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TripAdvisor, Inc. Q4 2017 Prepared Remarks

(All comparisons are against the same period of the prior year, unless otherwise noted; some calculations may not foot due to rounding)

Fourth quarter financial performance was ahead of our expectations, and Q4 capped a year of important progress on our product, supply and marketing initiatives. Demand and supply continues to grow TripAdvisor's powerful travel platform, and we are bringing it together to help more travelers across the globe plan, book and have great travel experiences.

There were two main drivers of our Q4 financial results. First, our click-based auction generally stabilized during the quarter. Second, we continued to optimize our paid marketing mix, significantly reducing online traffic acquisition expenses and thereby mitigating year-over-year adjusted EBITDA declines in our Hotel segment, while also investing in brand advertising. Additionally, the other revenue lines in our Hotel segment recovered to year-over-year growth. In our Non-Hotel segment, we continued successfully scaling our Attractions and Restaurants businesses. These businesses continue to reap the benefits of TripAdvisor's unique competitive position, driving continued strong revenue growth by matching global travel demand with increased bookable supply. After a few years of significant upfront investments, in 2017 this segment also began to demonstrate strong embedded operating leverage and its potential for substantial long-term earnings power.

The global TripAdvisor platform continues to generate strong network effects. User-generated content grew nearly 30% in 2017 and reached 600 million reviews and opinions in Q4. Community engagement remained strong as well. Average monthly unique visitors grew 17% in Q4, and reached 455 million during the peak summer travel season. Our core product focus has been to improve the TripAdvisor user experience throughout all stages of the travel journey – from inspiration, to research and planning, to finding and booking great travel experiences that truly make a trip memorable. In 2017, we added more immersive content, more price discovery, and more bookable supply across a wide spectrum of travel categories.

TripAdvisor's significant influence over the \$1.6 trillion dollar travel industry and massive global travel audience uniquely positions our business in front of attractive, and largely untapped, growth opportunities. We recently announced organizational changes that we believe will help us execute our long-term growth strategy. We will add talented leaders to spearhead our Hotel business as well as our exciting, new Core Experience business, which represents important "connective tissue" that will ensure the TripAdvisor user experience is as engaging, as delightful and as holistic as possible throughout every stage of the travel journey. This team will also focus on generating more media advertising opportunities for more partners on our platform.

In summary, the progress and changes we have made in 2017 make us excited for what is ahead. In 2018, we are focused on driving continued revenue and market share growth in Non-Hotel, and we will continue to diversify our Hotel marketing investments. These objectives, along with our trusted, global brand, rich travel content and large monthly audience, create a solid foundation for long-term profitable growth.

Hotel segment update

Throughout Q4 and 2017, we focused on three key areas: product experience, amplifying our consumer message through brand advertising and optimizing our marketing mix. Continued focus on these areas keeps us on the right path towards long-term growth, while also curtailing recent adjusted EBITDA declines.

First, we reduced friction across the hotel shopping experience. We refreshed the look and feel of TripAdvisor products and we launched cleaner, more streamlined hotel pages. We also made it much easier for users to find and compare prices across all booking options, giving them confidence that there is no need to shop around.

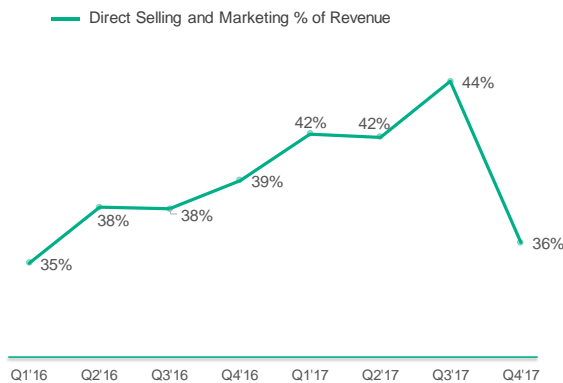
We have been prioritizing mobile throughout our product and development work and this increased focus continues to drive results. Mobile hotel shoppers grew 26% in Q4 and accounted for nearly 45% of our hotel shoppers in Q4 and more than 40% of hotel shoppers in 2017. Q4 mobile revenue per shopper grew in excess of 20% year-over-year. TripAdvisor-branded click-based and transaction revenue on mobile grew by more than 50% year-over-year in both Q4 and in the full year 2017. Our progress has reduced the revenue headwind created by our traffic mix shift from desktop to mobile. We will continue to reduce friction for hotel shoppers to drive conversion and bookings for partners, and we will also find more advertising opportunities for partners to drive more value on this key platform.

Second, we have been investing in brand advertising in order to build a more durable consumer relationship throughout the hotel shopping journey. Complementing our product work, this campaign drives home the message that TripAdvisor not only helps users find great hotels but also helps users save money. Still just a couple of quarters into this multi-year campaign, markets where the ads are running continue to outperform non-television markets on all key success metrics: unaided awareness of TripAdvisor as a place to shop for the best hotel prices, branded visitors, branded hotel shoppers, branded clickers and branded bookers.

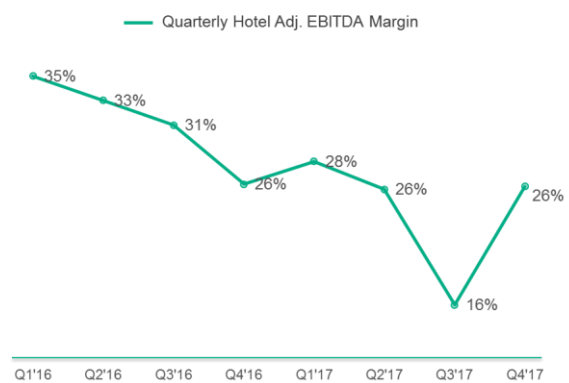
Brand advertising expense stepped down seasonally in Q4 to \$15 million, and the \$74 million total investment for the year was in line with our stated plans for 2017. The team has optimized the campaign, improved ROAS performance and has been working on some new creative that we expect will further enhance the campaign's effectiveness throughout 2018.

Third, as discussed during the past couple of quarters, we have been making progress optimizing our performance marketing campaigns, leveraging improved tracking capabilities to reduce investments in unprofitable traffic. The charts below illustrate how reduced performance marketing investments caused consolidated direct selling and marketing expenses as a percentage of revenue in Q4 to decline, and also drove improved Hotel adjusted EBITDA margin in the period.

Consolidated Direct Selling and Marketing % of Revenue



Hotel Adj. EBITDA Margin



Absent our brand advertising investment, Hotel segment direct selling and marketing expense has decreased as a percentage of Hotel segment revenue in each quarter since Q1 2017.

Preserving Hotel segment profit has come – and we expect will continue to come – with near-term trade-offs in terms of hotel shopper growth and click-based revenue growth. Q4 TripAdvisor click-based and transaction revenue declined by 11%, and hotel shopper growth slowed to 3%. For the full year 2017, click-based and transaction revenue grew 1%, while hotel shoppers grew 7%. On the monetization side, revenue per hotel shopper declined 14% in Q4 and declined 7% in 2017 driven primarily by lower click-based auction bids from partners during the second half of the year, as well as faster hotel shopper growth on lower-monetizing mobile devices.

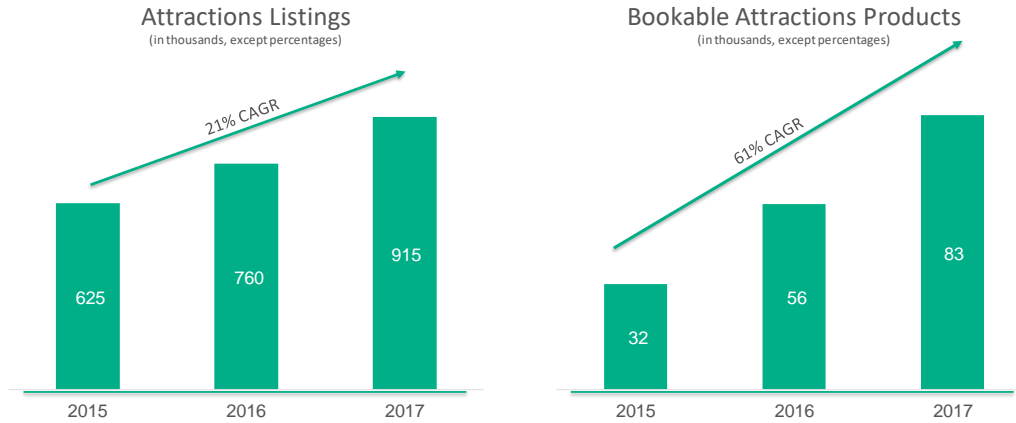
Looking at the rest of the Hotel segment, in Q4, display and subscription revenue accelerated to 12% growth, helped by some year-end wins that do not always re-occur, and other hotel revenue grew 3%. In Q4, we also launched our new TripAds media product, a sponsored listing opportunity providing hoteliers a new way to get noticed even when they are not the top-ranked in a geography.

Hotel segment adjusted EBITDA declines over the past couple of years have been unsatisfactory however we are encouraged by our recent progress. In 2018, we will continue to enhance our product and position our marketing investment mix for optimal benefit.

Non-Hotel segment update

While we continue to move our Hotel business forward on a more sustainable path towards long-term profitable growth, we continue to rapidly scale our Non-Hotel segment.

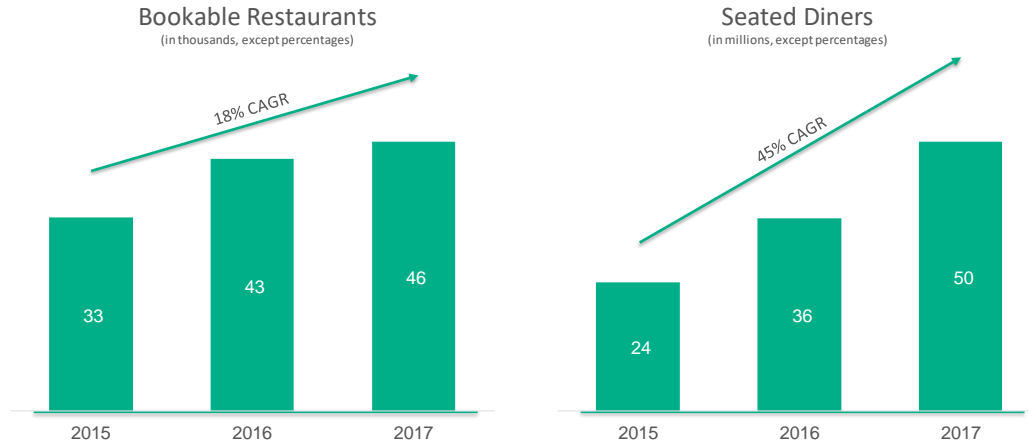
In Attractions, in 2017 we made progress on all our key objectives: growing high-quality bookable supply, growing demand, enhancing our product experience – especially on mobile – and driving conversion. On the supply side, bookable product growth accelerated in Q4 to 48% and we now offer users a selection of more than 83,000 things to do on a trip.



On the demand side, traffic increased across all key channels, from SEO, to mobile, to multi-lingual, and we also increased efficiency of our SEM traffic acquisition engine. Our ongoing product work to improve content, merchandising and sort order has enabled us to more efficiently turn lookers into bookers. Conversion on TripAdvisor and Viator points-of-sale grew by double digit percentages year-on-year. This has been netting out to continued strong double digit bookings growth, driven by strong mobile bookings growth as well as bookings on the TripAdvisor point-of-sale, which more than doubled year-on-year.

We are pleased with the strong Attractions platform we have built and we know we have more work to do. Phocuswright has sized the tours and activities market opportunity at approximately \$110 billion in 2018 and this is the largest part of an estimated \$159 billion global travel activities market. Our global TripAdvisor demand, strong mobile engagement and growing bookable supply footprint are unique competitive advantages and give us a leadership position to help users and businesses harness the internet to reduce friction, increase selection and drive bookings. In 2018, we are investing to deliver our product offering in multiple languages, driving mobile growth and product enhancements, and helping a larger percentage of TripAdvisor users find and book great travel experiences.

We also continue to invest in similar demand and supply advantages to build scale in our Restaurants business. Restaurants are such a natural extension for TripAdvisor given our fast-growing global audience of both travelers and locals, our rich content on 4.6 million restaurant listings, and our strong mobile engagement. We will continue to build our leadership position by improving our restaurant content and the overall user experience so TripAdvisor is top of mind for users as the easiest and most intuitive place to find the perfect place to eat. On the supply side, bookable listings grew to 46,000 restaurants. Demand and supply are driving transaction growth. Seated diners grew by nearly 40% year-over-year in 2017 and we continue to see healthy repeat booking rates.



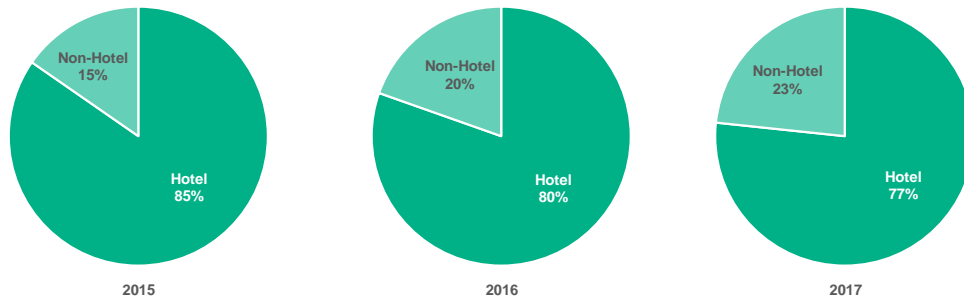
We are also developing new media products to help a greater percentage of the more than 4.6 million restaurants gain more visibility on TripAdvisor. We have seen nice early uptake for TripAdvisor Premium, which enables restauranteurs to manage their listing, create storyboards and customize their pages. Similar to Hotels, in Q4 we launched TripAds for Restaurants. Our product and sales pipelines are expanding and, in 2018, we are focused on rapidly growing the number of advertising clients, while improving our consumer products, especially on mobile, as well as expanding bookable restaurant supply to give users more selection.

Finally, Vacation Rentals remains a strategic business for us, enabling TripAdvisor to offer travelers a broader selection of global accommodation options. Additionally, this business remains nicely profitable and we optimized the business during 2017. Users can now book nearly 85% of our 750,000 property listings online and an increasing percentage can be booked instantly. In 2018, our goal is to continue to deliver a high-quality rentals experience for users and partners in order to drive conversion on our platform. We aim to accomplish this by reducing friction throughout the booking process, by growing the number of instantly bookable listings and by rolling out a new booking system.

Turning to financial performance, Non-Hotel segment revenue grew 20% in Q4. Full-year 2017 revenue growth of 24% was in line with our 2017 goals, powered by accelerated revenue growth in Attractions and Restaurants, businesses that continue to benefit from strong network effects as we match fast-growing user demand with increased bookable supply.

This strong growth has contributed to a diversified revenue mix. \$77 million of Non-Hotel revenue represented 24% of our total revenue in Q4 and, \$360 million of Non-Hotel revenue represented 23% in the full year 2017, up from 15% in 2015, the first full year after we made our strategic acquisitions in Attractions and Restaurants.

Revenue Mix by Segment



Looking deeper at the composition of Non-Hotel results, in 2017, Attractions was the biggest driver of Non-Hotel segment absolute revenue growth and adjusted EBITDA and represented approximately half of Non-Hotel segment revenue. Restaurants and Vacation Rentals each were approximately 25% of the Non-Hotel segment revenue mix.

On the bottom line, Non-Hotel segment adjusted EBITDA was \$45 million in 2017, with an adjusted EBITDA margin of 13%, compared to negative 10% in full year 2016. This significant margin improvement was driven primarily by continued strong revenue growth in Attractions and Restaurants as well as marketing and operational synergies across Attractions and Vacation Rentals.

We see ample growth opportunity ahead. In 2018, and over the coming years, our strategic objectives in this segment are to continue to improve the user experience, to enhance our transaction capabilities and to grow media advertising opportunities on our platform. Our focus will remain on driving strong revenue growth and market share gains.

Q4 2017 Consolidated Financials

Our Q4 consolidated total revenue increased 2% year-over-year in reported currency. Changes in foreign currency provided a 2% tailwind.

Q4 consolidated GAAP net income declined significantly year-over-year to negative \$84 million, primarily driven by a \$73 million income tax charge recorded in Q4. This charge is primarily related to the mandatory one-time transition tax resulting from the deemed repatriation tax on the accumulated earnings from our foreign subsidiaries pursuant to the Tax Cuts & Jobs Act of 2017.

Our GAAP effective tax rate was 117.3% for the full year 2017. In 2018, we expect our GAAP effective tax rate to be in the high-30 percent range. Despite the U.S. federal corporate tax rate on our pre-tax income moving to 21%, our expected GAAP tax rate remains high in 2018 due to stock-based compensation tax accounting at a lower share price and changes in valuation allowances. We believe our non-GAAP tax rate, which is not subject to share price volatility, will be less impacted than our GAAP tax rate.

Q4 consolidated total adjusted EBITDA increased by 9% in reported currency. Changes in foreign currency provided a 4% tailwind in the period.

Q4 cash provided by operating activities was \$18 million, or 6% of revenue, down from \$46 million in Q4 2016. Capital expenditures were \$15 million, or 5% of revenue, and have remained relatively flat since the fourth quarter of 2015. As a result, fourth quarter free cash flow was \$3 million compared to \$30 million in Q4 2016. Full year 2017 cash flow from operating activities was \$238 million and was negatively impacted by the timing of certain working capital items. We expect these items will benefit cash flow from operating activities in 2018.

Overall, our liquidity position remains strong. Cash, cash equivalents and short-term and long-term marketable securities were \$735 million at December 31, 2017. In addition, our Board of Directors recently approved a share repurchase program for our common stock in the amount of \$250 million.

2018 Outlook

As a reminder, mobile adoption, competition on marketing channels, travel industry competitive dynamics, bidding volatility in our click-based auction and macro-economic events – among a number of other factors outside of our control – can limit our visibility into near-term financial performance. We endeavor to be as accurate as possible with our forward-looking commentary, though the aforementioned factors can cause actual results to vary materially.

We have taken important steps to stem recent profit declines in our Hotel business. As a result, we expect 2018 consolidated adjusted EBITDA will be approximately flat compared to 2017.

In our Hotel segment, we will continue to reduce performance marketing expenses to achieve higher return on investment from online marketing channels. At the same time, we expect to increase our brand advertising investment to \$100-130 million. The net result will be lower Hotel selling and marketing expenses compared to 2017. We expect our optimized marketing mix, coupled with tougher first half year-over-year comparisons, will result in lower Hotel segment revenue in 2018 compared to 2017. We also expect this will result in a smaller adjusted EBITDA decline in 2018 compared to 2017.

In our Non-Hotel segment, in 2018 we expect strong revenue growth at levels similar to 2016 and 2017.

We expect 2018 consolidated revenue and adjusted EBITDA year-over-year performance will be second half-weighted, driven by brand marketing investments in the first half of the year that were not in the year-ago period, as well as by tough year-over-year comparisons in our click-based and transaction business.

As we think about the longer-term, the TripAdvisor travel platform is strong and growing. We have untapped potential for long-term, profitable growth. We are excited by the growth opportunities ahead as we deliver users a more engaging, more holistic experience across our spectrum of travel products and give travel advertisers more visibility and more value on our platform. We believe our addressable market opportunity, our unique competitive position and our growth strategy position us to return to double-digit revenue growth and adjusted EBITDA margins in excess of what we have operated to over the past couple of years. We are taking important steps in 2018 and will continue to position the business to maximize long-term shareholder value.

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TripAdvisor's fourth quarter 2017 earnings press release is available on the Investor Relations section of the TripAdvisor website at <http://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 14, 2018, 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.

Forward-Looking Statements:

These prepared remarks contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The following words, when used, are intended to identify forward-looking statements: "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "result," "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 II. 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 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. The earning 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 14, 2018, 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.

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EDITED TRANSCRIPT

TRIP - Q4 2017 TripAdvisor Inc Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to TripAdvisor's Fourth Quarter and Full Year 2017 Earnings Conference Call. As a reminder, today's conference call is being recorded.

At this time, I would like to turn the call -- conference call over to TripAdvisor's Vice President of Investor Relations, Mr. Will Lyons. Please go ahead.

Will Lyons

Thanks, Gigi. Good morning, everyone. Joining me on the call today are Steve Kaufer, our CEO; and Ernst Teunissen, our CFO.

Last night, after market closed, we distributed our Q4 and full year 2017 earnings release. We made available our prepared remarks on our Investor Relations website located at ir.tripadvisor.com.



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In the release, you will find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call. You will also find supplemental information, which includes certain non-GAAP financial measures discussed on this call as well as other performance metrics.

Before we begin, I'd like to remind you that this call may contain estimates and other forward-looking statements that represent the company's views as of today, February 15, 2018. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release and our filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements.

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

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Thank you, Will, and good morning, everyone. Q4 capped a year of important progress on our long-term growth initiatives, and we've been taking important steps to preserve EBITDA, while also investing for future growth. Our market opportunity is huge, and we know we still have a lot of work to do. It is incumbent upon us to execute and unlock this growth potential.

With that, we now open up your call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from Mark Mahaney from RBC.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

If I could ask 2 questions, please. Your outlook calls for Hotel revenue to be lower in 2018. Could you talk about some of the assumptions behind that? And do you think that, that's going to be driven more by a lower number of hotel shoppers, lower amount of revenue per hotel shoppers? So just peel that back a little bit. And then if I could just ask broadly, could you discuss your relations with your 2 largest customers now, Priceline and Expedia? Anything you would say about how that relationship has trended over the last year or 2 and how you think about that going forward?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Mark. This is Ernst. I'll start with the first part of the question and Steve can take the second part. Our assumptions for next year, 2 important drivers is, one, in the front half of the year, we are not yet lapping the bid-downs that we saw in Q3, and that's going to give additional pressure on growth rates in the front half until we lap that in the second half. The second important driver is our marketing investments. As we said in our prepared remarks, we're pulling back in Hotel on our total marketing investments, increased TV, but decrease our online marketing, and that is going to result in additional pressure on the top line growth, but is helping the bottom line because we're cutting marginal unprofitable spend. So those are the 2 most important drivers and the reason why they work more significantly on the first half of the year than on the second half of the year.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

And hi Mark, this is Steve. Our relationships with our biggest customers, our big OTAs, Priceline and Expedia group, I would characterize as excellent. They like the traffic we send. They help us identify and qualify even better traffic for them. We drive a reasonable number of bookings. It's strong,



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notwithstanding Priceline or any company's interest in shifting a marketing mix. So as we look to the future of our Hotel business, we see strengthening relationships with these folks, with our supplier direct channel, with the independent hotels, leaving us in a position of a nice healthy option.

Operator

And our next question is from Mike Olson from Piper Jaffray.

Michael Joseph Olson - Piper Jaffray Companies, Research Division - MD and Senior Research Analyst

The Non-Hotel business has been really strong. What's the biggest factor there? Is it strong inventory growth? Is it more effective marketing? Is it something else? And then are you seeing any real competition in that space? Or is the competition primarily offline bookings in tourist attractions and restaurants? And then secondly, if you could mention what you're expecting for tax rate to look like in 2018 based on the recent changes.

Stephen Kaufer - TripAdvisor, Inc. - Co-Founder, CEO, President and Director

Super, Mike. Thanks for the question. Yes, our Non-Hotel business, particularly Attractions, is doing really well. It's all a function of having a wonderful supply footprint that continues to grow, matching it -- getting better and better at matching it with the demand footprint that TripAdvisor prides, plus all the indirect channels that the Viator business unit also chases, be they travel agents or the viator.com set of websites or other third-party relationships. So not unlike how the Hotel space has had some fantastic growth over the past couple of decades in the form of booking engines, Viator and its supply team have been fantastic at getting attractions bookable online. And when we acquired them, integrated our demand platform into that, it just fueled the growth that you're seeing and that we expect to see for many more years. We haven't identified meaningful competitors in the space that are directly competitive to Viator. It's not to say there aren't handfuls in various countries, but really, the point of competition or the point of growth opportunity is teaching folks that when they're on TripAdvisor, they can book those attractions. When they're on Viator and all the other vehicles that consumers will use to book, that it's, in many cases, smarter, cheaper, safer to book in advance or book on our mobile device when you're in market rather than walk up to the attraction and hope you can get a ticket or phone it in or rely on a hotel concierge. So we're tapping into a marketplace that is exploding in terms of going from the traditional offline mechanisms to online. And we think we're in a great position to capture the increased demand.

Ernst J. Teunissen - TripAdvisor, Inc. - CFO, SVP and Treasurer

In terms of the tax rate and the impact from the recent changes, there are many puts and takes but the most important impact on us in the upcoming year and in the following years is the lowering of the U.S. corporate tax rate from 35% to 21%. We have a little over half of our revenues in the U.S. and a very sizable component of our profits in the U.S., and so that's going to make an impact. Our GAAP tax rate, we expect to be in the high 30s. Despite that, in 2018, we have a couple of GAAP impacts that keep it up in 2018. One is SBC impacts from our share price and the second one is certain loss in countries that can be used for tax purposes as that allows us. So high 30s is the GAAP tax that we expect. We expect a lower non-GAAP tax.

Operator

And our next question is from Deepak Mathivanan from Barclays.

Deepak Mathivanan - Barclays PLC, Research Division - Research Analyst

Two questions for me. So first, excluding TV spend, direct marketing cost per hotel shopper was down almost 20% this quarter, and you know that improved marketing ROIs from online channels as well. Can you elaborate on how you're achieving this? Is it any specific channel? And also do you expect this to continue in 2018? And then the second question is on mobile monetization. In terms of smartphone revenue per shopper, it was



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strong once again this year. What inning overall on a high level do you think we are currently in this path? Do you see opportunities for mobile and desktop to converge at some point in the next few years?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Thank you, Deepak. To start with the online marketing, yes, that's a very important driver of what's going on in our auction business, in particular, in Q4 and into 2018. So we have progressively refined, over the past year, our ability and attribution of the downstream convertibility of traffic. We've always managed online marketing as a basket to roughly break even. But as we have better information on attribution and better models, we're basically seeing that some of the spend was not profitable, and so we've become more sophisticated in identifying that and have started in the back half of '17 to eliminate some of that spend, and we'll continue to do that into '18. Now the impact of that is that it reduces our growth rate from online channels, and this is across search and other online channels. It reduces our spend. It reduces our revenue, but it improves our profitability because, by definition, we're taking out the least performing spend here. And so that's what's been going on in the second half of '17. And as we look at '18, and one of the drivers of our statements that we are able to, at least, mitigate the impacts on EBITDA and decrease the decline in EBITDA, '17 to '18 versus '16 to '17, is that we pull back on some of that marketing spend to help the bottom line.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

And this is Steve. With respect to the mobile monetization question, it's definitely still early innings. We have some nice tailwinds, we believe, from consumers who are getting more and more comfortable booking something as complex as travel on their phone, and that just naturally helps our downstream conversion rate. We're getting better -- the industry, I should say, is getting better at measuring cross-device attribution. So someone who looks on our site and clicks downstream and then returns later on a desktop to book on a client site, we are getting -- we expect to get more credit for that. And some of our newer products, like sponsored listings, that help hoteliers get into the consideration set for where someone might want to stay or for restaurants. These are priced the same and work equally well on mobile versus desktop. So kind of at launch, the product is already monetizing it at the same rate, if you will. So yes, we're proud of the improved revenue per shopper on the phone. We would expect that to continue. Some opinions around the table would say that the highly considered weeklong vacation purchase, while maybe researched on the phone, is still going to be transacted for a while on desktop. I'm thinking that's happening a lot quicker than some others. But just internally, we know that all of our development, all of our focus is delivering the best product on the phone with the responsive design that also carries it to the web, but we're building for the phone as our future now.

Operator

And our next question is from Justin Patterson from Raymond James.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Two if I can. First, you called out preserving Hotel segment profit and making trade-offs against the growth in the prepared remarks. Could you talk about how you came to that decision? I think we're all used to your philosophy of investing for the long term, so I'm curious if there's any shift there. And then secondly, with Non-Hotel, you called out a few growth opportunities in the year ahead from improving the user experience, enhancing transaction capabilities and growing media advertising opportunities. Could you really just flesh that out in more detail, where are you at on those initiatives today and how should we think about that investment going forward?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes. Thanks. I'll take the first part of the question. We're investing significantly and we have been investing in '17 in this long-term growth for the Hotel segment. And we believe that there's ample opportunity for us to return to profitable growth in the Hotel segment. And the big investments we have been making and continue to make are booked on the product side. We have been investing in a much improved user experience, as it comes to price comparison for hotels and then additionally have reinforced that with a strong brand marketing campaign. And so last year, we



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spent \$74 million on TV. We're going to spend more in 2018. And those are our long-term investments in changing user perception from predominantly seeing us as a great place to do research, to a great place to do research and price compare and find their best deal on the hotel side. And so that's a long-term investment that we're making and continue to make and believe will ultimately get us back to profitable growth on the hotel side. In the near term, we look at our bottom line in the Hotel segment, in particular, in 2016 and 2017, we've seen a meaningful reduction of our EBITDA. And when looking at some of the levers that we have there, we've turned our eye to online marketing. I've talked before about how we'd looked at online marketing and the potential there to create some benefit. That doesn't come at a long-term cost to us -- or not at a significant long-term cost to us strategically because a lot of that revenue that we create with this online marketing is short term in nature. It doesn't have a very large lifetime value component to it. And so it's a short-term revenue gain that actually has a short-term negative EBITDA impact, as well. And so, as we mitigate the EBITDA losses in our Hotel business, that's the area of investment that we focus on the most, while continuing to have room for investment in the things that really matter for us strategically long term. And so between those, then we strike a balance between getting to sustainable growth in the Hotel business over time and making sure we invest in that, while preserving EBITDA and margin in the Hotel business by focusing on some of the more near-term impacts of online marketing.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

And Justin, this is Steve. So sort of moving on from that kind of focus on the hotels, I bring in how the new organization and the new President roles that we've created really help drive home. That President of hotel is chartered -- and that whole business unit is chartered with delivering the absolute best hotel shopping experience, making sure the marketing mix is appropriate, as Ernst talked about, leaning into the TV campaign for the brand shift, for the consumer awareness as a more sustainable long-term EBITDA positive growth trajectory for hotels. And then I've set up a business unit on our core experience because when we look at the non-hotels, it's really leveraging this incredible demand, the incredible footprint of this TripAdvisor community of travelers that, I have to admit, has been underinvested in relative to our particular shopping channels in the past. And so we want to deliver a real crisp look in the core experience in terms of a consistent interface across the platform and new vehicles to attract customers to TripAdvisor, which are a stickier part of the journey, so that you're not just shopping for a hotel or just shopping for an attraction, but planning out your entire trip on TripAdvisor because that is a piece of our differentiated experience that really nobody else can touch. And so when we look at that, it's yet another way to build an experience that is unique to TripAdvisor, that monetizes across several different channels, be it flights or hotels or rentals or restaurants or attractions, leans perhaps a little bit more to media when you look across the segments, and you have 1 to 2 of our newest media products in the past 6 months. One is a replacement for Restaurants and a similar product for hotels. And that, again, all compliments on having the best-in-class shopping experience for each of the verticals. And so Attractions is certainly growing super fast with, as I mentioned before, lots of headroom. So tying that into our demand footprint is where we see high growth for TripAdvisor in the future on a very differentiated playing field.

Operator

Our next question is from Mark May from Citi.

Mark Alan May - *Citigroup Inc, Research Division - Director and Senior Analyst*

A couple here. Given that some of your Attractions revenue comes from TripAdvisor traffic, I guess, the question is, why is the pullback in online marketing spend, which I realize is mostly tied to kind of your hotel marketing not impacting growth there? Does it imply that the businesses are relatively separate and distinct and there's not a lot of kind of cross-sell or tie between the 2? And then given this renewed effort to reduce spend in some of the unproductive performance channels, I'm trying to get a sense of how quickly this will happen. I guess, one way of asking it, at what point, this year or next year, do you kind of get to a point where you're actually growing your spend, again? How quickly will this process take place?



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Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Mark, this is Steve. Thanks for the question. I'll take the first one, then Ernst the second. So we do run the kind of traffic acquisition teams for Attractions and Hotels separately. So when we talk about, as Ernst said, to elaborate on the change in that marketing mix, it's really all about hotels. So Attraction continues to secure traffic through all available channels, both buying traffic onto the TripAdvisor point of sale as well as the various TripAdvisor domestic and international points of sale as well as the various domestic and international Viator points of sale. So full steam ahead there. No pullback at all on the Attractions side.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

And with regards to your second part of your question, Mark, we have started to pull back on the marketing in Q3 and in Q4 and are continuing to do that in Q1 and then throughout the rest of the year. And year-over-year impact will be felt in every quarter, but, of course, is going to be felt more in the front half of the year because we started to pull back already in Q3 and 4 of '17. And we see this as a reset that will continue throughout '18, setting us up well for '19 thereafter.

Operator

Our next question is from Lloyd Walmsley from Deutsche Bank.

Seth Andrew Gilbert - *Deutsche Bank AG, Research Division - Research Associate*

This is actually Seth on for Lloyd, and just 2, if I can. You noted stabilizing bid auctions in metasearch, so I was just wondering if you're seeing any auctions migrate out relative to the 3Q bid-downs or if it's just more stability there and not continued declines and if you feel like the auctions have enough density that there's decent visibility there at this point? Or is there still a lot of movement there, making it difficult to assess? And then also, just like as a follow-up on a previous question, I was just wondering how much of a direct sales and marketing spend was unprofitable.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Sure. This is Steve. Thank you, Seth, for the question. I'll take the first one, Ernst the second. We have seen stability in auction. We remind folks it's always volatile month to month. And it's rare that we've kind of called anything out, other than that kind of onetime Q3 bid-down that we saw that clearly had a material effect. So with the caveat of, yes, there's always a some ups and downs, I would say the term is stabilized, not shift in any particular direction since Q3.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

And on the direct spend, it's a minority that we have identified as unprofitable, but it's a sizable enough minority for it to matter and really be a real lever that we have for EBITDA mitigation. And so we have identified that and we'll continue to evaluate as we go forward. It's a dynamic in the sense that to the extent that we are able to improve our monetization revenue per shopper, that also helps the return, obviously, of the paid spend and, therefore, some of the spend that we have identified currently as unprofitable becomes profitable. But right now, we saw meaningful minority of spend that we're able to address.

Operator

Our next question is from Kevin Kopelman from Cowen and Co.



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Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So one, to start off over on the Hotel revenue side, I think you just kind of discussed some of the Q4 trends. Could you give us any more color on 2018 on the Hotel revenue side? What's the magnitude of the declines that you expect there? Are you looking low single digits, high single digits, double digits? Any additional color you can give there.

Ernst J. Teunissen - TripAdvisor, Inc. - CFO, SVP and Treasurer

Yes. Thanks, Kevin. We have not quantified this -- we've stated that we expect a decline. We've not quantified the magnitude of the expected decline. We are pulling back on marketing, as I described before. And we are investing in television. We believe that the visibility that we have on EBITDA is a little better than on revenue, especially because of that dynamic that I was describing of the actual monetization that we'll find has a leverage effect on how much we can spend on marketing. And so the variability on our revenue line is a little bit larger than on EBITDA line. So we've chosen to give better visibility on overall EBITDA and said we would be approximately flat for the year on consolidated EBITDA. And on revenue, expect to be down, but haven't quantified that. As we progress in the year, we may or may not clarify that view.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. Got it. That's helpful. And so maybe switching over to Attractions then. It's gotten to be pretty sizable at this point. Can you give us any sense of what the average take rate is there? Obviously, we know there can be big variation within that, but just to -- how to think about the overall business.

Ernst J. Teunissen - TripAdvisor, Inc. - CFO, SVP and Treasurer

Yes. Average take rates are healthy. There is variability in them, but they can be as good or sometimes better than the Hotel business. So it's a very -- from a profitability perspective, from both the gross margin as well as a contribution margin perspective, a very healthy business. And the growth is continuing very nicely in our Attractions business. We saw a sort of a quarter-on-quarter deceleration of revenue growth in Non-Hotel in Q4. That was not driven by Attractions. Attractions has continued to grow from Q3 to Q4 very consistently. We had a few more one-off impacts on our Restaurant business and our rentals business that we don't expect to continue into '18. And for the whole Non-Hotel segment, of which Attractions is about half now, we expect very similar growth as we've seen in '16 and '17 for -- in '16, we saw a 27% growth. In '17, we saw 24% growth in that Non-Hotel segment. And we expect continued performance there with Attractions clearly a strong performer in that portfolio.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. Great. And then you talked about in the letter about TripAdvisor point-of-sale growth. Should we think of that business as being like half TripAdvisor point of sale, half Viator? Or what's the breakout?

Stephen Kaufer - TripAdvisor, Inc. - Co-Founder, CEO, President and Director

We haven't -- this is Steve. We haven't done that breakout, but I do encourage you to remember that there's the Viator point-of-sale and all of the international components. There's all of the third-party distribution agreements that Viator had before we bought them and have expanded since. There's the travel agent channel that, again, sell through Viator, and TripAdvisor is a channel. So TripAdvisor is clearly growing the fastest because we're able to tap into this existing demand and control both sides of it. But I wouldn't want someone to think, at this point, that most of the demand or anything is coming from TripAdvisor. That would not be accurate.



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Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

It is growing the fastest. And we see, definitely as we look at the future of the Attractions segment, we think the biggest potential is to continue to leverage the large user base we have on the TripAdvisor pages. And so a big focus, to keep improving that product and make sure we have more bookable products on TripAdvisor, so we can improve that monetization of those users.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Okay. Excellent. And one last question. How are you thinking about overhead cost? In 2017, they were pretty flat. They were maybe up just a little bit. What are you planning for 2018?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

On the Hotel side, in particular, as you can imagine, we're very careful with any expense item, not just marketing, but any overhead or any people investment that we make, and we continue to do that. Clearly, we are matching our ability to grow expenses with our ability to grow revenue. On the Non-Hotel side, we continue to invest, and we'll see people growth on the Non-Hotel business side.

Operator

And our next question is from Eric Sheridan from UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe 2, if I can. One, bigger picture, which I think is sort of what everyone is trying to get out on the call is, Steve, maybe thinking out over the next couple of years with the industry growing in roughly to midteens and marketing growing roughly in line with that, what are some of the things that are sort of in your control in terms of deploying assets to get the Hotel business back to that kind of growth versus the structural headwinds you're seeing, whether it be product innovation from competitors or diversification of their own advertising spend that we should sort of factor in as headwinds to getting back to that kind of growth? So more of a medium-, long-term question there. And then on the brand advertising, with the move from about \$74 million in '17 to a range of \$100 million to \$130 million in '18, how much of that increase is leaning in on geographies where you were already spending TV versus broadening out TV on the marketing side more globally?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Thanks, Eric. Good questions. I'll take the first. Big picture, we see tremendous growth available to us in the Hotel space. We haven't been able to deliver anywhere near the expectations that we hold ourselves accountable for in the past couple of years. We know that, and we've been doing a bunch of things over the past year to address it, to improve our fundamentals, to improve the structure and the way that we're running the company internally. And of course, it starts with delivering a better product on all fronts. So we've made nice strides on the fundamentals, like pricing, usability, doing a better job measuring preference, and site performance. These are all things that may not get a lot of fanfare, but are very meaningful for improving conversion on the site, which is direct revenue and improving user engagement. So we think that there's still a lot that we can do there, and we have a track record of making those improvements. I then point you to some of the newer products, media products like TripAdvisor ads, enabling hoteliers to get into the consideration set. It's almost all incremental revenue and profit for us, so there's potential there that we're excited about. And the cadence of us releasing these new products, I think, is a good sign internally when we look into the company. And again, it's both helping the consumer and helping the biz. And then when we look at our shift of marketing mix, we have many, many years of doing the search engine marketing pieces. And we kind of know what to expect by way of how it changes the brand and how it builds or doesn't build a lifetime value, whereas TV, the signs that we're seeing are quite encouraging for that longer-term brand-building, changing the perception of TripAdvisor from just reviews to a place where I cannot only read reviews, discover, but also shop. And that shop action, finding the best price, obviously, is where the money is in the Hotel segment. Take all of that together and we see that Hotel business getting back into meaningful growth



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mode over the next few years and that, again, delivers on the bottom line as well, completely separate and very different dynamics in the Non-Hotel space, but we've already talked about that.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

In terms of things that are out of control, which is the other part of your question, Eric, is clearly what has lessened our control is the marketing strategies of our partners as well as how our competitors choose to behave. But we believe that we have such a potential with the platform, as Steve was just describing, of making improvements that we can get back to sustainable growth in that Hotel business over time and effectively offset any of the pressures that we can see there. But, especially in the short term, as we saw in Q3, there are bumps in the road that are out of our control, very clearly. The best thing we can do and what is in our control, to continue to make sure that we have very high-converting traffic on our sites. And we believe that, ultimately, will pay off in revenue for us because that's valuable traffic where a large site, valuable traffic for any partner. And we continue to hone our product and make it better and better. And so we can stay ahead of the competition or catch up in areas where we have to catch up, which was true on the price comparison side in 2017.

The next part of your question, Eric, was around TV. We are going to invest in new markets, as well, so this is a combination of continuing investment in existing markets. Last year, in those existing markets, we obviously only spent for a little over half a year. We started in June, but we have learned a lot. And we think we can more efficiently spend some of that TV spend in those existing markets as well, and so we'll continue to do that. We're launching some new markets as well and plan to expand the footprint that we touch in terms of our overall revenue footprint. We're also launching a new creative in parallel to our existing creative that we have put in place. And we believe being able to compare those 2 will help us drive forward as well. We acknowledge that the consensus was higher of how much we're going to spend. We've looked carefully about what we thought was a good progression. We see good signs in our television investment. We see positive signs in terms of the branded metrics that we see, both in terms of appreciation and brand awareness as well as just spiking branded traffic on our sites in those markets where we're on TV. But we're going to grow this gradually rather than in big lumps. And so this \$100 million to \$130 million is a gradual progression from the \$74 million that we spent in 2018. And of course, we'll continue to evaluate that on our way to getting this to breakeven for us.

Operator

Our next question is from Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

On direct marketing related to the Non-Hotel segment growth in 2017 and how should we think about Non-Hotel advertising growing in 2018 in relation to its revenue? And then secondly, can you just give us an update on how you are thinking of investing in Vacation Rentals segment going forward?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes, Jed. I'll take the first question and I'll ask Steve to answer the second one. So the Non-Hotel business, we have online marketing spend, particularly in our Attractions and rentals business, to a lesser extent, also in our Restaurant business. We've run a small TV campaign on the Restaurant business last year. And we continue to invest in marketing the Non-Hotel segment, particularly on the Attractions side, to make sure that we can continue to capture the growth there.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

And on the Vacation Rentals side, we look at rentals as an important category for all of our travelers. We've added it on the site for quite a few years in almost all of our markets, and we certainly expect that to grow in prominence, as we feature it to more travelers and more places on the site. So one of the things that we look and say we don't do a good enough job at is presenting rentals in markets where we don't have the right set of



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hotels or predominantly rental markets. And right now it's, we admit, too difficult to find on our site. So short version of the answer is rentals, strategic part of the offering for TripAdvisor, for the accommodation shopper and that will stay that way, but we're not making massive new investments in the rental category, vis-à-vis the other players out there.

Operator

Our next question is from Naved Khan from SunTrust.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

I have 2 questions. One on the Hotel side and one on the Non-Hotel. On the Hotel side, can you just comment on performance of the direct bookings by hotels, how that is doing relative to meta? And then on the Non-Hotel side, does it make sense, in the Attractions business, to maybe do some distribution there as maybe potentially accelerating growth in this business?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Thanks, Naved. Happy to take both questions here. On the Hotel side, Instant Booking or the ability to actually finish the transaction on TripAdvisor remains part of the product on all platforms in most countries. We think of it as earning its spot in the meta auction. So where we have signals that the consumer prefers this, then that's what we will show in the premier position. Otherwise, it is yet another option. It's not a strategic thrust for us to grow that channel, as it happens, because a segment of the population like it. That's wonderful for us. If not, that's okay. So we're no longer -- as of a while ago, we're not trying to push that forward and we're not investing a ton of resources in that particular path versus a click-off to a supplier or an OTA. To the second question, Attraction distribution, we are thrilled to sign up as many distribution partners for our Attractions business globally. We think of it as TripAdvisor is one, albeit very large, distribution channel for the Viator supply platform, but it's only one and they have many others, and we love there to be hundreds more. So we have separated the concept. We're not preferencing a TripAdvisor platform. We love as many different channels to be picking up that, our supply to be as valuable to attraction owners as we can. And so since we have the demand and demand is growing, it's obviously great for the TripAdvisor traveler, but it's equally great for travelers who are on other sites.

Operator

Our next question is from Perry Gold from MoffettNathanson.

Perry Scott Gold - *MoffettNathanson LLC - Analyst*

Anything you'd call out in terms of macro trends, strengths or weaknesses in any particular markets?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Nothing that we call out, in particular, other than comments that you've heard from others in the industry. We believe, overall, the market is robust. And we are working through our transition, but we believe we're operating in a robust online travel environment.

Operator

Our next question is from Paul Bieber from Crédit Suisse.



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Paul Judd Bieber - *Crédit Suisse AG, Research Division - Director*

I have 2. I think you may have responded to the one question -- in Eric's question. But I was under the impression that you plan to spend around \$150 million on TV ad spend in 2018. What changed? And perhaps, you could give a little bit more color on just the early results that you're seeing in some of the early results you're seeing from some of the TV ad campaign. And then the second question I have is, what drove the acceleration in display advertising revenue?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Paul, first, on the TV. So we didn't guide to a number for 2018 before. We said we would gradually increase is what we said about it. And as I was saying before is we look at the different campaigns, the impact. We see good results. We see what we want to see. We also believe that we can improve, still. I said before, we're launching a new creative in parallel. We've had lot of learnings about improvement opportunities that we have at different markets that we've invested in last year. And so rather than really expanding much more aggressively in the area of \$200 million in 2018, we're going to do this gradually. And so we're going to earn our way into it. And if it continues to do well, that means we can increase our plans for 2019. On the display side, so we saw -- as you probably point to sort of an acceleration in that line of our display and subscription in Q4, the display business can sometimes be lumpy with budgets at the end of the year being allocated at the last minute and it doesn't always replicate. So we saw some of that happening in our Q4 business. And so I caution against extrapolating the Q4 growth rate into 2018.

Operator

Our next question is from Peter Stabler from Wells Fargo.

Robert James Coolbrith - *Wells Fargo Securities, LLC, Research Division - Associate Analyst*

This is Rob on the call for Peter. On the strong mobile revenue per shopper growth, is it fair to assume that would have grown even more strongly, excluding some of the challenges in the auction? Or was mobile not as impacted by some of the challenges there? Just wondering if you could comment on some of the underlying trends. And then also on the reorganization, the Core Experience, wondering if there's anything that's come out of that early on in terms of changes in marketing, messaging or site design that you could point to. Any outcome to that reorg, so far?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Rob, I'll go ahead and start in. Maybe Ernst could add more. On the mobile rev per shopper, we have seen that grow. As I mentioned before, some of it is going to be just the tailwind of people being more comfortable booking, But we've done a lot by way of reducing the friction and improving the user experience on the phone. To the best of my recollection, the bid-downs that we saw in Q3 were across all devices because our some of our clients had wanted to pull back, for their set of issues, I would say. So the short version would be, yes, we think our mobile rev per shopper would have been higher had it not been for some of the bid-downs. For the Core Experience unit, it's very early days in the reorganization, but we are focused internally on building that sort of connective tissue, making sure that the user feels like they're on one TripAdvisor site, experiencing multiple different parts of our value proposition. We're excited about it. We see a better impact on membership. We've also been working hard on some of the foundational layers. We're rolling out some of our new map functionality has just been kind of rolling out, which, if you're experiencing it, you're on a test slice. And I think you'd agree that it's actually much better than it has been. And that's going to play out over the course of the year as we delight users in more aspects of the overall shopping experience. I tease you with -- there's some new features coming over the course of the year that aren't particular to the hotel shopping versus the attraction shopping versus the flight shopping, but are really more focused around enabling folks to plan and have a better trip and enjoy the travel experience. And those will be rolling out in plan, in design, in development now and rolling out over the course of the year as kind of output coming from this particular business unit.



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Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

It's another highlight, just to follow up on Eric's earlier question about what is in our control and what is not in our control. Clearly, what we are doing is investing in revenue sources outside of the core auction, where more of those elements outside of our control are present, as we all know. And so this core experience is one example of that. Non-Hotel investment is another example of that. And Steve was talking about some of these new ad products that we offer to hotels, as well. And so these are all categories of where we believe real potential diversification away from reliance on the core auction uncontrollable dynamics.

Operator

Our next question is from Heath Terry from Goldman Sachs.

Heath P. Terry - *Goldman Sachs Group Inc., Research Division - MD*

I was hoping you could unpack the math behind the online marketing spend reduction first a little bit. Did these channels become unproductive because of better information to TripAdvisor around attribution? Is it because the cost of inventory went up, conversion rates declined or because monetization behind those conversions declined? And then also, as you work on your direct booking relationships, how are you seeing hotels use loyalty rates or other pricing strategies to drive direct traffic through the channel?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Thanks. Good question on the unpacking of what's going on, on the online marketing side. And I think it's a bit of all of those things, but a couple of things to say about that. First is our approach had been to spend to approximately breakeven, on average, across the portfolio. And we have different -- as in any portfolio, of course, different levels of profitability and some more profitable and some less profitable, as a starting point. So we have taken a more disciplined look at that. The second thing that has happened is we have improved our attribution models, and so we have been able to have better insight into the downstream conversion of some of the traffic that we provide. Of course, we operate a model in which we get paid on a per-click basis, but then the downstream conversion of that traffic is actually very important for future behavior in the auction. We've become smarter about that attribution across devices, attribution across channels. And so that has given us some new insight into what, we believe, are more or less profitable channels. And then there's, indeed, the impact of as your revenue per shopper moves, some channels that were profitable before become less profitable. And so all of those have allowed us to take a harder look and draw a different line of the performance we want to achieve across all channels.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

And this is Steve. On the kind of loyalty rates and other things that other partners currently do that we don't, we think it's, in the scheme of things, a relatively small effect, if any. There's always been a certain preference among some to book supplier direct. And we have those suppliers, almost all of them, in our auction today. So if you are a loyal Marriott user, that's wonderful. You come to TripAdvisor, make sure you're getting a good price, click on the Marriott link and book and get your points and/or your better pricing, your loyalty rates. We also have a subscription product that takes advantage of that instinct to book direct. And again, we get paid a little differently, but we still get paid for when a traveler has that brand direct preference. So it's not really in our wheelhouse to opine on whether those programs are gaining traction or not, but we don't think it's going to have a material impact on our business, even if they did.

Operator

Our next question is from Douglas Anmuth from JPMorgan.



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

First, I just want to circle back on mobile. Can you just talk about the current monetization gap with desktop and with mobile at 45% of hotel shoppers? How do you think about the timing of mobile moving from a growth headwind to a tailwind? And then secondly, with the buyback in place, can you just comment on how you're thinking about capital allocation going forward?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes. On the monetization, so we keep improving that monetization gap as, again this quarter, we accelerated RPS on the phone. And we see definitely more upside there and more opportunity to narrow. How far we can really narrow it over time is a question, and Steve addressed it before, of what is going to be ultimately the behavior of our users for the higher-end travel booking. And therefore, it's always going to skew more to desktop. But we believe we can continue on this path of narrowing it. It may never completely close, but we are on a path to narrow it. In terms of capital allocation, yes, we have a sufficient funding capacity. We have both cash, and since tax reform, that cash is more freely usable across the globe for us than before. And we have a sizable credit facility in place, so we have the funds. We look at 2 ways of capital allocation beyond investment in operations. One is M&A. We continue to keep an active radar on M&A. We've been less active on the M&A front in 2017 compared to previous years, but we continue to look at great opportunities to help us grow and enhance our strategy. And then buyback has been a consistent area of investment. We invested \$250 million in 2017 and we've just received another approval for \$250 million from our board. And so we're actively continuing to look at that as one of the options we have for capital allocation.

Operator

Our next question is from James Lee from Mizuho Securities.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Ernst, maybe one more follow-up questions on marketing spending. Can you talk about maybe reduction? Is it geography related, where, in certain geography, you found inefficiency and, therefore, you decide to reduce the spending? And also looking at 2018 declining kind of marketing spend on performance, also, any geographic implications there?

Will Lyons

James, we can barely make out your question. So Gigi, can we go to the next caller, please?

Operator

Our next question is from Nat Schindler from Bank of America.

Nathaniel Holmes Schindler - *BofA Merrill Lynch, Research Division - Director*

A couple of questions. One, how does GDPR affect your cookie-based marketing in attribution in Europe? Secondly, can you unpack the logic on the buyback of \$250 million? Your net cash position continues to fall, mostly from your buyback last year obviously. But also your free cash flow growth is considerably less. And yet your multiple is probably at one of the highest points it's ever been. So what is the logic on using that cash there versus investing somewhere else?

Operator

And our next question is from Laura Martin from Needham.

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Will Lyons

We can hear you, but we cannot hear any specifics of what anybody is saying at this point. Gigi, I think we have to end the call at this point because we can't make out anything that anybody is saying.

Operator

At this time, I am showing no further questions. I would like to turn the call back over to Steve Kaufer, CEO, for closing remarks.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Well, I want to thank everyone. I thank all TripAdvisor employees around the globe. Sorry that we're having some technical difficulty at the end of the call here with all of you on the line. I wish we could take a couple more questions. But in any event, we look forward to talking with and catching up with you next quarter. Thanks again, everyone.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program. You may now disconnect.

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