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TRIP - Q2 2015 TripAdvisor Inc Earnings Call

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PRESENTATION

Operator

Good afternoon and welcome to the TripAdvisor second-quarter 2015 earnings conference call. As a reminder, this conference is being recorded. At this time, I would like to turn the conference over to Mr. Will Lyons, TripAdvisor's Senior Director of Investor Relations. Please go ahead.

Will Lyons - *TripAdvisor LLC - Senior Director of IR*

Thank you, Latoya. Good afternoon, everyone, and welcome to our conference call. Joining me today are Steve Kaufer, our CEO; and Julie Bradley, our CFO. After the market closed today, we distributed our Q2 earnings release on our investor relations website located at ir.tripadvisor.com. In the release, you will find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call. Also, on our Investor Relations website, you will find supplemental financial information, which includes certain non-GAAP financial measures discussed on this call. Before we begin, I would like to remind you that estimates and other forward-looking statements included in this call represent the Company's view as of today, July 23, 2015. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to today's earnings release and TripAdvisor's filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements. Finally, unless otherwise stated, all comparisons on this call will be against our results for the comparable period of 2014.

And now, I'll turn the call over to Steve.

Steve Kaufer - *TripAdvisor LLC - CEO*

Thank you, Will, and welcome, everyone. We accomplished a lot in the first half of the year. Our content and community grew quickly, we strengthened our platform, we deepened our relationship with some of the world's largest hotel chains, and we continued to successfully position our brand and our products to delight more users are throughout more phases of the travel planning and trip taking. Our second-quarter financial results were solid, despite significant year-over-year currency headwinds. Total revenue grew 25% to $405 million, or 35% growth on constant currency. Click-based revenue grew 13%, or 24% in constant currency. On the bottom line, adjusted EBITDA decreased 5% to $123 million, and would have been positive 15% growth in constant currency. We're navigating the near-term landscape with a laser focus on executing on our two year and three- to five-year growth initiatives.

Over the next two years, our top priorities are to expand our lead in content and community, and to help our travelers not only plan their trip but to book it as well. We've made excellent progress on these goals during the second quarter. First, TripAdvisor continues to set the standard in rich user-generated content and global community. Listings grew 23% to 5.2 million businesses, users are adding content at a record rate of 160 contributions per minute, and we reached more than 0.25 billion reviews and opinions, up 50% from last year. We're helping more users that than ever before, as we had more than 1.8 billion unique visitors in the first half of 2015. In Q2 alone, we averaged 375 million monthly unique visitors according to our internal logs, up 30% for the second straight quarter. Also hotel shopper growth remain strong, growing 22%.

We are doing a great job winning the increasingly mobile user as well. Nearly 50% of our traffic visited on mobile devices, and app downloads reach more than 215 million. Continuous mobile product innovation is key, and this quarter, we launched our TripAdvisor app for Apple Watch, Samsung Gear and Pebble devices, bringing the power and convenience of TripAdvisor content to wearables. We also rolled out a new iPad app and new travel guides to help more users when they are looking for where to eat and what to do on their trip. Further, this quarter we will cross the $100 million annual revenue run rate on the phone, a great milestone for our mobile team and for our travel media business. TripAdvisor remains unmatched as the place for users to plan a trip. Perhaps more importantly, these milestone speak to an even larger opportunity in front of us, to reduce friction; enable more users to plan, compare, and book places to stay, things to do, and places to eat on TripAdvisor.

Though we are still very early days, we've built great momentum thus far in 2015, specifically in hotels. In Q2, we partnered with Marriott International and another top 10 global hotel chain for Instant Booking. These are our third and fourth major hotel announcements this year, and we are now working with the 6 out of the top 10 global hotel brands. Our Marriott partnership is a great example of what TripAdvisor can deliver, as we bring Marriott an attractive global leisure audience and a great way to introduce more travelers to their 4,200 properties across their 19 industry-leading brands. Additionally, we added that Mandarin Oriental, Langham Hospitality, and AmericInn during the quarter. And since the quarter ended, we further expanded our reach in APAC by partnering with [Orsett] Hotels. We now have more than 60 chains, hotel groups, and OTA partners, and have grown Instant Booking's supplied to 235,000 properties, or roughly one-third of the e-commerce-enabled properties on our site. This is amazing progress since our beta launch last year. We're also adding more independent hotels onto the TripConnect platform through our Instant Booking data. Hotelier feedback continues to be externally positive, and we look forward to working with many more independent hotels, as our efforts there continue to ramp.

Building high-quality hotel supply is a major step towards enabling more users to find the right hotel, pick their room, and book on TripAdvisor with confidence. With our growing partner coverage, users will soon be able to book more than half of 5 million rooms offered by the top 10 hotel brands. We like where we are in the rollout, and we're excited to bring this feature to more users and more partners over the coming year.

Even before the feature is live on a more global scale, recent industry surveys show that TripAdvisor's influence in travel is massive and expanding. Last quarter, I mentioned a comScore study that showed 40% of travel researchers who went on to make a travel purchase last summer visited TripAdvisor at least once. A recent PhoCusRight survey showed that more than 80% of respondents believe that by visiting TripAdvisor, they pick a higher quality hotel that's better suited for their needs. They feel more confident in their decision, and perhaps most importantly, they have a better trip.

On the marketing side, our plan, compare, book message is resonating in online and off-line channels, and especially through our TV ad campaign. The same PhoCusRight right survey found that a greater percentage of respondents said they are visiting TripAdvisor at least a few times more per year in 2015 versus 2013, which we attribute to our growing value to consumers, as well as our increased TV presence. Beyond hotels, the survey found that users are coming to TripAdvisor more frequently when planning where to eat and what to do on their trip. Our three- to five-year growth initiative is to further improve the user experience by helping more consumers around the globe find and book attractions, restaurants, and vacation rentals, and to reinforce our leadership position in these categories.

Perhaps our biggest opportunity to do this is in attractions. Since opening up at the Viator market -- since opening up the Viator business to a marketplace model at the end of March, industry reception has been excellent. Tours and attraction operators see marketplace as a great way to showcase their products in front of the world's largest travel audience. In fact, Viator added nearly double the number of new products in Q2 as compared to all of 2014. Even before the marketplace rollout, transaction growth has been accelerating, as Viator leverages TripAdvisor's consumer marketing strength and global reach.

In restaurants, we are executing aggressively on our organic and inorganic growth strategy. In a little more than 12 months, we have extended our restaurant business into 12 countries. This quarter we launched TheFork in Portugal, and we also entered Australia by acquiring the talented team from Dimmi. The restaurant network has grown at an amazing rate, and we're seating diners at more than 28,000 restaurants. Also, our restaurant products are perfectly suited for users on the go, and nearly half of TheFork's booking are made via mobile. In vacation rentals, our ongoing shift to a transaction-based model continues to progress nicely. Users can choose for more than 720,000 properties, and we continue to focus on adding more high-quality inventory. We're also in the process of refreshing our owner center, creating a simpler, more engaging, and unified experience. The financial benefits continue to shape up nicely, as transaction revenue accounted for more than 50% of our Q2 vacation rentals revenue. We like where we are in our shift of the transaction model, as it is beneficial for travelers and homeowners alike.

At greater scale, these businesses can drive stickiness to our platform, making TripAdvisor an even more indispensable travel companion. They are long-term plays, and we are investing to capture significant opportunity over the next three to five years. Nearer-term our priorities are simple, move fast, scale quickly, drive a better user experience, and focus on revenue growth and market share gains. In summary, we are pleased with our recent traction and how we're successfully positioned in the business for the long term. And now, here's Julie.

Julie Bradley - *TripAdvisor LLC - CFO*

Thank you, Steve, and good afternoon, everyone. We continue to see start growth amidst a soft currency environment. Second-quarter total revenue grew 25%, decelerating 4 points sequentially off of a 9-point tougher comp, driven by our click-based business and our hotel segment, as well as our other segment. Note that in constant currency, total revenue growth would have been 35%, up from the 29% constant-currency growth in the second quarter last year. Consolidated Q2 adjusted EBITDA decreased 5%, to $123 million, behind our expectation for flattish growth, and would have been positive 15% on a constant-currency basis. Foreign-exchange headwinds have continue to be a persistent challenge since Q4 last year. While our top-of-funnel hotel shopper metrics remains strong, the US dollar strengthened for the third straight quarter. This prolonged soft currency environment has led to weaker pricing outside of our strong US and UK markets, which may be impacting international consumers' overseas buying power. As Steve noted, we are very pleased with our strong traffic growth, and we're navigating this soft currency landscape with caution, as we are more focused on strengthening our business for the long term.

Q2 click-based revenue grew 13%, or 24% in constant currency, driven by 22% hotel shopper growth. This growth decelerated sequentially 7 points on a 12-point tougher comp. Revenue per hotel shopper growth was negative 6% for the quarter. Similar to Q1, absent currency translation headwinds, Q2 revenue per hotel shopper would have been slightly positive. Display-based revenue grew 8% against a tough year-over-year comp, driven primarily by foreign-exchange headwinds, slightly impacting currency translation, and more significantly impacting our partner ad budget. Our display team continues to deliver great value to our clients, leveraging our unique scale and robust data manager platform to deliver unique insight, offer breadth of product, and enhance targeting capability. These attributes improved campaign performance that rivals all competitors.

Subscription, transaction, and other revenue growth accelerated 94% for the quarter, driven by contributions from prior-year attraction and restaurant acquisitions, as well as by continued traction from our ongoing shift to a transaction-based vacation rentals business. Note that we lap our Viator acquisition in Q3, at which point we expect growth to normalize. From a segment perspective, our core hotel segment posted 13% revenue growth, or 22% in constant currency, with 36% adjusted EBITDA margins.

During Q2, we invested roughly $20 million in television advertising to amplify our plan, compare, & book consumer message. We are seeing very positive results from this new campaign and it is part of our two- year initiative to educate more consumers to come to TripAdvisor to plan, compare,

& book. This investment steps up again in Q3, before stepping back down in Q4, due to travel seasonality. Other segment revenue grew 210% in Q2, primarily driven by attraction and restaurant acquisition, and partially offset by currency translation headwinds and lower average order value for international travelers. Other segment adjusted EBITDA margins were negative 3% for the quarter, as we invest in growth and market share gains, as well as from high revenue seasonality in attractions and vacation rentals.

Moving to headcount, we ended Q2 with just over 3,000 employees, up 43%, driven primarily by a prior-year attraction and restaurant acquisitions. As far as taxes, our Q2 GAAP effective tax rate of 29% increased primarily due to changes in full-year forecasted geographical mix. We continue to expect our GAAP effective tax rate for the full year to be in line with our projected 2015 GAAP tax rate of 27% to 28%. We ended Q2 with 146 million fully diluted shares outstanding, and we estimate that our diluted share count would increase by less than 2% by the end of 2015, subject to our stock price movement, potential share buybacks, and new share issuances. We generated $200 million of cash from operations during the second quarter, or 49% of revenue.

CapEx for the quarter was $23 million, or 6% of revenue, driven by leasehold improvements for our new headquarters, capitalized website development, and data center expansion to support our traffic growth. This amounted to $177 million of free cash flow in Q2, or 44% of revenue. CapEx should decrease significantly as a percentage of revenue in the back half of the year, as we have now taken occupancy of our new corporate headquarters. As such, we continue to expect 2015 capital expenditures to be roughly 5% of revenue. In terms of liquidity, our cash, cash equivalents, and short-term and long-term marketable securities increased $104 million during the quarter to $746 million, driven primarily by free cash flow. We also had just over $100 million remaining under our existing share repurchase plan. We were pleased to complete a new $1-billion credit facility this past quarter and drew down on it to retire the outstanding balance of our term loan at a 25-basis-point annual savings at our current leverage ratio. Our strong financial position enabled us to continue to be opportunistic on the organic and inorganic investment front, as we pursue long-term growth. Finally, as it relates to guidance, based upon our view into international CPC pricing today, we are tempering our near-term outlook. We now expect 2015 total revenue growth to be in the low to mid-20s, and EBITDA growth in the low to mid single digits. Our guidance reflects recent business trends and foreign exchange rates as of today, and does not assume future positive or negative FX movements. As such, future changes in FX and the related effect on users and partners could positively or negatively impact our outlook. While we're incrementally cautious about the near term, I want to echo Steve's comments that we're navigating these choppy currency waters and remain laser focused on what we can control. Namely, building great products, improving the user experience, and making the necessary investments to make our global platform more valuable over the long term. Our business grew stronger in the second quarter, and we're excited about where we are headed.

We will now open the call up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mark Mahaney, RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thank you. High-level question for Steve, you talked about vacation rentals transitioning over to more of a transactions model, and I know this is a long-term trend. Overall, do you think that's what you would like to do with the business over the next three to five years, turn it much more into a transactions model, transactions business across all verticals?

Steve Kaufer - *TripAdvisor LLC - CEO*

Across all verticals outside of vacation rentals you mean?

Mark Mahaney - *RBC Capital Markets - Analyst*

Yes. I do mean that. Yes.

Steve Kaufer - *TripAdvisor LLC - CEO*

So we believe in the notion of plan, compare, & book. We know that there is a set of our customers that genuinely want to book on TripAdvisor; it's more convenient, it's easier on the phone, it's lots of reasons why that's a desirable end state. But that compare piece is really quite important to our consumers. So where a traveler has a preference for a particular supplier, has a preference for a particular OTA, has a preference for a particular booking channel, be it the phone, as in dialing a telephone number, all of that's fine with us. We want to offer that as features, offer that as capabilities, so that the meta business that we currently have, we don't expect is ever going away. In fact, offering that price comparison in the hotel space is key. So we expect the hotel space to migrate towards transaction, but where I see vacation rentals being, in the future, I would expect it to be almost all transaction-oriented. I think hotels will remain split for the foreseeable future.

In terms of restaurants, not really -- it's all transaction in terms of -- well, restaurants it's media for restaurants that we don't take reservations on. And then obviously, transaction on the reservation. And then attractions, there really isn't a marketplace that people are price shopping on. The prices are generally set. So, again, media for the attractions that aren't bookable, and we would expect it to move to transactions for ones that are bookable.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thank you, Steve.

Steve Kaufer - *TripAdvisor LLC - CEO*

Certainly. Thank you.

Operator

Lloyd Walmsley, Deutsche Bank.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thank you. So when you guys look at how people use the site, Steve, and the concentration of ad clicks or page views, is there an 80/20 rule where 80% of user paid user, perhaps on 20% of hotels, such that you really only need to get instant-book relationships with 20% of the hotels on your site to get effective coverage up to the vast majority of hotel page views for instant book? And as a follow-up, you mentioned working with 6 of the top 10. And we've seen Hyatt on the site and powering instant book. Is that someone you can confirm you're working with? Thank you

Steve Kaufer - *TripAdvisor LLC - CEO*

Certainly. So to tackle the first question, instant book, and we need all 1 million properties. Absolutely there's an 80/20 rule, and it's always been that case. The beauty of having a meta model going to a transaction model or adding a transaction model means that we have a wonderful way currently, we always have, to monetize all of the hotels that have -- that are e-commerce enabled, which is a huge percentage and certainly the vast, vast, vast majority of all the page views. So to offer my value proposition to the consumer, hey, find and compare prices, I got it, don't need to change anything. So I get to layer on Instant Booking as the transactional model where we have connectivity, where it works pricing-wise, without -- compare it to being TripAdvisor as an online travel agency just starting up, only having a limited set of inventory. We're not in that case.

We have all the inventory, so to the point of establishing direct connectivity with major hotel chains and independents, absolutely, I get to focus our sales effort on the 20% or 30% or 15% that matter the most.

We've opened up a platform so that anybody who is connected can sign up. Because we really never discriminate or preference against the small hotel in the middle of nowhere. If they are connected with an Internet booking engine to us today, awesome. They get to sign up today, and we'll send them bookings relating to the traffic we have. But the shorter answer to your great question was, yes, there's an 80/20 rule that helps us go after the right supply.

To the second half of the question, yes, you saw Hyatt as an instant book partner, and yes, I can confirm that. Hyatt is that additional hotel brand that I mentioned in my comments. And we're very excited to be bringing them live as we speak.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Congratulations on that. Just as a follow-up, we get a lot of questions from investors about the monetization impact. And is the near-term hit of learning to convert, is that a detriment versus metasearch economics? And you've said in the past sometimes it's better, sometimes it's worse. Is it safe to say that in a direct hotel relationship, as opposed to like some of the small OTAs, that the conversion lift is better enough such that it's not -- it's revenue accretive to plug in a new chain or a new independent hotel?

Steve Kaufer - *TripAdvisor LLC - CEO*

Great question. Lloyd, I wish I could be definitive in the answer. It actually does -- how do I say this? There are a lot of factors at play, so when you have a relationship with a chain, it tends to be at a more global commission rate. And some of those properties might list themselves on an OTA at a rate that the individual property tops up. That can make the CPC that a OTA player will pay us more valuable to us than the direct commission we get from the chain. When the individual property doesn't do that, then the propensity of consumers -- some consumers, to choose a supplier direct partner, plus the very reasonable commissions that we're getting from our suppliers -- from our clients, yes, it works out.

I started my answer by saying it's not quite as simple as that, because even within chains, we have -- and certainly with independents, we have different levels of content. And by that I mean room descriptions, rate plans, and I need to caveat the answer by saying, all other things being equal. Room descriptions being just as good on an OTA site as in our instant book, and the pricing being just as good and certainly the availability. So we look at the equation and say, the limiting factor on us rolling out instant book tends to be around, are we giving the consumer a great experience? Which, in turn, is related to do we have good room descriptions? Do we have good rates? Is the connectivity really working in all the cases? And how many intermediaries are there in the connectivity, namely supplier-direct relationship being the fused intermediaries in terms of us being able to match the equivalent meta CPCs.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Okay. Thank you, guys.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thank you for taking the question. Julie, you made the comments around TV ad spending picking up in Q3, and then coming back down in Q4. But just broadly about what you've seen from that advertising spending, we'd love to get a better sense of what the team is seeing in terms of brand lift, driving traffic, and maybe even changing user perceptions about what they can do on TripAdvisor, including adopting the Instant Booking product. Thank you.

Julie Bradley - *TripAdvisor LLC - CFO*

Sure. So we are definitely -- we have increased our spend in 2015, essentially doubling it from $30 million to $60 million this year. We are very excited about our new creative. I hope you've seen it, but it really seems to be resonating well with the consumer: the plan, compare, & book. We're using a survey method to determine the reason why consumers are coming to our site, and it's definitely reflecting positively on the TV channel. So we are ramping up again in Q3, as this is the largest travel season, and then we will significantly decrease that in Q4 as travel is seasonally lower.

Steve Kaufer - *TripAdvisor LLC - CEO*

And this is Steve. I'd probably add the message is all around, in the TV campaigns, is around using TripAdvisor as a booking site, which we found consumers do not always equate with a site to put your credit card in. Many consumers will refer to our old meta engine or other meta-sites as places they go to book, in part, because those are -- the other sites aren't sights that they go to to read reviews. And so our challenge all along has been we have so many travelers coming to read reviews, getting them to come back when they are ready to compare, book, and whether or not instant book is rolled out in a lot of consumer's mind, we already have that functionality. We need to drive it home, that again, it's not TripAdvisor as a review site. While we're certainly extremely proud of our heritage there, it is wonderfully a funnel; we're the plan, compare & book site. And the TV does seem to be doing that for us, as well as our on-site marketing and the messaging we are driving home to our customers.

Operator

Mike Olson, Piper Jaffray.

Mike Olson - *Piper Jaffray & Co. - Analyst*

Hey. Good afternoon. I've gotten a few questions just in the last few minutes from people here regarding the guidance. Can you talk about just maybe more of the specifics around tweaking the full-year guidance? It sounds like it's specifically related to international CPCs. Is that correct? Is there anything more you can say on that front, as far as what the moving parts are? And is there anything macro related or competitive related or how would you characterize that?

Julie Bradley - *TripAdvisor LLC - CFO*

Sure. Thank you for your question. We -- there was some FX translation, incremental headwinds that we saw this past quarter, but only about 100 to 200 basis points since our Q1 call. The real impact was around international pricing, so I think the best way to look at that is a through our supplemental metrics that we posted on our IR website. You'll see there that revenue growth by geography, it really highlights this trend. When you look at the different geographies year over year, contribution, North America represented 61% of the growth this past quarter versus 36% in Q2 of 2014. Whereas when you look at EMEA, they contributed only 24% of the growth last quarter compared to 45% last year, and APAC was 7% of the growth this past quarter versus 16% of last year. And it's even larger when you look at it sequentially; North America growth accelerated while international regions decelerated.

So we think the soft currency landscape has had some modest benefit for travelers from the stronger markets, like our US and UK market, as they've been able to increase their buying power. But the opposite is true for travelers outside the US and UK, for whom overseas travel has gotten a lot more expensive. So we believe this may explain why we continue to see strong demand our around the globe of -- in traffic, overall traffic stats globally were strong, but in Europe and Asia, we are not seeing the revenue growth due to pricing. So we're trying to be cautious and not assuming that any of these trends are going to change over the balance of the year. And that's why we felt it was prudent to lower our guidance expectations to what we're seeing today, both from a pricing standpoint and a translation standpoint.

Mike Olson - *Piper Jaffray & Co. - Analyst*

All right. Thank you very much.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thank you. Steve, I think you said one-third of your properties are now on instant book, and you gave some nice color around gating factors as you answered Lloyd's questions. So thank you there. Do you see that penetration rate generally accelerating as you remove or overcome some of those gating factors? Are you finding it increasingly easier or faster to do the integrations and to deliver that high quality consumer experience that you're targeting?

Steve Kaufer - *TripAdvisor LLC - CEO*

Sure, Brian. Thank you for the question. In terms of overall coverage, at least where IB is rolled out now, it's pretty good. You get a good -- you see instant book in most of the places that you'd want. So the 235,000 properties, it's not covering all; we have a lot more than that. We want it to be better all the rest, but that's still a pretty good number. The opportunity for us is really building a more direct supply relationship with those properties as it's currently rolled out. And we have a whole other set of challenges on the international rollout in terms of language of room descriptions and all the rest. So when we look at the ingredients to make the current rollout of IB even better, it is better rates and availability, it is getting the best, again, we call it the room descriptions, the content on each of the pages, to be as good as it can be. And, yes, we're pretty proud of the progress that we've made in the first half of this year.

The longer tail of independents, hey, they're signing up now. We are working with them, and that is a much longer process, because there's a lot of Internet booking engines that's the middlemen there, and we have to make sure the content works. We have to make sure that the pricing always works. And we've been at it for a while. They continue to grow, and if you look around on the site, it won't take you long to find quite a few independent hotels. And when we get those, and the rate and content is good, the conversion rate is something that we are pleased with.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Great. Thank you, Steve.

Steve Kaufer - *TripAdvisor LLC - CEO*

Sure.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Thank you for taking my question. FX-neutral CPC pricing continues to increase despite a tougher call. Is it more pricing improving in mobile from Instant Booking, or is it more competitive auction dynamics in desktop? I realize the US accelerated nicely, so does that have something to do with it?

Steve Kaufer - *TripAdvisor LLC - CEO*

I'm not sure I'm following the question. Could you try it again for me?

Jed Kelly - *Oppenheimer & Co. - Analyst*

It seems that CPC increased like, FX-neutral CPC increased. It's trending despite a tougher comp. Is there anything around that? Is mobile pricing improving from Instant Booking or is it more competitive auction dynamics?

Steve Kaufer - *TripAdvisor LLC - CEO*

I -- so when we look at some of our revenue growth, it is coming from US/UK markets. Those tend to be some of our stronger CPC markets, so you're probably seeing something in there. Yes, I'd say the auction is heating up. I don't want to misstate anything, so I'm trying to remember back in Q2. But you can take it as our mobile pricing over the course of the first half of the year has gotten stronger. We are seeing the nice trends there. I'm not sure it's anything, frankly, that we're doing on that subject versus consumers are getting more used to booking on their phone, and therefore, our downstream conversion rate is doing better. And therefore, our clients are naturally able to pay more for the lead. So we are riding that trend, which helps us obviously a lot as a lot of our traffic is already on the phone. And we know we lose a lot of attribution as that phone traffic makes it over and actually consummates the transaction on the desktop. I.e, the less that happens, the more we credit we actually get, the more deserved credit that we get for the booking on the phone.

In terms of the auction heating up, there hasn't been any big new players come into the auction in the last quarter. And they are bidding in various markets on various properties. We see the results, but the rationale behind it is always quite opaque to us.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Thank you.

Operator

Naved Khan, Cantor.

Naved Khan - *Cantor Fitzgerald - Analyst*

Thank you. So of the six chain -- hotel chain partners that you have signed on, can you talk a little bit about if they are taking a more gradual approach in terms of opening of their inventory? Or how are they managing the TripAdvisor channels?

Steve Kaufer - *TripAdvisor LLC - CEO*

Hi Naved. Our approach, and I think the approach taken by I think I can say all of the chains, is great. When they make the commitment to do Instant Booking, we negotiate a commission, and then, they want it all up there. And the reason you might only see a few Hyatt properties at the moment, versus their entire set has to do with a rollout strategy dictated on the technical ends of both companies that says, hey, we want it to work. We want to make sure the bookings get through. We are testing on these properties. On the phone first is what we did, and then the desktop, and then we roll it out to more properties and more geographic -- more geographies. So that's purely an execution issue. I can't think of any chain I've spoken with that once they've come in haven't wanted to be everything everywhere.

Naved Khan - *Cantor Fitzgerald - Analyst*

Okay. That's helpful. And then on the -- can you talk a little bit about how the pipeline looks for Instant Book in terms of adding on more partners?

Steve Kaufer - *TripAdvisor LLC - CEO*

Yes, so we're certainly in discussions with every partner you can imagine. I presume we're talking chains and hotel groups. I don't want to set expectations that we'll get all of the rest of the 10 in the next quarter, because some of these folks move faster than others. Obviously, Best Western and Choice move very quickly; they're in a different luxury class. Marriott was a big win for us; they cover a lot of different types of hotels, and are viewed by many as a leader in this space. So that certainly helped propel a number of discussions.

But I remind folks that we don't need 10 out of the top 10 or 20 out of the top 20 to be wonderfully successful with instant book. Unlike an OTA, if hotel brand 8 is not directly connected with us in Instant Book, I still have all of their properties through an OTA, through our own Tingo or Getaroom, or many of our other OTA partners. So we still have the ability to do an Instant Booking with those folks. The margin may not be as good to us when we go through the intermediary, but we can still offer that service, or we choose not to enable Instant Book on the property, and our consumer still has the full meta experience. So our ability to roll that out gradual certainly has helped us over time, because we were able to roll out Instant Book with only a couple of suppliers. It helps our economics to get more suppliers onboard. That's great. But we're not -- there's no requirement, and I don't want to set expectations that once we get 10 out of 10, we would roll out Instant Booking everywhere; it's not at all how I think about the equation.

Naved Khan - *Cantor Fitzgerald - Analyst*

Got it. And then one last question, if I may, for Julie. Just going back to the guidance, and I think you went into explaining how -- what are the ins and outs. But just a quick clarification, and I think you talked about how reduced buying power of some currencies is affecting growth in some of the geographies. But is that just -- does it mean people are actually not really booking as much or looking to travel as much? Or is it that they're just taking more local vacations and things of that sort?

Julie Bradley - *TripAdvisor LLC - CFO*

Yes, sure. So the -- let me just start with what we do have full visibility to, is that on the attractions side. Where we have seen -- because we see the full transaction compared to hotels where we don't necessarily know the downstream conversions. But we have seen with attractions that three quarters of a strengthening dollar has negatively impacted the average order value. So if the Europeans, for example, are going to take a trip, they pick the walking tour versus the helicopter ride. So they are being a little bit more price sensitive. What we've seen on the hotel side is a decline in pricing, and we've also been able to determine from where our consumers are coming from and the hotels that they are looking at, that they do seem to say intro Europe. So not going as far away, maybe on shorter stays. So we think the combination of what's going on in the currency has -- and just the overall climate is negatively impacting the consumers.

Naved Khan - *Cantor Fitzgerald - Analyst*

Got it. So in a nutshell, it's really the attractions business taking some hit, and then obviously, people making a choice to travel locally versus --

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Julie Bradley - *TripAdvisor LLC - CFO*

Well, yes. I think that's right. We can clearly see it on the attractions side, that they are making different choices. And we can interpret that the same thing is happening on the hotel side. So I think we have two things at play. We have increased FX translation headwinds, and then this potential impact on the consumers and their choices that are making.

Naved Khan - *Cantor Fitzgerald - Analyst*

Great. Thank you a lot.

Operator

Chris Merwin, Barclays.

Chris Merwin - *Barclays Capital - Analyst*

Great, thank you. So at this point, is Instant Book rolled out to the majority of domestic desktop users? And how should we think about the timeline of the international rollout? And then just secondly, the subscription transaction and other segment continues to grow as a percentage of your total revenue. So would you be able to just to give us some sense of the relative growth and profitability of the three main businesses in that segment? Thank you.

Steve Kaufer - *TripAdvisor LLC - CEO*

Sure. So in -- I believe it was in Q2, we had increased our rollout of IB on desktop. We don't disclose specific percentages, but if you bounce around, you'll see it quite often. It is fully rolled out. There might be a couple of percentage hold back on the phone, and all that is for US traffic. We don't have set, and we wouldn't disclose if we did, the specific timeframe for rolling it out on international. There is a big chunk of work to do to get that first country -- the first non-English country out. Because, as I say, the whole booking flow has to be tailored to specific language, and that's a lot of content that has to change.

To your second question, decomposing the profitability of our other segment business, I'm sorry, but that's just not something that we go into.

Julie Bradley - *TripAdvisor LLC - CFO*

Yes. And just -- I would add that in this quarter, we are lapping the acquisition of Lafourchette past quarter, and in Q3, we'll lap the acquisition of Viator. So in Q4, you're going to start to see the normalized growth rate from a year-over-year perspective.

Steve Kaufer - *TripAdvisor LLC - CEO*

One of the things we do in that other segment is we had tried to help folks get a view into the amount that we are investing in the non-hotel business. And we don't break it out in detail, but you can see that we're not trying to maximize profit there. We are looking to grow. We think the opportunity over the next several years in attractions is huge, in restaurants is huge, in vacation rentals, huge. There is existence proof for two out of those three. And in China, which is our other huge opportunity, we still put into the hotel category. And so, hey, we have indicated we operate China at a loss, and that's still tucked into the other piece even though it's an investment vehicle for us.

Chris Merwin - *Barclays Capital - Analyst*

Thank you.

Operator

Anthony DiClemente, Nomura.

Unidentified Participant - - *Analyst*

Hi, guys. This is Kevin for Anthony. Just a quick question on Instant Booking. When a large hotel operator moves to Instant Book, how does it impact their click-based spend? Is it just binary all or nothing of spend or is it more of a -- like gradual transition.

Steve Kaufer - *TripAdvisor LLC - CEO*

Thank you, Kevin. Interesting question. To my knowledge, I don't think when an Instant Book client goes live, I don't think it affects their CPC spend at all. I don't think they look at it that way, frankly. So I'm not surprised by that as a result. The hotel chain or the independent looks at TripAdvisor and says there's a lot of traffic in there. Awesome. How can I maximize the traffic I get through all available means? And for a chain, one answer is, well, I'm going to buy a business listing because some percent of the folks really want to click on the link and come over direct to my website to explore more. Some want to call the phone number; that's part of what the business listing offers. Subscription fee, and other folks say, hey, they don't want to try that book on TripAdvisor thing. They just want to click on the meta-link, like I've been doing for the past umpteen years, so they keep that by there. And then the ones that are connected get to go for the Instant Booking.

So we talk to the hotels, and I think they look at it as three bites at the traveler. And they are able to maximize the number of bookings they're getting, in their mind, directly from TripAdvisor, and that's a good thing. I don't -- and I think if you put yourself in the shoes of a hotelier, that makes sense. Because they are measuring each of these channels independently, and they're all profitable for them. So why not go for as much as you can get?

Unidentified Participant - - *Analyst*

Great. Thank you.

Steve Kaufer - *TripAdvisor LLC - CEO*

Sure thing.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Great. Thank you. Steve, Julie, wondering if you can help a little bit more on this guidance question, because understand that you guys are focusing it on international CPCs. But in the most recent data that we've seen, ADRs internationally have actually been particularly strong, some of the strongest that we've seen in years. Is that simply a function of this being backward-looking and you're seeing something change materially from June in terms of the strength of pricing? Or is there something else beyond ADRs that are impacting that, particularly if it's monetization -- a difference in monetization on the Instant Book side?

Julie Bradley - *TripAdvisor LLC - CFO*

Sure. Hi Heath. Thank you for the question. First, we are looking at that data as well, the reports that are coming out. One thing that I would call out to you is that the June data is not out yet. So we're able to take advantage of seeing the first 23 days of July and all of June to come to our conclusion on how we forecast pricing trends for the balance of the year.

And the other piece of it is what I had mentioned before, and more specifically, of what we've seen as of late in attractions, because we do get to see the complete funnel with attractions. Is there is clearly a change in consumer behavior where they are booking lower value towards their attractions. And then, in our own traffic log files, we are able to see that the European consumer, in particular, they are still traveling, but they are traveling intro Europe or having shorter stays. I think part of the ADR question, as well is the US is traveling and the stronger currencies are taking advantage of the lower currency areas. But the rest of world, by our numbers, from both the revenue that we saw in Q2 and the data trends, it's into July, make us cautious for the balance of the year.

Heath Terry - *Goldman Sachs - Analyst*

Great. Thank you, Julie.

Julie Bradley - *TripAdvisor LLC - CFO*

Thank you.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Company - Analyst*

Hi. Thanks a lot. Can you give us any color on your own marketing budget, looking into the second half? You've really been growing it nicely, even excluding television and the acquisitions. Thank you.

Julie Bradley - *TripAdvisor LLC - CFO*

Sure. So I'll just take some of the -- it is up year over year and also sequentially. A big part of that is the timing of our TV spend that was not in line with -- and the doubling of it from prior year. I will also add that looking at the year-over-year basis, if you can exclude the increase of TV, and also normalize that we did not own Viator in the second quarter, it remains relatively constant as a percentage of revenue. So that's the math. I think our focus is that we believe in these investments that we are making for the long term. And that they're really important for the overall growth of the business, so we are holding pat on our investment strategy.

Kevin Kopelman - *Cowen and Company - Analyst*

Thank you.

Operator

Nat Schindler, Bank of America.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Yes. Hi, guys. Julie, just clarification. Hotel revenue is click-based plus displayed plus business listings. Correct?

Julie Bradley - *TripAdvisor LLC - CFO*

Yes. That's the majority of it. I'd actually flip it the other way. If you look at all the businesses that we are in, everything except for vacation rentals, restaurants, and attractions is included in hotel, and those three businesses are included in other.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Okay. Then if I look at the subscription and other line, that would imply with $62 million coming from vacation rentals, Lafourchette, Viator, and the other things, then business listings would've been down sequentially for the first time. Is this just currency?

Steve Kaufer - *TripAdvisor LLC - CEO*

I think -- this is Steve, I think currency plays a role. I think we have a great product that is still underpenetrated in the market. We have a lot of different opportunities by way of pricing, by way of new vehicles in which to push the product out. We have quite a few plans going forward to -- how do I phrase this? That deepen our relationship with the individual hotelier, that is not just based around Instant Booking, but all the different ways that they can take advantage of our TripAdvisor traffic. So the growth wasn't quite what we had expected in our subscription biz this particular quarter, but I'd view it more as a -- just a bump along the road or something that is part of our overall plans for the biz.

Julie Bradley - *TripAdvisor LLC - CFO*

Nat, just on the math, business listings did grow year over year and did grow sequentially. So there's other businesses, as I mentioned, that are in there. But business listing grew year over year, and Q over Q.

Steve Kaufer - *TripAdvisor LLC - CEO*

Yes. My answer was the growth had slowed.

Julie Bradley - *TripAdvisor LLC - CFO*

It has slowed but it's still growing.

Steve Kaufer - *TripAdvisor LLC - CEO*

Hey. I view the opportunity as -- I won't say accelerated necessarily, but continue on a robust growth path for quite some time.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Great. Thank you.

Operator

Rodney Hull, SunTrust.

Rodney Hull - *SunTrust Robinson Humphrey - Analyst*

Yes. Hey, great. Thank you for taking my question, and I apologize if some of this was covered earlier. But I just wanted to touch on when a brand converts to IB, is there any transition in terms of the data that gets shared between when it does a CVC booking and it goes to its own site versus doing on Instant Booking on TripAdvisor? And then, separately, when you guys do convert brands, and there's more of a branding effort now as you experiment with the ways of Instant Booking profiles gets listed on the page. Have you seen any lift that you can talk to in terms of when, say, Marriott is included in that button versus just the generic button in terms of getting conversion done? Thank you.

Steve Kaufer - *TripAdvisor LLC - CEO*

So the second part of the question first. We don't have Marriott live on the site yet, so I can't give you the answer that I am dying to figure out. So we have been playing around with the brands that we have. And, as we've known all along, there is some -- enough consumers have a preference for seeing the supplier-direct brand compared to the lesser-known OTA brand like a Tingo in the booking path. So we continue to be excited about presenting that in a better way. We understand that most of the brands want to see their brand played up higher on TripAdvisor, and we are in complete agreement with that to help the consumer get what they're looking for. And I'm sorry, the first part of your question was?

Rodney Hull - *SunTrust Robinson Humphrey - Analyst*

The first part was related to the data share that comes with an Instant Booking. Is it any different than what they would've received otherwise? Are you not sharing any data with them? Just want to better understand that relationship there in terms of what the hotel can do with that booking.

Steve Kaufer - *TripAdvisor LLC - CEO*

The hotel, in both cases, the hotel gets all the same information. They're getting the consumer name, what the hotel is, the booking rates, everything, the email, they get it all. It actually -- in other words, everything we collect in the booking path when -- for Instant Booking, we are sending off to the hotel. It's actually -- we get more information during Instant Book than when we send off a meta-click. Because when someone does an Instant Booking, now I know who they are. I have a new member with an email address, if they weren't already a member. Whereas with a click, an awful lot of our clicks in the meta-model, they're not already members, they click off and really all I know about them is that this IP address or this computer looked at this hotel, and I have no way to message them. Particularly nice on the phone and on the desktop.

And as we build up our brand as a place to come back to book, well, now I'm building up a customer base that is used to booking on TripAdvisor. And when we look at on the phone, where we've been out for a bit longer, not surprising, we are seeing more and more repeat bookings coming from users that not only did they book once in Instant Book on the phone, they booked a second time and a third time. And of course, that's what you would see with an e-commerce site and we are seeing it as well.

Operator

At this time, I'd like to turn the call back over to Steve Kaufer for closing remarks.

Steve Kaufer - *TripAdvisor LLC - CEO*

Great. Thank you very much. I really want to say thank you to all the employees throughout all the entire TripAdvisor Inc. family of companies. Your continued hard work to help build a bigger and better business is much appreciated. And to everyone, I look forward to updating you all on our next quarter. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference. You may now disconnect. Good day.
