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

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CONFERENCE CALL PARTICIPANTS

Mark Mahaney *RBC Capital Markets - Analyst*

PRESENTATION

Mark Mahaney - *RBC Capital Markets - Analyst*

One of the most senior statesmen in the Internet sector, that's you here at our conference, Steve Kaufer, the CEO of TripAdvisor and founder of TripAdvisor. So I didn't quite know where to begin, but I thought I would give you the overriding question - talk about the transition of the business. You've always talked about running the business for the long term. You are going through a long-term transition now. Talk about where you are going through that transition; and thanks for coming.

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Certainly. My pleasure to be here. It is a transition that we are in, as we told everyone about a couple years ago and the notion from going from what we generally believe is a truly beloved travel site with great brand awareness in so many parts of the world, but it's a site that people use for reviews and they love to plan their holiday and figure out what to do and maybe where to eat, all of which is a great place to start from because it's very up funnel.

But then as people move forward in their plans, they might pick a hotel; they may or may not click a commerce link and then they go to a hotel's website or an OTA or somewhere else to actually finish the booking. And that's been the leak that we've been talking about for a couple years and so we launched Instant Book and we've now, in the US, lapped our rollout so that we are starting to see the meaningful gains that we were hoping for when we look at what we provide to the consumer, which is, at the end of the day, is really what we are trying to do is provide that better experience.

A traveler can plan the trip using all the tools that they've always had on our site, and now they can use Instant Book to see who has the best price and if Instant Book doesn't have the best price, there is the meta options that take you to whoever does have the best price, but more and more Instant Book does have at least as good if not better price and so there is no particular reason to go somewhere else rather than click on the button and finish the booking.

Especially valuable on the phone where the friction moving between apps is harder; where we are seeing the strongest repeat usage and where you have the, hey, I'm going to plan it and I'm now, for a small segment of the population, thinking of TripAdvisor as a place to book the hotel. That's our definition of having plugged the leak and now it's a challenge for us over the next several years to educate more and more people around the world that it's not just the planning site, it's the booking site.

Mark Mahaney - *RBC Capital Markets - Analyst*

You wouldn't consider reversing your strategy on Instant Book, would you?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

We don't actually have religion around Instant Book as the be-all and end-all or the must-have. We look at it from, what will a traveler want in a few years and especially on the phone, we genuinely believe the traveler wants to be able to plan their trip with TripAdvisor -- and they are -- and then be able to easily find the lowest price, which, as we get more and more Instant Book partners into the store, we will have the lowest price on



Instant Book to be able to select that partner and book it with your thumb print, or with your TripAdvisor store credit card. You are all set to go. It's hard to get smoother and easier than that.

So if a better solution comes along down the road, or if customers say, yes, we actually just don't want to do that with you, we'd rather book it somewhere else, then fine. We will go figure out something else, but that's not what we are seeing now, so we are decently pleased with our progress.

Mark Mahaney - RBC Capital Markets - Analyst

What do you think currently is the greatest impediment to more traction adoption of Instant Book? Is it a supply or a demand problem or both? Not having enough inventory; not having enough good inventory and content, or consumers not finding the value, or not understand the value, or just being completely unaware?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Unaware. So if I were to ask for a show of hands here how many -- I will try it -- how many people have used TripAdvisor to plan any of their last trips? Hands up. Most hands go up. Keep your hand up if you used TripAdvisor to actually book a hotel on that past trip. A couple people. Excellent. Now I just need the rest of the room to get on board with that concept because I bet the several people that booked it said, yes, it worked fine and maybe I've even gone back and booked again because it's the hotel that they care about, much less the method by which you book and since I was already on TripAdvisor, I knew -- because I trusted TripAdvisor -- that I was getting not necessarily a better price, but at least as good a price as I could find anywhere else. I knew what I was getting from the reviews and photos. I booked it; put in my credit card and things worked. Yay. And so getting that trial going on all devices is really the name of the game for us.

The longer answer to your question -- yes, supply matters for us, not in quantity, but in terms of having the best pricing. And so, right now, in the US, we have a number of players, but not some big ones. In the rest of the world, we have fewer OTAs onboard and we have most of the chains onboard.

So the way we look at it from a supply perspective is just how many times does our Instant Book price lose in our own meta auction and the closer we can drive that down to zero, the more compelling an Instant Book offering becomes.

Mark Mahaney - RBC Capital Markets - Analyst

So awareness. How do you -- what can you do to boost awareness?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Well, we've certainly tried a number of things.

Mark Mahaney - RBC Capital Markets - Analyst

By the way, one of the things that I remember talking with you about this last year, which is -- or somewhere earlier this year, I think you purposely cut back on some of your brand advertising and I wondered whether that was -- if you are trying to boost awareness and whether that was the right move.



Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

So in 2016, we did take a pause on TV and I think, at the end of the day, that was probably a good move because, when we had done TV before, we had been a bit before the product was ready. And you've also seen -- perhaps not -- but if you've looked very closely at the site over the past several quarters, you've seen us shift in how we are displaying Instant Book.

In the beginning, when we launched, Instant Book was front, center, top of the page always -- even when the book on TripAdvisor price was \$20 higher than the next meta price. Well, I know people trust us, but are they really willing to spend \$20 more for the privilege of booking with us. I can definitely answer that -- no; they are not. They like the site, but they will book the cheaper option. So as we've added more supply, we've gotten better pricing, and where we still don't have better pricing, we drop the prominence of the Instant Book offering in many, if not all cases.

So going back on TV is certainly an option that we are considering when we look at how can we raise awareness, but we also have done things like there's a \$25 Amazon gift card; there's a sweepstakes entry if you book on TripAdvisor; there's a do your first booking on the phone; a number of other I would call it more standard promotional items that take advantage of the fact that we have 150 million hotel shoppers a month that are already on our site, already looking at a hotel that we can message to.

Mark Mahaney - *RBC Capital Markets - Analyst*

When you survey or track the users who have successfully used Instant Book, what do you see in terms of retention rates, their willingness to come back and do that again?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

So constantly going up. That's the good news. I don't actually have a lot of information as to what a good baseline is. Should it be going up faster or not? Obviously, the faster the better. We did disclose that on the phone 20% of our bookings are folks who are using a credit card that they stored previously. So you could think the overall repeat rate is going to be higher because not everyone stores their credit card, but we released that one just because, when you put in your credit card and you ask us to vault it, and then you reuse it, that's a pretty nice sign that the habit is building and that number has been growing every quarter.

Mark Mahaney - *RBC Capital Markets - Analyst*

It seems to me you are going through at least two transitions, a functionality transition with Instant Book and then the other is, of course, this mobile transition, which is maybe one of the biggest trends across the Internet space now. What percentage of your usage, however you want to define that, is mobile now?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

We are about 50/50 in terms of total unique users on phone versus other devices. On the phone, the percentage of folks that are hotel shoppers is a little less than on desktop, so it doesn't skew. And the phone is amazing. When you are in any market and you are looking for something to do or a place to eat, the phone is great, but that's not really the travel use case that we aim for.

Mark Mahaney - *RBC Capital Markets - Analyst*

And can you talk about the monetization challenge you've had with mobile and is that a long-term couple of years solvable -- that challenge?



Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Sure. So we actually think mobile is a tremendous -- phone particularly is a tremendous opportunity for us because of all the folks in the travel ecosystem, we are one of the best at actually -- if not the best -- at actually helping you when you are on your trip. You are figuring out what you are going to do, where you are going to eat, all the rest of what makes a wonderful vacation and the TripAdvisor app is there to help you.

And you probably don't have a reason to open an OTA app when you want to figure out where you are going to eat, or what you are going to do in destination. So we've got a really nice lock-in -- lock-in is the wrong word -- we have a really nice value proposition when folks are in market, keeping them in love with TripAdvisor so that when they go back to plan their travel next time, now they come back; maybe we've stored their credit card because they've booked something with us on the attraction side; maybe it's a second time booking on the hotel. And as the world continues to shift their buying behavior towards the phone, we've got one of the most popular apps installed on the phone period outside of social media. And so, again, we think we are well-positioned.

Part of the monetization headwind is just people book shorter stays. It's not the bigger ticket items on the phone yet. As that shifts over, again, we already have all the content; we are already there.

Mark Mahaney - *RBC Capital Markets - Analyst*

Could you talk about, at the Company, how product development occurs; how user interface improvements come about; who comes up with the new ideas; how you come up with the ideas; that sort of thing? You are an experience company and your experience is right there on my phone. Who figures out what tweaks need to happen and how well do you think you do that process of improving the product?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

I think we do it reasonably well. The TripAdvisor app has a whole bunch of different components and really there are different teams that are associated with different screens, if you will, or different use cases on the app. So the vacation rental team is responsible for how all those pages look. Flights team owns their piece of it. Attractions owns their piece; restaurants, their piece; hotels; and then there's just some overall infrastructure that a dedicated mobile team works on.

Each team focuses on their vertical and then the combination of product leadership and consumer input helps us identify, yes, it's not really working for the person coming in the homepage and trying to do something like search, which bedevils us to some degree because we have so much you could search for and it's hard to guess intent, but it's also critical for the app to work. So we have to make sure we get so many of the nuances right.

Mark Mahaney - *RBC Capital Markets - Analyst*

On the non-hotel parts of the business, can you call out a few areas that you think are doing particularly well, on plan or better and then if there are any areas there that are below plan? And I mean long-term plan.

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Sure. One of the things I personally like the best and have been using a lot is, on the app, when I'm in a particular new city, I flip to the things to do page, which used to be a long list of specific things you could do in that town and is now a much more graphical, inspiring. Hey, I could do this daytrip, I could do these attractions, I can take these walks, it is more categorized and visual, and enables me as a traveler to have a better experience. And not surprisingly, this drives higher bookings, and we are trying to teach people that not only can you research hotels and book hotels, you can research attractions and tours and book them on TripAdvisor.



Mark Mahaney - RBC Capital Markets - Analyst

You talked about the macro conditions in most of the markets. They seem neutral to benevolent as far as you can tell?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Yes, we are still a little puzzled about recent events - the one that kept us up all night. But again, we are not detecting any big change because of anything happening in the world right now.

Mark Mahaney - RBC Capital Markets - Analyst

Maybe I will ask two more questions because there's not a breakout after this and it's a pretty crowded room, so let people have a chance to ask questions. New verticals that TripAdvisor could enter. When you think about the long-term plan, are there particular offerings, things that you don't provide to consumers that you think they would really like to have, that there's a path to providing that -- them to them?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Maybe new sub-verticals, if you will. When you are in destination, what are all the different things that you want to have to make a great trip, and we have a number of attractions. We have ticketing; we have tours, but, hey, what if I'm going to go take a multi-day tour? We don't really do that right now. So it's again to the traveler how can they be having a phenomenal trip.

When we look at transportation, that's a little harder one for us because we look to -- we look at the categories where we think our core asset of community, or content, or just being the app on your phone can really drive incremental benefit versus relaying train schedules or something which probably isn't in our plans.

Mark Mahaney - RBC Capital Markets - Analyst

What about marketing channels that you've used and any thoughts on -- there have been innovations at places like Facebook that have made it a really good platform for you to advertise on, or any updated thoughts on Google as a channel?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

So Facebook has certainly emerged as a meaningful channel for a number of players in our industry, certainly for TripAdvisor as well in that they have an audience; we can target that audience; we can remarket on that platform and it's on mobile devices. But the breakthrough I'm hoping that we can collectively get better at is actually tracking the attribution challenge between phone and desktop. It makes intuitive sense to us and we have heard some folks report that, yes, 50% of your activity on the phone will end up in transactions on desktop and we would like to capture that; make sure that we are acquiring traffic at the right time to drive those benefits. But it's very hard for us to do.

Mark Mahaney - RBC Capital Markets - Analyst

And then, finally, you've had a pretty volatile stock. It's underperformed somewhat. It arguably could be looked at very attractive from a valuation perspective. Do you see this as an opportunity to deploy more cash for share repurchases or anything like that?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Not really going to comment on that piece, but I think everyone -- I've always said it and I hope everyone in the room understands that we really, really, really do run the Company for the long term. So you look at the steps we've taken and you look at the Instant Booking rollout and you look

at the footprint that TripAdvisor has for the average traveler from planning to booking to being in market and if you like the picture we paint about someone planning, getting the wonderful branded content, the reviews, the photos, everything, and then being able to see the full-price comparison, everything you can find on the Web. Eventually as we get all the suppliers in, be able to book it on our site, on our app, at the lowest price and then carry that through to, great, we can now package it with some attractions, places to eat in many parts of the world, help you live all those memories on your trip all in one app, that's, we think, a pretty compelling story to the traveler. If you believe that story and you are patient, then we are a good match.

Mark Mahaney - RBC Capital Markets - Analyst

Questions from the audience please?

Unidentified Audience Member

You guys talked about some of the positive trends in the US. I think US revenue actually decelerated, so I was wondering if you could expand on this. So I was wondering if you could help us tie in the commentary with what's happening in the US.

Steve Kaufer - TripAdvisor, Inc. - President & CEO

So we had a rough earlier part of the quarter and then September ended on an up note and we indicated that that had continued into October. We had lapped our Instant Booking -- generally speaking, the very end of August was the Instant Book rollout.

We've been asked several times, hey, do we think the rest of the world lapping will have a similar effect. And the answer is, so many of the improvements that we've made over the quarters will obviously help in all markets, but we also need, or strongly desire, additional supply partners in other markets in order to deliver the good pricing, and that's still an open question for everyone.

Unidentified Audience Member

Can you talk about the industry in terms of getting the supply in order to be price competitive on Instant Book? Is there some sort of structural impediment of getting that, or what is the challenge?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

So there's no structural impediment to us contracting directly with hotels around the globe to bring on their direct bookability, their direct room rates, their content and you've seen we've made tremendous progress with basically almost all of the major chains now. So I think of that one, check, getting there, not quite done, but almost done.

We signed a really great partnership with Priceline Group a little over a year ago and had brought their different branded inventory online over the course of that past year. I think we rolled out booking.com in December and then added the other brands.

I can't discuss the details of that contract, but that did have some restrictions on the other folks that we could partner with for a period of time. And so when we look going forward and if you listen to some other CEOs' chat, there is significantly -- in my view at least -- there's significantly more interest in Instant Book now than there was two years ago when all of the major OTAs were quite adamantly opposed.

So we think we are mostly passed the challenge of are the big OTAs interested in Instant Book, but until you see a new one or another one on the site, there isn't much more I can add to that.



Unidentified Audience Member

So I'm curious, I'm trying to decouple the different drivers wherever you create value in Instant Booking. Obviously, the customer experience in theory is better, but do you have lower traffic acquisition costs than the OTAs? I know I would presume you are taking cost out of the converting funnel. What are the dimensions of value creation -- factors of value creation that you are trying to benefit from?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

It's mostly around the -- we have so many folks who are starting to plan a trip, that are looking at a hotel, that are even pricing it out that we get no transactional credit from. Even if we get \$1 or \$2 because we send someone off to an OTA partner, they are not ready to book yet and then they come back to that partner or somebody else through another channel and that's the big leak.

Because if you look at our 150 million hotel shoppers and you think, all right, well, maybe booking.com has about as many and they make way more money per hotel shopper than we do. Well, what's the difference, they are all looking for hotels? And the big difference is, in our opinion, the folks on booking.com or any OTA, they are in I'm-ready-to-buy-a-hotel mode at a far higher percentage than they are on TripAdvisor.

So getting the person to look at TripAdvisor, look through Instant Book, all right, I might want to consider that one, they are still going to leave just as often as they might on the other site, but then when they come back, they might come back to TripAdvisor to finish the booking. And so now I picked a -- especially if I have retargeted them to come back to TripAdvisor, reminding them they can pick up where they left off and so now I've got someone who's deep in the purchase funnel ready to book.

Those are extremely valuable customers for anyone in the travel industry who we had no good way to hang onto them because when you are ready to book, if we don't have booking, we are not the site you want to go to.

Unidentified Audience Member

Your cost that's taken out of the system, if you convert versus sending it off somewhere else, right? Your channel for those other guys and that channel cost gets eliminated, right? So that's the value creation theory that you share with the customers and the hotels, right?

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Yes, so it's really about who is getting credit for that value creation. Is it Google because they came to TripAdvisor and then went to Google and then went back over? Well, I would rather it be TripAdvisor because we are the ones who created the interest in this particular property and so reclaiming that piece of it for us is in the core item of Instant Book, not so much the commission or trying to eke out an extra penny.

Mark Mahaney - *RBC Capital Markets - Analyst*

I apologize. We've come to the -- we have gone over time a little bit. Steve Kaufer from TripAdvisor, thank you very much.

Steve Kaufer - *TripAdvisor, Inc. - President & CEO*

Thank you.

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