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# EDITED TRANSCRIPT

TRIP - TripAdvisor Inc at JPMorgan Global Technology, Media and Communications Conference

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## CORPORATE PARTICIPANTS

**Stephen Kaufer** *TripAdvisor, Inc. - CEO, President & Director*

## CONFERENCE CALL PARTICIPANTS

**Douglas Till Anmuth** *JP Morgan Chase & Co, Research Division - MD*

## PRESENTATION

**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

All right. We're going to go ahead and get started. My name is Doug Anmuth. I am the M&A Analyst at J.P. Morgan. It's our pleasure to have Steve Kaufer, CEO of TripAdvisor.

So TripAdvisor is the largest travel website in the world at close to 0.5 billion unique monthly visitors, features 760 million reviews and opinions, covering more than 8 million accommodations, restaurants and attractions. And TripAdvisor sites operate in 49 markets worldwide.

Steve cofounded Trip in 2000 with the mission to help travelers around the world, plan and have the perfect Trip. Prior to cofounding TripAdvisor, Steve was President of CDS, an independent software vendor. And prior to that, cofounder and Vice President of engineering at CenterLine Software. And Steve is a kind of a mainstay at this conference. He's been here for several years, at least as long as I've been here. So I appreciate you coming back again.

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**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

My pleasure.

## QUESTIONS AND ANSWERS

**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

All right. So let's last start kind of big picture. You cofounded TripAdvisor almost 20 years ago. The travel industry has changed a lot over the years. Your platform has gone through many changes as well. Can you talk about what TripAdvisor looks like today? And how its position has evolved in the travel ecosystem?

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**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Sure. And thanks again for having us here. TripAdvisor started really as just a place to go plan that trip, and it tried to make sense of the whole Internet. And where we've evolved to has been to capture all of this great information, over 700 million reviews and opinions now, in order to help someone plan that considered trip.

Look, if you just want a 1-night stay over at a hotel you've been to before and a city you've been to before, TripAdvisor isn't the ideal setting or isn't the necessary setting. But when you're spending those leisure dollars, when you're actually going on an consider trip, which we all do, TripAdvisor remains is -- was, is and will be that premier information sources to help you get the most for your dollars, to help you make that trip memorable.

We started in -- primarily in hotels. But over the years through acquisitions and a lot of effort have really built up the full-trip perspective. So it's not just where you stay and where you're going, but what you're going to do when you get there. Where are you going to dine? How are you going to play to make those incredible memories that will bring you forth?



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And so with that has come a tremendous traffic growth, content growth, reach, 29 different languages, 40-something points of sale. Just kind of tremendous influence over the whole travel ecosystem.

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

So how do you think about Trip's value proposition over time? When you think about success for TripAdvisor 5 to 10 years out, what does that look like?

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

We would hope for and we certainly plan to get to the awareness level, the appreciation, the value proposition so that anyone around the planet planning a trip that they care about is visiting TripAdvisor to do that planning. It's such an opportunity for us to take the information that other travelers have given us and turn it back to help that next traveler have that spectacular visit.

And we're, obviously, strong in a bunch of markets. We have room to grow in the bunch others. And there's so much more innovation that can come in the travel plan experience, by way of group planning, by way of everything you currently do now, taking the hassle out of that and turn it into something that is truly an enjoyable way to plan the trip, to be on the trip, to open up our app, to talk to our app, to be able to use it in the moment, to experience brand-new things, connect to people and then share the trip when you come back as everyone still does that.

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. Great. So you have pretty massive scale. We talked about the 0.5 million monthly users during last year's peak travel season, clearly significant influence within the travel industry, which is \$1.7 trillion or so. But how are you thinking about Trip's ability to capture better economics and how can that increase going forward?

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

Right. So when we look at the economic influence that we have, it's tremendous. I mean you quote the \$1.7 trillion in the travel space. And TripAdvisor touches so many of those people.

Yet, wait a minute. Our revenue is only \$1.6 billion-or-so. Where is that leakage? Where is that hole? And part of it is simply that we are an intermediary. We take all of this traffic, and we consolidate it. We filter it down into the folks that are ready to make the trip. And then we make our commission on the media, on the auction, on the advertising opportunities, on the transactions, in attractions and the reservations for restaurants.

All of those represent growth opportunities for us plus the ability to just tap into the total media dollars. So when you look at other large advertising companies and you look at how we monetize on a per UU (unique user) basis, there's clearly a gap. And that gap is a tremendous opportunity for us.

We are a brand-safe environment. So we feel like the opportunity to capitalize on our display advertising with new ad formats, with new targeting, better ad tech, a couple of more sales reps allows us to continue to grow that vertical.

When you look at the influence we have on the -- over 1 million pieces of lodging that are on our site, the hundreds of thousands of attractions and the millions of restaurants, all of those individual businesses have potential guests or diners on our site. And we've been coming out over the past several years with new advertising opportunities for them in our Hotel Solutions business.

And then when you look at planning that full trip, we came out with a Trips product that allows you to put all the hotels and restaurants and attractions that you might want to be taking on this more complex trip into one cart, if you will. How we turn that into an opportunity to remind



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someone to come back to finish buying what's in their cart, help them fill out the rest of the trip, all of those are opportunities that revolve around travelers trusting TripAdvisor, which they do; planning the entire trip on TripAdvisor, which a number of them do. And then where there's high intent, where there's a transaction that is almost always consummated online, we're in a great position to reap more of the economic rewards than we currently do.

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. So you recently updated your segment reporting to better align with how you view and think about the business and make decisions? I was hoping if you could kind of walk us through that thought process a little bit? And then how you think about the priorities within each segment?

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

Terrific. So we were pretty excited to have recently announced our Hotels, Media & Platform segment. And then our Dining & Experiences segment and then our others because it really does reflect how, I and the management team, we view the business going forward. When you look at the Hotels, Media & Platform, you look at that kind of branded TripAdvisor experience. It may have started in hotels, but it's really much bigger now, and it's about people planning that complex trip.

Media component is becoming more and more important to us as we're leveraging the eyeballs that aren't ready to actually convert to a transaction quite yet but are on our site, are researching and are open to being swayed as to where they should be staying, where they should be going. So our display advertising line and new ad units coming forward, are growing, and we're pretty excited about that.

When you look at the Hotel piece, we've expanded our opportunities for hoteliers to advertise on the platform. And so all of that is -- it's the majority of our revenue. It's our biggest piece. It's our historical strength that remains core to our system. And we are proving to grow profits in that segment as we did in this past quarter and all of last year. So it is a segment that we aim to grow profits in. And later on the year, and next year, we'll be growing the top line as well.

But make no mistake, we look to optimize for profit in this segment and that profit helps fuel some of the other things that we are doing, such as the Dining & Experiences. So when you look at that segment, you say, especially experiences, huge growth potential.

I really don't think there's anyone that disagrees that the TAM for experiences is great. It's the last big sector of the travel economy to move online. We've got a poll position with supply, with brand awareness, with our marketing capabilities. And the fact that TripAdvisor is already known as a brand for, "What am I going to do when I get there?"; That's in the planning phase, and then with our app, when you're actually in destination.

How do we convert that intent, that interest into commerce? Well, that's why Experiences is growing so nicely for us. And we will continue to invest. We view that segment through the longer-term lens. And so in Q1, you saw that we invested heavily. And we will continue to invest in this segment by targeting revenue growth, top line growth, customer growth more than or much more than our EBITDA line.

So if you look at those 2 segments, we broke them out because they actually reflect different ways for us running the business. Hotels and Media platform for profit growth, and it'll return to top line growth end of the year, next year. That's our plan.

And then we look at Experiences & Dining and say, an investment for the future because we have an incredible opportunity to be the leader in that category for a long time.

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. You introduced a new travel feed late last year. For those a little less familiar, can you talk about the new feature and the context of your consumer focus? And then talk about some of the other ways that the Core Ex team can continue to innovate on the platform?

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**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Sure. So the travel feed is kind of one of the technical vehicles, whereby we're allowing other brands and influencers to publish their travel content on our site. You all know that we have so many reviews. And that's great. We have a lot of candid photos, that's wonderful. We have Q&A on hotels and restaurants. We have a lot of user-generated content. But TripAdvisor, historically, has been missing the "Oh, what does my favorite influencer think? What does Travel + Leisure, National Geographic, where would they recommend I go on this next big Trip?"

They weren't applicable to be reviews of specific hotels. They were brands, influencers that you wanted. We all wanted opinions from. So we offered a travel feed. So now they can publish videos, articles, top 10 list. And they're pulling from their vast content databases. They're leveraging the trust that our audience has in them, not just TripAdvisor. And we give them a platform so that feed has been going well. You find it -- it's the default experience on all of our points of sale. And you get new levels of inspiration.

You can also follow these folks. So that if they publish new stuff, you get alerted as well as follow the folks that you might be interested in kind of seeing what's up. It makes the site a bit more engaging when you come back. When you're not in immediate travel planning mode, another goal for us to have renewed customer engagement in between trips and gives us, kind of, eventually new vehicles in which to add additional ad units.

**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

Okay. Let's shift to performance marketing optimization. So you've been optimizing hotel performance marketing investments for the past 7 quarters or so. And we've really seen kind of rationalization across the broader OTA space. Where are you kind of been running performance marketing at a normalized level? Or do you still feel like there's a lot of room for further optimization here?

**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Great question. We've done a great job over the past year-plus tuning our performance marketing engine to be driving better profits. And that's, as I just alluded to or just mentioned in the Hotels, Media & Platform segment, that's been the goal and this team has done an excellent job.

So we've taken hits to the hotel shopper line, to the top line while driving huge profit growth in that segment, which was the objective. And so we're really proud of our accomplishments in that area.

When you look to -- when you ask -- when we ask ourselves, when you ask, "And how does this play forward?" We'll have finished kind of the -- it's obviously gradual trend as we get better and better at it. But I would say the biggest step function or the biggest lapping effect will happen by Q4 this year in terms of being able to comp over the bigger pullbacks that we did in that performance-based marketing.

**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

Okay. You've also been investing in brand for nearly 2 years now. Can you talk about how brand has kind of performed and evolved versus your expectations?

**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

So our brand advertising, primarily TV, has done quite well. As everyone knows, we have a ton of other branding vehicles that have worked very well for us over the years that basically cost us nothing in terms of stickering and awards and all the publicities. We have a couple of airplanes that are painted with the TripAdvisor Traveler's Choice logo. It's like all that stuff is free.

The brand advertising, that's been new for us. In the past couple of years, it has been television, where we were spending north of \$100 million a year now. That is working to educate our travelers about TripAdvisor having prices around hotels being a great meta-search site to make sure that



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the pricing that you're looking for, everyone wants a great deal, is available on a TripAdvisor. And we think we've done a pretty good job addressing that gap that we had perception-wise between us and some of our competitors.

We've, therefore, now shifted some of that TV spend to focus on experiences. Where everyone knows you can look for something to do on TripAdvisor, but not everyone knew that there is an insane number of bookable experiences. And there's a lot of stuff that you really do want to book before you go on the trip. And so the TV ads have been emphasizing that. And we're on some pretty big shows this quarter as we look to broaden our overall awareness.

When we talk about investing in the Experiences & Dining segment for long-term growth, one of the things that you'll clearly notice is that we're spending more and more of our television budget in this category because it has a terrific halo effect on shopping on TripAdvisor, in general. And it's building the awareness that, "Yes, we are the place to go when you want to plan that perfect trip, which obviously is going to include amazing things to do."

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

And what's the right way to think about just the brand spending dollars this year? I think you've kind of talked about a flattish I think with '18, around \$115 million. Is there opportunity to take that spend higher?

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

That's right. We're on track for the \$115 million that we had indicated. We, of course, reserve all flexibility to go up or down on that number. But it seems to be about the right level for the markets that we're in for this year.

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. Let's shift gears, spend a little time on Experiences. First, maybe you can help us just size the overall opportunity? And then just help us understand why it's still very early for Experiences and shifting online? Kind of why that's the case? And what has to happen to tip that more?

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

So -- the TAM or the opportunity for Experiences, I think Phocuswright had it going to \$180 billion, in the next year or 2, at \$150 billion (today) (added by company after the call). It's a big market where 80-plus-percent is booked offline.

And so when you think of how many hotels are booked online now, it's probably the majority. When you think about airfare, clearly past that trend several years ago. Experiences, not as much. And nobody wants to arrive in a destination and not be able to do the iconic things that they had planned to do.

And so instead of hopping around the web, trying to find the right supplier, or taking a guess, TripAdvisor has consolidated the information about what you want to do and now the booking opportunity on our site. So we believe our opportunity to capture leadership position for that \$150 billion going to \$200 billion in online activities is a terrific opportunity, given where we stand, given the competitive strength of everyone else, which since it is such a nascent part of the online space, it doesn't have a dominant leader. You could call us the biggest player in the space, but we're still small compared to the opportunity.

So for us, it fits with our mission. It fits with what travelers are looking to do on the trip. It fits with the historical strengths of the information that TripAdvisor has provided. And when you look at fragmented supply consolidated with an online player, and we look at Hotels as a guide, and Hotels margins for online players have been quite good. And we see the same thing evolving for Experiences, and we hope to capture more than our fair share of that.



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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

And how do you think about, I guess, the economics kind of more specifically in that segment and then also just margin potential across those businesses?

**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

Sure. So when you think of the general commission rate on hotels, you might think somewhere in the 15% to 25% range depending on geography and lots of other factors. And I would believe it's going to end up in kind of the same range for tours and activities and experiences globally.

The margin for our business or any aggregator is really going to depend on how much it cost to actually acquire the traffic. And the beauty of TripAdvisor and our ecosystem is that we already have so much of that traffic. Once you have the supply. And we've been building the supply, so I'm not saying we already have it. We have a great position, but we're still chasing more. It's automated. It's on our platform.

And so we're the 2-sided marketplace: we have consumers; we have the supply. We're growing both. The more matchmaking we do, the more profit comes out on our platform. Most people when they travel, they don't just book one thing, they're going to book a couple of things. How do we increase our average order size? How do we cross-sell and up-sell? How do we -- once we know you're going to Rome, how do we message you when you're in Rome with the next thing that you might want to do? And we're ways away from couponing and discounting and other ways to incent additional purchases because this is still in our view very early days in moving all online.

We've got the infrastructure, built up the supply, investing heavily in it. We have serious competitors in the category. Let's say none of the pure experienced competitors have our scale of demand, but the overall margin for our business will depend primarily on how we're able to grow that demand in a low-cost or no-cost manner by virtue of the overall TripAdvisor traffic growth.

**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. Great. Let's talk about macro environment a little bit. You mentioned that international demand was soft in 1Q in April. It was a bit softer than anticipated. Can you elaborate on what you're seeing? What could be driving this? And then how do you think about the health of the travel industry as you go into the busy summer season?

**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

Yes. So it's modestly difficult for us to tell. We have our view. We have said that we see Europe as being a bit soft. Again, we're running our Hotels, Media & Platform group for profit. So top line softness in terms of us being able to buy more traffic isn't too much of a concern. We continue to expect strong profit results in that category.

Overall macro demand, I think, perhaps more personal opinion, but Europe remains unsettled. It could be doing better if the political climate was in better shape. But I don't see any meaningful slowdowns that appear on the global horizon at the moment.

**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. And then you talked about top line growth improving in the back half. Is this mostly on FX and lapping marketing optimizations? And what else gives you confidence in this outlook? And then how should we think about the magnitude of improvement in the back half of the year?



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**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

So yes. I can kind of -- by segment, when you look at what we expect to be able to do in the Hotels, Media & Platform, the focus remains on the bottom line growth. And we expect to be able to deliver on that. Top line, because of currency, because the marketing optimization clearly gets better as the year progresses.

We also have a fair number of initiatives underway in Hotel Solutions and display ad category that we'll hopefully deliver nice top and bottom line results for us that are completely independent of auction dynamics and frankly just leverage the traffic that we already have on our site independent of whether we were up a few points or down a few points based upon overall travel demands.

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**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

Okay. We're going to open up to Q&A in a minute. So if you have a question, raise your hand. There'll be a mic coming around.

In the meantime, let me just ask about mobile. The gap between desktop and mobile monetization has clearly tightened up some. I hope you can just comment a little bit more, maybe quantify if possible. But how should we think about when mobile can become more of a tailwind for you?

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**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Yes. So we would look to mobile becoming more of a tailwind as we get better and better at our in-destination abilities for Experiences. A lot of those experience purchases will remain in destination for the foreseeable future because that's what travelers want. They don't want to plan everything in advance. And when they pull out our app and start to book an experience, that's a great opportunity, whether they're booking it the morning of or the night before when they're in destination.

Again, depending on our businesses in the restaurant category, we are already doing more revenue on mobile than desktop, I believe. When you look at the Hotel Solutions part of the business, that's probably more mobile now than desktop simply because the product doesn't have a price differential.

CPM, again, lots of inventory available on mobile. And on desktop, new ad units, not particularly a headwind or tailwind there. And then auction, which is where most of the previous commentary has been, does continue to be more beneficial for desktop than mobile for us. But that, as you say, as you point out, the gap is narrowing. And as we continue to make progress, it narrows.

I'd say when that would become a tailwind, too hard to predict. But the overall part of the business, we are not nearly as -- or we're not talking about mobile as a headwind to the degree that we were a couple of years ago at this point because of all those other shifts that we've made.

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**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

Okay. Great. Any questions from the audience? Okay. Let me ask -- there we go.

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**Unidentified Analyst**

I was just wondering if you can talk a bit more about kind of the relationship with the OTAs, your main customers on the Hotels business? And you know I think last year, they did a lot of advertising rationalization, especially in the meta-channel?

And can you just talk about what kind of ROIs you guys are delivering to them? And I believe that's gone up to them. And I think they talked about as long as that remains healthy, they'll continue to spend in the channel. Can you just give us an update on what kind of traffic you're delivering to them? And can you consistently deliver high-quality traffic and grow that traffic into the back half of the year?





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**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Yes. So the relationship aspect with our OTAs, I'd characterize as excellent. They appreciate the traffic and the leads that we generate. We're not cannibalistic to other resources that would kind of naturally go to them. We're not kind of just a lowest price. We're -- our traffic does not represent only bargain seekers. We represent a large cross-section of travelers, and the OTA's appreciate that.

As we cut back in our marketing spend over the -- our performance marketing over the past year, that generated less traffic to us, less revenue to us, less traffic to our OTAs. So they're knock on door saying, "Hey, we'd love more traffic from you." And we'd say, "We'd love to be able to send more, too. But at our current economics, we're doing what we can."

The quality of the traffic remains high. The bidding environment, I would say, has been stable for the past several quarters. So they like the traffic that we send them. They pay a fair price, and I'd say, "Steady as she goes from that angle."

**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

Another one, over here.

**Unidentified Analyst**

Can you speak a little bit about Google over the past year, it seems like they're also making more moves when you search for hotels? There was a knowledge card that pops up in there for a -- into meta-search and the competitive environment there?

**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Sure. Let's see.

**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

You could tweet about it.

**Stephen Kaufer** - *TripAdvisor, Inc. - CEO, President & Director*

Yes, Google continues to be very aggressive in the travel space, not only with hotels but also in attractions, and restaurants and activities and flights. They, in our view, continue to use their dominant position in search to benefit their own products set in a way that does not help consumers find the best possible options. We don't like it. We're used to it, so you don't hear me talking about, "Google did this, Google did that," as an excuse on our earnings calls because this isn't anything particularly new. It's troubling, but it's not new. And so we plan each of our years on the assumption that Google will continue to be more and more aggressive in the search results to the detriment of all of their free traffic, all of the players in the organic listings.

Recently, they've been moving traffic to more of their own Google Hotel Finder, the hotel ads products. It is what it is. As I've indicated many times before, we actually -- we still have close to 0.5 billion travelers a month visiting our site. So the onus is on us to form the relationships with all of those travelers to help them plan the trip, not just the hotel but the rest of that complex bit of travel so that traveler wants to come back to TripAdvisor on their own. And then if they started Google and type TripAdvisor, I am happy. I am happier if they open up our app. And that's how we view the Google landscape.



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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Let's fast forward 3 to 5 years, so you want Trip to be growing double digits top and bottom line at that point. What does Trip look like at this growth level? What gives you the confidence that you can return to double-digit revenue growth? And then what are the milestones that we should be looking for along the way?

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

Sure, to be clear. I hope to return to double-digit growth before that 3 to 5 years timeframe. It's simply like when we look at the company in the space we're in with the market opportunities across the sectors, the travel sectors that we play in, we feel that, that's a very sustainable position to be in.

We talked a fair amount about Experiences & Dining, and that's in a much faster growth rate than Hotels. But we still look at that Hotel piece and the Media that goes in that segment and say, there is plenty of opportunity for double-digit growth.

When we look at the opportunity that remains -- as we look forward today just as we did 5 years ago, 10 years ago, the frustration that people feel when they go to plan that full Trip, even with all of the resources that sites like TripAdvisor bring to the table, is still palatable. It's still very real that it's difficult to plan that excursion.

Why can't TripAdvisor -- or I'll phrase it differently, TripAdvisor will provide more and more functionality to help travelers with the ease of planning to find the better prices, to pick the right hotel and the right things to do and the right places to eat, leaving open the times to just play and experiment and fool around in the new destination. As a trip planning activity, you're traveling with other people. How do you do all that together? How do you take it with you in your app when you go? How are you using voice as an input mechanism? All of that is technology that's here today but not yet in a form that's as usable as it should be for our audience.

With our base, we don't have to actually go figure out how to teach people about all these new things that we'll coming out because we have them already using TripAdvisor as the best travel-planning place today.

As we add more functionality, as we build the better experience, that makes it more and more compelling to come back to TripAdvisor to do more of the planning, and we, of course, know how to make money based upon all the things that we sell and all the media opportunities that we have.

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**Douglas Till Anmuth** - JP Morgan Chase & Co, Research Division - MD

Okay. Great. I think we're going to leave it here. Thank you, Steve.

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**Stephen Kaufer** - TripAdvisor, Inc. - CEO, President & Director

All right. Thank you all.

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