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TRIP - TripAdvisor Inc at Morgan Stanley Technology, Media & Telecom Conference

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CORPORATE PARTICIPANTS

Ernst Teunissen *TripAdvisor, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Brian Nowak *Morgan Stanley - Analyst*

PRESENTATION

Brian Nowak - *Morgan Stanley - Analyst*

We are really happy today to have Ernst Teunissen with us, the CFO of TripAdvisor. Ernst joined TripAdvisor in November of 2015. You are responsible for all global operations around finance including accounting, Investor Relations, tax, corporate development, real estate. You were at CIMPRESS before that, which is the artist formerly known as Vistaprint. Before that you have experience in consulting and then you were in investment banking at Morgan Stanley as well.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

I was, yes.

Brian Nowak - *Morgan Stanley - Analyst*

Thank you so much for joining us; we are really happy to have you here. So I wanted to start with just the product. So TripAdvisor has come a really long way and a lot of good changes over the past couple years. You have added price comparison, you have added instant book. I guess I would be curious to hear about how you feel the product is right now for users and what are the biggest areas of potential change you still would like to make to platform?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Great, thank you. First of all good morning, everyone, pleasure to be here. Pleasure to be here at Morgan Stanley, my alma mater. Yes, we have made quite a few changes to the product over time, really with a singular vision. And our vision is to for our users build the best user experience that there is in travel. And economically what we are trying to do is leverage our huge user base that we have and monetize it better over time.

So if you look at our product development, we started out high in the funnel, but we are positioning ourselves with our product across the entire funnel. And not only for hotel but also for products that you as a user can use when you are on the trip itself. And so, if you look at where we are in that, we continue to have a very privileged position up in the funnel.

So our awareness as a site where our users go to to plan their travel, where they go for fresh reviews, high-quality reviews, where they go for great content of the hotels that they look for, great photos, great information about hotels. We are very strong there and we keep developing that product.

So if you look at last year we kept growing that user generated content, grew close to 50%. We are now approaching 500 million pieces of review and comment by our users. So very important that we keep developing that because that is our heritage.

But then we have been moving mid-funnel and down the funnel as well. We have established our meta product over time. And last year of course was the year in which we made a major push in instant bookings further down the funnel which is our booking product. And in parallel, we are developing other parts of our product, which is our in destination, our ability for our users to book restaurants, to book things to do either on our dedicated brands for that, TheFork or Viator, but also on the TripAdvisor brand.



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And so, we have been growing our supply, we have been growing the book-ability of that supply on TripAdvisor brand. So it has been a long journey, we are not done yet, but we feel pretty good where we are right now in covering that funnel. And all our activities last year have been focused on that.

Big push towards instant booking, we have that available now, the product is rolled out everywhere. We have the major suppliers in the store in instant booking. Last quarter, we added Expedia and Hilton as our partners in instant bookings, so we feel good where we are in that place too. So we keep developing the product, there is more to do. And we feel that we have done a lot of heavy lifting on the product side over the last few years and we feel we are in good shape.

Brian Nowak - Morgan Stanley - Analyst

Makes sense all the way down the funnel. I guess earlier this year you announced you are evaluating a multi-year brand marketing investment including possibly returning to television. So that brings a lot of questions to my mind. Two to start, you have done some branded TV ad spend in the past. What have you learned in the past and what you can kind of take your learnings and put it towards this new potential investment? And then secondly, to your point earlier, TripAdvisor has a great brand. What is really the hurdle you are trying to get consumers over around the TripAdvisor brand?

Ernst Teunissen - TripAdvisor, Inc. - CFO

Good question. Yes, we were on television in 2013, 2014 and 2015, modestly in 2013 and 2014 and we spent \$30 million, 3-0 million dollars; in 2015 we spent \$50 million, 5-0. In 2016, we paused and said, while we were rolling out instant booking and while we were making so many changes to the product, we felt we wanted to take a step back from brand marketing.

In 2013, 2014, 2015 we were not in all markets, we were in some markets, we were in some periods of the year. It wasn't a very consistent sort of campaign, but we learned quite a bit, it was a good set of tests that we have done and we learned quite a bit about television.

So what is the role potentially of brand marketing where television for us was your question, which is a good question. It is not general brand awareness. I mean the TripAdvisor brand is very well known in travel. Very widely used in travel. And so, in our prepared remarks to our earnings two weeks ago we talked about independent studies that show that of all the travel that gets booked, that about 40% to 50% of the folks, actually touch TripAdvisor somewhere on their journey.

So very widely used, very high brand recognition. So television is not to get people to know TripAdvisor more. And that is globally so that is not just in here and the US. Where we think advertising potentially can help us is to shift that user perception, shift that perception that our users have of TripAdvisor as a great planning site. And that is what they use us for in their journey.

We have close to 150 million hotel shoppers on our site every month, unique shoppers on our site every month. And the majority of those shoppers don't actually click on the meta link or go into the instant booking funnel because they are actually using us as for their planning and for their research, they are further up funnel still.

And the perception shift that we have to generate is that those users that say, hey, of course TripAdvisor, check reviews, check content. That they then, when they are ready to book, when they are just at that moment where they're ready to book they think, oh, ready to book. I want to go back to TripAdvisor, check those final prices, click off to somewhere else or book actually on TripAdvisor.

And too many times the use case is that people have compartmentalized us as the planning site and have other sites that they go to to make the booking. And that is the shift that we want to make. And we think brand advertising can help with that. We do a lot of things already on the site that are helping us with that, of course messaging on the site, we are retargeting users that have come to our site with a message to come back and consider us with that booking step as well.



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We have other brand marketing activities -- last year we did a few, things like sweepstakes and Amazon gift cards if you booked on TripAdvisor. But we are evaluating if brand advertising in the form of TV could help us there too.

Brian Nowak - *Morgan Stanley - Analyst*

Here is one that I get asked a lot by investors. As you think about the TV spend how much are you willing to spend as you think about this year and even the out year? And as we go throughout the course of the year what are the major hurdles you are going to look at from a return on investment behind that spend?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. We announced that we are evaluating it and so we don't have any answers yet to share in terms of the size or the scope of that, we are evaluating that. As we think about the return profile of that and what we are trying to affect is clearly that supporting that perception shift of the users, very important metric. And then financially what we are going to be looking at is 'will that advertising spend likely support the conversion of our users on our site?'

It will attract some new users most likely, but importantly how will it affect existing users that we have already and their conversion on our site considering us at that point of purchase. So we will be tracking metrics like that.

And then just in terms of return on investment, we clearly want to make a return on investments. And it may be a longer payback period than performance-based marketing which we have typically run roughly at breakeven and near-term breakeven. So it may have a slightly longer payback profile, but as we are evaluating this, clearly thinking about this obviously as needing to be accretive from an ROI perspective, even if you take a slightly longer timeframe for it.

The revenue generation that we are looking to create in terms of that flywheel of better perception of us as a site they go to to book to actually using us as a booking site to therefore creating more bookings per user, more revenue per user is what we are evaluating.

Brian Nowak - *Morgan Stanley - Analyst*

Is part of the brand spend step up this year, is it also associated with the non-hotel brands and products like TheFork or Viator? Or is it mainly on the core product?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

If we do it this year or next year it will be focused on hotel, that is our main use for it. So that perception change that I talked about is mostly around getting people to consider us as a planning site for hotel booking to consider us as a booking site for hotels. Undoubtedly, there will be a halo effect on TripAdvisor more broadly as a brand, but the way we are thinking about it and how we are evaluating it is strictly on the hotel merits.

Brian Nowak - *Morgan Stanley - Analyst*

Okay, let's talk about the 2017 guidance a little bit. You talked about a return to double-digit revenue growth. Talk us through the businesses that you see driving that between the hotel and the non-hotel business as we go throughout 2017?

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Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. Yes, we did say we expect double-digit growth again for the totality of our businesses, consolidated revenues. We don't call out the specific components of that, but we did call out that we expect the return to double-digit growth. There is one revenue line that we break out, which is the TripAdvisor hotel click base and transaction revenue, we expect that to move into double-digit growth itself into 2017 and that will be the pace car of the change from 2016 to 2017 growth. So we clearly expect that line to be helping us.

Brian Nowak - *Morgan Stanley - Analyst*

Okay. And on the EBITDA side you talked about adjusted EBITDA being flat to down; I think that was the official line this year. Talk about areas of investment and how do you think about the paybacks on the investment that you are making this year on EBITDA.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, indeed. We said about 2017 that we expected our consolidated EBITDA to be flat to down combined with double-digit revenue growth as we said. The main reason for that is that we are really focusing on revenue growth coming into 2017. So 2016 was a year where revenue growth took a step back, we were rolling out instant booking.

Because the monetization for a shopper as a result of instant booking came down our revenue per shopper came down as a result of the rollout. We were just not able to spend as much as we otherwise would have on performance marketing. And so, last year we did not change the return requirements for our performance-based marketing versus 2015. And if your revenue per shopper goes down it just restricts how much you can spend on performance-based marketing.

So in 2016 the TripAdvisor core direct marketing spend grew single-digits and that is in a very competitive market environment where many people's budgets grew at double-digit or way beyond that. So we look at 2017 and we are saying we've rolled out the product, we are making some final changes to the product but we feel that 2017 is the year for growth again.

We are not changing our return requirements on performance marketing from 2016 to 2017. So it is not going to lower our hurdle rates and just spend more, but as our economics improve we have seen impressive improvements in our US business where since the lapping of the instant booking rollout August last year, we've seen growth in revenue per shopper, growth in revenues in the fourth quarter and in January it was 20% plus in the US revenue growth.

And so we have seen some very good signs and with improving economics, we are lapping instant booking roll out as we speak right now everywhere else in the world. With improving economics, we expect we can lean more into performance-based marketing again. So performance-based marketing, even at the same hurdles of last year, is going to be able to give us a significant boost to our revenue growth. It does come at the expense of a lower margin.

Brian Nowak - *Morgan Stanley - Analyst*

And the brand spend would be on top of that?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. We have said the forward-looking statement that we have given was in a world excluding that brand spend that we are evaluating, just because we have not made any decisions around that. But if that were to happen in 2017, that would mean help to revenue growth but would put further pressure on EBITDA.



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Brian Nowak - Morgan Stanley - Analyst

Yes. 2017 seems to be like a year of investment where you are talking about the EBITDA margin, margin pressure. This comes up a lot with investors. How do you think about the long-term steady-state margins for the core hotel business after we get through all this investment?

Ernst Teunissen - TripAdvisor, Inc. - CFO

Yes. So, the flywheel that we think we can affect with all this change and all this investment into product that I was describing in the beginning, this moving down funnel, positioning ourselves as a brand that people consider for booking as well as for research. Adding all these products while on the trip. The flywheel that we hope to create with that is that we will have more and more users come to the site at that moment of booking, therefore generating more revenue for hotels, use us on the trip therefore generate more revenues while on the trip.

So our revenue per shopper, our monetization per shopper, we expect to be able to move up quite significantly in the future. And when that works, that will give us a boost of profitability because that will -- any improvement that we make there will drop to the bottom line.

And it will partly allow us to spend more on performance-based marketing because of all of a sudden if you have a higher monetization you can bid for that number three slot or number two slot or number one slot in Google where you couldn't before for a certain search term. And it will allow us to start improving our margins again.

In our public statements, we have said that we are mostly focused on absolute EBITDA growth. But we expect margins to improve over time as well and the margins over a longer-term period of time, obviously in 2017 with our forward-looking statement of flat to down EBITDA and double-digit revenue growth, margins we are expecting to contract in 2017.

Over the long-term, we expect to be able to improve margins again and to be in the mid- to high-20s type of EBITDA margins for the whole Company, maybe better, with the caveat that we will always manage the business for absolute EBITDA and cash flow rather than in margin. But we expect that margins should be able to improve over time after these years of investment.

Brian Nowak - Morgan Stanley - Analyst

You have such a big platform of users with a lot of directions to go between the core hotel business, the Fork, Viator, attractions, vacation rentals -- so many areas to invest in. What are the main economic analyses or hurdles that you look at when you are kind of trying to decide where should you allocate the next \$10 million of capital?

Ernst Teunissen - TripAdvisor, Inc. - CFO

We have many parts of the business where we can invest capital. First, in the business itself, organically, we have been putting significant capital to work in our non-hotel business where we have been growing supply, improving the product, making the product bookable on the TripAdvisor site. So significant investment there in people as well as in direct marketing cost.

We look at that over a multi-year period and say invest today what is the outcome that we expect over the next one year, two years, three years for our non-hotel business. We think on a longer time horizon we do believe that if you go to areas like the attractions business, where we feel we have a very good early mover position, in a very fragmented market, we feel that now pushing for scale and for good supply is the right thing to do so we make that investment. So that is one example.

We have made significant investments in our hotel business obviously in the investment and instant booking which was not just an investment in technology and content development, but was particularly an investment in near-term revenue growth and therefore profitability as well. And we have done that with a longer view as well.



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And then outside of the core business, we have made investments in M&A. In 2016 we did a number of smaller investments and acquisitions, it totaled up to a total of about \$50 million, 5-10 million dollars, and they were complementary to our activities in restaurants, our capabilities around mapping, complementary to our positions in vacation rentals. And we look at those acquisitions on a case-by-case basis, obviously with return hurdles there as well.

And then throughout 2016 and particularly in the fourth quarter, we have made investments in ourselves, in our own stock as well. We repurchased some shares, which we do opportunistically and from time to time when we believe it is a particularly good alternative to investment elsewhere.

And through 2016 we completed a Board approved program for \$250 million and we have recently received from our Board an approval to spend another \$250 million and we will from time to time keep our eye on opportunities there.

Brian Nowak - *Morgan Stanley - Analyst*

There is a lot of chatter around the macro environment, the political environment. I am sure there is something going on on Twitter this morning. Anything at all that you are seeing impacting travel, both the political macro space as well as kind of where we are on the lodging cycle?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. The travel market as a whole seems to continue to be robust. And so, obviously 2016 was a year with some negative factors and some negative impact on travel. We of course had the terrible terrorist events that were going on. We had political or economic events like Brexit going on. But despite that the market seems fairly robust overall. It is a large market, we are a relatively small fish in that very large market. And so we look at the macro environment as benign for us.

It is a competitive market. And so, we did see in 2016 that we are not the only ones operating there and some players in the industry are making aggressive pushes into marketing. That is definitely a factor for us. But we believe this is a large and attractive market that we believe we can capitalize on.

Brian Nowak - *Morgan Stanley - Analyst*

I want to skip ahead on the competitive point because you -- it really does seem as if there is a renewed interest in meta of late with the Trivago IPO, Priceline's acquisition of Momondo. Talk a little bit more about the competitive landscape right now. And I guess as a follow up to that, would TripAdvisor be better served being part of a larger Company?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, so we discussed a number of the factors of what is going on in the industry, the other part that we didn't touch on is this shift to the phone in particular that we think is a very important trend in our market. And a lot of what we think about and do for our product is focused on where that is going to go.

There are a couple of trends in our industry that we have seen. There has been consolidation. We mentioned just a very recent example of that. There is also a trend that most players are looking at these new markets like attractions, things to do when you are on the market, things to do when you are traveling and trying to invest in there. Various announcements have been made there.

You see that everybody is trying to move to a position on the phone where their app is recognized as the most important app that people go to, not just the other travel companies like ourselves or OTAs, but also the hotels themselves.

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Within that, we believe we actually have a pretty good set of cards. We have a very good starting point because where we think this is going to move over time is there are going to be a few brands in travel and the users of those brands are going to look at a pretty end-to-end experience with those brands. Where a lot of the brands today are focused on particular slivers of the value chain.

And with that development particularly important on the phone because on the phone it is going to be less easy to go just back and forth between different sides. We believe over the long-term having that end-to-end position is going to be incredibly powerful. Over the long-term brand is going to be very important and we have a very good starting point there too because we have this very loyal following of a large set of users with a real passion for us as a brand.

And so, if don't think of those things together, big community, strong brand and increasingly a position that spans across parts of the value chain, parts of the funnel and we believe a brand that actually has license to go across all those parts as well. We believe we are pretty well positioned for the long-term.

Brian Nowak - Morgan Stanley - Analyst

The big part of your end to end push in all of that has been instant book. Instant book has been out now for about two years. I guess I would be curious to hear a couple things. One, the biggest positive surprise you have seen as the progress come out. And then as you look ahead what do you see as the biggest one or two challenges you still have to overcome to really get people to start to book through the TripAdvisor funnel?

Ernst Teunissen - TripAdvisor, Inc. - CFO

Yes. So instant booking, as we have said, rolled out over the past few years in a couple of phases, some went faster, some went slower than we anticipated. So, an important first phase was we had to get access to the supply, which we have to through OTA partners, but also through signing up large hotel chains and then independent chains.

That took longer than we expected, we just in the last quarter signed up, as I referenced before, Expedia and Hilton, which now basically means that we have the two large OTAs as instant booking partners and we have almost all of the large chains now as partners as well and we keep adding supply on other independent hotels as well. So that took some time to put in place but we have it.

And then the rollout itself, we did fairly quickly last year. And so, we quite consciously after having gone a moderate pace into the US, we said we're going to have to go very quickly now, we're going to flip a switch and go very quickly everywhere else. And this happened around this time last year.

And that pivot went fast, we made that turn fast. The products in place in all those markets, it is working well. What perhaps went slower than we anticipated is that it would take time for our users to adopt instant booking at the pace, at the potential that we think it has over time. So moving that user perception will take time.

It is a great product, people like it, people that use it show better conversion than people that are on meta. It shows better repeat rates than people that use meta. So really good signs for those that use it. It is going to take a longer period of time for the large population of our users to use that. And that's fine. It is a long-term investment, it is a long-term strategic product.

And it is actually not the end goal for us to have -- make IB necessarily a large product. The end goal is really to get that monetization of our user base to go up. And for those users therefore to come back just before they are ready to book, so when they want to do their final price comparison or they are ready to book.

We are somewhat agnostic if they then at that moment in time click on the meta link and convert really well for one of our partners or click on an IB link and convert there for ourselves or for one of our partners there. Strategically I think it is good for us to have IB and for IB to be successful all the time. But it is maybe more important that we get that consideration at the time of booking.

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So IB is a product, good shape, we are happy with it. It is going to be very important to us long-term, but we need to focus on the more holistic monetization of our user base.

Brian Nowak - *Morgan Stanley - Analyst*

As well as with the branded campaign that could change consumer behavior.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes.

Brian Nowak - *Morgan Stanley - Analyst*

Okay. You mentioned conversion increasing on IB. I think you mentioned in the past that in the US you have already seen a 20% increase in conversion and some of the IB funnel. What drove that and what has to happen going forward so conversion on IB can be large enough so that the revenue impact is larger than what you lose from meta?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

A lot of blocking and tackling going into rolling out an IB product and then optimizing it thereafter. So, one vector of that was improving content. So, you get the IB product out then make sure that we have great quality room photos, all the information about cancellation policies, amenities of a hotel. Get all that information out, that was an important part of it.

Then we learned a lot last year about how our users look at price and the importance of price. And so, when we rolled out instant booking at first we just put instant booking right up there in the number one slot or to the left and others to the right. Sometimes we didn't have the best price in instant booking compared to some of the options on meta.

And I guess we found out, perhaps not surprisingly, that our users actually convert a hell of a lot better if you have at least as good a price in instant booking as is available on meta and hopefully better. And so we made changes in making sure that when we show instant booking to our users, we do it to send a signal that we actually have great prices in instant booking, and therefore have at least a "meet" price, but possibly a "beat" price.

So playing with that actually helps improve the conversion as well. And then of course we keep communicating to our users that this is a new product that they should try, which initially lowers the conversion and then over time improves it again. So indeed in the US, year on year, we were able to improve monetization by 20%, which is a big number for us and we were very pleased with that. And over time we hope that instant booking will monetize as well globally as it does for us in the US right now.

Brian Nowak - *Morgan Stanley - Analyst*

For the users who have used instant book successfully, how do the repeat rates or the retention rates of those users compare to your meta population?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

They are better, yes, they are significantly better. So people that have booked on instant booking, they are more likely to come back and book again. Folks that have booked with us before are more likely when they come back to actually go into the IB funnel again. We get great storage of



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credit cards, holding of credit cards, and we have seen the sticky nature of the positive impact of someone having vaulted their credit card for when they come back. And so we have definitely seen very good user behavior around our instant booking product.

Brian Nowak - *Morgan Stanley - Analyst*

Okay. So much attention is paid to the instant book product that ironically the meta business is still larger. And I guess I would be curious to hear about -- talk about the runway that you see for meta, your meta revenue ahead. And do you still see opportunities to make changes to the product, changes to the algorithm to kind of drive monetization even higher through that meta funnel? What should we look for?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

It is a good observation that IB has received most of the limelight, because that was the new thing that we rolled out. But definitely as we think about this internally we don't think in that order of priority, we really think about getting that total revenue per user to go up. And meta is still our largest product within that.

So last year we had been focused on a price and price availability in our meta auction quite a bit. And so, making sure that we show the best prices very prominently, show it first rather than further down. Making sure that there is increased transparency about the pricing we have.

We have changed the sort order to highlight the types of price points that different users want to see and focus on. We have been focused into 2017 right now we have been focused on streamlining the user experience so there is a clearer path for our users. So those are some of the initiatives.

We have been continuing to work with our partners to provide them with better tools, better tools so they can optimize their bidding strategy on TripAdvisor as a site. So a lot of continuing development in our meta option that we will continue to focus on.

Brian Nowak - *Morgan Stanley - Analyst*

Got it. I'm going to ask a few on the non-hotel business, then we will open it up to Q&A as well. On the non-hotel side -- a lot of talk around the attractions opportunity and how that could eventually become a \$1 billion revenue business. What are the investment steps you still have to take to drive that attraction business? And how many years do you see that being to that \$1 billion run rate?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Right. So attractions is a very fragmented market but a very large market. And there are not many players of the size of Viator and TripAdvisor out there in the market right now. And so, we feel that we are in a very good spot there. So our focus ever since the acquisition of Viator is to keep Viator as a specialized attractions brand focused on tours and activities. And we will continue to do so, it has a strong following there.

But more importantly strategically for us is that we have enabled Viator to keep building that supply, to keep knocking on doors of attractions and tours and make sure that we get them signed up -- get them signed up to our supply. And why that is important is because really the big opportunity here is not so much growing Viator as a brand, it is using all that supply on the TripAdvisor site where we have already this vast close to 400 million users every month exposing them to bookable content, there it is a huge opportunity.

Most of us have traveled to San Francisco. You have your hotel, you have checked into your hotel, you get your TripAdvisor alert saying there is something to do around here, this tour to do or that activity to do. That is a great opportunity for us to monetize that user base. And so, we are looking at that business and we have said -- publicly said we think that could be our next \$1 billion revenue business.

And we think it is still some way away a bit; we don't break out attractions, but if you look at our total non-hotel business and you know attractions are really part of it. So it has grown quickly but we are still not at that \$1 billion mark but we think we can get there. And we think when we get



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there we are going to have been building a very attractive business. Until we get there, much more focused on revenue growth and supply growth there and we will be on profit growth.

Brian Nowak - *Morgan Stanley - Analyst*

Get the travelers booking to Alcatraz. The other kind of large business you have within the non-hotels, the vacation rentals -- I think you have 840,000-ish vacation rental properties on the site. How do you drive demand? You have so many users on the platform, how do you get people to actually start booking your vacation rentals more frequently on the platform? And Expedia is pushing advertising with HomeAway. Do you need to spend more on advertising to really drive this business?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, if our vacation rental business was a standalone business we would probably be in a tough business because it is indeed competing then with very large brands like HomeAway or Airbnb. But economically the beauty of vacation rentals within our portfolio is that we can again lever that large TripAdvisor user base. So the vacation rentals that are run under the various brands in vacation rentals that we have all at supplies also available on TripAdvisor.

And so we can leverage that. We can leverage that exposure that we have to all our users and so don't necessarily have to really invest a lot of marketing dollars to get attractive growth.

Brian Nowak - *Morgan Stanley - Analyst*

Got it. In the vacation rental space it is still pretty early, I would argue, it is my opinion, could be completely wrong. There is a lot of different monetization strategies across the platforms between what Priceline is doing and Booking.com, through what Airbnb is doing, through what HomeAway is doing and then your model.

Talk to us about why the model you are choosing and the free to list model, why do you like that? And could you ever change that or do you see that model kind of sticking going forward?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. For those who are not up to speed on the free to list product is historically the industry, including ourselves, was mostly on a subscription-based deal with their users. So you pay a certain amount per month or per quarter and you can list.

And we have moved that gradually, the entire industry has moved towards what is called free to list, which means you don't have to pay a monthly subscription, but then there is a commission that is paid on the stay, very much like as seen in the hotel business.

It has been a good model for us, it has been a good model for our customers, both our vacation rental owners as well as the users to have that sort of more immediately available and guaranteed supply because you can actually book that rather than just have a subscription you have to separately call people. And so, that has been good for us; it has helped us grow, it has made a positive impact on our business. And so we will continue to make that push towards the free to list model.

Brian Nowak - *Morgan Stanley - Analyst*

Over a three-year period is Airbnb more likely to be a bigger competitor or a bigger partner?



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Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes, unclear, it could be a bit of both I guess. Right now Airbnb is a competitor, although not as directly as you may think for us. Indeed in vacation rentals we compete but we compete in the broader market. Don't necessarily compete that much with them in the hotel biz, although indirectly we understand we might do.

They are making forays into the attractions space as well, but that is a pretty large market that is fragmented. So we don't necessarily see them moving there, but they are for the long run one of the -- of course one of the big travel players in our competitive market set.

Brian Nowak - *Morgan Stanley - Analyst*

I am going to ask one more and then we are going to open it up to Q&A. So if you have questions go ahead and raise your hand. I think there are mic runners running around. The last one I have for now is on TheFork. You've built a pretty good database of bookable restaurants, I think around 40,000 at this point.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

That's right.

Brian Nowak - *Morgan Stanley - Analyst*

Talk about areas where you have had success of people actually booking the restaurants through the platform. What are some strategies you have seen at work that you can replicate and what are the biggest challenges you still face in driving TheFork to be a bigger part of TripAdvisor?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. And so, TheFork -- maybe not broadly understood, TheFork is very much a regional geographic play for us. And so, if you look at the brands that we have around TheFork, TheFork La Fourchette in France and other brand names in other markets, very focused on development in -- core markets are France, Spain, Italy, other places in Southern Europe, Netherlands, Australia. So very much a geographic footprint.

And in those markets it is very strong. And so there are other markets for other players like OpenTable are very strong, notably here in the US, we have really chosen a path where we are focusing that business on markets where we have a great leading position. And so, that has been the development of TheFork La Fourchette and it keeps moving -- building the supply there.

As TripAdvisor more broadly, we have hotel presence just globally, so it is a very much a global play that we have. And we leverage TheFork's bookable supply, but we have partnerships with others. In the US we partner with OpenTable, for instance, for bookings. So very much a global play.

But TheFork is developing really well, it is growing very, very nicely. It is doing well, it is building great supply. It has got a great management team that is focused on growth and is getting increasingly better margins in their historical home core markets, but keep investing and actually developing new markets as well.

Brian Nowak - *Morgan Stanley - Analyst*

Got it. Okay, let's open up to Q&A.



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Ernst Teunissen - *TripAdvisor, Inc. - CFO*

One other thing I want to add there, which is important to add, is the core product in restaurants for TheFork is the reservation revenue that we have. But we have an opportunity to add other services on top which we are increasingly doing, other value adding services for restaurants to help them market their business in new ways.

And we have a series of potential products that we are introducing now and potential products that we have in the pipeline that we think are going to be an interesting revenue stream there.

Brian Nowak - *Morgan Stanley - Analyst*

Okay, interesting. Questions in the audience? Quiet morning. There's one on my right.

QUESTIONS AND ANSWERS

Unidentified Audience Participant

Just a question on return on the performance marketing you guys are thinking about doing this year. You talked a little bit about a more competitive environment in terms of the marketing spend for travel. I was just wondering, given that kind of environment, does that reduce the ROI you can generate from your performance marketing? And how do you think in terms of longer-term, does that change your kind of overall margin structure if it is a more aggressive marketing spend for the entire market?

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Yes. The way we have been thinking about our performance marketing and return on performance marketing, as I said before, is approximately breakeven in the near-term on the spend. And the benefit of that is of course that it adds to your skill and you introduce people to the product that may come back later and therefore may have a higher lifetime value of the spend. But the way we have approached it is this approximate breakeven of spend.

So, what we have then done is in times where the market is getting more competitive or our revenue per shopper goes up or down, we haven't necessarily changed those but we just basically moved our spend accordingly. So 2016 was a good example of that where we were not able to spend as much and probably ceded some market share as a result by keeping our payback very similar.

And so now into 2017 where again we are not anticipating changing our return requirements from performance-based marketing from 2016, but we do expect we can spend more because of our improved economics. And so, that is how we have been approaching and thinking about this and not as much from a -- we want to have a certain market share and therefore we are going to lower our return requirements.

Brian Nowak - *Morgan Stanley - Analyst*

Okay, great. Ernst, we made it, no La La Land moments. Thank you so much. Thank you.

Ernst Teunissen - *TripAdvisor, Inc. - CFO*

Thank you.



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