last year, we also made significant steps towards the overall user experience in hotel. We added a new sort, way of sorting our hotels for our users. We have added the price functionality and the price prominence of certain product, of our Hotel product so a lot of work there.



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Right now we are still working on the overall Hotel user experience and streamlining that into this quarter, as well. So a lot of movement in the time that I have been on investing in the product.

If I go to non-hotel we grew, last year we grew our bookable supply interactions by 70%, 7-0%, last year. So a lot of effort going into there, as well.

So what have I seen since I've been here? Big investments in our product. I think we are getting to a very good place of being, having an excellent product across the funnel in hotels and adding outside, as well.

So if you ask about the future and what that means is the prize that we have in mind and what we are focused on for the longer term is we want to make this great end-to-end user experience for our users. That is what we are after, and we think we have a brand that can actually do that. We can extend from being an up-funnel player to being a full-funnel player, from being a hotel player to being a player across different products that you use.

And that's really what we are trying to achieve. We think we have a great set of cards there, we have a great opportunity there. And economically what that means is we want to improve the monetization that we have of that large user base that we already have.

Our user base is undoubtedly going to grow into the future. There is still this secular trend in this \$1.3 trillion travel market from off-line to online. But the big prize for us is improving that monetization per user per hotel shopper and then per user that we have when they have gone on a trip.

And that is what we are really focused on, that is what we are excited about. So product, a lot of product investments, hard work behind us. We are still putting some, we are still continuing to, of course, improve our product.

But now our mind is clearly shifting to, shifting that user perception from seeing us mostly as a planning and review site into this full offer site. And that is what we are focused on in 2017 and beyond.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Right. Definitely a lot to unpack there, but I will be interactive for a moment. Did anybody else just get within the past like 10 to 30 minutes a TripAdvisor alert to check out all the food near the Ritz over here?

I guess just me. I figure it's a sell sider watching this daily. So you mentioned --

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

It's definitely something we're very proud of. So we are able to now have send notification messages to our users that are in-market. And indeed the moment you land in Orlando to send a push notification on your app saying hey, you arrived in Orlando, we see you arrived in Orlando, what about a restaurant or a thing to do in Orlando or anywhere you go, and we think that's a great user experience.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Yes, definitely. And it's right near lunchtime, too, so it recognizes I'm hungry.

So you mentioned the shift towards instant booking. You've got the supply in place, there have been some challenges on the monetization front near term. Can you just talk about where you are in that transition?



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Ernst Teunissen - *TripAdvisor, Inc. - CFO*

So instant booking in the transition, we have always talked about that as roughly in four phases.

We have to get the supply on board. We are there. We have the supply, we have all the main OTAs and the main hotel chains in.

We wanted to make it available to all our users everywhere. So we have been doing that. So check there.

We have been Phase 3, we have been optimizing the product. So if you look at the evolution of instant booking last year you see that we have been evolving the way when and how we offer it. Early in the year we offered it almost always in sort of in a first slot.

We have evolved that over time, over the last years to make sure that our users always see instant booking when it has at least a what we call a meet price. So the price is as good as any alternative price that they can see in our meta-auction and hopefully a better price. And so make sure that we always show the best price to our users and reinforce that.

When we show you prominently show you instant booking it's because we think we have a good deal for you. So we have been evolving that. So that phase of optimization continues to go.

Last year in the US, for instance, in one year we improved the monetization the conversion rate on instant booking by 20%, which is a big number in our industry in one year. But we can keep moving that. We are lapping the rollout of instant booking in Europe and other markets outside of the US right now in March and in April, and we expect to see positive momentum from that, as well.

Then it is the fourth phase is really about making sure that people understand that they can book and know that they can book on TripAdvisor and use shift that user perception. So that's the next phase of instant booking, which is not just for instant booking, but it is actually relevant for our entire Hotel site including our meta-auction, as well.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

And that right there ties into something you talked about a bit on your Q4 call, weighing whether or not you get into brand investment in 2017. Could you talk about the thought process behind that and just how you envision doing brand since you have done that in the past and I think you stopped TV in 2016?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

So if you look at marketing investment, I'll start, before I go to the brand I will start with a performance-based marketing. So we have historically invested in performance-based marketing which has been weighted towards Google search but increasingly has been on other channels, as well. Facebook is a good example and growing example of that.

For performance-based marketing we have always had a fairly near-term ROI objective. We wanted to roughly break even pretty much immediately on that channel. Get those users in and then they will have a longer-term value if they get to experience TripAdvisor and use TripAdvisor, they undoubtedly have a higher propensity to come back but we are paying for, more or less paying for that first interaction with us.

That channel, that ROI criteria of approximately breakeven defined as revenue minus direct marketing cost we have not really changed over time. And what you see is that in a year like in 2016 when our monetization goes down, our monetization went down with the introduction of instant booking last year, that we can just spend less on that channel. So if you look at our total direct marketing spend for our core Hotel product grew a single-digit number last year where everyone else in the industry was able to grow it much faster.

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Now going into 2017 you see improving economics. Again in the US we saw that already happening in Q3 and Q4 last year where revenue per shopper year on year was actually up, and we saw in Q4 and into January we saw 20%-plus growth in the US revenues. We see a monetization improve we can actually invest behind that with performance-based marketing.

Higher revenue per shopper just means with the same return criteria you can bid more and now you have more volume coming from it. So we have seen that happening. We see that happening into 2017, as well.

We said publicly that in 2017 we expect our total direct marketing to grow faster than revenue. And that's because we can invest behind some of these improving trends. Of course, that implies a mix shift, which negatively impacts your margin because you spend more on paid revenues and your mix shift changes, but that's what we are targeting.

Now separate from that we have said we are now considering a potential brand investment. And why would we consider a brand investment? We are evaluating that.

For instance, TV. We have a lot of ways online to shift that user perception that I talked about, user perception from a planning side to a price comparison and booking site. And we've done that last year.

We have had sweepstakes, we had Amazon gift cards if you do your first booking. We increasingly have an ability to re-target our users when they leave our site and go to Google or Facebook. And that's been a very effective channel and growing channel for us and ability to actually get people back and stimulate trial on the site and shift user perception.

But we look at TV marketing as potentially helping us accelerate some of that perception shift. And so we have publicly said we are evaluating it. We have not yet committed to it, but we are evaluating it, the size and scope of it.

And really with the lens of of course it will help us bring in more volume but with the lens in how does it help us communicate to our users to come back to us at that moment of booking, which is so valuable to us. Not just at the moment of evaluation of review but at that moment of booking when you are about to click off on a meta-link and convert really well for our partners or click on an IB link and convert a booking for us come back to us then. And if we can shift that user perception that will be great for us, and so we are evaluating the economics of that and the expectation of that.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Right. So effectively you've got volume as a growth vector, potentially brand investment can change behavior and get people using instant booking. What can you do on mobile to help close that monetization gap since I believe that's been a pretty sizable delta versus your desktop monetization?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, on the phone we roughly, the phone monetizes roughly a third of our desktop. So if you look at revenue per shopper roughly a third. That is to a large extent because our conversion rates on the phone are so much lower, so you get a lot of our users coming to the phone, looking around, maybe coming back later on desktop to complete something but having a lower conversion.

Now fortunately we've been able to improve that. So we have seen a steady improvement of our monetization on the phone and narrowing, keep narrowing that gap. One direct way, influenceable for us to do that is to keep working on the product, make sure that the product is as streamlined as possible and clear as possible and we continue to make good strides there we believe.

And then, of course, there is just a natural shift over time that we already see happen where there is a mix shift and people get more and more used to making bookings on the phone. So we are already seeing that some of our users make actually big purchases on the phone.

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The use case still is if you make a bigger purchase, you book your one-week vacation in Italy, that you do it on a bigger screen on your desktop. But we increasingly see even mobile users actually book big-ticket items and we believe that's just a matter of time that over time the perception, the use form of mobile will incorporate bigger and bigger purchases, as well. So we expect over time to be able to close that monetization gap more and more.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

And then shifting gears over to margins, on the last call you did talk about expectations for double-digit transaction revenue growth in 2017 but you also talked the margins being flat to down year over year. Could you talk about just how you are thinking of managing the business on an absolute EBITDA basis?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. And so indeed we've talked about 2017 and said we expect, first of all, on the top line we expect double-digit growth again in 2017, which was a return to double-digit growth which was important for us to call out. And we also called out that we expect the pace car of that to be a return to double-digit growth in what we call our TripAdvisor Hotel click-based and transaction revenue which is effectively our auction revenue, our meta-auction and our instant booking auction revenue.

And that is on the back of lapping IB in most of the world. These improving trends that we have been able to see has allowed us to spend more into performance-based marketing.

We have given some EBITDA forward-looking statements and we said we expect our total EBITDA for the whole business to be flat to down and that with double-digit revenue growth implies a lower margin, of course. And that is really on the back of furthest investment in making that shift, but also an ability just to spend more on performance-based marketing. We've publicly said after a year of product introduction and holding back on spend by necessity, because our revenue per shopper is lower, we now see an opportunity to spend more again and we are going to bring our privilege growth in 2017 and we can do that with improving economics, and that mix shift to more paid brings down margins.

Now if we look out further into the future the metric that we are trying to move with all of this is our revenue per shopper. That is the one metric that we look at and we are focused on. And if we can get more shoppers to consider us at that moment of booking, get more shoppers not just to see us as a review site but as the place they go back to at the moment of they are ready to do their final price comparison and then click off to someone else or to book on TripAdvisor, that will increase revenue per shopper which will drop straight to the bottom line or as an ability to reinvest in further performance-based marketing.

But that flywheel to get that going we believe will get it to very attractive economics long term in our Hotel business. On top of that we have a non-Hotel business which is growing quickly which we have managed actually to supply growth mostly and not have seen profitability in that collection of non-Hotel businesses, but we think those have potentially really attractive margin structures going forward. And so the moment that we come out of an investment mode there and start to show some margin, those margins could be quite attractive.

So take those two combined and we look at the long term and we think we can see attractive profit growth. So we said the first thing ahead of us is we want to get back to the absolute profits that we saw in 2014 and 2015 which was about \$460 million, \$470 million of EBITDA. That's our first milestone.

And then we think we can grow beyond that and we believe our long-term margins, although we will not necessarily manage to a margin, could be mid- to high 20s EBITDA margins over the longer term. So clearly see that all of this investment that we are doing has an expected payoff of attractive profitability and attractive position combined with attractive revenue growth for us going forward.

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Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Right. So from that context how do you feel about the competitive landscape right now?

Because you are coming in with a ton of great reviews, great content on site, very top of the funnel and then the OTAs, the online travel agents, have been acquiring more meta-search assets. So how do you just envision this competitive shift playing?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

So clearly especially around OTAs, and now we see it increasingly in the meta-search as well, there has been consolidation going on in the industry around us. You see a number of relatively new players emerging with Airbnb, of course, and so that's a very dynamic competitive environment. We believe actually we are pretty well-positioned in that overall ecosystem.

So if we look ahead to how things might evolve in the next five, 10 years, a move to a phone, increasingly people looking at an experience where they don't have to click around as much, we believe the strength of the brand we have, the size of the user base we have, the position we have up-funnel which is a relatively differentiated positioning to have for us will really allow us to continue to be and expand our position as this trusted travel brand that our users will go to to seek an end-to-end hotel experience as well as the ability to tap into other verticals like attractions and restaurants. And we believe that the position we have today positions us very strongly for that future, and everything we have been doing in our product development and are now doing in our marketing development we think will add to that. So we feel very bullish about the position that we can have in that ecosystem.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Got it. One more for me, and then we'll open it up to the audience. You mentioned attractions a few times.

Steve has referred to this as the next \$1 billion business for the Company. Looking at non-Hotel revenue it looks like it's still a pretty small bit of the overall pie today. So could you talk about the factors that drive attractions over the next few years?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Absolutely. Yes, we are very optimistic and bullish about our attractions business, and we have indeed said, hey, that could be our next \$1 billion revenue opportunity next to Hotel. And so what's been going on there it's a very fragmented market.

So a large market depending on it's fragmented and large therefore difficult to size, but research estimates range between \$100 billion to \$200 billion market. And if you break that down and assume some commission structure in the long term 10%, 15% you very quickly get to very high TAM on that. And so even \$1 billion within that would imply single-digit, high single-digit share type of market share.

So we think that's with where we are a very much an achievable long-term goal. So look at that marketplace of attractions, very fragmented, there is no large OTA of attractions and with the acquisition of Viator we actually bought the most significant player in that space. What we have been focused on is keep growing that bookable supply, and we are going to keep growing Viator as a brand but that's not really where the strategic benefit is.

The strategic benefit for us is keep on adding that bookable supply on attractions and making it available to our TripAdvisor user base. And so get more eyeballs from our TripAdvisor user base on those bookable products and get them to convert and get more and more revenues from that. That is the path that we see to get to that \$1 billion revenue business.

The margins that we see in that business, the commission rates look very favorable, Hotel-like and we believe that business can have an attractive margin structure for us going forward. So with the \$1 billion revenue in the future an attractive EBITDA contribution, as well.

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Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Got it. Questions from the audience? Anyone?

QUESTIONS AND ANSWERS

Unidentified Audience Member

(inaudible - microphone inaccessible)

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, so the question is, to repeat it, is in your revenue per shopper, how much distribution is there in that revenue per shopper, is it very uniform? It's not very uniform at all. And so if you look at any given month, the majority of the shoppers on our site actually are not generating revenue for us.

The majority of the shoppers is looking at content, is evaluating and is using us. And then we, of course, have a number of users that are much more active in generating revenues, maybe come back multiple times to book something in a month. And so there is a fairly large spread there.

So it's not so much about the opportunity for us, it's not so much about raising all the boats here. The opportunity is really to look at the chunks of users that we think should be able to convert, are reviewing, are looking at reviews and should be able to convert to price comparison or to a booking experience for us and get those people to actually come back and generate revenue per shopper for us. That's the big opportunity.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

How much of the traffic they get is from the TripAdvisor channel? Yes, that's a tough statistic for us to know directly, right? I think you should ask Priceline that question.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, that was specifically desktop, but we've seen the trends on IB and desktop, the phone and on desktop improve over time in the US. So we are able to work on that conversion on both channels.

Unidentified Audience Member

(inaudible - microphone inaccessible)

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Ernst Teunissen - *TripAdvisor, Inc. - CFO*

So we have with the app in the US last year we have very much changed the user perception from the first half of the second half and pushed instant booking quite a bit. Our overall revenue per shopper in the US on the phone improved in the year last year, but it was weighted, it was more front-end improvement and in the back end we took a step back with all the changes we made on that.

Justin Patterson - *Raymond James & Associates, Inc. - Analyst*

Got it. With that we are out of time. Thank you very much, Ernst.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Thank you. Thank you, Justin.

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