PARTICIPANTS

Corporate Participants

Stephen Kaufer – President, Chief Executive Officer & Director
Julie M. B. Bradley – Chief Financial Officer, Treasurer & Senior VP

Other Participants

Michael Graham – Analyst, Canaccord Genuity, Inc.

MANAGEMENT DISCUSSION SECTION

Michael Graham, Analyst, Canaccord Genuity, Inc.

Good morning. Thanks everyone for being here. I hope you're having a really productive conference. My name is Michael Graham; I'm the Internet analyst here at Canaccord. We're really excited to have TripAdvisor here presenting. We've got Steve Kaufer, the CEO; and Julie Bradley, the CFO is also in the room and Will Lyons from Investor Relations. We're going to do this fireside chat and then we're going to, after this is over, head into a breakout room for some more questions. And I'd like to invite you – I'm going to lead off with a few questions, I'd like to invite everyone to raise your hand in a few minutes and chime in, we'll make it interactive with the audience.

And so, Steve, I guess to start off, I think one of the biggest concerns after your recent quarter, with all the successes that were happening within the business was just this thought and maybe the site is over-monetized, and what things might need to happen from a platform perspective and changes in infrastructure and development to bring monetization to a new level. So, could you kind of talk us through how you're thinking about that, the challenge and the opportunity there?

Stephen Kaufer, President, Chief Executive Officer & Director

Sure. I'd give the background that the comments on over-monetization has been around for, I don't know, eight, nine years, and we've only kind of pulled back from that as opposed to lean forward into newer more interruptive ad formats, et cetera. So, we have some pretty strict policies around what the display ad team can do and sell and how you can't see butterflies taking over the screen or anything like that.

So, I think that criticism would stem around, literally, our show prices button, and the fact that it opens up a couple of windows. And if you recall this time last year, depending on your browser, we might open up five or if there were 10 partners, 10 windows, again, depending on the browser, which was truly, let's just call it an inundating experience, though you were presented with a lot of price choice and a lot of supply choice. And by the end of Q3, we had scaled it back to just three windows.

So over the years, we think of it as having cut back on the monetization effort and we told everyone, hey, this was a hit that happened throughout Q4 that we will now lap as we come up to our Q4 in terms of monetization. Over-monetizing the site, we don't hear that from our users. And let me further explain that we view our users as having come to TripAdvisor to help plan their trip, a lot of focus around the hotel piece of it, and an incredible amount of rich, valuable content. They are coming to read the reviews, they are coming to look at the photos, they are looking at the room tips.

They are also checking price and availability, but it's not the first reason, in our opinion, why they are coming to the site.

So, they finally find the hotel that looks to be perfect for them or the couple of hotels and then they hit Show prices and a couple of windows pop up. That may not be the best of the piece of the experience versus an in-line meta-display from their perspective, but it's not the first reason they are coming to the site and we're delivering on that first reason to our mind – and to the rising popularity of the site – in spades, in distancing ourselves from anyone else trying to even catch up in that core hotel selection. So, we make the trade-off, hey, do we pop one window or do we pop none, do we pop three and that's a monetization trade-off, but not from our perspective, a big issue for our consumers.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Okay, thank you. Could you talk about your real-time bidding platform and just how much customization is there for your partners and how that's going and the impact you're seeing?

Stephen Kaufer, President, Chief Executive Officer & Director

Sure. We can start off with a clarification. It's not a real-time bidding platform. We have no plans to make it a real-time bidding platform. Right now, it's a process by which our big clients send us the bid prices they would like on blocks of hotels. So, a big client might have 50,000 properties being advertised on our site. They might have two or five different bid levels. So, for simplicity sake, a client might bid $0.40 a click on these 10,000 properties, $0.45 a click on these 10,000 and so on. And they can move properties between, we call them buckets, and they can change the price and it's a relatively slow procedure – it's once a week, once every other week. And so it's difficult for our clients to glean the real-time information of how much more do they get when they raise prices on a certain property.

And they knock on my door and they say, hey, wait a minute, Google does it beautifully, in each second of every day we can bid a different price for this property on a different keyword and see the immediate results, and it's like, yeah, that's theoretical, but for a lot of terms you don't even have enough traffic for a week or a month to be able to make a decision about it. But I hear the issue that our clients are having with our current system, which is it takes too long for feedback to deliver the information they need in order to optimize the bids.

So, we've had a bunch of conversations over the past quarter. And to my mind, this was kind of the biggest news in the Q2 conference call was that we've made the decision to go forward in a test basis with a test set of clients changing the way we're doing our bidding. Not that it's real-time, but that it's giving our clients, or bigger clients the ability to change their bids on a much more frequent basis all the way down to the property level and see the results in a reasonably short timeframe, so that they can increase their bids in some and presumably decrease their bids in others.

The follow-up question is, well, that sounds like Google invented it years ago, why haven't you been doing it all along? The answer is, look, there is some risk and some benefit to doing it. The risk is that unlike a Google auction, we have people bidding, and let's take an extreme example, $0.30 a click, $0.40 a click, $0.70 a click, because it's opaque, people don't know what they are bidding.

The person bidding $0.70 could say, wow, with transparent information I'm going to drop my bid by $0.20, and see what happens. And guess what? Nothing would happen to their traffic, so they just claim back $0.20 a click at TripAdvisor's expense and that would decrease our revenue, bad thing.

Our clients, our big clients have said, no, we're not interested in spending less with TripAdvisor, we're interested in spending more, give us the tools to be able to do so on the properties that we make more money on. So pick the higher priced property or the higher conversion property, how can we, with a differential bid, and the results that TripAdvisor will give to us on a real – on a quick basis, be able to increase our bid so that we can pop above somebody else in the placement to get more traffic and keep that bid in place while not changing a bid that doesn't give me more traffic.

And we've talked to our clients and we said, look, there's a win for you that you can get more traffic on the properties you care about, there is a potential win for TripAdvisor because, hey, there's more active bidding on the top properties, and there's potential lose for TripAdvisor that everyone just decreases their bid and sees what happens. So, we're talking to our big clients who have assured us that, no, the goal is to spend more in the areas they want and the reason it's a test is that, if that doesn't happen, if the clients, which I'm not worried about, but I'm just telling you as I've told them, if the first thing they do is simply lower the bids, then we'll kick them out of the test, and we'll go back to our system the way it is now.

If they're using us as they have asked for the tools to increase the bids, they increase bids here and then lower bids over there and overall have increased their spend, client wins because they get more traffic to the properties they want, TripAdvisor wins because we have a higher average price point. Everyone's happy and the system stays in place. And that's where we're moving forward with. We wouldn't be doing it if we didn't think it would make money for TripAdvisor because my current system works great and the clients are still paying and there is no client that is saying, if you don't change this, we're not going to spend.

We're already such a meaningful source of traffic for our clients and it's highly converting traffic. They like it. But they're saying, I can't spend more, so I'm having to turn to Google and other channels to spend my incremental dollars if they try to grow, and that brings a tear to my eye, I want them to be able to spend effectively on TripAdvisor.

So, that's a long winded answer to the question about our new system. By the way of other second half, other platform changes, no, there really aren't other platforms, this is specific to the commerce engine. It'll take us a while to build in all the safeguards and roll it out, but in the category of big projects/small projects, it's on the smaller end.

Michael Graham, Analyst, Canaccord Genuity, Inc.

Okay. Any questions from the room?

QUESTION AND ANSWER SECTION

<Q>: [indiscernible] (10:27 – 10:52) How do you grow your existing client base going forward?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Well, I mean the question is that our clients are saying, look, we have the opportunity to raise our prices to you, to voluntarily give you more money. If you can give me more traffic, then I, the client will make more money on. When they try a test right now, in many cases, they bid up a set of properties. Some of it works well, some of it doesn't, they don't know what's worked and what hasn't. As a whole, the test is a failure, so they revert to where they were. And so they're saying, look, let me keep the bids up on the ones that are successful and revert it back on the ones that weren't, you'll make more money, I'll make more money, win-win.

If that doesn't happen, if the whole system for whatever reason goes kaput, then as I grow my hotel shoppers, all my clients are particularly happy to spend more on the same per-click CPC. And I don't view TripAdvisor's growth as being predicated on price increases. I view our growth primarily as being predicated on more hotel shoppers, being more qualified, buying stuff. So, we have a great growth story there. And, hey, if the prices can also go up, a small percentage increase in the pricing has meaningful bottom line impact to me because it didn't cost me anything more.

<Q>: How long have you been testing this new [indiscernible] (12:25) and how long will it take to validate the results?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So for this new bidding mechanism, the question is how long would it take to validate the test and how long is the test process. And part of the answer is we don't know yet, we would expect to roll pieces of this test out over the next several months, as we start delivering more information. The full – much more of the automated bidding piece in the specialized targeting stuff, which we think is in our interests, our visitor interests and our client interests, those are some projects that will probably extend into Q1, even.

So, it's refocusing a team and growing a team of engineers and product managers to really address helping our clients bid at a more sophisticated level. And I'm fully aware that, really it's out of all of our clients, it's a relatively small subset who'll be able to take advantage of these additional pieces, because a lot of our clients love the simplicity of our current model. They say, well, here is all of my inventory, I'm bidding them basically according to profitability, you do the rest. And we do it all for them, and they're happy and that works in an awful lot of countries.

<Q – Michael Graham – Canaccord Genuity, Inc.>: A couple of your major OTA partners last week had some results that were below Wall Street expectations and you guys issued some guidance after your quarter. Did – was some of that weakness taken into account when you issued your guidance? And can you just talk generally about your guidance philosophy, how you go about thinking about what to give to the Street?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Sure. So, the guidance philosophy is around sharing a bit of how we think of the business. So, we have a pretty long-term view of growing the business. We think we're in an incredible sweet spot of the content base that we're generating, the love that we're engendering from our visitors for the free site that we offer and look at the overall travel market and say, wow, plenty more people that are not using our site on a regular basis.

So, I don't take the – I'm only doing stuff for the five-year timeframe. I've got where I want to be out there and then I wind it back to an arbitrary timeframe – a year. We say, look, we're going to share at the beginning of the year how we think the year will end up roughly, and as the year progresses, we get to tighten it a little bit. And we've said, hey, over the course of this year, we're sticking with the high-teens revenue growth, and then you say, well, wait a minute, it was 23% this quarter, it was 16% this quarter. It's like, hey that's the quarter view and I don't look at it that way.

And so, you should take comfort that, hey, as I see all ups and downs of the quarter, and of the Olympics, and of Europe, and of this, I am sticking with what I think we can deliver for the full year. I can't really comment on the specifics of how our clients' businesses are growing or not, I think they've all cited Europe, which I guess we were one of the first to come out and say, hey, there is a macro issue here and we're affected. They haven't said anything that changes my view of how we're affected. We were just first out the gate to talk about it.

And then, I can add at this point, public events that we had forecasted a hit in traffic for the Olympics based upon what we saw four years ago. And we saw a hit to our traffic that was pretty close to what we had expected. So you can consider – I can tell you that what we saw from the Olympics was reasonably accurately baked into the full annual expectations that we had tried to set.

<Q – Michael Graham – Canaccord Genuity, Inc.>: Okay. I just wanted to ask you a question about the competitive landscape, Google bought Frommer's, does that, in your mind, change the landscape in how do you see the competitive landscape evolving? What is it you're most worried about? What are your thoughts?

<A – Stephen Kaufer – TripAdvisor, Inc.>: I – look, I still think of Google as a global company, the only meaningful threat that we have out there. There is Individual threats in other specific countries, but as a global player, wow, Google just controls so much of the traffic and they've told – taught so many people start everything they do at Google. We're not any different than most other Internet companies in that regard.

In fact, we've told you all along we're spending a heck of a lot of time and effort in developing other channels of traffic and loyalty i.e. our Facebook effort, our membership growth, and we think we've been making some very nice progress in that regard. When I look at Google investing in travel, like, yeah, that's really old news. They spent $750 million for ITA to say, we are going to own that piece of the travel search. Then they launch Hotel Finder, and they have their Place Pages, and all that's, again, in Internet time old news, a couple of years ago.

So then they go and buy Frommer's. I copied our – I'll repeat the line that our Chief Marketing Officer mentioned when we caught that news, it's like, oh they went antiquing, which I kind of thought was a great way to summarize. Frommer's is – it's a nice brand, but it's just old school in what they do and it's the opinion of a writer, a good writer about a city or a hotel, or an itinerary and it's just not the way, in our view, the world has moved.

So does someone when faced with a choice say, hey, I want to read a Frommer's review of a hotel or the 500 reviews from TripAdvisor. I think the world has spoken and said, hey, TripAdvisor, the wisdom of the crowds is the way to go -- and we're on the next generation, wisdom of your friends, so you can get that extra trust level, also – that's great.

Now if the purchase price was $25 million to $50 million or whatever that's been bandied about, hey, great deal for Google. They get some evergreen content – evergreen, it's not a freshness concern, it's a description of, hey, top things to do in a city or what is Harrah's good for or where the post office is in Cancun. And that's helpful if you're in Google Local and Google Travel and you want to make sure you got the post office in the right spot on the map, and you need a paragraph description about a city or an attraction. Sure. No problem. Not in my humble opinion, a dumb move on the part of Google. At that price, hey, makes sense. I get it.

When asked, hey, so, what do you think the effect on TripAdvisor is going to be, I'm like, wow, of the companies that could change my life, that's not one of them. So, they get a little bit extra content, a tiny step function maybe in the quality of what they're able to surface as a result, but not really touching the core of what we think we do and the core of what we're known for by way of customers. They're in the travel space, we recognize them as a competitor, a tiny additional acquisition doesn't really change that in my mind.

<Q – Michael Graham – Canaccord Genuity, Inc.>: You mentioned Facebook in that response, can you just talk about your Facebook strategy and what you're buying there and how it's working, how you measure it?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Sure. So -- and I'll contract it to search engine marketing as a for instance. That's again, we're buying a trial of a visitor or a traveler to our site, get them to experience the site, potentially pays us something, potentially becomes a member, love the fact that they're reading reviews – good, we've got someone hopefully that'll come back. But we don't really know who they are. We know they were looking for a hotel in Cancun, but they're generally not a member. So, I have no way to reach out to them in the future.

Contrast that with Facebook. We're not buying traffic from Facebook over to TripAdvisor. That's hard to do, and if you're thinking about planning a trip, you don't go to Facebook to do that, you go to a search engine to do that or you go directly to TripAdvisor, hopefully. You go to Facebook, you're playing around and you're kidding with friends, doing whatever people on Facebook spend so much time doing.

One of the things they do is they play games. They pin their map on all the places they've been, they rate the restaurants that they like. They connect with something that's on Facebook like our Cities I've Visited application. And they give us some content, where they've been, what they like, how they rated various attractions in their hometown or travels, and they give us the member, an email address, as part of the equation, and they give us their friend network. Cool, so now I have someone that, while they haven't experienced all of TripAdvisor necessarily, they remember and when they come to TripAdvisor the next time through any vehicle, we're able to give them a much richer friend-connected experience and we know who they are and we can message them and email, and we're building up the type of content that we want from the individual, connected to their friends, which is important to us for a long-term win, not a short-term, going to take a few dollars off the table.

So when we talked about some of our search engine marketing changes over the past quarter, we found as I talked about in the earnings call that we didn't think we were making money on some of our spend there, so we wanted to undo that, we did. And then that saved us a bunch of money on the bottom line. And then as an independent decision process, we continued to invest in diversifying our traffic sources and improving our overall content. And that's where Facebook is playing a bigger and bigger role for us. So we did take some of the cost savings because we were going to, anyways, and invest it in Facebook. And we let some of it drop to the bottom line because we couldn't invest as much as we wanted as quickly enough in that other channel to still get us the content and the friend-connected members.

So we kind of reiterated, hey, this is what we think we're going to do on the top line. And on the bottom line, yeah, we're baking in – or you can bake in for the models – the notion of the profit that we generated in the first half of the year, but that was more accidental than deliberate and in the second half of the year, we're looking to reinvest the money for growth, more, if I had my druthers, on the long-term side of growth, than the short-term sort of quarter measurements.

<Q – Michael Graham – Canaccord Genuity, Inc.>: Wow, you finished exactly on schedule. That's hard to do. Thank you so much. I really appreciate you coming in. And there'll be a breakout session right after this, so feel free to go over there and you can ask more questions. Thanks.

<A – Stephen Kaufer – TripAdvisor, Inc.>: [indiscernible] (24:50) and we were wondering what was going on four years ago, and, of course, it went down a little because the Olympics had just started. We had at that time forecasted a growth in traffic, because of all the people traveling to the Olympics and we were wrong. So this year we were right in that more people stay home to watch the Olympics and therefore don't plan their summer trips. So I don't remember what the forecast delta was, it's going to be in the couple of percentage points-ish for Olympic impact but it was close enough [indiscernible] (25:26).

<Q>: So when you provided guidance for high-teens, you grew 23% in Q1 and 16% in Q2, so that revenue guidance implies an acceleration of the revenue growth rate in the second half as you re-deploy the search engine marketing dollars [indiscernible] (25:44) lose topline but more profits, should you accelerate revenue growth in the second half? Is that what the guidance was supposed to imply?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Yeah, I mean you can do the math that says, hey, for us to get 19% for the total year, we're going to have to do better than 16% in the back half of the year.

<Q>: So that implies [indiscernible] (26:03) Q3 is going to be lower than Q4 but Q4 you're really going to see an acceleration year-over-year? Is that the benefit of the...
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<A – Stephen Kaufer – TripAdvisor, Inc.>: We just don't provide the guidance on a quarter-by-quarter basis, so, hey, Q3 is better than Q4 every year for us in terms of the number of – raw number of hotel shoppers, that's just the seasonality running through our business, but we are comping some meaningful stuff in Q4 in terms of revenue growth and, yeah, we're sticking with our...

<A – Julie Bradley – TripAdvisor, Inc.>: Just to – we're lapping the site redesign that we rolled out in Q3 of last year, which had a meaningful impact on our revenue.

<Q>: When was that implemented? When in Q3?

<A – Julie Bradley – TripAdvisor, Inc.>: It was fully rolled out by the end of Q3.

<A – Stephen Kaufer – TripAdvisor, Inc.>: So throughout the quarter..

<A – Julie Bradley – TripAdvisor, Inc.>: Yeah, so throughout the quarter. And also Expedia started reducing their pricing to the end of Q4. So those are kind of some one-time hits that we'll be lapping in the second half of the year, which was considered in our guidance.

<Q>: Were you surprised by Priceline's performance implied about Q3, you had mentioned in your conference call, reported a lot more trading down in Europe and definitely some European history within your business. So were you surprised by what they're outlook was [indiscernible] (27:11)?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Truly Priceline or no other client shares that level of detail with us before going on their calls. So I was not surprised at all to see them and Orbitz and others calling out weakness in Europe as an issue for them. We have no insight as to whether other parts of the business would outperform or not, so no real surprises for us on the call. Yes?

<Q>: Yeah. You mentioned that some of the initiatives that you guys are doing in terms of kind of the analytics that you're providing some of your bigger customers is an effort to increase their spend overall and it was some kind of pushback in terms of what the ROIs are, just like how they're kind of measuring the success of their spend on your platform. I guess when you view that initiative, is that more offensive in nature, where you feel like, this is something we do to kind of keep the status quo, but if we were to move aggressively in this kind of analytics platform in showing more information that in fact your biggest customer was spending X today, so can spend X-plus something tomorrow and so kind of offensive, or is it more defensive in nature where you felt like the business wasn't well-positioned, you were getting feedback, [ph] you had mentioned it on the fly (28:48).

<A – Stephen Kaufer – TripAdvisor, Inc.>: Hi, so a good question, I'll try to clarify it. Is the analytics and pricing reporting that you're planning on providing offensive or defensive in nature, i.e. are your clients saying, we're going to stop spending as much, if you don't do this, or do I see potential. Let me first clarity that all of our clients, to generalize, expect to spend more with us next year if we do nothing at all, i.e. increase their spend, because our traffic is going to grow. So it's not a question of budget caps. What they're looking at is, hey, I can raise my bid to increase my share of your traffic, which they're all eager to do, if I can get more information to bid in a smarter manner on your system.

So, we view it as, I don't have to do anything at all. I have a bunch of happy clients. They love the traffic. The traffic is going to grow and our revenue will grow, because our hotel shoppers are expected to grow. But I have an optimization opportunity here where I can get a stronger bid dynamic. I ask myself, why could – why should someone pay more for a lead on a platform like a Google versus a TRIP, if I'm delivering the same quality lead. Answer; well, because they – the client can realize they can make a lot more money selling the week at the Bellagio than the week at the Hilton Garden Inn. True statements. And the client wants enough information to be able to bid precisely so that when they raise their bid on Bellagio as an individual property, they see whether or not they've got more traffic for that bid increase. And if they did, did they get enough additional traffic to support the per unit price increase. And everyone is expecting – my assumption is everyone is expecting – that some of their bid changes will work and some won't, just like when they do it on Google, and revert the ones that don't, keeps the ones that do, and that the net effect is going to be a win for the client. They'll get more of the traffic they want and we'll have a higher average price, which on the same hotel shopper volume delivers more for us.

<Q>: And then as a follow up, just to the extent that you can characterize or just provide more detail on what exactly we're giving the clients and what has happened today and what is happening tomorrow and just in terms of like what they're seeing, what they're actually analyzing to, I guess express that within a bigger...

<A – Stephen Kaufer – TripAdvisor, Inc.>: Yes, so I won't go into too much more detail because some of it isn't flushed out. We're working in partnership with the set of test clients. But the goal is uniformly agreed upon. We want to give them enough information about how their bid changes affect where they are shown on the site and therefore the click volume that they get, both for their changes but also, in a sense, relative to overall traffic.

It's like, hey, if someone were to measure their bid changes two days after the Olympics started, they'd say, hey, week-on-week, it's a decline even though I raised my bids, what's wrong with that? Well, actually your bid increase did get you a higher impression level, but we just had a higher percentage of the impressions available but with overall lower traffic it didn't deliver higher overall clicks. So bad time to test or you would have got even lower clicks had you not done the changes.

So it's – some of the details aren't worked out, but it's not really rocket science when you look at it from their perspective, what do they need to be able to bid effectively on a property by property, almost IP by IP, basis. So again, someone is willing to bid for a New Yorker going to Vegas at a different rate than someone in India browsing Vegas, because they are much less likely to actually book the trip, sort of thing

<Q>: Assuming that international – your international business has low margins than the U.S. business...

<A – Stephen Kaufer – TripAdvisor, Inc.>: Lower CPCs or lower margins?

<Q>: Margins.

<A – Stephen Kaufer – TripAdvisor, Inc.>: Okay. So we don't really allocate our engineering and a lot of cost structure across the different geographies. So to one degree, our site in Thailand is 100% margin. We don't really do much unique, other than our search spend, so it's almost free, but go ahead.

<Q>: Okay. Well, if that's the wrong assumption then the question doesn't make any sense, but my question was going to be assuming that they are lower margin and growing faster than your U.S. business, does that create a headwind to overall margins as you grow or...

<A – Stephen Kaufer – TripAdvisor, Inc.>: Yeah, so, it's not really a headwind on the margin, it's a little bit headwind on revenue growth compared to click growth, when my CPC prices in India, for instance, are much lower than my CPC prices in the U.S. So – CPC prices in U.S., up, they're actually doing pretty nicely. India, I don't remember India, in particular, but Europe, not so nice.

So, where traffic is growing or clicks are growing faster in a market with lower CPCs, the overall click to revenue growth isn't, in an ideal – in a steady state world, I grow shoppers at 30%, it means I'm going to grow clicks at 30%, I'm going to grow revenue at 30%. It doesn't work that way, usually, because, hey, we do some site re-design things, we've got to lap those. When clicks -when shoppers are growing at a much faster pace in India, my overall revenue isn't going to grow that much because the CPCs are much lower. So, yeah, lower CPCs in other parts of the world are a headwind, the other parts of the world mature, so CPCs generally rise and it's not a blanket statement to say the U.S. has the higher CPCs, because they don't.

<Q>: But on the margins, specifically, doesn't the same dynamic impact the margins?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Yeah, it's not really a margin thing because again on the SEM side, we might be investing, but it doesn't cost us a lot to build out a new point of sale. So all the additional revenue, again, still flows to the bottom line and then I choose to spend what I feel we need to spend to grow the business.

The other headwind – if we're talking about headwinds though – is mobile. So as our – as mobile phone, not tablet, so back up, I talk about desktop and tablet, I talk about that in one breath, because we see those are similar customers and then I talk about the small screen smartphone as a different piece. And the small screen smartphone still is not monetizing the way we would like it to. So as that continues to grow, that's talking away from what we see as, kind of, overall revenue shopper growth. And when we talk shoppers, we talk about all platforms, but it's really the desktop and tablet shoppers that are more valuable to us. So that's the piece of the headwind.

<Q>: My question was actually about mobile, can you tell me more about that that. I'm a long-time TripAdvisor user. When I'm on my mobile phone the first thing I do is I find the best restaurants in the area and I see what's rated on TRIP, the next thing I do is I call them. Do you get paid anything for that? And if you don't, what are the various strategies you're looking at to try to monetize mobile that is a powerful movement as everyone knows. You can see more and more mobile, I agree tablets are a lot like desktops, so strip that out and just talk about the phone, the iPhone.

<A – Stephen Kaufer – TripAdvisor, Inc.>: So I'll answer for as long as you want because you're a loyal TripAdvisor restaurant user. So, no, we don't make a dime on that phone call to the restaurant. At the moment, overall, restaurants is an insignificant portion of the revenue of our business. We have a relationship with OpenTable, so we get a referral fee, whatever that is, but truly a rounding error.

We look at, as we continue to grow the overall people looking at our restaurants, for which we are not investing money in, but because people need to eat when they travel or they find this on their – on the mobile device, Near me Now, give me a good restaurant, you've got a lot of reviews and we're collecting a lot of reviews on restaurants now. We see an opportunity. We don't want to, at this point, develop a new sales force that is going to go out and call upon the individual restaurants because we feel there is so much opportunity in the much higher dollar, easier sale talking to your hoteliers that have a great reason to want the phone number in the URL posted on the site. And we're still just, in small fractions, penetrating that opportunity. Once we feel we're on a great steady state run rate to knock down all those hotel doors and give those guys another product or two or three to buy – because again higher ticket, easier sale in our mind – we'll turn our sites on restaurants in fractions.

So again, we just offered on the website. You can now – for a hotelier, you can buy with your business listing and upgrade to mobile offering, and you get to put your special offer on mobile. Cool. And a bunch of folks are doing that, and it's easy for us to develop and relatively easiest to offer for sale with unknown aim, how many people are going to buy, and how much more money we're going to get, and we'll have some wins and some losses in a new functionality that we add there.

Restaurants, I view, and attractions as, wow, we've got so many tourists coming into a market, your example might have been a local one, but as the traveler goes into a destination and eats somewhere, that's a wonderful opportunity for the restaurant, because they're not cannibalizing their potential local eater with a coupon or two-for-one special or whatever. They're getting an incremental customer that probably never would have known about them that they can offer a special deal to. So we don't think the right way is to offer a cost per phone number, a cost per URL to put up on the site, we just feel that, that's information that should be available for free to the restaurants and attractions. But to let the restaurateur market their site to the travelers who are already on TripAdvisor, that's a nice opportunity that is expected to be approximately zero in 2012, but a nice opportunity going forward.

<Q>: Can you talk about destination rates in Europe versus the U.S.?

<A – Stephen Kaufer – TripAdvisor, Inc.>: I can tell you, we believe our brand strength is strongest in the UK, and I guess, and this is my guess, we're probably next in the U.S. and then we're strong in most European markets, and Holiday Check-Ins, kind of the exception as a strong competitor in Germany.

<Q>: Can you talk about just the cadence of the subscription business? I know just a couple of quarters ago, you were thinking about triple-digit type growth and the penetration in terms of hotels, relatively low, probably 5%, 6%. It seems like a cyclicality proposition which is how you guys have described it. Historically, I know there has been disruptions with the sales force and just kind of how you're rolling out globally and trying to kind of maximize time. But I guess when you think about the growth rate of that business, whether it's in the context of the hotel penetration or sales force rollout or sales force productivity, what growth rate should we be thinking about and how meaningful is that opportunity for you guys in the next four, five, six quarters.

<A – Stephen Kaufer – TripAdvisor, Inc.>: So I think it is a very meaningful opportunity in the next set of quarters and even more so over the next years. It's an area of the business very tangible, relatively new for us. So, I'm getting reasonably good at predicting – that may be an overstatement – we think we know the CPC business pretty well. And as I grow my shoppers, I'm going to grow my revenue for that CPC business. And it works for all parties, I got happy visitors, happy clients, kind of check mark.

Business Listings, new opportunity where we think we will barely tap the number of hotels that should want the product and we barely tapped into the wallet of those hotels by way of additional marketing services, let alone the restaurants and attractions that are also businesses on our site. So, we think it's huge growth. I was mistaken in how fast I thought we could ramp that business, because I went into the year, again not having the decade of experience with Business Listings, having never ramped a big worldwide sales force selling $300 to $10,000 product over the phone, saying, yeah, and so a bit of naiveté my part perhaps. But look, we get the bodies, the bodies are quota'd, we have the value proposition that at that point, we knew people liked, and do the math and you get a 100% growth. And I wasn't conservative enough on the things that could have gone wrong, one of which was, boy, we just couldn't get the bodies in place that we had wanted in some parts of the world. Surprise, surprise, you missed on the hiring plane and now your revenue falls.

So, we feel like we've added more people, we've put in a layer of management, the value proposition hasn't changed, and we haven't heard any reason why people don't like the value proposition. We've heard, to my mind, some nutty answers of, yeah, I'm a resort in Mexico, I have 300 rooms, the $4,000 you're asking, yeah, we don't have it in our budget this year, you'll have to wait till next February. Come on, it's a couple thousand dollars and it's CS engineer saying, but really this makes all the sense in the world talking to a marketer who says, I spent my budget, like, yes, go call up the General Manager, get another $2,000.

So, it's a mismatch of expectations, but we're all saying, yeah, put it in my budget for next year, it makes sense, I don't have to pay 20%-25% to an OTA for a booking, I pay the $3,000 upfront for the year, it's capped, and that's why so many people have signed up. But, wow, go talk to the hotel, the resort in Thailand and maybe they're just as aware of the product that they should be, maybe they've got a call from us a year ago, but we have a lot of properties in our database and a sales force that is still getting the time to call all the hot prospects, let alone the ones that are in the bottom half of the list.

So, we'll get there, very excited about it. We expect that half of the year growth to be similar to the front half of the year growth. So, I am not expecting a reacceleration because of the additional bodies, I am expecting us to continue on our current growth plan, and if I can see some upside there, great, but it's still very nice growth in the business that has sort of years of legs before it gets tapped out.

<Q>: And then as a follow-up to that, how do you think about the spend on those hotels going directly to the clip-based model versus choosing to have more of a flat line subscription risk model, and what's the kind of the trade-off there as I'm cannibalizing more from the other, or is that a different pitch? What's kind of the process?

<A – Stephen Kaufer – TripAdvisor, Inc.>: So, it's a different client right now mostly, so the Business Listing appeals generally to the independent property. I mean, Business Listing is available to all properties. The chains tends to buy at the chain level and tend to buy in clumps of, they're going to test with a couple of hundreds, then they buy a couple of thousands, depending on the chain size. And we've actually done, we feel very well with the chains and the beauty of that centralized purchasing and it's a big ticket item, so it takes a while for the negotiation, but then you get them all at once.

The independent property runs up against, hey, I spent my discretionary marketing budget this year, and by the way I have to be talking to you in Spanish and by the way it's lengthy number of conversations. So, that individual resort can't really buy a CPC link because they can't handle a dated search from TripAdvisor, so this is their only opportunity to get the direct booking, even if they have online booking capabilities on their website. There is a whole another opportunity out there that says, hey, one by one, how do we make all of those individual properties online bookable through TripAdvisor, not TripAdvisor being the OTA but letting them buy a per-click purchase in our show prices button. That would be a good thing for consumers. It's just a lot of work and it's a kind of one-by-one thing, and presumably we'd still have a CPC model on that and they would be another – they'd be the equivalent of the supplier direct for that resort. Probably confusing half the people in the room, but the Business Listing and CPC, nicely complementary, we don't have any chains I can think of that have said, no, I'm not going to pay the CPC, I'm just going to go with Business Listings. They do both, because to them, it's more direct bookings, which is direct in line with their strategy.

To the cannibalization question quickly, we don't think there is a meaningful amount of cannibalization. We assume that there's some, I personally assume that there's some, we have some data that says there's none, but we like the customer diversification benefit of all the business Listing subscribers and we like the additional reach of, hey, it's a link to book at a B&B where there's no other ability to book that B&B, and we're absolutely convinced it's incremental revenue. So...

<Q – Michael Graham – Canaccord Genuity, Inc.>: Last question folks.

<Q>: The conversion issue that started at the end of the first quarter first quarter and ran into the second and caused the strategy change, I think you identified that as from search, but not what the issue was, why did that not convert or why [indiscernible] (49:27) fall off?

<A – Stephen Kaufer – TripAdvisor, Inc.>: Sure. So to paraphrase the question, a, you talked about a conversion issue in your quarterly call, and that was just search, why was it? And I'll remind folks that we send a lot of leads to our partners, a sub-section of which are leads that we sourced from paid search as an engine. They get a lot of traffic, TripAdvisor gets traffic, domain direct and email and paid search and free search and PR, lots of channels. We were talking just about the paid search piece, which had grown a lot over the past couple of years, so it's becoming a greater share of the leads that we had sent to our clients. And we had discovered that there were some types of key words that we were buying in some markets that converted well on our site from a visitor to TripAdvisor to a click over to Expedia or Priceline or whomever.

But when they got to that Priceline or Expedia site, they booked at half the rate as our other clicks. I'm like, well, it doesn't mean that they're not of value, it just means that they are half the value and that we were spending essentially full price to buy the traffic to TripAdvisor. So where I thought we were buying profitable traffic, in fact we were losing money on this traffic we were buying. Oh, okay, so we turned down that spigot, we lowered the bids or just turned off the traffic on what we were buying, which sent fewer hotel shoppers into our funnel, fewer leads out, saved us a bunch of money at the bottom and we chose to – some of the money ended up dropping down and some was re-spent or some of our marketing spend was spent on Facebook, it – in other marketing channels. It wasn't because – I want to be clear – it wasn't because we saved money on SEM that we chose to spend it over on other channels, we were going to spend that money anyways. But that's why sort of more of it you didn't see on the bottom line, if you will.

<Q>: Are you – you were losing money or it just wasn't good for your partners?

<A – Stephen Kaufer – TripAdvisor, Inc.>: When evaluating the true economics, our partners pay us on a blended rate, hey, send me 1 million leads at $0.50 a piece, to simplify things. Some of the leads I was sending them really weren't worth $0.50 on average. They were worth a quarter. But I was paying...

<Q>: You were still getting paid.

<A – Stephen Kaufer – TripAdvisor, Inc.>: I was paying, getting paid $0.50, I was buying the lead at $0.40 for argument sake. When I discovered that, that subset of the traffic I was paying $0.40 in the true value to my client was only a quarter, I said wait a minute, I'm losing money, so I'm going to flush out that spend.

<Q>: You can't lose your money [indiscernible] (52:06).

<A – Stephen Kaufer – TripAdvisor, Inc.>: But it gets reflected back into what they're willing to bid in the next month on the average CPC. So maybe the average CPC is going to be $0.49 next month instead of $0.50, that's a $0.01 decline, that's meaningful to me, because there was a higher proportion of the lower quality traffic. So I was okay the first month or a week or whatever time period, but since their bidding, in general, on an efficiency basis, we want to make 20 points, 30 points on the traffic we send over, if I am generating fewer bookings for them, they're reflected back in the [indiscernible] (52:41).

<Q>: [indiscernible] (52:42).

<Q – Michael Graham – Canaccord Genuity, Inc.>: We have to finish guys, sorry. We're all set.