Angela Opening Remarks:

Good morning everyone and welcome to Tripadvisor’s second quarter 2023 financial results call. Joining me today are Matt Goldberg, President & CEO, and Mike Noonan, CFO.

Last night after the market close, we filed and made available our earnings release. In that release you will find reconciliations of non GAAP financial measures to the most comparable GAAP financial measures discussed on this call.

Before we begin, I'd like to remind you that this call may contain estimates and other forward looking statements that represent management's views as of today, August 3, 2023. Tripadvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release, as well as our filings with the SEC for information concerning factors that could cause actual results to differ materially from these forward looking statements.

With that, I'll turn the call over to Matt.

Matt Goldberg, CEO

Thanks Angela and thanks to all of you for joining us this morning.

For the Second Quarter, on a consolidated basis, we delivered healthy revenue growth of 18% across the Group, driven by our experiences offerings which outperformed our expectations and notably surpassed our branded hotels revenue in size for the first time. We believe this is a reflection of our advantaged position as we leverage the complementary nature of our Viator and Tripadvisor brands to lead the market in this high-growth, underpenetrated and fragmented travel category. Group adjusted EBITDA was $90 million, or 18% of revenue, within the range we provided last quarter.

Importantly, our teams continue to make progress across our segment strategies:

- At **Tripadvisor Core**, we are executing on our engagement-led strategy by reinvigorating our focus on world class guidance products to fuel our diverse monetization paths.
- At **Viator**, we are reinforcing our leadership position in experiences by investing in awareness, enhanced products, and repeat bookings to capture more market share.
- At **TheFork**, we are focusing on driving healthy growth with significant margin improvement this year by delivering value to both diners and restaurants as the leader in the European dining market.

Within the **Tripadvisor Core segment**, we delivered results that were in-line with expectations, with the exception of a shortfall in branded hotels revenue related to a lower seasonal pickup in European hotel meta. Mike will cover the details in his remarks, but I think it's important to note this up front to place our quarterly performance in the context of our strategy.

We are five months into a multi-year strategy at Tripadvisor and as we've shared previously, the financial impact will take time to materialize. While we are still in the early days, we are already seeing encouraging momentum as we execute and we will continue to reinforce our focus on our highest conviction priorities. At the same time, we will balance operating with financial discipline with how we deliver on our longer-term strategy.

To provide flexibility to invest in our strategic priorities this year and next, we have initiated actions to achieve cost savings within the organization. This is expected to result in an estimated $35 million of annualized savings. These actions are aligned with our strategy and we believe will help position us for the future.

We are delivering meaningful progress on our strategy. In late June **we launched a significant upgrade to Trips** - our core trip planning and itinerary product. This includes the introduction of a new Generative AI-powered travel itinerary feature, which leverages a combination of best-in-class LLMs, along with our proprietary data and trusted content. We've been pleased to receive positive consumer feedback, which we believe highlights our unique opportunity to deliver better recommendations based on the advice of real travelers and to integrate AI fully into our overall trip planning experience.

While the feature is still in public beta, our early metrics are promising, with user satisfaction scores already approaching nearly 70% positive feedback on individual recommendations and meaningful conversion to saved trips. The completion rate at which travelers are providing inputs to generate an itinerary is approximately 2 times higher than our historical average for other similar structured inputs on the site and travelers are signing in as members to engage with this feature at approximately 4 times our site-wide average. We know from our internal data that when casual visitors to our site convert to members, they visit 4 times more often and monetize at 10 times the rate of non-members.

And this is only the beginning. Going forward, we have a robust product roadmap that includes extending these features to our mobile app in both iOS and Android and integrating hotel and tour recommendations.

The roll out of our trip planning tool is an example of delivering on our strategy to drive deeper engagement with travelers. We've also scaled improvements to our content submission flow UX and expanded to additional destinations, leveraging AI and ML tools to bring together guidance from our community and our editorial team. As a result, we have seen a lift in traveler saves, new itinerary creation, and membership sign ups.

We also continue to make progress on our Group-wide customer data platform, which now has nearly 2 billion profiles, double the number from last quarter. We tested initial use cases, including how we retarget shoppers across both Tripadvisor Experiences and Viator and saw meaningful uplifts in traffic, engagement, conversion and revenue.

We continue to see strong momentum in our **Tripadvisor Experiences marketplace**, where much of the Q2 growth came from our ability to guide travelers to the experience that best meets their needs. Specifically, we redesigned attraction pages and improved product discovery - exposing over 30% more travelers to bookable experiences than we did in the same period last year. This is consistent with our strategy to lean harder into Tripadvisor's unique strengths - our breadth of supply across free and paid things to do and guidance from real travelers - while exploring ways to fully leverage Viator's depth of complementary capabilities as the leading bookable experiences platform.

We expect that we will be able to extend our ability to match our traveler demand with relevant suppliers to other marketplace categories in the future.

Let's shift to Viator, our high-growth business where we have been on a mission to drive market leadership and the significant value creation that we believe is available to the category leader. Our teams are executing on this path, leveraging all our assets and capabilities across the Group to do so, and delivering results that speak for themselves.

Across all points of sale we saw tremendous growth in Q2. Revenue grew 59% year-over-year, which came in higher than our expectations, with gross booking value growing to approximately $1.1 billion, or 40% year-over-year. Adjusted EBITDA loss was $2 million, which was even better than we expected despite the incremental investments we are making.

Our investment at Viator is delivering immediate and significant revenue growth, and puts us in a position to sustain long-term category leadership. One of our areas of focus has been on driving Viator brand awareness and customer acquisition. We are also delivering meaningful improvements in our repeat rates, with repeat bookers driving outsized growth, which gives us increasing confidence in our unit economics and margin potential over time.

We have a tremendous opportunity to drive awareness for the OTA category in experiences, and to build our brand alongside it. We believe we can shift traveler behavior from an often disjointed booking experience to Viator, a single, convenient place to see, sort, and book experiences. We're early into our brand investment, but the signs are positive. Since the launch of our brand advertising last fall, we're seeing growth in awareness and related metrics, like direct traffic and branded searches. This spend is a clear example of our decision to build scale and long-term customer economics despite delayed profitability.

We are also focused on enhancing the traveler and operator experience. We are investing to deliver more value across the board–in programs aimed at travelers, partners, and suppliers. Ongoing improvements to the critical points in the traveler experience such as a faster, easier checkout, and app improvements, are contributing to improved conversion. We are exploring ways to leverage these gains for our Tripadvisor Experiences point of sale, as well, as we lean into the complementary strengths of our brands. We are also listening to operator feedback, and making improvements to how we drive value to suppliers. We've previously mentioned our supplier program Accelerate, which now represents more than half of our GBV and contributes to higher take rates.

Finally, **at TheFork,** the team achieved 19% revenue growth, combined with meaningful margin improvement over the same period last year, putting the business on a path to achieve profitability in the back half of the year.

On the supply side of our marketplace, one of our priorities is to increase the number of quality restaurants on TheFork platform by demonstrating clear value to our restaurant partners. TheFork differentiates through a trusted brand and a loyal relationship with diners. In addition, our ERB software provides restaurants with purpose-built tools, analytics, and marketing promotions that help them drive incremental revenue and margin improvement. Successful sales execution in priority geographic markets combined with improved market conditions relative to last year have driven multiple consecutive months of net restaurant growth.

On the demand side, we continue to focus on enhancements to diner acquisition and repeat engagement that will increase usage on TheFork platform. Our app continues to be a key channel for profitable growth, and so far this year we've seen installs grow at over 30% relative to the same period last year. In addition, the portion of bookings from repeat diners across TheFork network is now more than three-quarters of our bookings, which we believe will contribute to profitability over time.

As we look to the back half of the year, we are monitoring the health of the consumer closely. We continue to see consistent patterns that indicate health in travel – our data from customer behavior on the Tripadvisor site reflects stability across room rates, quality of hotels, and length of stay. Most encouragingly, we continue to see a meaningful opportunity to serve the traveler in search of experiences, which is increasingly core to travel planning, with more travelers indicating that they plan to book experiences ahead of their trip. We believe this continued interest in travel and experiences bodes well for our vision, strategy, and market position.

Before I close, I want to take a moment to thank our teams for their ongoing commitment as we continue to transform our business together. We have encouraging proof points at Tripadvisor, strong growth and market leadership in the experiences category at Viator, and a clear path to profitability at The Fork. We have strong conviction about the road ahead – none of these paths are easy and I'm grateful to all our colleagues who remain laser focused on execution.

With that, I'll turn the call over to Mike.

Mike Noonan, CFO

Thanks Matt, and good morning everyone. I will review the results of the second quarter including segment commentary and provide some color on expectations for the second half of the year. All growth rates for 2023 are relative to the comparable period in 2022, unless otherwise indicated.

Now onto Q2. We delivered results that were in-line vs our expectations for the quarter. Consolidated revenue was $494 million, reflecting an 18% growth rate or 19% on a constant currency basis, and adjusted EBITDA was $90 million and represented a margin of 18%. Our results reflect continued strong performance in experiences both at Viator and in Tripadvisor Core.

Turning to the segment performance for the second quarter. **Tripadvisor Core** delivered revenue of $279 million, which represented 2% growth. This was in-line with our expectations, though branded hotels declined more quickly than anticipated, decreasing 7% year-over-year. Within branded hotels, our hotel B2B offering performed slightly better than expected. However, in hotel meta, we did see some uneven performance across the geographies. In the U.S. and APAC, we performed in-line with our expectations of low single digit declines, which reflected the anticipated tougher year over year comparison. In the US, we continue to see strong pricing as a result of solid execution from our team as well as a healthy domestic travel market.

In our European hotel meta, revenue declines were larger than expected due to a delayed and lower seasonal peak and increased competition in the paid channels. Although we saw healthier volume trends in July, we did not see our typical seasonal patterns in May and June. Because summer peak season is generally driven by paid channels, the more competitive environment had a greater impact on paid click volumes on our European meta revenue in the quarter. We specifically chose to maintain our ROAS and prioritize profitability over growth. Our unpaid channels in Europe followed similar seasonal patterns but to a lesser extent.

Experiences and dining had another strong quarter, growing revenue 43%, with experiences growing over 50%. The performance we see with this offering underpins the growth in the category and provides strong evidence of our ability to monetize the diverse traffic at Tripadvisor Core.

Display and platform had a solid quarter with revenue growth of 14%, marking another period of consistent backlog growth.

Our 'Other' offerings revenue declined by 7%, due to continued de-emphasis of our rentals, flights and cars offerings, while our cruise offering grew at well over 20% in the quarter.

Adjusted EBITDA in Tripadvisor Core was $96 million or 34% of revenue, which was slightly below our expectations for the quarter and approximately 8 percentage points lower than last year's comparable period of 42%. A little over half of the margin deleverage is due to the impact of phasing of hiring last year, as headcount increases were weighted to the back-half of the year. The remaining margin pressure is due to increased performance marketing from continued growth in experiences as well as the lower hotel meta revenue.

Turning to Viator, revenue was $216 million, reflecting growth of 59% or 61% on a constant currency basis, which was meaningfully higher than our expectations. Gross booking value was approximately $1.1 billion and grew approximately 40%. Revenue growth was higher than gross bookings growth primarily due to the gross bookings-to-revenue recognition timing as well as increased take rates year over year. These results were driven not only by strong demand across geographies but also conversion rate improvements as our teams continue to refine and optimize the customer journey.

Adjusted EBITDA loss at Viator was $2 million, or -1% of segment revenue, one percentage point lower versus Q2 of last year. The deleverage of 1 percentage point comes largely from the investment in brand spend, which offset the impact of lower performance marketing and headcount costs as a percent of revenue. We started our brand campaigns in the second half of last year, and we expect this to continue for the back half of this year.

We're very pleased with the performance of our marketing spend, which is continuing to deliver new customers at a greater pace than expected. These larger cohorts of new customers are contributing to a rapidly expanding foundation of reliable repeat bookers. We see that each successive new cohort has higher revenue retention rates. Plus, with reliable repeat booking behaviors, the result is that we can deliver stable, predictable revenue growth and increasingly profitable bookings.

Repeat bookers tend to spend more as well–a repeat booker on average purchases more items than a first time booker, and at a higher average item value. And, repeat bookers come to us through unpaid channels at higher rates with each successive booking.

This customer behavior gives us great confidence that we can achieve very solid long-term margins at Viator. However, today we are focused on building a large and durable leader in the experiences sector. We will continue to invest across all areas of the business, not only in building large, profitable customer cohorts but also in user experience, supply, and in mobile. We are making great progress in all of these areas.

At TheFork, revenue was $38 million and grew 19% or 16% on a constant currency basis. Bookings growth of approximately 5% was impacted by a tougher comparison versus last year due to the timing of brand campaigns as well as strong recovery in post-pandemic dining in last year's comparable period. We are very pleased with the improved trend in profitability. Adjusted EBITDA loss in Q2 was $4 million, or -11% of segment revenue, which is a meaningful improvement over last year's margin of -22%, especially in light of a Covid subsidy benefit we received during the same period last year of $11 million. Drivers of this leverage were lower sales and marketing as a percent of revenue, due to the timing of planned brand investment between Q1 and Q2 of this year versus last year.

Turning now to consolidated expenses.

Cost of revenue de-levered by about 100 basis points due to the increased weighting of Viator-related COGS as a percent of consolidated revenue. These costs include credit card processing fees, which increase with Viator's transaction volume.

Sales and marketing expenses de-levered by approximately 260 basis points primarily due to an increase in Viator performance marketing and brand spend.

Technology and content expenses de-levered by approximately 160 basis points driven by increases in people costs.

General and administrative expenses de-levered by approximately 280 basis points, driven by people costs and the combined benefit in Q2 of 2022 of $13 million primarily from TheFork Covid subsidy and to a lesser extent a non-income tax related benefit in Tripadvisor Core.

Now, on to our cash and liquidity position. Free cash flow for the quarter was $90 million, which was down versus $282 million in Q2 of 2022. This year-over-year decline was primarily due to a $113 million payment related to the previously disclosed tax settlement with the IRS for the periods of 2009-2011, in addition to a $64 million U.S. federal tax refund related to the Cares Act received during Q2 2022. As we discussed last quarter, we expect to receive a tax refund of approximately $45-$55 million from a foreign jurisdiction during 2023 as part of the tax settlement. Regarding total cash flow, we repurchased approximately 4.7 million shares in the quarter, totaling $75 million. We ended the quarter with a strong balance sheet, with just over $1.1 billion in cash. Finally, during the quarter we amended our credit facility of $500 million, extending its maturity to 2028.

I will provide a bit more color on the cost saving initiatives Matt mentioned in his commentary. As we continue to drive operational transformation across our business, we are embarking on a broad plan to reduce costs. We recently initiated a series of actions that we estimate will yield approximately $35 million in annualized savings, primarily from headcount reductions across various roles at Tripadvisor Core, which includes corporate G&A. Due to the timing of these actions, we expect only modest savings this year as they will more fully benefit us next year but will allow us to more effectively execute on our stated segment strategies. As we move through the rest of the year, we will continue to explore areas across the segments for additional savings, which include other discretionary costs and our real estate footprint.

Turning now to thoughts for Q3 and the rest of the year. Starting with Q3:

- For Tripadvisor Core, we expect a low-single digit year over year revenue decline, driven by the trends we saw in Q2, in particular in branded hotels.
- In Viator, we expect year over year revenue growth in the low 30% range, driven by the monthly step down through the quarter from Q2 growth rates as we comp very high growth rates last year

- In TheFork, we expect year over year growth rates to marginally accelerate from the second quarter's levels.
- On a consolidated basis, for Q3, we expect the above assumptions to result in year over year growth of close to 10%

In Tripadvisor Core, despite the meaningful improvements we observed in July within branded hotels, we are taking a prudent approach and planning for greater headwinds based on the trends we saw in Q2, and across hotel meta globally.

For Q3 consolidated adjusted EBITDA margin, we are expecting a sequential seasonal improvement in margin, but about a 250-350 basis point step down year over year due to lower margins at Tripadvisor Core as well as a higher contribution of Viator in the Group's consolidated results.

For Q3 adjusted EBITDA margin at Tripadvisor Core, we are expecting to see a sequential seasonal improvement but a step down of approximately 200-300 basis points in margin year over year largely due to branded hotels, where we are taking a more prudent outlook based on Q2 trends.

For the full year, we continue to expect mid-teens consolidated revenue growth; however, this is now driven by a different segment mix, with Viator accounting for more of the growth than previously expected.

Finally, we expect consolidated adjusted EBITDA margin to be approximately 150-350 basis points lower versus 2022. This implies margin at Tripadvisor Core to be approximately 200-400 bps lower than 2022 levels, Viator margin to be approximately flat year over year as they reinvest upside to drive revenue and market share growth, and TheFork to continue to significantly improve margins year over year. Lastly, we expect the in-year impact from the previously mentioned cost savings initiatives to be largely realized in Q4 and thus will have a minimal benefit to the 2023 fiscal year.

With that, I'll hand the call over to the operator for Q&A.