



# First Quarter 2017 Performance and Business Update

April 27, 2017

## Important Notice

Please read this management presentation together with the Company's press release issued earlier today announcing the Company's first quarter 2017 financial results and in conjunction with the Company's recent Annual Report and Quarterly Results as filed with the Securities and Exchange Commission (SEC).

Certain statements contained in this presentation that are not historical facts may be forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward looking statements may include, but are not limited to, statements about our plans, objectives, expectations, prospects, expected future financial guidance and intentions, markets in which we participate and other statements contained in this presentation that are not historical facts. When used in this presentation, the words "expect," "predict," "project," "anticipate," "believe," "estimate," "intend," "plan," "seek" and similar expressions are generally intended to identify forward looking statements. Because these forward looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward looking statements, including changes in our plans, objectives, expectations, prospects and intentions and other factors discussed in our filings with the SEC. We cannot guarantee any future levels of activity, performance or achievements. Travelzoo Inc. undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this presentation.

Part 1:  
First Quarter 2017 Performance

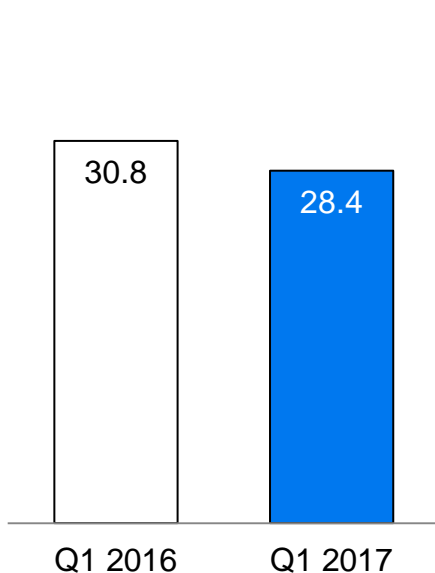
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Part 2:  
Business Update

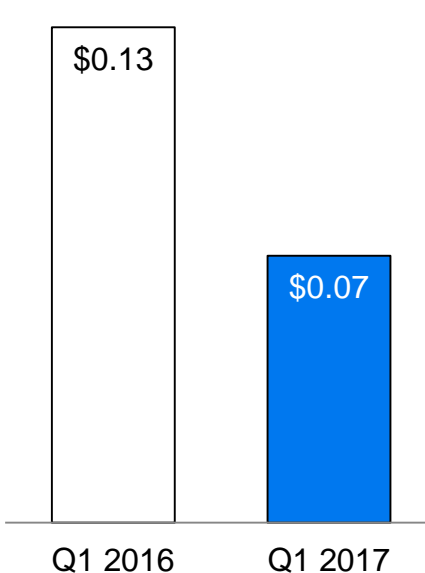
Lower revenues and a higher effective tax rate\*, due to geographic mix of income, led to lower net earnings.

## Q1 2017 Financial Performance

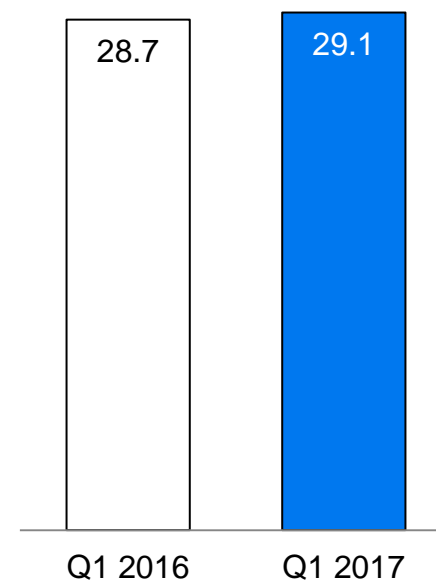
**Revenue**  
(continuing operations)  
\$ millions



**EPS**  
(continuing operations)  
\$ per share



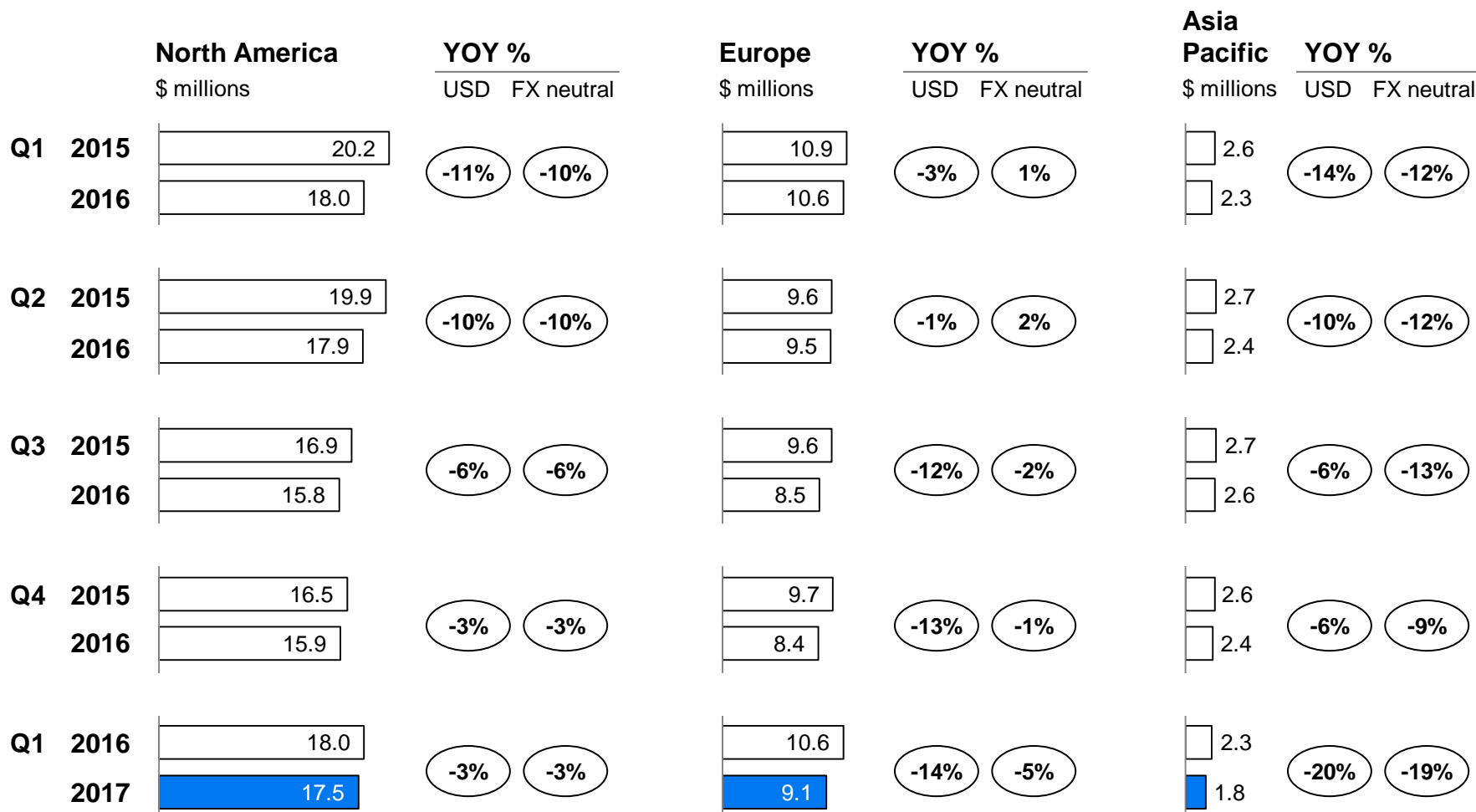
**Members**  
Millions



\* Effective tax rate in Q1 2017 was 58% vs. 39% in Q1 2016

# Reported revenues in USD are still impacted by unfavorable F/X trends mostly due to the effect of Brexit on the GBP.

## Quarterly Revenue by Segment\*

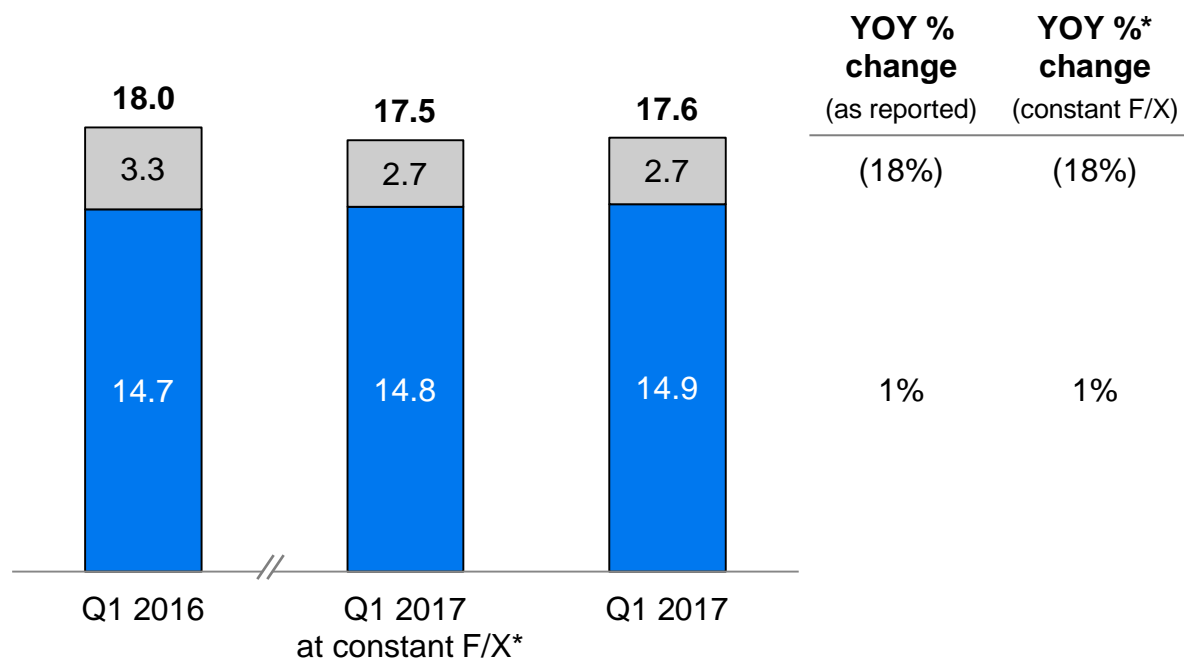


\* Overall impact of unfavorable F/X trends during Q1 2017 is \$892,000

# In North America, revenues from our Travel products continue to increase year-over-year.

## North America Revenue by Type

\$ millions



### Highlights\*

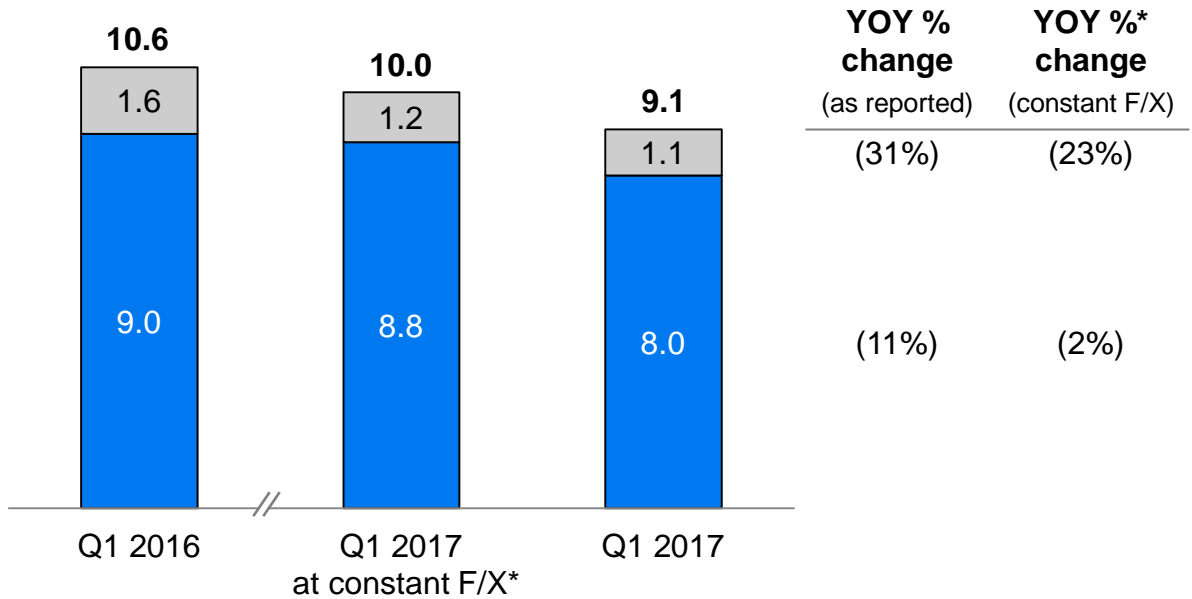
- **Travel** – YOY increase driven primarily by growth in vacation revenue.
- **Local** – YOY 18% decrease driven by focusing on fewer cities and elimination of unprofitable activities.



\* Based on constant F/X rates for CAD

# In Europe, revenue continued to be impacted by unfavorable foreign currency rates and industry headwinds.

Europe Revenue by Type  
\$ millions



Local  
Travel

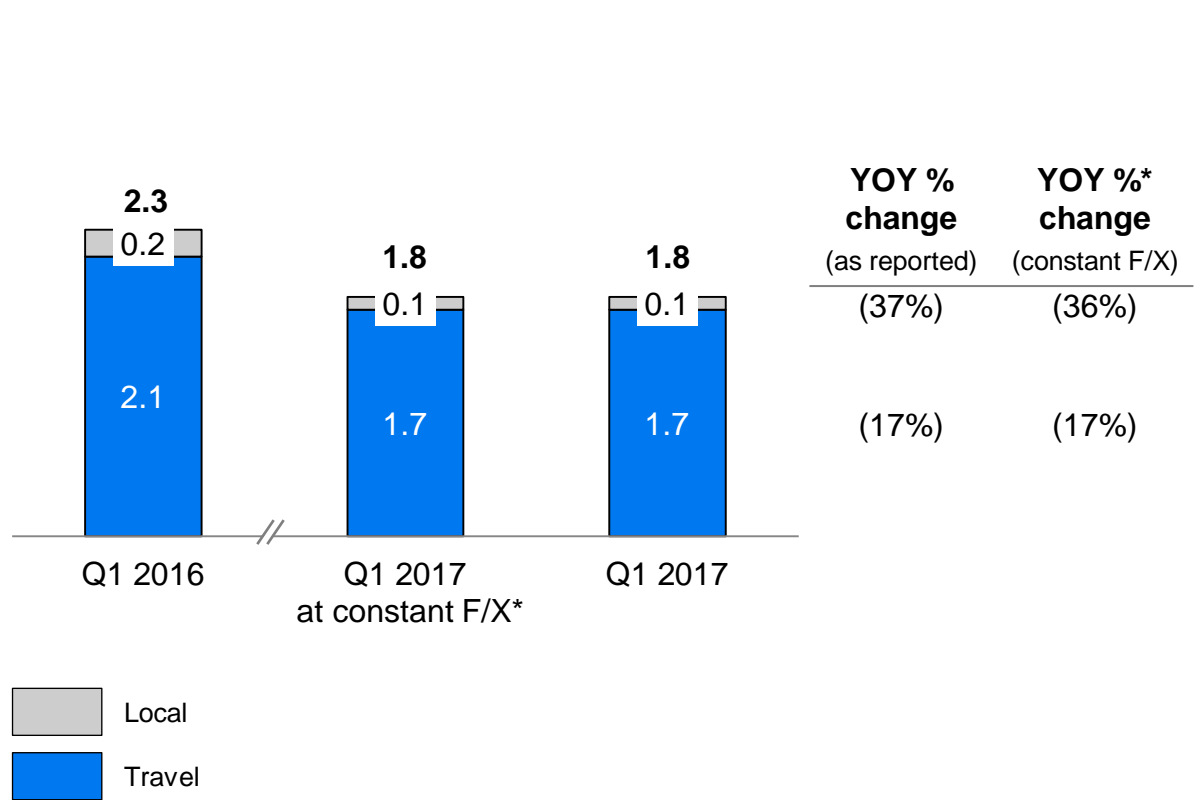
### Highlights\*

- **Travel** – YOY 2% decrease due to industry headwinds arising from UK tourists avoiding certain destinations for security concerns, offset by solid revenue growth in Germany.
- **Local** – YOY 23% decrease driven by lower voucher sales.

\* Based on constant F/X rates for GBP and Euro

# In Asia Pacific, temporary operational challenges and understaffed sales teams in some countries led to disappointing revenues.

Asia Pacific Revenue by Type  
\$ millions



### Highlights\*

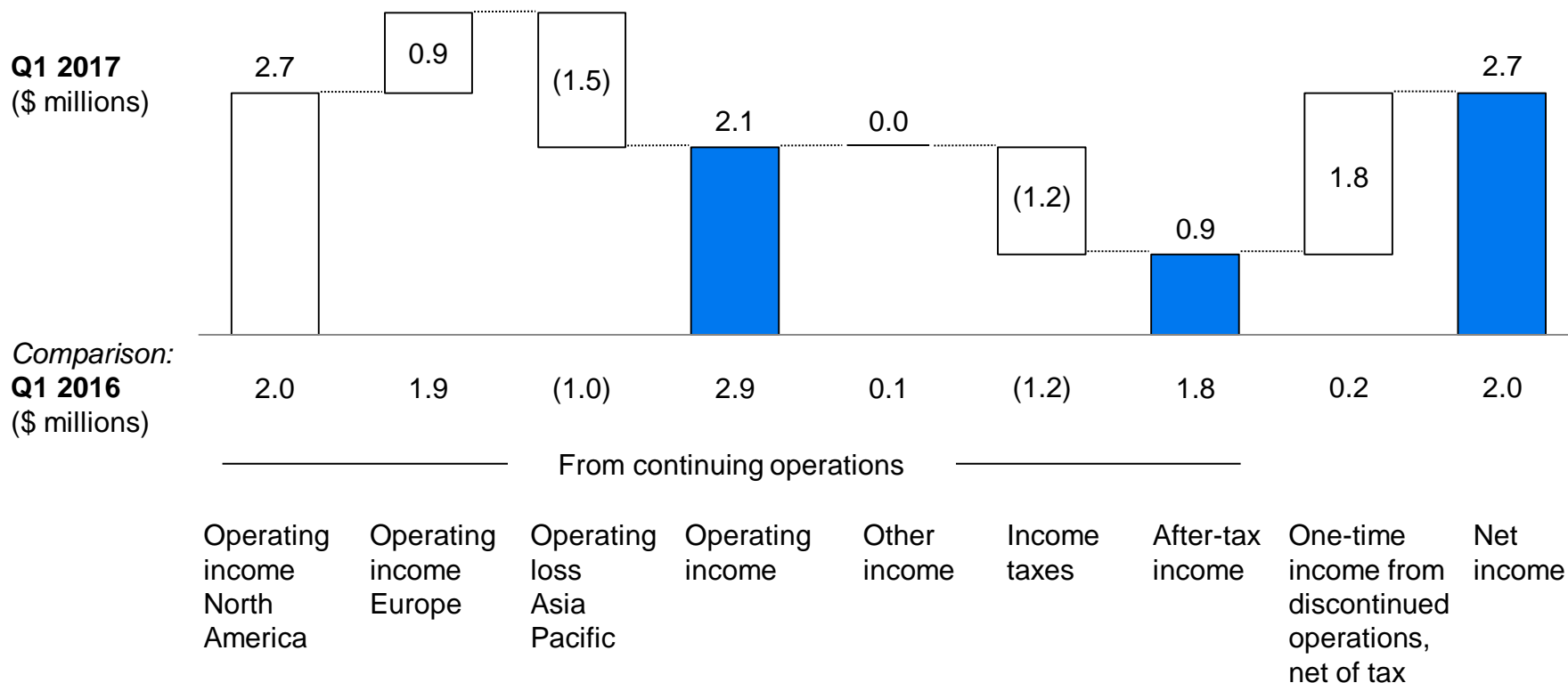
- **Travel** – YOY 17% decrease driven by staff turnover and unfilled sales positions in various countries, and by lost revenues due to the bankruptcy of a large travel agency in Japan.
- **Local** – YOY 36% decrease driven by focusing on most attractive local opportunities.

\* Based on constant F/X rates for Asian currencies



# North America operating income increased. Gains from the sale of Fly.com improved net income.

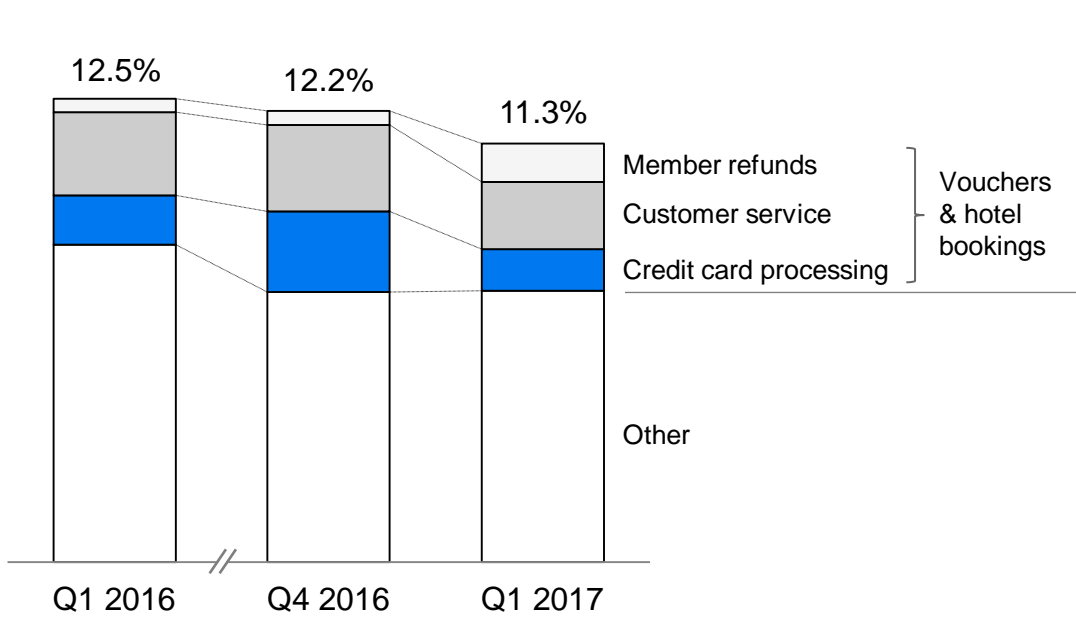
## Year-Over-Year Comparison



# Cost of revenues decreased year-over-year due to smaller portion of voucher sales and syndication.

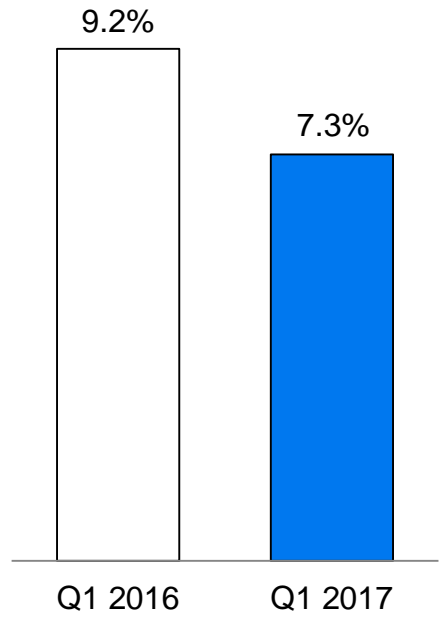
### Cost of Revenue

as percentage of revenue



### Operating Margin

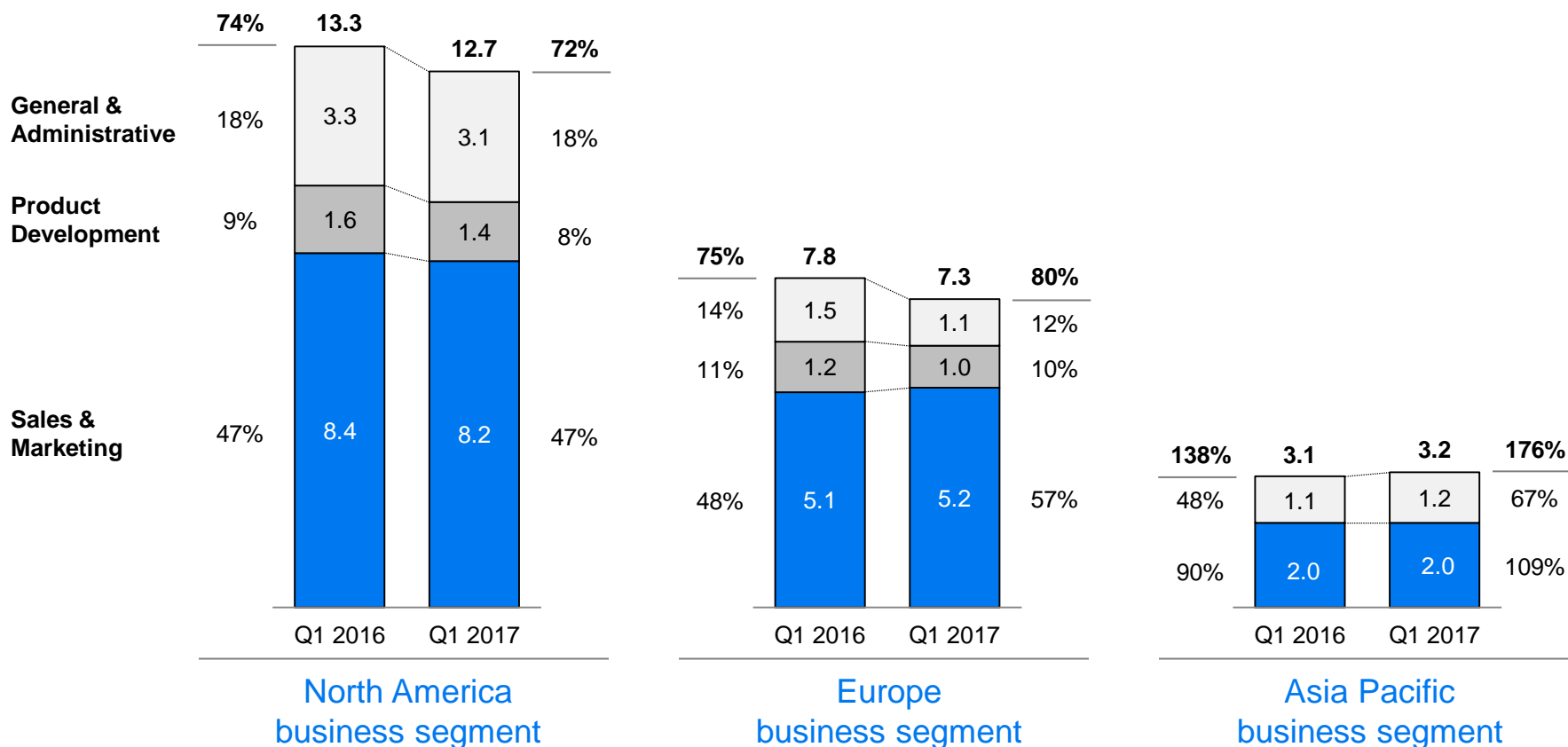
as percentage of revenue



We lowered operating expenses in North America and Europe.  
We increased marketing investments in Europe and Asia Pacific  
relative to revenues.

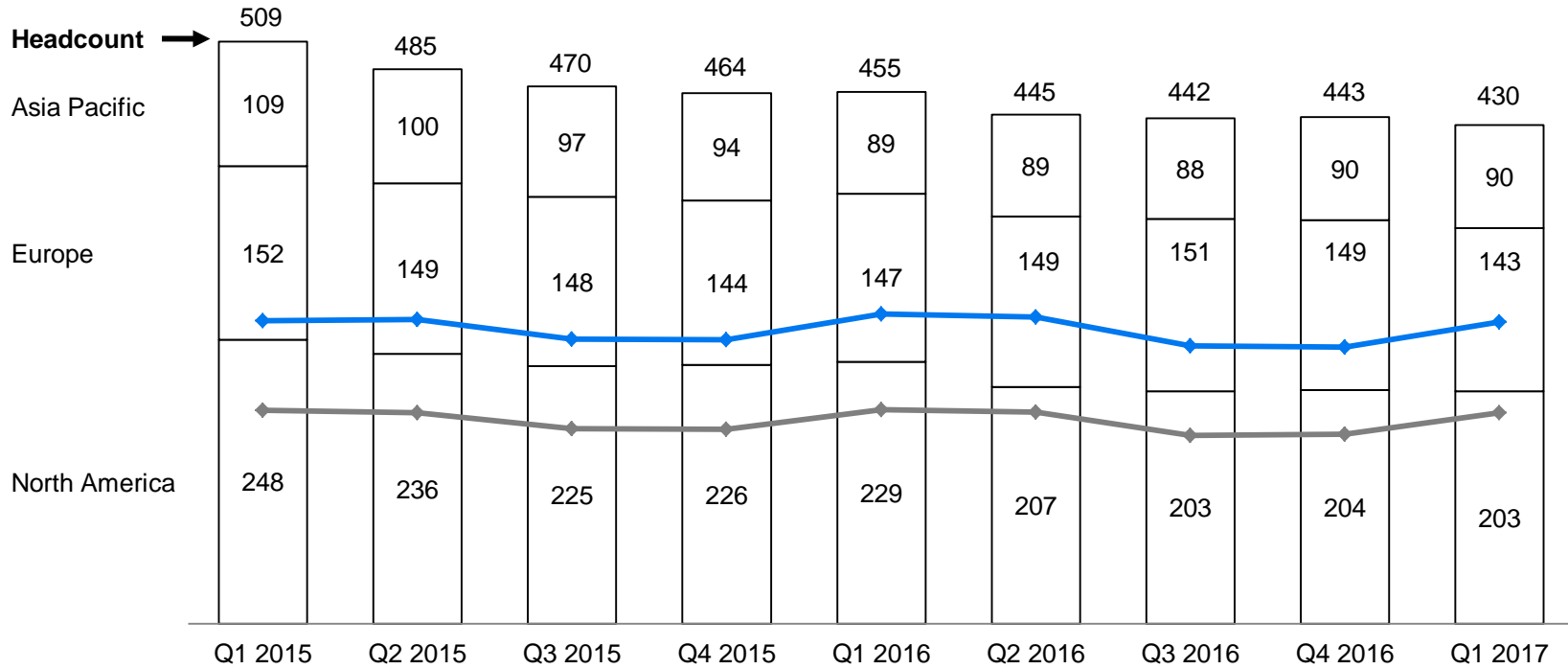
## Operating Expenses

\$ millions and as percentage of revenue



# Productivity remains stable.

## Headcount and Average Annualized Revenue per Employee



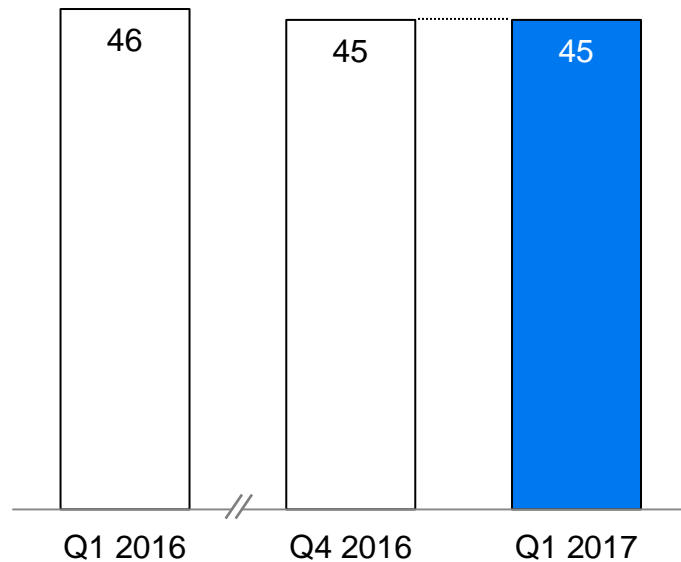
### Revenue per employee (\$ thousands)

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
Without Asia	\$311	\$307	\$284	\$283	\$313	\$308	\$274	\$276	\$307
With Asia	\$266	\$266	\$249	\$248	\$271	\$268	\$243	\$242	\$264

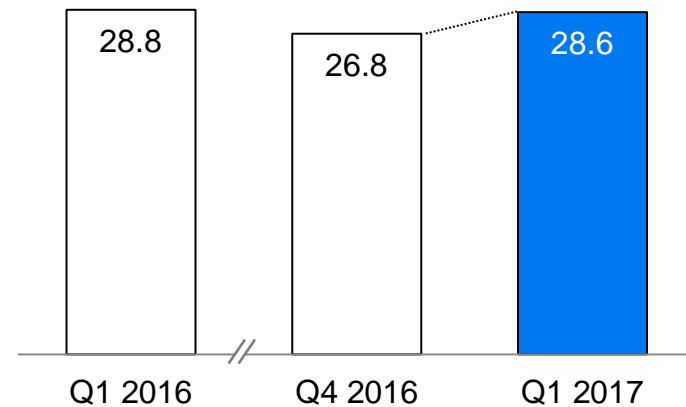
Cash position increased from operating cash flow and sale of Fly.com domain name, partially offset by continued stock repurchases.

## DSO and Cash Balances

**DSO (Days Sales Outstanding)**  
# of days



**Cash Balance at End of Quarter\***  
\$ millions



\* Includes cash and cash equivalents

# First Quarter 2017 Performance Summary

- Financial performance continues to improve in North America.
- Asia Pacific had a weak quarter due to temporary operational reasons.
- Improvements in operating costs came from our continued focus on operating smarter.
- Solid cash position despite continued stock repurchases.

Part 1:  
First Quarter 2017 Performance

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Part 2:  
Business Update

We are expanding offerings, improve products and launch new marketing programs, which we expect to increase purchases and bookings over the next 12 months.

## Growth Initiatives

### Offerings

- Stronger membership offering with exclusive benefits and member perks
- More distinctive hotel offering:
  - More exclusive offers
  - Globalization of hotel platform
- Exclusive vacation package offers via partnerships or acquisitions

### Products

- Rollout of hotel platform to all countries
- Enhance technology to make it easier for hotels to create exclusive member offers quickly and easily
- Personalized alert services
- Increased personalization of our app

### Marketing

- More active communication of member benefits to existing and prospective new members
- Development of a loyalty program



- Maintain our quality leadership position by publishing high-quality deals and tightening brand control.
- Expand exclusive offers to our members in the areas of hotels, vacations and local businesses.
- Resume top-line revenue growth by Q4 2017 or Q1 2018
- Invest for future growth while remaining profitable.

# APPENDIX

**Travelzoo Inc.**  
**Revenue by Segment and Type - Quarterly**  
(In thousands except for percentages)

North America		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Travel		17,265	15,149	13,944	12,747	16,041	14,689	12,986	12,339	14,758	14,240	12,493	12,759	14,859
	Q/Q growth rate	16%	-12%	-8%	-9%	26%	-8%	-12%	-5%	20%	-4%	-12%	2%	16%
	Y/Y growth rate	-1%	-7%	-6%	-15%	-7%	-3%	-7%	-3%	-8%	-3%	-4%	3%	1%
Local		5,267	6,080	4,763	5,089	4,157	5,232	3,891	4,141	3,257	3,664	3,298	3,190	2,687
	Q/Q growth rate	-23%	15%	-22%	7%	-18%	26%	-26%	6%	-21%	13%	-10%	-3%	-16%
	Y/Y growth rate	-22%	-22%	-22%	-25%	-21%	-14%	-18%	-19%	-22%	-30%	-15%	-23%	-18%
<b>Total North America Revenues</b>		<b>22,531</b>	<b>21,229</b>	<b>18,706</b>	<b>17,836</b>	<b>20,198</b>	<b>19,920</b>	<b>16,876</b>	<b>16,480</b>	<b>18,014</b>	<b>17,904</b>	<b>15,791</b>	<b>15,949</b>	<b>17,546</b>
	Q/Q growth rate	4%	-6%	-12%	-5%	13%	-1%	-15%	-2%	9%	-1%	-12%	1%	10%
	Y/Y growth rate	-7%	-12%	-11%	-18%	-10%	-6%	-10%	-8%	-11%	-10%	-6%	-3%	-3%
Europe		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Travel		10,590	8,850	8,473	7,933	9,449	8,154	8,191	7,810	9,007	8,075	7,357	6,646	8,005
	Q/Q growth rate	22%	-16%	-4%	-6%	19%	-14%	0%	-5%	15%	-10%	-9%	-10%	20%
	Y/Y growth rate	15%	9%	4%	-9%	-11%	-8%	-3%	-2%	-5%	-1%	-10%	-15%	-11%
Local		1,673	1,887	1,668	1,891	1,473	1,406	1,402	1,852	1,551	1,382	1,117	1,770	1,066
	Q/Q growth rate	-27%	13%	-12%	13%	-22%	-5%	0%	32%	-16%	-11%	-19%	59%	-40%
	Y/Y growth rate	-22%	-8%	-13%	-17%	-12%	-25%	-16%	-2%	5%	-2%	-20%	-4%	-31%
<b>Total Europe Revenues</b>		<b>12,263</b>	<b>10,737</b>	<b>10,141</b>	<b>9,825</b>	<b>10,922</b>	<b>9,560</b>	<b>9,592</b>	<b>9,662</b>	<b>10,559</b>	<b>9,457</b>	<b>8,474</b>	<b>8,417</b>	<b>9,071</b>
	Q/Q growth rate	12%	-12%	-6%	-3%	11%	-12%	0%	1%	9%	-10%	-10%	-1%	8%
	Y/Y growth rate	8%	6%	1%	-10%	-11%	-11%	-5%	-2%	-3%	-1%	-12%	-13%	-14%
Asia		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Travel		2,343	2,251	2,322	2,392	2,259	2,345	2,425	2,326	2,027	2,220	2,335	2,263	1,668
	Q/Q growth rate	-5%	-4%	3%	3%	-6%	4%	3%	-4%	-13%	10%	5%	-3%	-26%
	Y/Y growth rate	-4%	-11%	-2%	-3%	-4%	4%	4%	-3%	-10%	-5%	-4%	-3%	-18%
Local		454	397	443	374	377	353	289	274	228	218	223	184	146
	Q/Q growth rate	-18%	-12%	11%	-16%	1%	-6%	-18%	-5%	-17%	-5%	2%	-17%	-21%
	Y/Y growth rate	4%	-28%	-14%	-32%	-17%	-11%	-35%	-27%	-40%	-38%	-23%	-33%	-36%
<b>Total Asia Revenues</b>		<b>2,796</b>	<b>2,648</b>	<b>2,765</b>	<b>2,766</b>	<b>2,637</b>	<b>2,697</b>	<b>2,714</b>	<b>2,600</b>	<b>2,255</b>	<b>2,438</b>	<b>2,558</b>	<b>2,447</b>	<b>1,813</b>
	Q/Q growth rate	-7%	-5%	4%	0%	-5%	2%	1%	-4%	-13%	8%	5%	-4%	-26%
	Y/Y growth rate	-3%	-14%	-4%	-8%	-6%	2%	-2%	-6%	-14%	-10%	-6%	-6%	-20%
Consolidated		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	Q3 16	Q4 16	Q1 17
Travel		30,198	26,250	24,739	23,072	27,749	25,187	23,601	22,475	25,792	24,535	22,185	21,668	24,532
	Q/Q growth rate	16%	-13%	-6%	-7%	20%	-9%	-6%	-5%	15%	-5%	-10%	-2%	13%
	Y/Y growth rate	4%	-3%	-2%	-12%	-8%	-4%	-5%	-3%	-7%	-3%	-6%	-4%	-5%
Local		7,393	8,364	6,873	7,354	6,007	6,991	5,582	6,267	5,036	5,264	4,638	5,145	3,898
	Q/Q growth rate	-23%	13%	-18%	7%	-18%	16%	-20%	12%	-20%	5%	-12%	11%	-24%
	Y/Y growth rate	-20%	-20%	-19%	-24%	-19%	-16%	-19%	-15%	-16%	-25%	-17%	-18%	-23%
<b>Total Consolidated Revenues</b>		<b>37,591</b>	<b>34,614</b>	<b>31,612</b>	<b>30,426</b>	<b>33,756</b>	<b>32,178</b>	<b>29,183</b>	<b>28,742</b>	<b>30,828</b>	<b>29,799</b>	<b>26,823</b>	<b>26,813</b>	<b>28,429</b>
	Q/Q growth rate	5%	-8%	-9%	-4%	11%	-5%	-9%	-2%	7%	-3%	-10%	0%	6%
	Y/Y growth rate	-2%	-7%	-7%	-15%	-10%	-7%	-8%	-6%	-9%	-7%	-8%	-7%	-8%

Travel includes travel publications (Top 20, Website, Newsflash, Network), Getaway vouchers and

(1) Hotel Booking

(2) Local includes Local Deals vouchers and Entertainment non-vouchers

Travelzoo Inc.  
 Quarterly Statements of Operations  
 Adjusted for Search Discontinued Operations

	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017
	(In thousands, except per share amounts)								
Revenues	\$33,756	\$32,178	\$29,183	\$28,742	\$30,828	\$29,799	\$26,823	\$26,813	\$28,429
Cost of revenues	4,352	5,049	4,577	4,170	3,851	3,472	3,270	3,262	3,207
Gross profit	29,404	27,129	24,607	24,572	26,978	26,327	23,552	23,551	25,222
Operating expenses:									
Sales and marketing	18,261	17,388	15,832	14,129	15,530	15,455	14,075	13,368	15,355
Product development	3,044	3,150	2,859	3,316	2,788	2,001	2,230	2,077	2,357
General and administrative	6,449	5,334	6,116	6,270	5,813	5,434	5,373	6,077	5,447
Total operating expenses	27,754	25,873	24,807	23,715	24,131	22,890	21,678	21,522	23,160
Income (loss) from continuing operations	1,650	1,256	(201)	857	2,846	3,437	1,875	2,029	2,062
Other income (loss), net	(446)	(218)	(202)	(376)	133	(91)	251	(480)	7
Income (loss) from continuing operations before income taxes	1,204	1,038	(403)	481	2,979	3,346	2,126	1,549	2,069
Income tax expense (benefit) *	1,356	934	(112)	186	1,154	1,548	748	542	1,209
Income (loss) from continuing operations	(151)	104	(291)	295	1,826	1,798	1,377	1,006	860
Income (loss) from discontinued operations, net of income taxes	881	738	735	140	224	222	241	(64)	1,884
<b>Net income</b>	<b>\$730</b>	<b>\$842</b>	<b>\$444</b>	<b>\$435</b>	<b>\$2,049</b>	<b>\$2,020</b>	<b>\$1,619</b>	<b>\$943</b>	<b>\$2,744</b>
Income (loss) per share - basic:									
Continuing operations	\$(0.01)	\$0.01	\$(0.02)	\$0.02	\$0.13	\$0.13	\$0.10	\$0.07	\$0.07
Discontinued operations	0.06	0.05	0.05	0.01	0.01	0.01	0.02	(0.00)	0.14
<b>Net income per share - basic</b>	<b>\$0.05</b>	<b>\$0.06</b>	<b>\$0.03</b>	<b>\$0.03</b>	<b>\$0.14</b>	<b>\$0.14</b>	<b>\$0.12</b>	<b>\$0.07</b>	<b>\$0.21</b>
Income (loss) per share - diluted:									
Continuing operations	\$(0.01)	\$0.01	\$(0.02)	\$0.02	\$0.13	\$0.13	\$0.10	\$0.07	\$0.07
Discontinued operations	0.06	0.05	0.05	0.01	0.01	0.01	0.02	(0.00)	0.14
<b>Net income per share - diluted</b>	<b>\$0.05</b>	<b>\$0.06</b>	<b>\$0.03</b>	<b>\$0.03</b>	<b>\$0.14</b>	<b>\$0.14</b>	<b>\$0.12</b>	<b>\$0.07</b>	<b>\$0.21</b>
Weighted average shares:									
Basic	14,730	14,730	14,730	14,699	14,425	14,066	13,839	13,665	13,288
Diluted for income per share **	14,730	14,730	14,730	14,699	14,425	14,066	13,867	13,714	13,288

\* Non-GAAP presentation excludes an \$8.4 million release of a tax reserve for the three months ended September 30, 2015, related to unexchanged promotional shares. GAAP amounts without this non-GAAP adjustment are \$8.5 million of tax expense, \$8.9 million of net income, \$0.55 of diluted EPS from continuing operations and \$0.60 of diluted EPS from net income.

\*\* Weighted average shares of 13,665 were used for the Q4 2016 diluted EPS for discontinued operations.