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TRIP - TripAdvisor Inc at SunTrust Robinson Humphrey Internet & Digital Media Conference

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CONFERENCE CALL PARTICIPANTS

Robert Peck *SunTrust Robinson - Analyst*

PRESENTATION

Robert Peck - *SunTrust Robinson - Analyst*

All right, well thank you, everybody. Once again, continuing our packed schedule here. We are lucky to have TripAdvisor with us. With us is Ernst Teunissen. He is the CFO of TripAdvisor. Formally, I think a lot of you may know him from being the CFO of Cimpress, who will also be here tomorrow actually. He's been the founder and director of two corporate finance and management consulting firms and also was an executive director in a broker's telecom and media group. So, Ernst, thanks for taking time to join us today.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Thank you, Paul.

Robert Peck - *SunTrust Robinson - Analyst*

Really appreciate it. Okay, so I wanted to start just big picture for a second, taking a step back. Could you start, maybe by just talk about some of the macro trends that are out there in the space that are impacting the whole industry?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

The macro seems pretty strong for us right now. The travel industry is strong. Obviously, there are lots of puts and takes going on. We did see an impact from Paris and we did see a small impact from Brussels into our -- in our business. But we believe the trends overall seem strong and I think the results that you see from the various companies reporting bear that out. So, we feel good about that.

But, yes, the macro for us is a backdrop. There's a lot more going on within our own business as you know with the exciting things we're doing with Instant Booking in particular at the moment that we're sure we're going to talk more about that.

Robert Peck - *SunTrust Robinson - Analyst*

We're delving into that yes. Okay, great. Stay high level for a second, could you talk a little bit about the competitive environment? Are we going to see any changes there and how TripAdvisor investors should be looking at that?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, the competitive environment is, of course, moving and you see that multiple players in the business are trying to move into the space as you see the hotels try to get more people to book directly with their sites as well. But we feel that we're in a great position, competitively and we feel that we have such a strong position, such a strong brand, and such a strong position with up funnel and with all the users that we have. We feel particularly in a strong position to come out of all this change and competitive change in the industry with a brand that is strong for users to come to and really to get all their needs met for travel, not just the researching but also the booking on our site for hotels. But then also to stay with us on the trip itself, be able to book an attraction, to book a restaurant. As the world is moving to the phone and moving more and more to mobile,



we think we're in a great position to capture that space and that unique position for our users to be with them alongside the entire journey. So we feel very good about our position in that competitive environment.

Robert Peck - SunTrust Robinson - Analyst

Yes, actually on mobile is one of the questions I actually have. Could you just talk about some of the dynamics there and how it's helping TripAdvisor?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so, not surprisingly mobile is growing quickly for us. We had 30% growth in shoppers on mobile last quarter, year on year. It's now roughly about 30% of our shopper base is coming on mobile and we think that's really exciting for the reasons that I just mentioned. Strategically, very important for us in our ability to communicate with our users more and more on the road rather than just sitting behind their desktop at home is really exciting. So we see that. We still see monetization at a lower level on the phone than it is on the desktop but we see it coming together, we see it converging over time. We had our, on a booked basis, our revenue per shopper on the phone grow by 20% year on year. So those are really exciting statistics for us and we feel that we, with every week and month that passes, we improve that experience for users on the phone and make it easier and easier for them to book on the phone in both hotels and other attractions and restaurants, and other verticals.

Robert Peck - SunTrust Robinson - Analyst

So we keep talking about book and bookings. Why don't we use it as a segue to get into instant booking. Please talk to us about what the impact is as you pursue that opportunity long term and the benefits of that as well as the short-term disruptions, just based on dynamics of instant booking and booking the actual transaction?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so to start with, the short term, of course, in the short term this creates a headwind. We're rolling out Instant Book. We just rolled it out globally in the previous quarter. The first order effect of that is a draw on our revenue because we monetize Instant Booking today less well than we do on the meta side. So it's a headwind short term. For the long term, we see a huge opportunity coming from Instant Book. It is closing the gap that there is today with meta, with improvements to conversion rates. We talk about this improving repeat rates and things like that. So we're closing that gap.

But then beyond closing the gap, we think there's an opportunity to actually monetize our user base a lot better than we would have been able to just with meta. The reason why is because Instant Booking is going to give us an opportunity to build a more loyal relationship with our bookers, help them repeat with us and really execute on that vision that I just described of having the ability for our users to stay on our site, to see all the different prices out there on meta, but then an ability to book with us and stay with us over time. Or book on meta because meta's going to be -- always be there and we're going to work with our partners to have meta remain a viable alternative as well. But for the long term, allowing people to book with us, stay with us, and then stay with us on the trip is really the big strategic benefit we see from it and with that monetization benefits.

Robert Peck - SunTrust Robinson - Analyst

How are your partners in the ecosystem reacting to Instant Booking? Marriot, Priceline have signed on. Could you talk about their rationale and their view of Instant Book?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, you see that we have with Priceline and Instant Booking, with the big hotel, most of the big hotel chains now on there as well, but then also independent hotels signing up and smaller chains signing up. They're great partners on there and they see this is an opportunity to develop this channel with us and for them to have another channel next to the meta option where they can create additional bookings with us. So the partnership with our partners has been very good on Instant Booking and we continue to work with them to make it a better and better experience for our users and their bookers.

Robert Peck - *SunTrust Robinson - Analyst*

Could you talk a little bit about how they look at it versus the two products, meta versus Instant Book? How they view that dynamic? Are they relatively indifferent based on the economics, based on the pricing? How do they prefer one versus the other?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, so, what you see is that, take for instance, a Priceline, Booking.com - they're present in both the meta and in Instant Book --

Robert Peck - *SunTrust Robinson - Analyst*

Exactly.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

And they see both as very helpful and lucrative channels for them and they're active in both of them. That's the way we would like to see it.

Robert Peck - *SunTrust Robinson - Analyst*

When do you think Expedia will join the platform for Instant Book? Is that feasible?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

To be seen, how that would work out over time. If it's more participants in Instant Book over time, that would be helpful for us. So let's see how that plays out.

Robert Peck - *SunTrust Robinson - Analyst*

Okay. Could you talk a little bit about the differences you're seeing in domestic as you roll it out, Instant Book, versus international, and some of the trends you're seeing there?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, not surprising to us as we roll this out, we expected this as -- you roll it out everywhere outside the US and there's a lot of opportunity to improve. Like we saw in the US when we first rolled it out, initially the conversion rates versus the meta conversion rates, for instance, are lower, and that's what we saw when we rolled out in the US, the same thing. The confidence that we have received from rolling it out in the US, and having been in the US for a longer time, is we know how to make the improvements over time - how to improve the room content, how to improve the



flow for our users and to work on bridging that gap that there originally is. So, we rolled it outside the US. As we expected, there is a monetization gap with meta but we're working hard every day to improve that and we think we can.

Robert Peck - SunTrust Robinson - Analyst

TripAdvisor's done a really great job talking about content of leakage you've had historically, and how that's being closed. Can you just elaborate on that a little bit so everyone can understand that?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so, we have historically been very strong, where we call "up the funnel". So people come to our site to research their trip, to plan their trip, and too often what we have seen is that people then don't see us as a place to book and there is some leakage there. So people go to us to research and then they leave and they may look at some other places and they book somewhere else. Or they have booked somewhere else and next time around they go straight back to that same source to book again. So when we talk about leakage what we're saying is hey, given the brand strength and the number of users that we have, we think we can actually have a higher monetization per user than we currently have. With the strength of our brand and the importance of our site for many travelers as they plan their trip, really represents. So, one way for us to get that is give our users and make it easier and easier and more attractive for them over time to actually book on our site and not have to leave our site to book somewhere else.

Robert Peck - SunTrust Robinson - Analyst

So as Instant Book evolves and you go more from contracts with partners to more of an auction-base dynamic, how should investors think about that flowing through the model?

Ernst Teunissen - TripAdvisor Inc. - CFO

It's a little early to talk about some model changes. Instant Book is where we are really focused is on the early rollout and the early improvements. How Instant Book may evolve over time is something that's too early to talk about right now.

Robert Peck - SunTrust Robinson - Analyst

For investors, how would you guide them to gauge the progress of Instant Book, the milestones, the tent poles to be looking for to see success?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so we, in our prepared remarks in our call last week, we talked about different phases that we're going through. We talked about important first phase of signing up new partners for Instant Book and we've done a good job, I believe, in getting important partners to sign up for Instant Booking. We talked about a second phase of actually getting it out there and rolling it out, which may seem like a trivial task to many but it's actually a lot of work to actually roll it out and make it available everywhere around the world. We've done that now.

Now we're in two other phases where it is really about optimization and on the one hand, optimization of conversion, optimization of the experience, and then a lot of communication around how do we communicate our value proposition to our users, make them comfortable with that value proposition and get them comfortable to come and book and book again. So, to your question of, what are the things to look for, it is tangible results that we report along the line of these four phases.



At the end of the day, where it has to check out is in the financials and we've pointed publicly to revenue per hotel shopper as a very important metric. We're saying is, we're not necessarily trying to optimize IB revenues in isolation or meta revenues in isolation. We're looking at that total revenue per hotel shopper coming to our site whether they book on Instant Booking or stay on meta. We're looking for that to move. Now, that statistic, as we all have seen, is negatively impacted in the short term because of Instant Book, but over time we expect that metric to be important barometer of how much we're closing the gap and ultimately find accretion from Instant Booking.

Robert Peck - SunTrust Robinson - Analyst

As we think more about the shift going -- the model going from meta to Instant Book, what's the impact therefore just on the core margins around there? Structurally different in the margin structures of both products?

Ernst Teunissen - TripAdvisor Inc. - CFO

So over time, what -- in the short term, obviously it's a negative impact on our margin as we have seen. But in the long term, we expect that with more repeat bookings from Instant Booking and from this higher monetization on average for OR users that I have been talking about this would be beneficial for margin over time. What we do with that is a different matter. Higher monetization of shoppers also gives an opportunity to spend more in acquiring new shoppers as well. We think about our advertising dollars really in the context of the return we get on the shopper that we get with it. So higher monetization means more ability to spend. So how exactly that's going to play out in terms of margins, to be seen. But better monetization should include the economics of our users.

Robert Peck - SunTrust Robinson - Analyst

Could you talk a little bit more about the advertising and the impact you're seeing from either lift in traffic or the impact you're seeing, the ROI you're seeing, from the increased advertising?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so advertising, our view on advertising doesn't change very much year on year or quarter on quarter. We're looking at certain returns, metrics that we need to see. In times where our revenue per shopper is pressured like it is today, obviously that means that you can spend a little less. In times where we would see revenue per shopper go up, we could spend a little more. So that's really how we think about that. We don't think about SEM spend or generally advertising spend as a percentage of revenue or we don't manage to a certain margin, EBITDA margin that we need to get. We really spend it to get the return that we expect given the current price realization and revenue realization.

Robert Peck - SunTrust Robinson - Analyst

I have a couple more questions here and then I want to make sure we give time for the audience, so the microphones are out there. You can raise hands. We do questions there as well. I want to get into some of the newer markets and talk a little bit more about the attractions opportunities and buy in there. Could you just talk a little bit about that roadmap and how investors should be thinking about that ramp?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so if you go to non-hotel, you ask specifically about Viator, so broadly attractions is an area that is very exciting to us. We've called this out as our next billion-dollar revenue business after our hotel business. I say Viator because Viator is a very important brand in there, but we also offer attractions fulfilled by Viator, but on the TripAdvisor site. So it's broader than just Viator for us.



Very interesting segment of the market, relatively young in the sense that it's still fragmented, but what an opportunity if you are a traveler, and you're out there to just on your phone be able to rather than walk around with a travel guide, a physical travel guide, on your phone be able to see what's around you, what attractions you could do, what tours you could do and then book them on your phone device rather than having to stand in line somewhere and immediately go there and actually do the attraction. What a great user experience that is. We think with the strength of our brand and our penetration of the app that we already have for TripAdvisor, we are such a great position to be with our users while they're on the trip, in destination and being able to capture that.

Now, as I said, still very fragmented. We think it's \$18 billion market opportunity just between North America and Europe. So we're just scratching the surface right now in terms of the overall size of this market of attractions and we're excited with where we are and investing a lot of time and effort. So, in the last quarter alone, we added about 30% of product to our Viator platform, our attractions platform. So we're investing a lot of money in growing that asset as fast as we can. The non-hotel segment, as it's called collectively with vacation rental and restaurant, is a loss-making entity, quickly growing but loss-making entity for us. The reason why, is because we are investing so much behind that growth and we expect so much of that for the future.

Robert Peck - SunTrust Robinson - Analyst

One of the new markets we haven't talked about much yet is LaFourchette Fork. Just talk a little bit about the expectations there and the opportunity.

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, so another exciting area for us, so the restaurant business is growing very quickly for us and again it's -- I call it the restaurant business rather than TheFork business because that same supply of restaurants that TheFork is developing for us is also available on the TripAdvisor site. But TheFork team, LaFourchette team, is very actively adding, competing out supply there as well to the roster in their existing market where they're already very strong, but also in new markets where there are new geographies, where they're less strong. Company's doing really well. It's growing very nicely. The users of it are very happy. It's a nice part of our business, which we like for the revenue part of it. If you look at it from the TripAdvisor perspective, also a great way to just increase engagement for our user base because you engage with restaurants more frequently than you engage with a travel booking. So it's another way for us to stay important with our app and with our site for our users, a way to engage our users with our site.

Robert Peck - SunTrust Robinson - Analyst

With the remaining five minutes, are there any questions out in the audience at all? If you could raise your hand, we'll get a mike over to you. As we think about these new businesses, how dependent are they more on feet and street to grow those businesses?

Ernst Teunissen - TripAdvisor Inc. - CFO

Yes, they are -- we have sales forces for them. So that is important. We have to sign up new restaurants and we have to sign up new attractions, etc. So that's an important component of it. We do it in a relatively efficient way. I believe that it's an important component, the sales force is an important component of that business too.

Robert Peck - SunTrust Robinson - Analyst

One of the themes we've been exploring throughout this entire conference is the on-demand economy, sometimes Airbnb gets lumped in there. As you think about the growth of Airbnb, what does that ultimately mean to your business, friend or foe?



Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, so far it seems that the travel space is doing well collectively, with Airbnb in there. The future is a little bit difficult to see to what extent it's additive to demand in travel or to what extent there's a substitution. We believe that with Airbnb in there, our position is strong and we look -- we're bullish about our own future with or without Airbnb.

Robert Peck - *SunTrust Robinson - Analyst*

Have you seen any impact at all? In the growth of Airbnb?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Not meaningful.

Robert Peck - *SunTrust Robinson - Analyst*

Not really, okay. As a CFO, you probably think about your portfolio of assets a lot and the cash on the balance sheet, a hundred million or so give or take right now. What holes do you see in your portfolio or areas that could be strengthened with the use of that cash?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, and I think you're talking about inorganic growth, M&A growth. We continue to look at M&A as a way of augmenting what we already do organically and boosting that. We look at -- make buy decisions all the time. There will be important opportunities from time to time. We just announced we made an acquisition in the vacation rental space. We bought a company called HouseTrip in Europe and added that to our portfolio and we think strengthens our overall vacation rental business.

So, we're looking at a lot of opportunities like that across our portfolio. I think that could help us grow faster than we otherwise could organically. We look at a lot of things. We reject a hell of a lot more than we actually execute on, but going forward I would expect to continue to see us to be able to add on bolt-on acquisitions to help us grow.

Robert Peck - *SunTrust Robinson - Analyst*

As you think -- as a CFO, you think about the challenges going forward here, especially as you're making this big transition. You know what are some of the greatest concerns or risks that you think about that you try to make sure you navigate and avoid?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, for us the most important part that we as a leadership team are focused on is execution right now. So we feel we have a pretty compelling strategy. We feel have a pretty compelling vision, clear idea of where we want to go with those non-hotel segment that we just described, with the overarching direction of Instant Book, but more importantly the world that we think we can play in the total ecosystem going forward, and so for us it's really around making sure we execute as well as we can, as efficiently as we can, make sure that we improve our value proposition Instant Booking, our value proposition on mobile. That's really our focus.

Robert Peck - *SunTrust Robinson - Analyst*

As you think about the external things that you can't control, I would assume one of the largest factors you probably are worried about is just (A) the economy and then (B) general health of the travel market.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, if you really look at that macro indeed, the factors that are a little bit less controllable for us, of course, that there's the strength of the economy, the continued threat from global terrorism, health issues like we've seen with Zika. All of those things are indeed difficult to influence for us over time and they're out there and they will always be out there. Doesn't really impact how we behave. So it is out there and will impact our business for sure, depending where it goes, but not really a big driver of how we choose to develop our strategy or to execute on our strategy.

Robert Peck - *SunTrust Robinson - Analyst*

Then other external things you can't control, something like Google, how do you think about Google and some of the efforts they make in the space and how it could impact you?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, Google is clearly an important player in the total ecosystem. Google is an important partner for us in our marketing. Google is also deploying initiatives themselves in travel. So, we look at Google as one of the important participants in there and we look at what they're doing and try to adapt our strategy to what they're doing as well, like many other industry participants.

Robert Peck - *SunTrust Robinson - Analyst*

Any other questions of the audience? So last question I would have for you then is for everybody here in the audience and on the webcast is what are the key themes they should walk away with? There's only three or four things that they should take away from this, what should they be thinking about?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

I think what's very important to recognize is the path that we are on, the very strong position that we start with, the very strong position as a brand and as a user base as I said as what we can -- the ecosystem that we have built. The important transitions that we are making, which have short-term financial impacts both on the non-hotel side as described as well as on what we're trying to do with Instant Booking. But really hopefully that people will take away from us for doing that because we think we'll come out of it stronger at the end and we really do it because we feel there's a prize out there, which is to develop a very, very strong booking, online booking platform with higher monetization than in the past and more satisfied users than we've ever had. So that's really what we're going after. Everything we're doing in the short term and will be impacted in the short term is really in service of that long-term, bright future we think.

Robert Peck - *SunTrust Robinson - Analyst*

Well, with that, we're out of time. So please join me in thanking Ernst and TripAdvisor for coming today. Thank you very much.

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