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TRIP - Q3 2016 TripAdvisor Inc Earnings Call

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CORPORATE PARTICIPANTS

Will Lyons *TripAdvisor, Inc. - VP, IR*

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

Ernst Teunissen *TripAdvisor, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Eric Sheridan *UBS - Analyst*

Lloyd Walmsley *Deutsche Bank - Analyst*

Chris Merwin *Barclays Capital - Analyst*

Rodney Hull *SunTrust Robinson Humphrey - Analyst*

Stephen Ju *Credit Suisse - Analyst*

Ken Sena *Evercore ISI - Analyst*

Perry Gold *MoffettNathanson - Analyst*

Nat Schindler *Bank of America Merrill Lynch - Analyst*

Kevin Kopelman *Cowen and Company - Analyst*

Naved Khan *Cantor Fitzgerald - Analyst*

Douglas Anmuth *JPMorgan Chase - Analyst*

Jed Kelly *Oppenheimer - Analyst*

Scott Devitt *Stifel Nicolaus - Analyst*

Brad Erickson *Pacific Crest Securities - Analyst*

Heath Terry *Goldman Sachs - Analyst*

Brian Fitzgerald *Jefferies & Co. - Analyst*

Peter Stabler *Wells Fargo Securities - Analyst*

PRESENTATION

Operator

Good morning and welcome to TripAdvisor's third-quarter 2016 earnings conference call. As a reminder, today's conference call is being recorded. At this time, I would like to turn the conference call over to TripAdvisor's Vice President of Investor Relations, Mr. Will Lyons. Please go ahead.

Will Lyons - *TripAdvisor, Inc. - VP, IR*

Thanks, Chelsea. Good morning, everyone and welcome to our third-quarter conference call. Joining me today are Steve Kaufer, our CEO and Ernst Teunissen, our CFO.

Last night, after market close, we distributed and filed our Q3 earnings release, as well as made available our prepared remarks on our Investor Relations website located at ir.tripadvisor.com. In the release, you will find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call. Also, our IR website contains a supplemental financial information document, which includes certain non-GAAP financial measures discussed on this call, as well as other performance metrics.



Instead of reading our prepared remarks on this call, Steve and Ernst will provide a couple thoughts about the quarter and about our recent progress and then we will jump right into Q&A.

Before we begin, I'd like to remind you that this call may contain estimates and other forward-looking statements that represent the Company's view as of today, November 9, 2016. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release and our filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements. And with that, I will pass the call over to you, Steve.

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

Thank you, Will and good morning, everyone. Thank you for joining the call. Hopefully, you have had the chance to read our prepared remarks that we published last night after market close. I will summarize by saying that we have continued to make nice progress on our key long-term initiatives. As our core content in community assets continue to grow, we are investing to introduce more users to our full suite of travel products and help travelers unlock more experiences and more moments than any other travel brand. Ernst.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Thanks, Steve. Good morning, everyone. In the third quarter, total revenue grew 1% year-over-year and growth rates in hotel and non-hotel segments improved modestly compared to our second-quarter results. We are still in the very early days at demonstrating the financial benefit of plugging the monetization leak. However, we continue to see very nice leading indicators of success. We believe this journey will pay off financially, but it will take time. We are moving fast; we are learning; we are improving; and we believe that we are on the best path to maximize long-term growth and shareholder value creation. With that, I'd like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thank you so much for taking the question. Maybe with respect to the commentary in the shareholder letter on investments going forward, so you are starting to lap the impact from the US launch, or lap the impact of the non-US launches through 2016 into 2017, but can you help us -- give us some color of what some of those investments are you think are key and the scope of those investments so we can better understand where you might invest and how it might move the needle for broad adoption of IB in the platform? Thanks so much, guys.

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

Eric, so basically as we continued to lap over the IB rollout, we now get to see more of the benefit of improved revenue per session, as opposed to dealing with the decline. As we continue to make our conversion improvements, that allows us to invest more in paid traffic acquisition. But, frankly, we've also built a better product now and so a lot of the wins that we've had over the past year in terms of conversion flow, in terms of having better pricing in Instant Book and flexing the interface that we've talked about before, those all come down to enabling our travelers to be able to book better and that allows us to invest more significantly in paid traffic acquisition. We are developing a better, longer-term repeat user model and we've never been shy about investing for the long term.



Operator

Lloyd Walmsley, Deutsche Bank.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks for taking the questions. I guess the first one, you called out some positive comments on Instant Book trends in particular in September, but when you look at US revenue growth in the third quarter, the oldest market for IB, it looks like it slowed a bit on an easier comp. And then just sequentially, the revenue per hotel shopper declined from the second quarter to the third quarter on a sequential basis. So can you talk about some of the puts and takes around what's behind some of those metrics?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

If you look at our core TripAdvisor auction transaction and auction revenues, the US actually sequentially improved quarter-to-quarter and throughout the quarter both on revenue and revenue per shopper, and what we thought was a particularly good sign is that now in the third quarter as we crossed the point where revenue per shopper and revenue in the US was actually first neutral year-on-year and now in the last months positive year-on-year. So we thought that was a very good sign because, at the end of August, we were lapping the sizable rollout in the US for IB last year and we feel it's very good news for us that we see that positive momentum year-on-year.

We saw it combined with conversion improvements in the US. We saw year-on-year conversion rate improvements on the desktop IB, on meta. We saw very healthy meta auction dynamics. We saw very healthy IB dynamics and this gives us a lot of hope that the US now we are lapping the full rollout of IB a year ago is in increasingly good shape. You can compare that with outside of the US and you see that the growth rates outside of the US are still negative for revenue and revenue per shopper year-on-year as we are not lapping that rollout of IB yet. But we wanted to highlight in our prepared remarks that the US is now in positive territory.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Yes. Okay. And a second if I can. The prepared remarks imply that even in mobile app, IB is a monetization headwind. So just curious, we would have always thought that it was immediately accretive given poor conversion rates in meta search in mobile. So can you maybe give us a little bit more color on the unit economics of IB in mobile and how that's trending?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

This quarter, we made the particular push on the app and we went to a more dominant display of instant booking on the app and that has had an immediate -- in the quarter -- negative impact. It's not the same as saying what is like-for-like monetization. We actually quite significantly changed the whole UI in the quarter. This had a negative impact in the quarter, but we continue to improve from there. We think that it positions us very well strategically and we think that with changes over time, we can get that to positive.

Operator

Chris Merwin, Barclays.

Chris Merwin - *Barclays Capital - Analyst*

Thank you. So, in the letter, I think you alluded to the ongoing strength of meta and was wondering if you could just talk a bit more about how you think about the meta business long term relative to IB? I think in the early stages at one point there was an investor perception, correct or otherwise, that the IB business would at one point fully overtake meta. But just wanted to hear from you all if that is the long-term vision for TRIP

and what these two products look like when you get to more of a steady state for Instant Book once you lap and complete the full rollout globally. Thank you.

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

Thanks, Chris. I don't think I would've ever said IB would overtake meta. We've always believed -- I've always maintained that meta is an integral part of our value proposition. Travelers want to come to our site. They get the phenomenal content, the information, the trust, the community and then travelers really want to know that they are getting the best price and meta delivers on that best price and if the client has a brand loyalty to an OTA or to a supplier direct and they wish to book on that site, we were fine with that because meta enables that. If the user wants to book on TripAdvisor through Instant Book, because we have great pricing, great content, then that would be a straightforward mechanism, and arguably easier on the phone because it's less of a click away. But when we look at being successful in the eyes of our travelers, it's did we help to find the property they wanted and did we help them book it at the best price, book it on TripAdvisor or book it on our partner sites through meta.

So meta remains critical. I don't frankly ever foresee it going away period, full stop, and then the delta is just, over the course of the next several years, where do our consumers choose to go? Do they choose to go into the IB flow because pricing and content and why not and they trust TripAdvisor? Well, that's fine. If they choose to go into the meta flow, we want to help them book first and foremost. We, obviously, recognize that if they actually book on TripAdvisor, they are more likely to come back to TripAdvisor, so we have an inherent interest in that as a flow, but it will never come at the expense of meta going away, or at least I wouldn't ever predict that.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

And operationally, we have teams focused on instant booking, but we also have teams focused on improving the meta search auction. This quarter, we saw nice trends on CPCs in the meta auction. We see good traction for our remarketing product. We have some other products that we are rolling out there, so meta is definitely an area where we continue to invest. It's a large part of our revenue and profits and we continue to be focused on making sure that grows attractively.

Chris Merwin - *Barclays Capital - Analyst*

Okay. Thank you.

Operator

Robert Peck, SunTrust.

Rodney Hull - *SunTrust Robinson Humphrey - Analyst*

Good morning. This is Rodney for Bob. Thanks for taking our question. Two if I could. As we think about 2017 and the Company investing again in paid marketing channels to grow the funnel, how fast or how much more do you think the shopper growth can reaccelerate to? What sort of levels are you looking at? And the second question, if I might, you noted in the commentary on the vaulted credit card number. Any sense on what that number has been growing to? That would be helpful. Thanks very much.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Thank you. Hotel shoppers is difficult to forecast for us. There are market and competitive forces at play. We do think that, with revenue per shoppers improving into the next year, we will have an opportunity to spend more. We also believe that spending more on marketing may not necessarily

only impact hotel shoppers. It may actually help our revenue per shopper as we retarget customers as well. It's very difficult for us to say at this point what exactly our expectation for the impact is, but I do want to underline that we are aiming to affect both metrics.

Operator

Stephen Ju, Credit Suisse.

Stephen Ju - Credit Suisse - Analyst

Steve, I think another question on the hotel shopper growth because it does remain at a relatively lower level versus where it has been in the past, so I suppose you can't continue to grow 10%, 15% forever, but the current level suggests that there might be some sort of a stressful change. So any details you can offer in terms of what might be happening there, especially as the consumer value proposition -- the content that you have on the site remains, in my opinion, the same as before. Also, I think you saw Priceline write-down some of the goodwill for OpenTable. Just wondering if the competitive environment for La Fourchette internationally has shifted meaningfully for you guys.

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Sure. I'm not sure I can add much on the hotel shopper. I do reiterate a point Ernst was making in that, on the paid marketing side when you go out looking for new traffic, you can get a combination of traffic that has not been to your site before, which is an increase in monthly hotel shoppers, or you can get traffic that has been to your site before and you are buying them back in remarketing fashion. Those remarketed shoppers aren't going to increase the total number of monthly hotel shoppers, but they are actually pretty important as we try to plug our leak.

So, for me, I look at the revenue per shopper and how well we are able to monetize the site a bit more than absolute percentage growth of hotel shoppers. That's just the way I look at it. When we look at the stats and we compare them against the competition, we have a lot of hotel shoppers and several of the other travel categories are just able to monetize them a lot better than we are.

To the second question, Priceline writing down OpenTable. Well, OpenTable is certainly a terrific product; has tremendous marketshare in a number of the markets in which they operate. We've seen them on the ground in Europe, or see their attempts, and so we've known for a bit that they haven't been much of an impact on our business in our core countries in Europe. So the write-down wasn't informative to us.

Ernst Teunissen - TripAdvisor, Inc. - CFO

And you will see that in our total non-hotel segment, we are showing continued attractive year-on-year growth, and restaurants is definitely a positive contributor to that.

Stephen Ju - Credit Suisse - Analyst

Thank you.

Operator

Ken Sena, Evercore ISI.



Ken Sena - Evercore ISI - Analyst

Thank you. You mentioned a focus on mobile apps and the 20% of apps that are using a store credit card. Can you just remind us maybe the percentage of mobile traffic that is app and also the percentage of overall traffic that is mobile at this point? Thank you.

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Sure. So for app versus mobile Web, it's roughly 50/50. That would be from memory. And what was the second part of the question?

Ken Sena - Evercore ISI - Analyst

Just percentage of overall traffic that is mobile.

Steve Kaufer - TripAdvisor, Inc. - President & CEO

And overall traffic of mobile, again, roughly 50/50.

Ken Sena - Evercore ISI - Analyst

Okay, thank you.

Operator

Peter Stabler, Wells Fargo Securities.

Peter Stabler - Wells Fargo Securities - Analyst

Good morning. This is Rob on the call for Peter. A follow-up on your comments on the promotion of IB and the app. I think last quarter, you said click and transaction revenue in app grew about 50%. Wondering if you can provide an update for the third quarter. And then also just wondering if you could provide some color on how the display business is performing. Any update on trends there. Thank you.

Ernst Teunissen - TripAdvisor, Inc. - CFO

We saw phone app users grow 50% year-on-year. That was attractive growth for us. We continue to see good traction on the app. We did comment on the monetization in the third quarter as we rolled out Instant Booking more, but if you look at the underlying volume trends, they are very positive. Sorry, what was your second question?

Peter Stabler - Wells Fargo Securities - Analyst

Just any update you can provide on the performance of the display business, industry trends or anything you are seeing there.

Ernst Teunissen - TripAdvisor, Inc. - CFO

The display business continues to be a solid part of our hotel business and our total offering that we make to our hotels and on the site. It has continued to grow throughout this year. Nothing more update to give there at this point.



Unidentified Participant

Thank you.

Operator

Perry Gold, Moffett Nathanson.

Perry Gold - MoffettNathanson - Analyst

Thanks so much for taking the question. Can you please comment on phone monetization relative to desktop/tablet this quarter? Can we assume it made have degraded a bit on a relative basis simply because meta was reemphasized in certain cases on the desktop and IB more aggressively pushed out in the app? Thanks so much.

Ernst Teunissen - TripAdvisor, Inc. - CFO

Yes, it did degrade this quarter for the reasons that we outlined on the app. We have commented before that it's about a 30% monetization relative to the desktop. That degraded a little this quarter, but we think longer term we can continue to narrow that gap.

Perry Gold - MoffettNathanson - Analyst

Great. Thank you.

Operator

Nat Schindler, Bank of America.

Nat Schindler - Bank of America Merrill Lynch - Analyst

Yes, thank you for taking my question. So just to look at the basis, it looked like similar -- if you are 50/50 mobile and desktop as you say, that is up from I think a third last quarter, but let's just keep it at that for easy numbers. Is it roughly a 20% growth in mobile hotel shopper traffic and a near 20% decline in desktop? And if that's the case, is there any reason to suggest that that would stop that trend? Do you see this trend continuing?

Steve Kaufer - TripAdvisor, Inc. - President & CEO

Thanks, Nat. I think I may have ended up confusing folks a bit more. When I looked at the 50/50, in my mind, I was probably considering desktop versus other and so when you throw tablet in there, I think we probably are probably closer to 60/40 in traffic in terms of desktop plus tablet versus phone.

Ernst Teunissen - TripAdvisor, Inc. - CFO

Then if you look at hotel shoppers -- that's total users, hotel shoppers is a lower percentage of phone use. It's closer to 40% the other way, 40/60. But then we talked about the relative monetization, so if you look at it on a revenue basis, you can do the multiplications. On a revenue basis, the phone is a much smaller percentage.



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

So I don't think we've seen a meaningful shift in the growth of phone over the past several quarters. So I don't think we are looking at, just in terms of adoption from desktop. So we are not calling out any particular change in any trends.

Nat Schindler - *Bank of America Merrill Lynch - Analyst*

So you would expect in 2017 very similar desktop traffic shrinking at similar rates as mobile traffic growing?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

It's a little early to be specific about these trends for next year, but the trends that we have been seeing in terms of relative growth of desktop and mobile are likely to continue.

Nat Schindler - *Bank of America Merrill Lynch - Analyst*

Okay. Thank you.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Company - Analyst*

Good morning. Can you give us any more color on your direct advertising cost plan for Q4? It looks like that line was up 5% year-over-year last quarter, but about 20% ex-TV. So how should we think about that as you anniversary TV? Thanks.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

We aren't giving any specific outlook for the fourth quarter. If you look at the year overall, we've had a fairly modest year-on-year increase in our paid traffic spend. As we were indicating in our commentaries about 2017, going into 2017, we may lean in a little bit more on paid traffic.

Operator

Naved Khan, Cantor Fitzgerald.

Naved Khan - *Cantor Fitzgerald - Analyst*

Thank you very much. Just a little bit of clarification on your last answer. Are you also thinking of going back on TV for advertising? And then I have a couple of follow-ups.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, when we stopped on TV about a year ago, we said we would pause in 2016 and then reassess going into 2017. We are still in that phase where we are reassessing, so I don't want to make any comments yet about where we are going to come out there. On TV, it's one of the options that we have been considering throughout the year for next year.

Naved Khan - *Cantor Fitzgerald - Analyst*

Okay. And then I'm just trying to do my math here and just want to make sure I'm doing it right. If I look at the deferred revenue, it looks like last quarter you did benefit from some deferred revenue from the prior quarter. How did that affect the monetization metric, if it did?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

So if you look at revenue recognition and the impact of that, we've been describing that we have a seasonal impact of deferred revenues and it is impacting different parts of our business. If you look at the difference between bookings and recognized revenue across all our businesses for the quarter, it was a year-on-year tailwind of about 2% growth. If you look at currency, that was about a 2% headwind, so those two impacts netted each other out for the quarter.

Naved Khan - *Cantor Fitzgerald - Analyst*

Okay, great. And then one last question. Steve, maybe you can answer this, but do you think additional -- if another player maybe like an Expedia to Instant Book can further improve the monetization, or are you at a point where you think that the impact would be very, very marginal?

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

I do believe the more partners that we have globally on the platform enables us to offer -- if the partner has better pricing some of the time, it allows us to offer better pricing to our travelers. When we have better pricing, we have a higher conversion rate. So in that sense, a partner the size of Expedia is likely to have better pricing some of the time, so that would help our conversion rate and therefore help us financially.

Naved Khan - *Cantor Fitzgerald - Analyst*

Thank you.

Operator

Douglas Anmuth, JP Morgan.

Douglas Anmuth - *JPMorgan Chase - Analyst*

Thanks for taking the question. Steve, relative to a couple of years ago, has anything changed in your view of what Instant Book can do for the Company over the long term and is it just on a different timeline perhaps than what you may have originally anticipated? Is there any view you can share on when you think Instant Book in the US can become revenue-accretive? Thanks.



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

So it's a great question and we've thought about it a fair amount internally and we continue to believe pretty passionately that we are on the right path with Instant Book. If you look at our total usage of TripAdvisor and the site and of course, the app, in market, and the loyalty, and the appreciation, the trust we have from our users globally, yet the business model is based upon doing all that -- was based upon doing all that -- and then sending folks off somewhere else to book and we were missing all of the easy bookings or all of the opportunity to be the app that someone opens when they are ready to book something.

And so with Instant Book, we've addressed that. It's absolutely taken longer than we thought, but it is a multi, multi-billion dollar opportunity as we've explained before as we can close the gap between us and what a typical online travel agency generates in terms of revenue from these travelers. It's a huge win for us. The thing that's clearly been harder -- that's taken longer than we thought -- has been the changing of the consumer perception, so that they do or they would open up the app or come right back to the website when they are ready to finally book, versus go to where they are familiar with. But, as we say, we see the green shoots. We see it happening and we had projected it would happen sooner, but we still like what we see and we are very comfortable we are on the right path.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

And to the second part of your question, we believe we are now at breakeven on desktop in the US. We've made excellent progress I described before. Conversion improvements again this quarter year-on-year on IB. Outside of the US, we are still some way away since we just rolled out earlier in the year, but again there, we believe over the longer term, we can break even and then make it accretive to the whole business over time.

Douglas Anmuth - *JPMorgan Chase - Analyst*

Just to follow up, Ernst, when you say you're break even, you are saying you are essentially at revenue parity now with what you've moved to Instant Book versus what you were doing before with meta?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. And I say we believe because it's not an entirely scientific way of answering that question. We've made a lot of changes and it's difficult to completely assess what the like-for-like would've been if we hadn't made the changes, but based on all of the indicators that we do have and the analysis that we do have, we believe currently IB is neutral to the overall economics.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer - Analyst*

Great. Thanks for taking my question. On Viator, it looks like online bookable activities is in the single digit percentages of the 730,000 activities on your sites. What's been the biggest headwind for tour operators not joining online bookable and are there certain types of activities or tours that are adopting the online channels faster?

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

I don't think there's a single objection. We have an awful lot of attractions. It still takes some effort to onboard in each and every one and so we go after the ones that we think consumers want to book the most. As I am sure you are aware, many of the attractions are government-owned. They don't have an ability for us to do an instant electronic ticketing so for that, we have to wait for their use of technology to catch up. That will be a

while. I don't view our attraction business though as being -- or growth in our attractions business right now -- to be particularly limited by supply connectivity. Obviously, the more supply we have, the faster we will grow, but we've done a phenomenally good job of aggregating up supply and now I think the big challenge is to put it in front of people on a timely basis, and otherwise get the kinks out of that system.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

If you look at our prepared remarks, we noted that supply grew 70% year-to-date and number of partners 60% year-to-date. We continue to believe that this is a great opportunity for us to grow in a very fragmented market.

Jed Kelly - *Oppenheimer - Analyst*

Thank you.

Operator

Scott Devitt, Stifel.

Scott Devitt - *Stifel Nicolaus - Analyst*

Hi, Steve. It's understandable why the user experience and monetization have evolved as your traffic has shifted from desktop to mobile. In terms of just better understanding -- this is a follow-on I suppose to Doug's question -- whether this was done from a position of strength or weakness. I'm wondering whether you think the business will be better in a mobile environment at some point in time versus desktop in financial terms, or if it's possible that the business model was optimized for desktop and that it's proving, as you make this transition, to be difficult to replicate that monetization? Thank you.

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

I think the switch to mobile, the move to mobile may be a short-term headwind for us as we monetize less, but it's something that is almost tailored towards where we are extremely strong, which is the -- in destination marketplace. So I can't quote specific numbers I suppose, but we have way more people using the TripAdvisor app when they are on the road.

As you look to an app environment, we would suspect people would be using fewer sites and if that app-first world comes to be, we would like to think you will have to have TripAdvisor on your phone because we are the app that is going to be used in market. So long as you know of us as a place to book, then we are going to earn our fair share of your bookings.

So I think as an opportunity, the app is, or the mobile environment, phone environment is fantastic. We've been focused to a decent degree on making sure that that full experience is a solid one, not just the bookings piece and I think that helps differentiate us from the other travel apps you might have on your phone so that we can continue to win the hearts and minds of travelers.

Scott Devitt - *Stifel Nicolaus - Analyst*

Thanks, Steve.

Operator

Brad Erickson, Pacific Crest Securities.

Brad Erickson - *Pacific Crest Securities - Analyst*

Thanks for taking my questions. I guess just first on Instant Book, are there any other platform or technology investments broadly that need to be made in order to make Instant Book the destination that you want it to become in the future, or do you think you are now really equipped in order to drive the model transition that you've got mapped out over the next couple of years? Thanks.

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

I think we always have to put the lens of the consumer on when we try to answer that question and right now, I think every time you look at the Instant Book offering and you don't see that it's at least as good a price as where you'd find elsewhere on the Web, when you look at the room descriptions and the photos and you see that they are not quite as good as what you can find on another site, that's an opportunity for improvement that we have to do in order to win conversion on that site.

And I think if you look at the magical secrets of the other agencies selling hotels on the Web, you will find that attention to detail; making sure the consumer has the best possible price, the best selection of rooms, the content, the photos, and we are in some part dependent upon our partners, our OTA and our supplier direct partners for that. So having more partners onboard, well-implemented, will improve all of those things, including our meet, beat, lose rates. And, to be clear, our meet, beat, lose rates have been improving over the past 12 months and that's part of the reason why we've seen an uptick in conversion.

But I think it will -- there's no one big thing we are missing, one big technology investment we are missing, but I think we would forecast out steady improvement in Instant Book because of the additional supply partners that we will continue to add for a long, long time. And I say for a long, long time in part because there is hundreds of thousands of independent hotels out there that want to be on our platform that we would like to have on our platform that we haven't gotten to yet.

Brad Erickson - *Pacific Crest Securities - Analyst*

Got it. That's helpful. Could you just provide the portion of bookings that you're getting from directly-linked hotel inventory versus booking.com? Thanks.

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

We don't give out that percentage, but you do have to appreciate that in order to try to teach users that they can book on TripAdvisor, we want to be able to offer the widest selection in as many languages, in as many markets as we can and booking.com and Agoda and Priceline brands in general have been really great partners for us on this and so the percentage of bookings that an independent hotel, even a popular one in the United States can provide, just pales in comparison to what that partnership delivers for us day in, day out. So we don't share specifics, but I can tell you the folks with the biggest supply footprint in the most languages are clearly the ones that get the most bookings.

Operator

Thank you. (Operator Instructions). Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Great. Thanks. Just wondering if you could give us a sense -- I know you don't generally go into sources of traffic, but given the changes that Google has been making, particularly to organic placement, to what degree we should be taking that headwind into account when thinking about hotel shopper growth.

And then looking at the Priceline, Expedia participation, it would seem that the international side seems to be where the gap is widening the most between the two. How much of that is a function of Instant Book versus maybe some other factor that we are not seeing there?

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

So I wouldn't really say there's anything new on the Google organic front, the search results. It remains a headwind. It's been that way for many, many years now as Google continues to put their owned and operated placements ahead of what users are looking for in terms of the regular organic search results. We've grown accustomed to it and we are running our business accordingly.

To the second question on Priceline, I would have to really defer to them in terms of whether our Instant Book could be having a bearing on their business. Point out that they have a really big international business, so impact from us -- we have no visibility, or little visibility, so I can't really say.

Heath Terry - *Goldman Sachs - Analyst*

Okay. Thank you.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Thanks, guys. Phase three of your plan, improving the shopper experience, maybe boils down to near term monetization trade-offs to drive long-term engagement and habit, so maybe more of a top-line management dynamic there versus phase four, which is earning trust as the booking site of choice, which I think involves more marketing email campaigns, push notifications, promotions. Maybe call that more OpEx management. Is that the way to think about it? Does phase four involve more granular degrees of adjustments and fine tunings on the dials versus phase three? Is phase four more real-time levers? Can you give us some color there?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, Brian, the way we think about the phase three versus phase four is phase three is really about a lot of optimization of the product, and we are very focused on that at the moment; improving the conversion flow; improving how and when we market IB versus meta; making sure we have excellent improvement in meet, beat, lose, which we, by the way, are continuing to improve. We continue to improve the percentage where we have room prices in IB that at least meet the price in meta. So that's a very operational, product-oriented focus that we have.

The fourth phase is really about changing user perception. We have traditionally been seen by users as a site that is great as a starting point to go to reviews and to plan your trip. Increasingly, we are communicating to our users that we are also a great place to book and that is taking time. That is a repositioning of the brand perception that we have. So that's much more oriented towards how do we communicate that improved offer to our users, which is partly done on our site and it's partly done by communicating with users that have been on our site before. More of a communication opportunity. Phase three, more of an optimization -- product optimization opportunity.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Great. Thanks, Ernst.



Operator

Nat Schindler, Bank of America.

Nat Schindler - *Bank of America Merrill Lynch - Analyst*

Quickly, I don't know if you said anything on this -- I didn't hear it. How much revenue was shifted into Q3 from Instant Book revenue recognition policy change, or effective change?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

We've not made a specific breakout. I did say earlier on the call that the year-on-year impact of revenue recognition, the impact on the year-on-year growth was 2% overall. That impact is actually the highest for our vacation rental business, where we discussed earlier in the year, we've had a shift to more and more transactions that get recognized on stay. So that 2% is an overall number. We've not broken it out further, but it's lower for the hotel segment and higher for the non-hotel segment.

Nat Schindler - *Bank of America Merrill Lynch - Analyst*

Okay.

Operator

Thank you. And I would now like to turn the call back to TripAdvisor's Chief Executive Officer, Mr. Steve Kaufer, for any closing remarks.

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

Okay. Well, thanks, everyone, for joining the call and I want to thank all of our employees around the globe for their continued hard work. We look forward to updating you on our progress next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may all disconnect. Everyone have a great day.

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