



Q4 & Full Year 2020 Letter to Shareholders

Dear Fellow Shareholders,

As challenging as 2020 was for the travel industry, we enter 2021 with optimism due to three main factors. First, the vaccine news since early November has been very positive, and we are encouraged by recent reports highlighting improved vaccine distribution. Second, signals indicate that pent up travel demand continues to grow, setting the travel industry up for a potential inflection later in the year. Third, we have executed well on factors within our control, strengthened our offerings for the rebound, and oriented the business towards an exciting future. Specifically, we:

- Executed disciplined cost controls that drove significant savings in 2020, enabling increased, durable, operating leverage as revenue returns.
- Ensured our strong liquidity position by amending our credit facility and raising debt capital.
- Focused on our competitive advantages and diverse revenue streams, which are poised to respond quickly when consumer demand recovers and travel advertisers lean back in.
- Expanded our long-term growth potential by beta-launching an exciting direct-to-consumer subscription offering called Tripadvisor Plus in Q4.

In sum, we successfully navigated the toughest year in our company's history and quickly adapted to our new reality. Despite uneven travel recovery trends in Q4 and early 2021, we see encouraging signs and are optimistic that travel could come roaring back. Tripadvisor is poised to play an important role and we believe we are positioned to emerge from the pandemic even stronger.

Q4 and Full Year 2020 Update

Monthly consumer traffic remains solid. We are pleased to see that consumer interest in travel - as measured by monthly unique users on our platform - remained relatively high in Q4. This, despite recent infection spikes, lockdowns and mobility restrictions impacting consumers ability to travel. Monthly unique users on Tripadvisor in October, November and December were approximately 68%, 58%, and 59%, respectively, of 2019's comparable periods. In the second half of 2020, monthly unique users on Tripadvisor-branded websites averaged nearly two-thirds of 2019's comparable period. This compares favorably to the 33% level we saw in April.

Travel demand has flattened since September as governments, particularly in Europe, once again imposed business restrictions to mitigate virus spread. This drove Q4 monthly unique users on Tripadvisor-branded sites to average 60% of 2019's comparable period, versus approximately 70% in Q3.



Throughout 2020, Tripadvisor remained the world's largest travel guidance platform in the world based on monthly unique users on our websites, according to SimilarWeb. This global audience - particularly in the middle of a worldwide pandemic - signifies Tripadvisor's lasting influence. It also gives us unique visibility into global travel trends, and we are encouraged by a number of signals in our consumer surveys, as well as on our platform, that indicate consumers are excited to get out and travel in 2021:

- More than half (57%) of global consumers surveyed said that they have spent time planning for future trips during the pandemic and nearly three quarters (74%) of consumers surveyed said they will spend more time choosing a destination this year.
- While the majority of near-term bookings are for domestic travel, nearly one quarter (24%) of respondents said that they plan to take three or more international trips in 2021, including one-third of U.S. respondents.
- Consumers planning hotel stays 90+ days out have grown approximately 50% since December 2020, indicating strengthening interest in planning 2021 vacations.
- When planning their trips, travelers are searching longer stays and are booking more expensive trips than they did in either of the past two years.

Revenue has trended generally in line with travel demand. As expected, monthly revenue recovery slowed into the fall and early winter as the virus resurged, particularly in Europe. October revenue performance was slightly lower than September's performance, and November and December revenue performance dipped to approximately one-third of 2019's comparable period. Q4 revenue performance was in line with Q3's performance, and both periods showed notable improvement compared to the Q2 trough.

Consumer travel demand has remained relatively stable in North America, while shutdowns in Europe have paused travel's overall recovery. In January, hotel auction revenue in the US was down approximately 50% YoY, while Europe was down significantly more; restaurants remained closed for in-restaurant dining in most of the European countries in which TheFork operates; and Experiences business activity was largely limited to U.S. consumers making domestic bookings. Our hotel auction continues to recover in line with the demand environment. Traffic and conversion rates are still down significantly relative to pre-pandemic times; however, partner bidding trends have stabilized, and we estimate the percentage partners are paying per booking we generate are returning to normalized levels following the virus's resurgence in Q4. We estimate that January revenue performance dipped slightly relative to December; however, we have seen sequential improvement in February, with a more pronounced increase versus January than in previous years. Current trends indicate Q1 2021 will likely mirror Q4 2020, and we are optimistic that leisure travel can improve materially in the second half as vaccines are administered and consumer demand improves.

Disciplined cost controls delivering significant, persistent savings. *(Estimated costs and costs savings levels referenced below do not consider depreciation, amortization, restructuring and other related reorganization costs, or stock-based compensation.)*

We executed disciplined cost controls since the pandemic hit and for the full year 2020, we achieved more than \$200 million in workforce-related and discretionary fixed cost savings versus 2019.

Performance-based marketing and the transaction-based portion of cost of revenue were approximately \$24 million in Q4, which was \$6 million lower than Q3, and remained well below 2019 levels, reflecting the lower overall travel demand environment. Looking ahead to 2021, we expect variable expenses will continue to generally track travel demand trends.

We note that a majority of the sequential expense increase in Q4 versus Q3 was due to an increase in our full year compensation expense. As such, \$12 million of incremental Q4 expense is not indicative of the quarterly run rate. Moreover, we expect the majority of the 2020 fixed cost savings will persist in 2021.

In short, we swiftly right-sized our flexible cost structure in 2020 to align with our new reality. While we anticipate prudently increasing investments as the demand environment improves, we expect our fundamentally leaner cost structure to deliver increased operating leverage as revenue returns.

We further bolstered our liquidity position in Q4. In December, we successfully amended our revolving credit facility. The new agreement extends maturity to May 2024, extends our leverage covenant holiday through maturity for borrowings up to \$200 million and reduces the capacity to \$500 million (from \$1 billion) resulting in reduced interest expense on undrawn funds. We ended 2020 with \$418 million of cash and cash equivalents, an increase of \$99 million from December 31, 2019, as well as nearly \$500 million in available borrowing capacity under our revolving credit facility.

Q4 cash flow from operations was negative \$15 million (compared to negative \$31 million in Q3 and negative \$78 million in Q2) and capital expenditures were \$9 million. Capital expenditures in Q1 2021 are expected to be in line with Q4 2020 and well below 2019's comparable period due to lower capitalized website development costs on lower headcount. Q4 free cash flow of negative \$24 million sequentially improved by \$18 million versus Q3, and was considerably better than Q2, which - at negative \$93 million - was the peak period for cash outflows during 2020.

We remain confident that our concerted, prudent actions have the business positioned to remain both well capitalized and covenant compliant.

Deepening engagement and monetizing our influence

Over the past 20 years, Tripadvisor has become the world's largest travel guidance platform, a unique travel nexus connecting consumers with travel businesses, at scale. We remain focused on growing and improving our offerings, unlocking unique value for travelers that we believe only Tripadvisor can, and deepening customer engagement to further monetize our influence.

As we look ahead to a world where our business opportunity and audience is bifurcated between users and members, we took an important step in building a premium offering for our most valued travelers. In the second half of 2020, we launched two direct-to-consumer products and brands: Tripadvisor Plus, a first-of-its-kind travel membership offering subscriber benefits across multiple travel categories and Reco, a marketplace for trip designers.

Hundreds of millions of consumers have chosen their preferred subscription services across categories like music, online shopping, and video content, and we believe Tripadvisor Plus can fill the notable void of an affordable, high value subscription offering in travel. Plus delivers travelers compelling value in an entirely new way. Today, Plus subscribers can access deals and perks across more than 100,000 hotels as

well as exclusive savings on our hundreds of thousands of bookable experiences. Like these other consumer subscriptions, over time we envision adding many more services and benefits such as more VIP amenities, in-destination travel benefits, airline related perks, people-powered travel support, member-only content, and exclusive availability to experiences and reservations at the world's most iconic destinations and restaurants.

Taking a methodical approach. In beta, Plus remains limited in both scope and geographic reach by design. We expect to continue our U.S. rollout during the first half of 2021, with other English-speaking markets later. We are promoting Plus primarily on our owned channels and particularly in “no brainer” moments such as hotel searches for \$750 or more, instances when the hotel discount generates savings for the consumer in excess of the \$99 subscription fee. Looking ahead, we see the potential to drive consumer adoption via partnerships and other marketing channels. We believe our deliberate, methodical approach is appropriate. Building strong subscription businesses take time, and we have measured expectations for 2021 in acknowledgment of the challenges inherent in launching any new product during a pandemic, much less in travel.

Significant opportunity ahead. That said, we are excited and confident that Plus's strong consumer proposition - built on exclusive savings, perks and benefits that will make a trip more memorable - will resonate globally and our large audience and influence uniquely positions us to capitalize on this opportunity. In 2019, we generated over 160 million hotel metasearch clicks from hotel searches for stays of \$750 or more. Converting even a small percentage of engaged Tripadvisor traffic, not to mention the hundreds of millions of visitors per month that are searching on Tripadvisor for hotels and experiences to book, implies a long-term growth opportunity to achieve tens of millions of subscribers and a multi-billion dollar recurring revenue stream.

Direct-to-consumer complements our diverse revenue streams. Pre-pandemic, we grew hotel B2B, display advertising, Experiences and Dining, collectively, by double digits, and generated nearly \$1.6 billion of total revenue in 2019. Some updates on these areas:

- B2B - In October, we launched two new hospitality B2B solutions, Spotlight and Reputation Pro. Along with Travel Safe and Menu Connect for restaurants, these products demonstrate our commitment to supporting partners, helping them adapt to the new landscape, and drive their business forward as travel and dining starts to come back.
- Display advertising - With advertiser display budgets largely paused on travel platforms for most of 2020, we focused on improving our offering in anticipation of the pending recovery. We enhanced our targeting capabilities, commercialized new solutions, built new ad units, and continued to expand our diverse advertiser base to include non-endemic clients across an array of categories, including consumer packaged goods, auto, entertainment, finance, and spirits.
- Experiences - We improved how we merchandise inventory to improve conversion and also made continued progress in Q4 helping consumers find and book the experiences they want, in the language they speak, with the payment methods they use. Helping consumers find and book travel experiences online remains an attractive, and underpenetrated, long-term growth opportunity, and we believe our Tripadvisor and Viator assets position us to win.
- Dining - Our restaurant offerings showed strong resilience last summer. TheFork got back to 2019 levels in September. The recovery took a step back in Q4 due to lockdowns across Europe;

however, we remain in the early days of delivering media-based and transaction-based solutions to more of the millions of restaurants on our platform.

Outlook

(As a reminder, we endeavor to be as accurate as possible with our forward-looking commentary; however, a number of factors outside of our control can limit our visibility into future financial performance and can cause our results to vary materially from our current expectations.)

The pandemic has reinforced Tripadvisor's value proposition - connecting consumers with guidance to make them better travelers, and helping travel partners build their business. In 2021, we will remain focused on building direct, durable customer relationships that will enable us to more effectively convert Tripadvisor's influence into increased repeat, intentional, engagement and monetization. This includes modernizing the experience, helping consumers return to travel safely, and growing Tripadvisor Plus.

Financially, in 2021 and the years beyond, we believe we can not only rebuild our revenue profile, but also drive sustainable growth from our focus areas. Specifically:

- In Tripadvisor-branded hotels, we aim to grow and expand our offerings by leveraging our data and insights to drive continuous improvement in our auction and our hotel B2B services and deliver more value for partners.
- As referenced earlier, a key 2021 priority is developing Tripadvisor Plus. We have all the necessary ingredients for success, including a huge global audience, strong consumer engagement, and a comprehensive offering. We believe we are uniquely positioned to capitalize on a multi-billion dollar recurring revenue opportunity.
- In media advertising, pre-pandemic we shared in these letters how our global, brand-safe channel under-indexes relative to our massive audience and influence on travel commerce. This remains the case, and we believe we are well-positioned to benefit as advertisers lean back into the travel vertical.
- In Experiences & Dining (E&D), unlocking growth opportunities across Tripadvisor, Viator and TheFork remains a top priority. We maintain differentiated assets and competitive advantages in these areas, and E&D remains a key part of our future. We drove rapid revenue growth pre-pandemic, and we are confident in our long-term growth potential.

With that as a backdrop, we offer our 2021 financial outlook.

The pandemic continues to be a major headwind to the travel industry and to our business. We believe travel's recovery path will be defined by rising consumer confidence and traveler safety, both of which are directly related to the speed of vaccine distribution. As such, we currently expect:

- Q1 2021 revenue and adjusted EBITDA roughly in line with Q4 2020;
- A modest first-half recovery, and a more robust second-half recovery driven by vaccine distribution progress driving increased consumer confidence; and

- Some expenses to be prudently added back as the business justifies, though we expect to continue to operate a fundamentally leaner cost structure compared to 2019.

Closing thoughts

Overall, we are pleased with our 2020 execution despite a historically difficult operating environment. We enter 2021 with optimism stemming not only from increased confidence in leisure travel's recovery and the important role that Tripadvisor will continue to play, but also because of how we have oriented the business to emerge from the pandemic even stronger.

Sincerely,

Steve Kaufer, Co-founder & CEO
Ernst Teunissen, CFO

Conference Call and Webcast

Tripadvisor, Inc. management will host a conference call to discuss results as well as other forward-looking information about Tripadvisor's business tomorrow morning at 8:30 a.m. Eastern Time. Domestic callers may access the earnings conference call by dialing (877) 224-9081 (International callers, dial (224) 357-2223). Investors and other interested parties may also go to the Investor Relations section of Tripadvisor's website at <http://ir.tripadvisor.com> for a live webcast of the conference call.

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Tripadvisor, Inc.'s fourth quarter and full year 2020 earnings press release and supplemental financials are available on the Investor Relations section of the Tripadvisor, Inc.'s website at ir.tripadvisor.com. The earnings release is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the U.S. Securities Exchange Commission, or SEC, on February 18, 2021, which is available on the Investor Relations section of our website at ir.tripadvisor.com and the SEC's website at www.sec.gov.

Forward-Looking Statements

These prepared remarks contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The following words, when used, are intended to identify forward-looking statements: "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "target," "should," "will," and similar expressions which do not relate solely to historical matters. We caution investors that any forward-looking statements in these prepared remarks, or which management may make orally or in writing from time to time, are based on management's beliefs and on assumptions made by, and information currently available to, management. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements are more fully described in Part I. Item 1A. "Risk Factors" of our Annual Report on Form 10-K. Moreover, we

operate in a rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise.

Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC and to other materials we may furnish to the public from time to time through current reports on Form 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements.

Use of Non-GAAP Financial Measures

These prepared remarks may include references to non-GAAP measures, such as consolidated adjusted EBITDA (including forecasted adjusted EBITDA), free cash flow, and constant currency measurements, such as, non-GAAP revenue before effects of foreign exchange, and adjusted EBITDA before effects of foreign exchange, which are considered non-GAAP financial measures as they are not prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures are not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

We encourage investors to review our earnings press release as it contains important information about our financial results, including tabular reconciliations to the most directly comparable GAAP financial measure, definitions, limitations and other related information about these non-GAAP financial measures. We have not reconciled consolidated adjusted EBITDA guidance to projected consolidated GAAP net income (loss) because we do not provide guidance on GAAP net income (loss) or the reconciling items between adjusted EBITDA and GAAP net income (loss), as a result of the uncertainty regarding, and the potential variability of, certain of these items. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measure is not available without unreasonable effort.

The earnings press release in addition to other supplemental financial information is available on the Investor Relations section of our website at <http://ir.tripadvisor.com/>. The earnings press release is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the SEC on February 18, 2021, which is available on the Investor Relations section of our website at <http://ir.tripadvisor.com/> and the SEC’s website at www.sec.gov.

Key Business Metrics

We review a number of metrics, including unique visitors, hotel shoppers, and other metrics, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base around the world. For example, a single user may have multiple member accounts or browse the internet on multiple browsers or devices, some users may restrict our ability to accurately identify them across visits, and we are not always able to capture user

information on all of our platforms. As such, the calculations of our active users may not accurately reflect the actual number of people or organizations using our platform. Our metrics are also affected by applications that automatically contact our servers for regular updates with no discernible user action involved, and this activity can cause our system to count the users associated with such applications as active users on the day or days such contact occurs. As such, the calculation of some of the metrics presented may be affected as a result of this activity. We regularly review our process and may adjust how we calculate our internal metrics to improve their accuracy.

19-Feb-2021

TripAdvisor, Inc. (TRIP)

Q4 2020 Earnings Call

CORPORATE PARTICIPANTS

Will Lyons

Vice President, Investor Relations, TripAdvisor, Inc.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

OTHER PARTICIPANTS

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Richard J. Clarke

Analyst, Sanford C. Bernstein Ltd.

Naved Khan

Analyst, Truist Securities

Tom White

Analyst, D.A. Davidson & Co.

Mario Lu

Analyst, Barclays Capital, Inc.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Eric J. Sheridan

Analyst, UBS Securities LLC

Kevin Kopelman

Analyst, Cowen and Company

Lee Horowitz

Analyst, Evercore Group LLC

James Lee

Analyst, Mizuho Securities USA LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to Tripadvisor's Fourth Quarter and Full Year 2020 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

Vice President, Investor Relations, TripAdvisor, Inc.

Thanks, Liz. Good morning, everyone, and welcome to our call. Joining me today is our CEO, Steve Kaufer; and our CFO, Ernst Teunissen.

Last night, after market closed, we distributed and filed our fourth quarter and full year 2020 earnings release, and made available our shareholder letter on our Investor Relations website. In the release, you will find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call.

On our IR site, you will find supplemental financial information, which includes reconciliations of certain non-GAAP financial measures discussed on this call as well as other metrics. Also, I'll note that comments regarding

costs and cost savings levels referenced on this call, do not consider depreciation, amortization, restructuring and other related reorganization costs or stock-based compensation.

Before we begin, I would like to remind you that this call may contain estimates and other forward-looking statements that represent management's views as of today, February 19, 2021. Tripadvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release as well as our filings with the SEC for information concerning factors that could cause actual results to differ materially from these forward-looking statements.

And with that, I'll pass the call to Steve.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

Thank you, Will, and good morning, everyone. 2020 was a challenging year, but I'm fundamentally optimistic. Inflection curves have been declining, vaccines are being distributed. And from what we see on our site and here in our research, travelers are all eager to get back out and explore the world.

As we described in our shareholder letter, we made a bunch of tough decisions last year. We also shored up our liquidity, top to work helping customers make the best of the current situation with initiatives like Travel Safe. And most importantly, from my perspective, we prepared Tripadvisor to emerge as a stronger, more focused company when travel comes back.

And I'm really proud of what we accomplished. We soft launched our new Tripadvisor Plus product in record time. We're focused on making the core experience of Tripadvisor more engaging and personal for all travelers, and we've got some great teams in place, growing our exciting restaurants and attraction businesses.

We entered 2021 excited about the important role that Tripadvisor can play in the recovery, based both upon our historical reputation as a trusted guidance platform, but also because of our new initiatives that are ready to help travelers take amazing trips.

Let me also take a minute to thank everyone at TRIP for their commitment during this past year. Know that your hard work is what has positioned our company to help hundreds of millions of travelers get back out on that road again. And all that makes 2021 look like a pretty exciting year for us.

Ernst, let me turn it over to you for additional thoughts.

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

Thank you, Steve, and good morning, everyone. Our fourth quarter mirrored most of the financial themes of our previous 2020 earnings calls that we've done, less in our control, of course, has been how COVID has continued to impact revenue, with all of our business lines very much impacted again in Q4, but uneven stories by geography and type of business.

For instance, our restaurants revenue performed very strongly in Q3, as most of the European restaurants were open, and then took a step back again in Q4 with most of Europe locking down. And restaurants might be among the first revenue lines to actually benefit again when Europe reopens again.

Consistent financial themes that have been more in our control are driving significant cost savings, ensuring a solid liquidity position and laying the groundwork for compelling and profitable growth when the pandemic finally subsides.

On the cost savings side, we more than achieved our target of \$200 million of fixed and discretionary savings in 2020 versus 2019, and we entered 2021 a more efficient and leaner company. Of course, the reduction in variable cost, mostly performance-based marketing was actually significantly larger even than \$200 million, but most of that expense will return, but the \$200 million of savings we have achieved, we're very proud to have achieved. And we think the majority of that, we will be able to keep as savings going forward.

I want to point out one thing in our Q4 financial results, is that the majority of the sequential expense increase in Q4 versus Q3 was due to an increase in our full year compensation expense. As such, \$12 million of that Q4 expense is not indicative of the underlying quarterly run rate that we take with us into 2021. While we anticipate prudently increasing investments as the pandemic eases and revenue and demand comes back, as I said, we expect that the majority of these 2020 fixed cost savings will persist in 2021 and beyond. And our fundamentally leaner cost structure positions us for operating leverage, better margins as revenue returns.

We've also strengthened our liquidity position again in Q4. We renegotiated our credit facility to extend maturity to May 2024 and to extend our leverage covenant holiday for part of the facility. And both of these have provided us with increased financial flexibility.

With over \$400 million of cash at the end of December as well as \$500 million of additional available borrowing capacity under our credit facility, we believe we are very well capitalized.

We have been, throughout this pandemic and are right now, focused on driving customer value across our diverse revenue lines. And we're getting ready to catch the wave when travel inevitably bounces back.

So in summary, despite uneven travel recovery trends in Q4 2020 and in early 2021, the current backdrop mix is increasingly optimistic that travel could come roaring back as early as the second half of the year. More importantly, we have positioned the company well in terms of future growth potential and margins.

With that, we will open it up for your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Lloyd Walmsley with Deutsche Bank.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks guys. A couple, if I can. First, Steve, could you give us a sense for where you are in terms of establishing key relationships with OTAs, hotels, other kind of companies to directly build up supply of kind of discounts and perks for Tripadvisor Plus? And what is the roadmap for adding new benefits for subscribers of Tripadvisor Plus?

And then second one would just be, can you give us a sense of how the unit economics work. How you're kind of providing the discounts. Who is funding those. And what the puts and takes are for you guys, for hotel supplier or at OTA for participating in that? Thanks.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Certainly. Thanks, Lloyd. Excellent question. So when we talk about Tripadvisor Plus, it really comes to the proverbial win, win, win. For the traveler, they're getting these amazing discounts, the perks, it's something that's turning their trip into something fabulous. When it comes to Tripadvisor, we're making some money on the actual subscription and building up what we hope to be a wonderful recurring revenue stream.

For your hotelier, and that's really where your question started, we've changed – we are changing the model whereby folks like Tripadvisor would ordinarily take the commission on the hotel sale. And we're going direct to the hotel and say, instead of paying us, let's offer that discount directly to the consumer. So if you might have been paying x percentage to your other distribution channel, let's instead, off of that same percentage, but as a discount, Tripadvisor passes it directly along to the Plus subscriber. Plus subscriber gets the deal.

Now when you add the value of the perk and you add the value of the discount, it becomes something pretty compelling for the consumer back to that original win and something that's well within the availability of the hotelier to offer that package at the same or better travel distribution cost as they go through for other channels. And so the win for the hoteliers, they get access to this club on Tripadvisor. They get preferred placement on the Tripadvisor site, so more visibility for their property. They get a guest that's perhaps higher end, perhaps likely to stay longer. And the distribution cost, that's the same as lower – the same or lower as many of their other channels.

The unit costs, if you will, for Plus from Tripadvisor's perspective, we have, practically speaking, no cost of goods on us delivering on the service. We have some level of customer support. That's fine. But we make our revenue on the trends – on the subscription fee for Tripadvisor Plus. And then the next time somebody comes back to Tripadvisor, because they're a member, they might be booking an attraction, and we'll make a decent margin on there even after passing the discount back to – for passing a discount back to the consumer. Travelers will also come back to Tripadvisor to plan other parts of the trip. And again, making us a preferred place for those subscribers to start their travel planning, all of which building into our repeat story.

To answer your other question on roadmap for new benefits for subscribers, we expect to be launching or when we launch more fully throughout the US, we'll be adding some additional benefits that we'll announce at that time. And we can see a very straightforward plan over the course of this year and next to add additional benefits that

helps make people, that helps make traveler, turn travelers into savvy travelers. So again, you start with hotels and experiences because those are things you book on our site today, quite valuable in the amount of savings. We can differentiate on the perks. But we're also going well beyond that in the travel category.

Our goal is nothing less than building an affordable travel subscription product that pretty much everyone would love to be a part of, travelers, because it turns them into better travelers no matter where they're going. And I don't want to repeat myself, but we think it's going to be a great offering.

Lloyd Walmsley

Analyst, Deutsche Bank Securities, Inc.

Q

Thanks. Good luck. It's very, very interesting product. Excited to see it unfold.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Thank you very much.

Operator: Your next question comes from Richard Clarke with Bernstein.

Richard J. Clarke

Analyst, Sanford C. Bernstein Ltd.

Q

Good morning. Thanks very much for taking my questions. Just a question to start with on your guidance into Q1, about revenue flat to Q4, compared to pre-pandemic that would make [indiscernible] (12:07) and more than Q4. Maybe if you could break that down between different geographies, different components.

What you're seeing? What's getting worse [ph] or (00:12:16) better? And then, second follow-up question is around your additional \$12 million [indiscernible] (00:12:21) comment. What is the nature of that? Is that just sort of brewing up the bonus pool for the full year? Where did that one-off cost come from?

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

A

Richard, I'll take those questions. Thank you for those questions. Firstly, about the first quarter, yeah, there are a number of things that go into Q4 and Q1, different revenue streams.

Europe is, obviously, a big impact on our business today, the lockdowns in Europe. And that has impacted our European business broadly. Our fork business, the restaurant business, of course, is very skewed to Europe. So that's made an impact. And the lockdown progressed throughout Q4 in Europe and we expect to take that into the first quarter. And that's where the – what's the basis for what we've provided as guidance for Q1.

Having said that, we also pointed out that February is a marked uptick in the quarter. And so we have seen at least some improving fundamentals in the business coming up again. And that bodes well for, hopefully, the rest of the quarter and for the first half, more broadly. But this is – the lockdown in Europe, in particular, is behind the cautious outlook for the first quarter.

The second question, the \$12 million of additional cost in Q4 that we said is really should be taken out of the run rate, if you do your analysis. Yes, that was an additional expense in compensation. That was indeed based off of bonuses we accrued throughout the year, a low bonus percentage. And at the end of the year, we decided with our board to up that. It's still well below 100% for the year, but higher than we originally accrued for.

And so as we pointed out, although that all hits our Q4 P&L, really you should take out \$12 million of that, if you want to take a run rate for the quarter and start to project that into the following year.

Richard J. Clarke

Analyst, Sanford C. Bernstein Ltd.

Q

That's very clear. Thanks very much.

Operator: Your next question comes from Naved Khan with Truist Securities.

Naved Khan

Analyst, Truist Securities

Q

Hi. Thanks a lot. Maybe a quick follow-up on Trip Plus, and maybe I'll start with a clarification. So if a participating hotel that's giving perks to the members is booked through an OTA, would the traveler still receive the perks, or is it on – only on direct bookings?

And then, can you just maybe give us a sense of the size of the beta? What percentage of the traffic that's eligible is getting exposed to this? And how should we expect that to grow as the year progresses?

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Certainly, thanks, Naved. It's Steve. I'll take that. So to your first question, no, all of the perks and discounts are available to travelers when they subscribe to Tripadvisor Plus first, and then, of course they have – not of course, I suppose, but then they do have to complete the booking on Tripadvisor. We have a very solid booking flow. We will store your credit cards. We'll make it easy. And we're building that repeat behavior where you come in what we call that no-brainer moment, where this hotel, for your five-night stay, has a \$250 discount, which is close to our average at this point.

You then take a \$99 subscription fee. You're still – traveler's still saving meaningful dollars right now, and they book that through the Tripadvisor booking flow. Traveler comes back, they get a similar discount the next trip they're going to take perhaps. And of course, they've already paid that fee. So it's all dropped into savings, whether that traveler then chooses to spend that savings on amazing new experiences that they found on our site or anything else that they're looking for, that's up to them.

To the question of beta rollout, yes, we're still in pretty early days. We're excited by the fact that it's out. We're testing. We're learning. It's out on kind of US audience only at this point. And we've shared that we will be rolling it out to the rest of our US traffic in the first half of the year. And then, we go beyond in – other English markets at some point after that.

We are very excited about the opportunity that TRIP represents. I talked about having 160 million times when we looked at our 2019 numbers, where travelers were expressing enough interest in looking at a specific property such that they were using our meta auction and clicking off to an OTA or supplier direct. That's 160 million times. We think of it as shots on goal. 160 million opportunities for Tripadvisor with Tripadvisor Plus to say, hey, on a lot of these properties, we have an amazing discount and a perk that's going to make you, the customer, a savvy traveler. It's part of the Tripadvisor Plus subscription. Please come subscribe, make your money back. We're close to it in the very first purchase and get the benefits for an entire year. That savings can go into making a

better trip. That savings can go into your bank. And the audiences, folks who are not only taking this one trip, but are likely to come back to Tripadvisor over and over again over the course of the year.

So it doesn't take a high conversion percentage for – when your denominator's 160 million opportunities to be able to find a set of audience that's quite excited about this product.

Naved Khan

Analyst, Truist Securities

Q

Got it. A quick follow-up, if I may. As you kind of plan for a recovery that takes hold as the year goes on, any plans of increasing your outstanding as we're sort of ahead of that, as you look at the bookings that happen in advance and things like that? How should we be thinking about your ad spend?

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

So I would say, we have so much traffic on our site today that we don't feel a need to reach out to market space on non-owned or paid channels. Of course, our paid marketing, our regular performance marketing will grow as traffic returns. That's really just a function of our kind of standard operating procedure. When it relates to Plus specifically, again, I talked about that 100-plus million number of people who are already potentially Plus clients, and we don't need to reach outside of Tripadvisor to talk to those folks. Ernst, did you want to add anything?

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

A

No, I think that's correct, Steve. Outside of the business, as we've said before, is the marketing expense is mostly going to be variable with revenue.

Naved Khan

Analyst, Truist Securities

Q

Understood. Thank you both.

Operator: Your next question comes from Tom White with D.A. Davidson.

Tom White

Analyst, D.A. Davidson & Co.

Q

Great. Thanks for taking the questions. Two, if I may. Thanks for the color on Trip Plus there, Steve. It sounds like the platform is kind of heading down the road of becoming more kind of transactional, I guess. I might be just curious to kind of hear your thoughts on maybe how your initial push into making Tripadvisor more of a transactional site with – back from the instant booking days. Maybe kind of what the big learnings from that were and how that's going to inform the rollout here? And then maybe also just an update on where you guys stand in terms of leveraging customer data. Some of you guys have talked about prior calls, just would love to get an update on how those initiatives are coming.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Sure. Thanks, Tom. Excellent question. Learnings from Instant Book and past transaction on Tripadvisor, I would say, Instant Book taught us a lot about how to be an effective transaction platform. We did a ton of bookings when Instant Book was rolled out throughout the site. We did it on a global scale. We had a lot of partners involved, and

we succeeded in delivering a lot of bookings for a lot of customers. Where it didn't work as well as we had hoped with Instant Book was simply, we did not offer a compelling additional value proposition to the user as to why they should book on Tripadvisor versus their other choices out in the marketplace.

And so when we take it forward and look at Tripadvisor Plus, it looks like Instant Book a little bit because the transaction is still on Tripadvisor, but the whole message is completely different. Here we're talking about a subscription service to make you a savvy – to make the traveler savvy traveler getting compelling, immediate instant value for going down the transaction path with us, subscribing to Tripadvisor Plus and getting that immediate savings or that immediate room upgrade, that immediate set of benefits that compel someone to say, this makes it a straightforward choice.

Tripadvisor Plus may not have the frequency of something like an Amazon Prime, but we do have that immediate logical benefit of, we're going to help you have a better trip right now. You can save \$200. You can take the private tour instead of the group tour. Fairly straightforward. We're adding, as I mentioned before, more of the non-transactional components to turn you into a smarter traveler when you're actually in destination, to help you when things go wrong. And again, we'll be adding more of that over the year.

So the learnings from Instant Book, we know how to do. We know how to work in the transaction environment in hotels, because we've done it before. That's great. Clearly, one of the reasons we were able to launch the product in such a short time period. And I don't want to – I want to make sure to mention that we are also adept at being a transaction site, as we've been selling Experiences on Tripadvisor for many, many years now. So, again, if people may think of Tripadvisor or some people may think of Tripadvisor as a review site, but we've been selling travel for quite some time.

To the second question on more – that we're doing in customer with our customer data, it certainly plays an important role internally as we launch TRIP and have offers going out to existing members, existing contributors, folks who already have a relationship with Tripadvisor that we can identify.

And then, as we've shared in prior calls, our targeting capabilities in our Media business is getting better and better. So we're just able to more effectively create campaigns that serve our advertisers in a better way with the additional capabilities that we've been building in the system, some of which have launched, other which – other pieces of which are still in development.

Tom White

Analyst, D.A. Davidson & Co.

Q

Great. Thanks for the detail, Steve.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Thank you.

Operator: Your next question comes from Mario Lu with Barclays.

Mario Lu

Analyst, Barclays Capital, Inc.

Q

Great. Thanks for taking the question. I have another one on Plus and one on alternative accommodations. So the one on Plus, just wanted to take a step back. Can you talk more broadly about the genesis of the product? I

just wanted to share your thoughts on why you think Tripadvisor is uniquely positioned to succeed with the subscription product versus, say, the traditional OTAs.

And then secondly, on alternative accommodations, they're continuing to gain share versus hotels within the travel industry. So just curious to see if anything has changed in terms of your strategy in this category, to either ramp up supply or add more partnerships to show more listings in this category? Thanks.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Sure. Thank you, Mario. Two excellent questions. So, on the Plus side, that was your first question. We've studied the behavior of travelers on Tripadvisor for so many years now. And, obviously, people are coming. They're looking. They're getting great guidance. And then our monetization model was advertising on the site and then getting those travelers to leave us and book on supplier or OTA sites, that worked, built \$1.6 billion business, all good. But we've always known that there was this notion of a leaky bucket. We're sending folks, travelers away to book elsewhere. And many of them do take the trip, but they don't book right away, and kind of we lose credit for that.

There's also the notion, while our meta engine finds a good price for people, it doesn't, by definition, find a better price or offer a better traveler experience than what is out there, than what that user could find themselves. We help them find it easier, but it's not unique. It's not exclusive. And obviously, there's many other meta players.

So, we sat and we thought, what do travelers want? They want to have a better experience. They want their dollars to go further. What do we have? We have a ton of travelers on our site taking all types of trips. So, if we start with that consumer value proposition, how could we provide real discounts, amazing perks in a way that the customer isn't able to find that value proposition through their other channels, through the traditional places that they book or through other meta sites.

And we came up with this notion of, well, if we put it behind a subscription wall, there's an established model of being able to offer discounts and perks to folks that are behind industry problems, behind this pay gate. And could that be a model that works? So, we asked first, would the customer be interested in this? And with our surveys with discounts and perks, the answer is clearly yes. Then how could we market this product to an audience? Would we be able to find that – would people on Tripadvisor be interested in this product? And as I shared, 160 million times in 2019 that people were building or interested in an expensive trip, interested enough to be clicking off of our site in our meta auction. And we pick \$750 because you take a 15% discount on a \$750 purchase, you're equating it to that membership price of \$99. So, can we find the audience to be able to educate about this product? The answer is clearly yes, because they are already on our site.

And then we ask, will the hoteliers give us these discounts and perks? And as explained in the earlier question, like, yes, because it still has the opportunity to be a lower cost of distribution for the hotelier than the other channels that they use. So, again, getting the extra visibility on Tripadvisor at a distribution cost equal or better than what they're otherwise paying, that seems very straightforward from a hotelier perspective. And we've been signing up hotels in addition to our aggregators, been signing up direct hotels, that say, this sounds great, let me give it a whirl, and we continue to do that with our direct sales force.

And then will travelers be willing to transact on Tripadvisor? As I shared in the earlier question with Instant Book, clearly, people were willing to do so. We sell a ton of Experiences on Tripadvisor. So, that's really not a – do we need permission from our travelers. Tripadvisor is already a trusted site, and they've already proven that they will go down that transaction flow.

And look again, it's – we have this as an additional product on top of our auction. The auction is not going away. And if you don't find the ideal property in our set of Plus opportunities, there's a beautiful meta auction. You're already on our site and you click off, and you get the exact property that you're looking for.

So, Tripadvisor, we serve for – in pre-COVID days, we're north of 400 million UUs a month. You could think of it as we serve 1 billion travelers a year. And if – I have to say this carefully, but if it's only 10 million that sign up for Tripadvisor Plus, that's still less than 1% of our annual traffic. But 10 million sign-ups times a \$100, and obviously, the math works pretty nicely in a recurring subscription revenue. So, I don't want to get ahead of ourselves. This is not going to happen overnight. We have a lot of supply we want to go sign up. But it is a huge market. We have our own Tripadvisor channel to reach users when they are shopping. We're trusted as a brand. And post-COVID, we think the regular traveler is ready to embrace the subscription product. Subscription products in general have – they've been doing quite well, and it's not us, but others – many others have educated consumers on the notion of signing up for something on an annual basis.

So versus the OTAs or supplier direct, they're going to win. We're going to win. It's not a one or the other by any stretch. As I say, our auction will continue to be quite healthy, but our ability to hand the commission that the hotel is ready to pay their distribution channel back to the customer, I think, enables us to offer discounts in a way that is very hard to match from other more traditional channels.

Mario Lu

Analyst, Barclays Capital, Inc.

Great. That makes a lot of sense.

Q

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

The second question? A shorter answer to the second question, alternative accommodations, absolutely, we see alternative accommodations continue to grow. We had a pretty good last summer on our site for our rental inventory. It's just a smaller piece of our overall pie. And so we do look to grow choice. We do look at some point to be able to integrate in the rental experience into Tripadvisor Plus because much of those travelers are also planning rental stays.

We don't have anything kind of new to report at the moment, but please understand, we are keenly aware of consumers' interest in this type of inventory and the fact that we have a hotel auction that gets inventory from lots of different places. Obviously, we have a rental – it's not really an auction, but we have a rental display that also gets inventory for multiple sources, and we do look to expand that over time.

Mario Lu

Analyst, Barclays Capital, Inc.

Got it. Very helpful. Thank you.

Q

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

I would add to that is – underlying what Steve is saying here about the fact that we have a broad platform, including rentals. But I also want to point out that the – in this pandemic, the rental business has benefited because of the travel trends that were specific to the pandemic, of course. So people making more local trips, not traveling by car and not flying. And so although it's been an important development this year, there will be some

A

degree of reversion to the mean when the pandemic is gone and people start – feel comfortable flying again and feel comfortable staying in hotels. So I wouldn't – I would caution to overestimating the trend for the long-term.

Mario Lu

Analyst, Barclays Capital, Inc.

Okay. Thank you both.

Q

Operator: Your next question comes from Jed Kelly with Oppenheimer.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Hey, great. Thanks for taking my question. One on Plus and then just one on current trends. So just on Tripadvisor Plus, Steve, Ernst, how are you thinking about having enough supply or what execution you need to do to prevent like a natural churn issue? And then, like, will you actually – like when you're about to book a hotel, well, that's when like the Plus option might come up, if you pay \$99, you can save on Plus. And then just real quick on current half trends. As we've seen cases have a decent decline here in the US, I mean, have you seen an improvement over the last couple weeks in traveler interest?

Q

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

Great. Thanks, Jed. Perhaps, I'll take the Plus one and turn to Ernst for the recent trends. Your question is, how are we thinking about supply, avoiding a natural churn. Was the natural churn on – were you thinking on the hotel side or on the customer side?

A

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

The customer side, right? Like, it's like, all right, yeah.

Q

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

Okay. So, yeah, we're using – to answer the supply side first. We're using kind of traditional discount aggregators to bring 100,000 Plus properties online quickly, offering discounts, other perk aggregators where they've already negotiated with the hotel to get a wonderful set of perks and make these properties really kind of stand out from the rest. And that's been our launch. We have been signing individual hotels with our direct sales force.

A

Fortunately, for us, though we have, call it, 1 million-plus pieces of lodging on our site, there's a popular head to that, if you will. When you look at where people are planning expensive trips, that list narrows down quite a bit and we're using our direct sales force to call into those properties, tell them about Plus, share the easy decision that we think it is for them to give it a try. We don't look for long-term contracts. We don't look for guaranteed. Every room is discounted. They can tune the channel to meet their needs of being able to get more reservations.

So when we think about the question of churn, when you – if you're in the beta mix, you'll see that there are a lots of hotels that are available for Plus. It's not a majority or anything like that. But in most cities, you'll find several choices. We look to expand that tremendously, of course, with more partners and more direct sales. There's no challenge in availability right now. So plenty of opportunity to meet the consumer demand.

When we think about churn, we think, yes, when – purchase and then churn. We think the traveler looking at a city and going to – I'm going to Miami. I'm looking at hotels. Oh, this is a Plus property because I see it's being merchandised with a discount and a perk, I'd log in to see what the actual discount is. And I can't transact on that discount, unless I buy the Trip subscription along the way. Of course, at any point, I can click off to a traditional OTA and pay that rate, but the Tripadvisor Plus rate is better. That's the discount we're offering, and that's the reason the hotel got to be at the top of our short list.

So it's a compelling inflow opportunity for us to market Tripadvisor Plus. And then, presuming the customer buys, they're good for a whole year. And so when they come back, and they see a lot more opportunities to save money with any hotel purchase that they're making based upon the discounts and the perks that we have, they get their 10% off attractions and the rest of the benefits.

Even though I keep talking about how most Plus subscriptions are paying for themselves in the very first purchase, we fully expect the people that are buying Plus to take multiple trips over the course of the year. And every time they're taking that additional trip, it's a pure savings moment for them. Perhaps at the end of the year, we remind them, hey, it looks like you booked six hotels with us. Here is the grand total that you saved, \$872. Time for the \$99 renewal. Trying to make that very much a no-brainer moment when it comes to renewing Tripadvisor Plus for next year.

So, obviously, it's a subscription business. There will always be some level of churn, but the target audience here is taking more than one trip a year. They're already saving the cost of the subscription in general in that first purchase. So, it doesn't take much to ask that traveler, Do you think you're going to take at least one more trip over the coming year? Answer yes. And they've had a great experience the first year, away we go.

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

A

And Jeff, to your second question, yeah, we did see January sort of start softly, but February improved, seen revenue tick up more than we usually see from January to February. So, that's positive. We've seen a marked increase of the searches for 90 days plus out versus what we had seen in the three months before. So that was something that gives some positivity there.

And so we – February is definitely starting off so far better than we expected or than we have seen in January. But it's very mixed across the businesses, as you can imagine. The US has been – actually doing reasonably well. We called out in January, we had – in our hotel auction, North America was roughly 50% of the year before, where Europe was just much, much lower.

And so we've seen the difference play out between the US with relatively few travel restrictions in place versus Europe. We just see that in our numbers. And so we're looking forward to travel restrictions, hopefully, with the rollout of the vaccine. And hopefully, with the subsiding number of cases that we are seeing right now, also have to start to apply in Europe over time and see some of these trends come – improve both in North America and in Europe.

Jed Kelly

Analyst, Oppenheimer & Co., Inc.

Q

Thank you.

Operator: Your next question comes from Eric Sheridan with UBS.

Eric J. Sheridan

Analyst, UBS Securities LLC



Thanks so much for taking the question. I won't ask any more on Plus. I think we've talked about that. But generally, pivoting back to sort of the scope in the – your working view on the recovery. Any sense you can give us about how you think where you sit and the broader marketing funnel will play out as demand starts to pick up again and whether you'll be a leading or lagging indicator? Or how conversations continue to emerge with your advertisers in terms of how they might utilize the platform on the other side of COVID versus the world we were in 2019 and earlier. And then going to the local and Experiences side, do you think you need to do a lot there on either growing the inventory scale or letting travelers and consumers know that you have those offerings out in the marketplace? Or do you think it's just a function of end demand opening back up to see recovery in those businesses coming out over the next couple years? Thanks, guys.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.



Great. Thanks, Eric. Two excellent questions in there. So the scope of the recovery, it's a very good question, a very tough question to answer. We certainly have seen traffic on Tripadvisor, people planning or thinking about trip, not go down nearly as much as travel actually went down.

So in that sense, we're a leading indicator that people still want to travel. They're still searching. They're still coming back. Our UU drop, unique user drop, again a lot less than our revenue drop. Because they're not yet booking, but they're – think of it, they're dreaming.

So as we predict, as we hope in the second quarter, as people certainly in the US may have their vaccination dates scheduled, they would get more excited about planning that trip, knowing that they will be vaccinated on X and Y date.

So I think we'd be a good kind of leading indicator from a marketing perspective in businesses that want to get in front of those customers, when they are thinking about that, that summer trip, I would argue, would do wise to leverage the eyeballs that are on our platform today in the planning moments. Ernst, do you want to add something to that?

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.



Yeah. I would add, maybe if you look to our business line by business line, what we've seen last year is that, restaurants actually has adjusted much more quickly than the rest of the business to improvement. So, in Q3, when restaurants were open in Europe, our business was straight back to the 2019 levels, and in some countries, actually above.

So I expect that line of business to do better. Experiences has been lagging and is likely to lag in the recovery. And then, if you look, for instance, at our hotel auction, may – because of our revenue recognition being different than an OTA model, that we may see revenue earlier than OTAs may see revenue. We recognize revenue on the actual click and OTAs recognize revenue broadly on stay. So that may be an early indicator for us or a leader rather than a laggard in our business.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.



And then, on the – thanks so much. Experiences, the question is the supplier in awareness or just a demand. At the moment, it's certainly just a demand question. There aren't enough people taking those leisure trips looking to do that exciting activity. But when those leisure trips do rebound, we feel for our core audience in Western Europe, in the US, we think we have most of the supply that we need. It's constantly adding more, but we don't think of it as supply throttled.

We're looking to build up the demand and build up the sort of inspirational quality of what we are presenting as things to do in these tourist destinations. Because between Viator and Tripadvisor, we certainly have – we feel we have enough eyeballs.

We have enough travelers taking the types of trips where they should be booking Experiences, but we need to help them make that commitment to book it online, as opposed to wait and book it in destination. That's – it's a different answer if you reach all the way out to Asia in terms of the supply question. But for our core markets, I think it's mostly traveler getting back to taking the trips that, including Experiences, i.e., nobody in the US is headed to the Vatican right now to get the amazing tours of museums there. But when that comes back, we will be more than ready to go.

Eric J. Sheridan

Analyst, UBS Securities LLC

Q

Thanks so much for the color, guys.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Thank you.

Operator: Your next question comes from Kevin Kopelman with Cowen.

Kevin Kopelman

Analyst, Cowen and Company

Q

Great. Thanks a lot. Just a quick follow-up. Could you talk a little bit more about the initial learnings from the beta test on Plus? And what kind of conversion rates – initial conversion rates you're seeing? And what's a realistic goal over time? Thanks.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Sure. So that, of course, is why we do a beta. We look to learn and it's out to a decent portion of our US traffic so that we're getting daily subscriptions. We're watching where we are in the funnel. It's too early to really talk about the conversion rates of where we're at. And we don't honestly know what the right target is. We certainly would hope that the discount and the perk would generate a pretty compelling reason to go into the funnel. Hey, I can save \$300 here. That's pretty exciting.

And then again, we have the content from the hotels. We're making the transaction fairly straightforward. We're happy to store your credit cards, make it easy to come back and then knocking down all the reasons why people will either get stuck or there's extra friction in the flow. But the core value proposition, I get a early check-in, a late checkout. I get a food plate in the room. I'm saving \$200. This sounds like a really simple reason to book on Tripadvisor, to subscribe to Tripadvisor Plus.

And that's sort of, if you will, replacing a user who was going to click off to the hotel side or an OTA for just that particular trip. And we feel like it's a better value for the traveler to book that Tripadvisor Plus offering. It makes economic sense for us and the hotel is happy because it's a less expensive distribution channel.

So, again, win-win-win all around and we'll be out of beta relatively soon as we look to expand the opportunity to both learn faster and just help more people start to realize the benefits of Trip Plus in advance of the peak summer travel season.

Kevin Kopelman

Analyst, Cowen and Company



Excellent. And as you think about the 160 million shots on goal, can you give us a sense of how much is that of your kind of overall hotel traffic or hotel ad revenue, just to give us a sense on that.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.



I don't offhand know. But in a sense, you could take all of our auction revenue, take a guess at our CPC and do some backwards math in terms of how many total clicks over the course of the year we might be generating. Of course, most of our travelers that are on our site for all the sets of reasons are looking for what I might call the ordinary trip. It's staying a couple of nights here, it's a half leisure, half business trip. It's a visiting grandma. There's lots of different reasons why people will be taking a trip. And the Tripadvisor Plus offering is really – it can be effective for those small trips if you want to upgrade, but then there's that kind of \$99 cost.

We're clearly targeting, at least initially on the bigger trips, the longer stays. And that's why we shared this 160 million number to help folks give you all the confidence that we have that says, we have a lot of travelers on the site already planning trips of this scale. And so obviously, we would look for it to be incremental revenue to us and recurring revenue being the fabulous part of the overall offering. Hope that helps.

Kevin Kopelman

Analyst, Cowen and Company



Thank you Steve.

Operator: Your next question comes from Lee Horowitz with Evercore ISI.

Lee Horowitz

Analyst, Evercore Group LLC



Great. Thanks for the question. Two, if I could. Maybe sticking with Plus. Appreciating that this is not necessarily a product that can only win if the OTAs lose. By extracting the hotel discount via the hotelier's distribution costs, this would seem to put you in more direct competition with the OTA suppliers. How are you thinking about this potential management of this tension point with important advertisers on your platform?

And then maybe one on Experiences, and building on Eric's question a little bit. Thinking through Experiences in the recovery, would the Experiences industry likely acutely impacted by COVID, do you expect that you will need to spend more aggressively on sales and marketing during the recovery to bring on more Experiences supply to offset what I would imagine would be a lot of Experiences suppliers who have gone out of business during the crisis, and in your experience, what is the lead time between investing in that sales and marketing channel, onboarding an Experiences supplier and getting them up to a meaningful bookings on the platform? Thanks for the time.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

A

Sure. I'll take the Plus question. And thanks, Lee, again, two good questions there. I – it's fair at the highest level to think, hey, well, if somebody is booking on TripAdvisor, and that ends up kind of being a supplier direct booking, then that's a booking that the OTA wouldn't get, technically true, but the volume of these bookings compared to the volume that our big client OTAs would see, it's a little hard to believe that it's even noticeable.

Unlike Instant Book, which did have OTA participation, TripAdvisor Plus is not for the vast majority of our audience, whereas the Instant Book plan, it was for the vast majority of the audience. Instant Book, we were looking at one night hotel stays, convenient booking on the phone.

So, in a sense, that was a potentially more competitive move. Again, part of why it took a little while for the OTAs to join on. But as I've – as we evaluate client reaction from the OTAs with this, they just put it in a different ballpark. This is a very gated product, and discounts behind paid gates are extremely well established in the travel industry.

And what could be a very big opportunity for TripAdvisor still isn't necessarily more than a rounding error for the big online travel agency. So we don't see that being an issue at all, frankly. Your Experiences question, Ernst, do you want to add comments on the supply side?

Ernst J. Teunissen

Chief Financial Officer, TripAdvisor, Inc.

A

Yeah. Lee, we don't see this as an investment in – a big investment push into supply different than we would normally have as the market recovers. We have a lot of supply and overlapping supply in many markets, multiple providers of a certain service in many markets. And even if some of them will go out of business, we don't think that will be particularly harmful to our overall offering to the consumer.

Moreover, there are a number of historically high revenue venues, like Steve was mentioning the Vatican before or the Sagrada Familia in Barcelona or the Louvre – special Louvre tour in Paris that are not likely to be – not returning – that are likely to return when the travel to these cities happens again. So we are not that concerned about that overall. We're thinking more about how do we catch the wave from a marketing to consumers perspective, when the market comes back more than what we need to do for our supply base.

Lee Horowitz

Analyst, Evercore Group LLC

Q

Helpful. Thank you, both.

Operator: And our last question comes from James Lee with Mizuho.

James Lee

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my questions. Two here. Steve, given your focus on subscription, maybe can you talk about any changes to your view on the hotel meta-search product over the longer term? Should we think about the overall strategy from a consumer point of view? Is it more of the segmentation strategy? For example, for high ASP traveler, it goes to subscription. And maybe for mass market, Steve, we want to still focus on meta-search?

And also secondly, on Trip Plus again – sorry about additional questions here. During your testing here, just curious what you're learning is on that specifically. Do you think the demand that you're seeing for people signing up, is that incremental? Or do you think there's some sort of substitution effect coming from other travel subscriptions? Thanks.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

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Sure. Thanks much for the question, James. You can take a look at kind of what we're doing right now on – with Plus with respect to meta in that we're really trying to market Plus where we think it's the – where we're making it the easiest possible decision for the traveler. So, for instance, even where we might have a discount on a property, if that discount is only, call it, \$25 and the subscription is \$99, we're choosing not to push the consumer towards Tripadvisor Plus at that point because it's a little – it may be what the consumer wants, but we don't want to push too hard where the value proposition isn't as compelling. Where the consumer is going to save \$150, sure, it makes a lot more sense for that consumer to buy Tripadvisor Plus than clicking off on some of our meta auction.

So in our merchandising on the site, yes, we are segmenting our audience in terms of how hard we are pushing Plus or how much we're choosing to market Plus to those different segments. That's likely to change over time over years as Plus becomes more well-known as people come to Tripadvisor. Hey, Tripadvisor Plus, how can I see more availability? As we otherwise segment travelers into very frequent travelers, well, maybe that traveler is perfectly happy with the \$40 savings because they're going to take five trips over the year. And they know that, and we know that, and so we have a marketing message that says, think of all your trips you're taking, it clearly pays for itself.

To the degree that we also learn, and we can use the data we have in-house for folks who are less price-sensitive and more interested in the upgraded experience, we have a different opportunity to push the perks as opposed to the discount to that audience.

We think our meta-search is going to be around for long, long, long, long time, and Plus complements that. And so when we think of perhaps a typical Plus user found a great deal for this wonderful vacation, they're excited about the upgrade or the fruit plate, they take that trip. And now, the next time they think about traveling, well, I'm going to start on Tripadvisor, because I'm looking for that similar thing, maybe not with the same amount of discount, but maybe this particular hotel they are interested in, for whatever reason, location or reputation or referral, isn't – doesn't have a Plus offering at that moment in time.

Well, great. They came to Tripadvisor. And their next step is to go click on a meta auction link, which also helps us monetize the consumer and get that traveler to the hotel that they want to book. And that hotel happens to be on Expedia or Booking.com or supplier direct.

So I don't view it as particularly cannibalistic. We view Plus as a wonderful engagement vehicle when we get to a meaningful-enough number of subscribers. And then final point, when I look at the rest of what the Tripadvisor core team is working on, it is about building more engagement on our platform, getting more visitors to become members, members to become engaged members. And eventually, some of those engaged members will certainly become paid members, Plus members. But all along that funnel, we're building more reasons to come back to Tripadvisor. And one of the key ways we monetize that traffic is through that traditional hotel auction.

The hotel auction is working beautifully. Our clients continue to pay what we think of as fair prices for the traffic that we're sending them. It was kind of – there's nothing wrong with the auction, except it was pressured at the top

of the funnel. How much traffic starts looking for their hotel on Tripadvisor and to a degree that our visitor to member, member to engaged member programs are effective, we're able to get more traffic back to Tripadvisor, which we know how to serve quite well.

Second question on the testing learnings. There – to the best of our knowledge, there aren't other travel subscription products we could be kind of pulling from. So we feel our current testing and the product rollout is pulling people that hadn't really thought of doing a travel subscription product, relatively new concept and saying, hey, this is worth signing up for because I'm getting the benefits. I'm getting perks. I'm getting all this for a whole year.

It may be a first of – well, Tripadvisor Plus is first-of-a-kind subscription product because of all the different categories we cover. But to the consumer, I don't think they're looking for a travel subscription product.

I think they're looking to have a better trip. And by signing up for our subscription product, that's the way that they're going to achieve that objective. And they might take that savings from the hotel and apply it to spend an extra day on vacation. That's great with us. They enjoyed the benefits of the subscription immediately.

James Lee

Analyst, Mizuho Securities USA LLC

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Great. Thank you.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

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Thank you.

Operator: There are no other questions at this time. I will now turn the call back over to Steve Kaufer.

Stephen Kaufer

President, Chief Executive Officer & Director, TripAdvisor, Inc.

Well, thank you all, thank you all very much for joining our call. Time and time again, travel has rebounded, travelers have come back to Tripadvisor. We'll continue executing our strategy and ensure that Tripadvisor plays its rightful role as an influential adviser to travelers and to businesses throughout this upcoming recovery.

I want to again thank our employees, our Tripadvisor customers worldwide and our shareholders for their support and partnership in 2020, and for the years ahead. So thanks, everyone, and please stay safe.

Operator: Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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