THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRIP - Q4 2014 TripAdvisor Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2015 / 9:30PM GMT

THOMSON REUTERS

CORPORATE PARTICIPANTS

Will Lyons *TripAdvisor Inc. - Senior Director of IR*

Steve Kaufer *TripAdvisor Inc. - CEO*

Julie Bradley *TripAdvisor Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Lloyd Walmsley *Deutsche Bank - Analyst*

Mark Mahaney *RBC Capital Markets - Analyst*

Ken Sena *Evercore ISI - Analyst*

Mike Olson *Piper Jaffray & Co. - Analyst*

Manish Hemrajani *Oppenheimer & Co. - Analyst*

Rodney Hull *SunTrust Robinson Humphrey - Analyst*

Tom White *Macquarie Research - Analyst*

Douglas Anmuth *JPMorgan - Analyst*

PRESENTATION

Operator

Good afternoon, and welcome to TripAdvisor's fourth quarter 2014 earnings conference call. As a reminder, today's 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 Inc. - Senior Director of IR*

Thanks, Eric. Good afternoon, everyone, and welcome to TripAdvisor's fourth quarter and year-end 2014 earnings conference call. Joining me today are Steve Kaufer, our CEO; and Julie Bradley, our CFO.

We distributed our earnings release through our Investor Relations website located at ir.TripAdvisor.com. In it, you will find reconciliations of the non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call. On our Investor Relations website we have also posted supplemental financial information including non-GAAP financial measures.

Before we begin, I'd like to remind you that estimates and other forward-looking statements included in this call represent the Company's view as of today February 11, 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 references to selling and marketing expense, general and administrative expense, technology and content expense, and total expenses are non-GAAP measures as defined in our earnings release, and all comparisons on this call will be against our results for the comparable period of 2013. And now I'll turn the call over to Steve.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Thank you, Will, and welcome, everyone. 2014 was a strong year for TripAdvisor. We saw great user growth and engagement around the world, especially on mobile devices, and we made nice progress on our various growth initiatives. Total revenue grew 35% for the fourth quarter and 32% for the year to more than $1.2 billion. Click-based advertising revenue grew 25% for both the quarter and the year.

Adjusted EBITDA was $98 million for the quarter and $468 million for the year, up 88% and 23%, respectively.

Most importantly, 2014 began the next chapter for TripAdvisor, enabling users to plan, compare, and book in three of our largest demand categories, hotels, attractions and restaurants. Our mission is to help travelers plan and book the perfect trip and we are investing in a number of initiatives that position us for long-term growth.

Starting this quarter, we will talk about our business in two distinct segments, hotel and other. Our hotel segment encompasses click, display, subscription, and transaction-based revenue from hotels, air, cruise including our largest subsidiary, SmarterTravel, as well as our operations in China. Our other segment consists of attractions, restaurants, and vacation rentals, each of which are at earlier stages of growth. Julie will cover this in her financial commentary.

With that in mind, I'll update you on our progress in the context of what we plan to do over the next two years, and then I'll outline our objectives for the three- to five-year time frame. 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.

In terms of community, according to Google Analytics, TripAdvisor had more than 2.5 billion unique users in 2014, up approximately 25%. Needless to say, we're excited by our continued traffic growth, especially at our size. And our community continues to engage and contribute more content. We eclipsed 200 million reviews and opinions, we're growing content at more than 125 contributions per minute in 28 different languages, and we nearly tripled non-English content over the past two years.

Our clients are also engaging with us in more ways with approximately 25% of registered property owners responding to a user review in 2014. And more and more independent owners, as well as big hotel chains, are using TripAdvisor tools to make review collection a systematic part of their post-stay communications.

With more than 1.6 million listings of places to stay including 915,000 hotels and 650,000 vacation rentals, as well as 2.4 million restaurants and 500,000 attractions, TripAdvisor remains the preeminent brand in travel and leisure. Content and community are the lifeblood of our brand and in 2015 we plan to continue to aggressively grow these assets.

Our engaged audience has a very high purchase intent and we are making the TripAdvisor platform more valuable for users and advertisers. Consider that in a recent comScore study over 40% of online hotel bookers in nine of our top markets visited TripAdvisor at some point prior to booking. Through Instant Booking, we aim to monetize a greater percentage of these transactions by becoming a convenient place to compare prices and then book. Just this week we rolled out Instant Booking to more US desktop and tablet users and launched the feature to a small percentage of UK phone users.

On the partner side, we've been making nice progress, as well, as we recently signed top hotel brands Accor and Carlson. We've signed 43 partners in total, 12 that are live and are powering bookings, and 31 that are being implemented. In Q4, we launched an Instant Booking beta on TripConnect giving independent hoteliers direct access to TripAdvisor's global hotel demand. Early results have been positive and some partners have noted that Instant Booking has quickly become one of their most effective marketing channels.

Complementing our Instant Booking initiative, we recently added a plan-compare-and-book message to our online and offline channels. This includes TV, an area where we plan to double our investment in 2015 to approximately $60 million. We see television as an important way to get our new plan-compare-book message out to our global audience.

We have other partner initiatives that have made nice progress during 2014. First, we have improved our ability to demonstrate a strong ROI for partners through business listings. We now have more than 81,000 subscribers and have aligned pricing to more directly track to the booking value that a partner sees on our platform. Moving forward, we see business listings playing into a more holistic hotel-client relationship. This evolving relationship over the next couple of years will likely include products built on top of our data management platform, which is driving scalable real-time insight so that partners can deliver the right message to the right user at just the right time.

We're already seeing great early benefits in our display business where we have maintained high CPMs across more than 2,000 advertisers in all major travel categories. We also can leverage these insights into our personalization and mobile monetization initiatives.

Finally, in mobile, we continue to expand our lead in terms of adoption and engagement on these devices. Nearly 50% of users visited TripAdvisor via tablet and phone in 2014 and our apps have been downloaded nearly 175 million times. This includes more than 155 million downloads of our top-ranked TripAdvisor app, which has been growing organically at triple-digit rates for the last six quarters. We have achieved small but steady monetization improvements on the phone over the past couple of years. We believe Instant Booking can be a game changer here.

Next let's talk about our strategy over the three- to five-year time frame. While our past, present and future remain deeply rooted in the hotel category, over the next three to five years we want to help more users find and book attractions, restaurants and vacation rentals and establish our leadership position in these categories. In attractions, Viator announced it will soon augment its curated model with an open marketplace. This will allow Viator to rapidly grow its product portfolio, giving users better choice and driving higher conversion to bookings. We're very pleased with our integration, and since closing the deal in August, we've more than doubled Viator's bookings from the TripAdvisor platform.

In restaurants, we've been very busy since we announced our La Fourchette acquisition in May. We acquired three more businesses in Q4, MyTable and Restopolis in Italy and IENS in the Netherlands. In addition to these markets, TripAdvisor's bookable restaurant inventory now spans France, Spain, Switzerland, Belgium, Turkey, Sweden, and Denmark reinforcing our leadership position in Europe. We rebranded our restaurant platform as TheFork and we're sending four times as many restaurant bookings from TripAdvisor. Over the next three to five years, we are investing to significantly expand TheFork's reach within new and existing markets.

In vacation rentals, we continue to successfully scale our free to list transaction model. In 2014, we drove more inventory, more traveler inquiries, more bookings, and strong revenue growth. At the end of Q4, we had more than 650,000 vacation rental listings driven by 73% listings growth in our free to list business.

Free to list bookings grew 130% in Q4 and more than 280% for the full year, and we see this becoming more than 50% of our vacation rentals revenue rental in 2015. Over the next three years, we're focused on listings growth, owner engagement, user awareness, and product enhancements to drive higher customer satisfaction and more transactions on our platform.

Finally, let me briefly touch upon some of our other long-term objectives. As the world's largest travel site, we gather information about traveler preferences and activities at phenomenally large scale. It's hard to predict all of the possibilities that this scale presents, but we want to make sure that we're always exploring what the next generation of travel planning features, products, and services might be, and how our scale can deliver benefits that nobody else can even dream of.

Personalization is one such feature. Currently, we are personalizing millions of hotel shopper sessions per week and users are engaging, clicking more, and contributing more revenue per session. The beauty of this feature is not just the design and code that created it but rather the machine learning that takes place over a multi-year timeframe driving a better set of travel advice and answers for every subsequent user. Over time we want to be every user's personal travel guide, whether someone is looking for a place to stay, a place to eat, or something to do while on their trip. Today we are only scratching the surface of what's possible.

Another long-term initiative is becoming a top player in China. As the largest market for outbound travel expenditures, China is a huge opportunity for everyone. What differentiates TripAdvisor in this incredibly competitive market is that we bring the full range of travel content for your entire trip, not just a place to stay. During this past year, we broadened our suite of travel products tailor-made for Chinese travelers and have seen a growing demand for our international content. It is still very early days when it comes to tapping into the outbound Chinese traveler market which is why our China business remains squarely in investment mode.

As you have just heard, 2014 was a year of great progress along our major initiatives and we're at the early stages of many large and exciting growth opportunities. This month celebrates our 15-year-anniversary and I can tell you that there's never been a more exciting time for TripAdvisor. We continue to operate a massive and growing business at speed, staying focused on what's best for users, what's best for partners, and what's best for our business over the long term.

Before I conclude, a reminder again about our investment philosophy as we pursue our growth plans. At $1.3 trillion in travel bookings, the global online travel market is large, lucrative and increasingly competitive. We prioritize top line growth, market share gains, and EBITDA dollar growth and we will continue to reinvest profit when we see large opportunities in front of us.

Finally, I want to thank all TripAdvisor employees around the globe. Your hard work delivered these great results and you remain our largest asset as we build a bigger and better business. It was a great 2014 and I'm excited about where we are headed. I'll now turn the call over to Julie.

Julie Bradley - *TripAdvisor Inc. - CFO*

Thank you, Steve, and good afternoon, everyone. We had a great quarter and year. Fourth quarter total revenue was up 35%, and 39% on a constant currency basis, driven by our large and growing click-based business, as well as a full quarter contribution from La Fourchette and Viator.

Q4 click-based revenue grew 25%, or 30% on a constant currency basis, driven by 23% hotel shopper growth and solid CPC pricing for our high value leads. Full-year click-based revenue growth of 25% was driven by 17% hotel shopper growth and an easing pricing comparison due to our 2013 meta-search transition.

Revenue per hotel shopper growth was positive 3% for the fourth quarter and positive 7% for the full year, a nice recovery from our negative 9% and negative 13% results in the comparable period last year. As Steve noted, we continue to lead on mobile and I'll add that just over two-thirds of our traffic growth came on the phone, which monetizes at a lower rate than desktop and tablet and continues to be a headwind.

Display-based revenue growth finished 2014 on a very solid note growing 13% in the fourth quarter despite a tougher comp. Full year 2014 display revenue grew 18%, fueled by more page views, a shift in our client mix to a more attractive always-on spend cadence, and bolstered by our ad tech improvements that have increased marketers' ability to target. We maintained our premium position in the travel ad marketplace and our 2014 performance compares very favorably to the declines posted by many other CPM-based businesses.

Subscription, transaction and other revenue grew 97% for the quarter and 82% for the year. In addition to a full quarter contribution from La Fourchette and Viator, the primary drivers were value-based pricing and business listings and increased traffic, inventory, and transactions in attractions, restaurants, and vacation rentals.

Specific to geographic mix, our US and UK markets remain strong and we continue to see a gradual shift in a mix towards international markets. Most recently, we've seen a nice return to growth in LatAm, where we've made progress working with large regional OTAs in that market.

International revenue or revenue through sites other than dot-com increased slightly as a percentage of total growth based on hotel shopper and CPC growth globally, as well as strong performance of our display and business listings products overseas. As a result, Q4 adjusted EBITDA was $98 million, up 88%, or 98% on a constant currency basis, versus negative 19% in the year ago quarter. This was primarily due to the high concentration of television advertising in Q4 2013.

Adjusted EBITDA margin was 34% for the quarter and deleveraged 2 percentage points to 38% for the full year, primarily due to ongoing investments to gain market share in our attraction and restaurant businesses, which are operating at earlier stages of their growth cycle.

Steve mentioned our new segment breakout, which we believe provides us and investors with better information to assess overall business performance. We have provided historical revenue and adjusted EBITDA for each segment in our Q4 earnings press release. Hotel segment revenue growth accelerated to 26% with very solid 42% adjusted EBITDA margins for the full year.

Our other reportable segment consists of attractions, restaurants and vacation rentals. These businesses are all in investment mode. Other segment revenue grew 141% in 2014 driven by continued strong growth in vacation rentals and our La Fourchette and Viator acquisitions. Adjusted EBITDA for this segment was negative 4% as we absorbed our attraction and restaurant businesses cost structures and began to fund international expansion in top line growth initiatives in these categories. We believe we are striking an appropriate balance between growth and profitability today, and believe that we could start to see adjusted EBITDA margin improvements in this segment as these businesses achieve global scale.

Moving onto headcount, we ended the year with nearly 2,800 employees, up 38%, driven by acquisitions and our investments in attracting and retaining top-tier talent to pursue our growth initiatives. Our full-year 2014 GAAP effective tax rate was nearly 30%, which was higher than our annual expectation due to certain discrete items. Our projected 2015 GAAP tax rate is 27% to 28% and is dependent on jurisdictional revenue and expense mix among other factors. We ended 2014 with 146 million diluted shares outstanding and we estimate that our diluted share count will increase roughly 1% to 2% by the end of 2015 subject to stock price movement, potential share buybacks, and new share issuances.

CapEx for the quarter was $26 million, or 9% of revenue. Full-year CapEx was $81 million, or 7% of revenue. Capitalized engineering salaries represented roughly half of our full-year CapEx, while the remainder was driven by leasehold improvements to support our global growth and to a lesser degree data center expansion to support our traffic growth. In 2015, we expect capital expenditures to be roughly 5% of revenue.

In terms of cash flow, we generated approximately $62 million of cash from operations during the fourth quarter, and $387 million for the full year or 31% of revenue. The fourth quarter exhibited typical seasonality from our transaction businesses, vacation rentals, Viator, TINGO and Jetsetter in which stays are incurred and tickets are used more in the third quarter summer travel season, as opposed to the fourth quarter. We delivered $306 million of free cash flow this year or 25% of revenue.

From a liquidity standpoint, our cash, cash equivalents, and short-term and long-term marketable securities decreased $76 million during the year to $594 million, driven primarily by free cash flow offset by the $331 million that we allocated for acquisitions net of cash acquired. We entered 2015 with just over $100 million remaining under our existing share repurchase plan, outstanding borrowings from our term loan of $300 million, as well as an undrawn credit facility of $200 million.

With that, let me provide our thoughts for 2015, a year in which we will continue to invest and build our platform to better serve more users and more partners. Note that we have changed how we provide guidance in light of the additional segment disclosure. We expect full-year total revenue growth in the high-twenties based on continued broad growth across our product set including a full-year benefit from our attractions and restaurant acquisitions, offset by lapping the benefits from our meta-search transition, the ongoing shift of our traffic to mobile and international, as well as the negative impact of foreign currency fluctuations.

We will not be providing our traditional product guidance moving forward. Our move towards more holistic partner relationships may eventually include solution selling and bundling of our CPC Instant Booking display and business listings potentially causing the lines between those products to blur. This potential evolution would make it difficult to provide a specific outlook for our traditional product breakouts.

On the expense side, we are expecting slight deleverage on the cost of sales line from our Viator acquisition. We expect sales and marketing expense to delever as a percentage of revenue due to increased investment in our television ad campaign, as well as international expansion in our attraction and restaurant businesses. As our segment disclosure implies, other segment revenue is growing well in excess of enterprise revenue growth rates and we're trading off near-term profits for top line growth and market share gains in those categories.

Rolling it up, we expect 2015 EBITDA growth in the low to mid-teens. Using 2014 exchange rates, our total revenue and adjusted EBITDA growth expectations would have been approximately 3- and 5-percentage-points higher, respectively. Finally, we expect stock-based compensation, as well as depreciation and amortization, to be roughly in line with 2014 levels, or approximately 5% of revenue.

In summary, Q4 was a great end to a strong year. We expanded TripAdvisor's reach within travel planning and trip taking in pursuit of our goal to make the TripAdvisor platform even more valuable for users and advertising partners alike. We will now open the call up to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Lloyd Walmsley from Deutsche Bank.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks, guys. Two if I may, first, when we look at the footprint of the hotels that have an Instant Book option when you are within a slice of traffic that's in fact exposed to it, it looks like a pretty good penetration already, largely driven by what looked like small OTAs.

Curious if you can just give us some color on some of the reasons why you been expanding that slice of traffic exposed to this so slowly, and maybe is this an issue with just making sure customers are happy? Is it a monetization issue? Some color on that would be great. And then, as a follow-up to that, you've talked a lot about the fact that TripAdvisor's driving a lot of bookings that your OTA customers may not give you full credit for when they measure ROI, and this is something Instant Book, a gap that can be closed through better attribution.

Wondering if you can just kind of give us some color on how you think you are plugging that leakage in the early tests of Instant Book? And then, even if economics today may not be as good as they could be long term with more OTA participation does that matter if you're plugging such a big hole and leakage?

Steve Kaufer - *TripAdvisor Inc. - CEO*

Very good, thanks, Lloyd, for the two questions. I think I jotted them down well enough. So you're right, we have a pretty good footprint when we look at US traveler demand via our partnerships with several OTAs. There are a couple caveats on the overall rollout. We always look at a bunch of different factors, is the pricing as good or better than what the other meta-options are, where the Instant Book is placed on the screen, the OTA partners themselves, how well they are able to fulfill the transaction, and then finally, the margin.

When we look at the current rollout, and you've actually just increased the rollout this week in the US, we think of it as a steady march forward. We've got a lot that we need to get right because we are fundamentally responsible for a chunk of this transaction now as opposed to just the meta-lead. So as we move forward, we want more suppliers. We're looking for a broader set of OTA adoption if we can get it, but in general there wasn't a strict rollout plan but we are pleased with how it's been moving.

In terms of the plugging the leak notion, one of the things we're able to do with this level of rollout is measure the repeat visit effect of the folks who are seeing Instant Booking versus the folks who currently only see meta, on desktop in particular. And in that case, what we've seen is a modest uptick in how folks are coming back directly to TripAdvisor because of that Instant Booking interaction.

It's modest at this point, we're looking at all different ways that we are able to both improve the conversion of Instant Book, as well as reinforce the message that TripAdvisor is a great place, not only to research your stay, but to really come back, make sure you're getting the best price, and then finish the booking.

So some of that is messaging and that just takes time. Some of that is the actual Instant Book rollout itself, the product feature. But all of it focuses around, where the question came from which is that effort on our part that started last year and will take place this year and beyond to plug the leak and just get fair credit for all the transactions that we're driving but get lost in the online attribution shuffle.

Operator

Mark Mahaney from RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thanks, two quick questions. In terms of building out your presence in attractions and restaurants, that three- to five-year, do you have to build out more of a sales force in order to do that? You've done a couple of acquisitions in the restaurant space. Do you need to do, or are there interesting kind of shortcut acquisitions that could be done to go after the attractions opportunity? I'll just leave it at that, thank you.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Sure, Mark, good questions. So we do have good size sales forces with the Viator acquisition, La Fourchette, and the companies that we've acquired since. So you can tell, specifically in restaurants that we're not shy about acquiring supply and in some cases supply plus demand in newer markets. We have a long history of acquisitions in a lot of different categories, restaurants and attractions have no reason to be exceptions.

But you've also noted that from my remarks we're expanding in Turkey, in Sweden, in Denmark, in Belgium, and those aren't through acquisitions, those are through organic growth. And it's not that there aren't potentially companies to be acquired, but with each country we make a decision, we look forward and we say there's a trade-off of integration versus organic growth.

We're serious about the space. We're building out the restaurants specific sales force, that's not shared with attractions or hotels because they are calling on different customers, but it is getting to be a decent size and certainly continues to grow. Attractions, we bought the clear market leader, biggest, most global player in the space today, as near as we can tell far and away bigger than the competitive set. That's not to say we'd be ruling out other acquisitions for additional supply and/or demand in various markets.

As I said with restaurants, we have a history of doing that, but in no way shape or form should anyone view it as a requirement for our successful -- for us being successful in restaurants because, frankly, we look at the TripAdvisor points of sale in each country and say, in so many parts of the world we're already where travelers are going to figure out what they want to do when they get there.

And so now it's just a question of plugging in Viator's curated product and going forward Viator's marketplace product which will dramatically expand the number of products online matching it to the demand that TripAdvisor already has, and so country by country we pick up supply in both restaurants and attractions.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thanks.

Operator

Ken Sena of Evercore ISI.

Ken Sena - *Evercore ISI - Analyst*

Hi, thank you. I was wondering if you could just talk maybe a little bit more about the role of maps in all this and how attractions come together with restaurants and just where you feel you your positioning is there? And then, maybe also if you could just, you mentioned better seller return, but I was wondering if you could maybe quantify that a little bit for us in terms of possibly seller ROI, and maybe any updates on pricing for Instant Book? Thank you.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Okay. Just jotting notes here. So maps positioning, sure, we have maps carefully integrated into our app. You can look at restaurants that are near you on a map, on the desktop, on mobile, certainly a lot across platform. We note that on various phone devices there doesn't seem to be, or at least no one else is reporting a lot of traffic coming from integration with maps.

We find the user behavior of, I am looking for a nearby restaurant, I'm looking for a nearby hotel, I'm looking for something to do, you go straight to the traveler lifestyle apps that you are looking for and then ask for something near where you are because all of the apps in our vertical have high-quality, near me now functionality. So I don't really think of it as, if the question was along the lines of, hey, and on a Google or an Apple map is that going to be the starting point for finding me a great place to eat.

I think that's a pretty far shift for the consumer to make versus starting with a restaurant app or a travel app or something tailored for that purchase. In terms of better selling ROI, if this is in reference to business listings, what we've been moving on quite aggressively in 2014, especially the back half, has been better explaining the return on investment that we've been able to quantify for quite a large number of hotel chains and independents.

And by this I mean we count the number of clicks, we count the number of phone calls that shows travelers going from our website directly to the hotel's website, and then where we are able to, we measure the actual transactions that happen. And then we walk it backwards and say what's the return on investment for a business listing subscription. We model it where we don't have exact tracking, but the modeling frequently comes out at a 5 to 1 return, a 10 to 1 return, or a 20 to 1 return on this investment.

What we've tried to do in our pricing is align the pricing to where that return is, so that it's not under priced, it's not overpriced, but it's a fair deal. It's a good deal for every hotelier that's looking to capture some of the demand that's sitting on TripAdvisor today. And that's in part some of our upticks in our TripAdvisor for business, and business listings product is finding the better price that matches value delivered. And the final point, Instant Book pricing, it's a commission model, as you are aware, as we've rolled it out to independent properties in that TripConnect data there have been two price points offered, a 12% commission and the 15% commission.

We have properties, not surprisingly, that are taking us up on both of those. The higher commission, it's a little odd to say, well, pick your commission, but when a hotelier picks a higher commission, we guarantee that they will be shown more frequently than anyone else in the Instant Book auction. So hoteliers looking to take control of their own demand, looking to drive more bookings directly through themselves find that quite an attractive offering. And, again, it's in beta, it's just coming out now, it's rolling out slowly. We've got a lot of opportunities to scale globally, but we're taking it with a measured approach to make sure it works for all of the hoteliers that are signing up.

Ken Sena - *Evercore ISI - Analyst*

Great, thank you.

Operator

Mike Olson from Piper Jaffrey.

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

Hey, good afternoon. Another one on Instant Book here. So you've got all these 40-plus partners for Instant Book, so there are clearly many that see it as positive, or a positive ROI proposition, but for those that aren't using it, what's the biggest pushback that you get? Is it that partners are concerned about missing the branding event of a traveler actually booking on their site or is there something else? Thanks.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Sure. So first off, I'd urge you think about the vast, vast majority of the properties on TripAdvisor are independents and they don't even know Instant Booking exists because is not yet available for them to connect to. So tapping into that big marketplace is a fantastic opportunity that is still ahead of us that we're still in beta in, that's the independents.

The chains look at it as, obviously, there's more than a handful that have said, sounds good, sign me up, and in implementation phase. I'd say we're in interesting discussions with every chain that we have spoken with, so there's perhaps hesitation on timing, there's perhaps question marks on where this fits in the hotel's priority list, and then there's a discussion on commission.

So every hotel would naturally prefer to take a booking directly on their own website, but we present a wonderful balance between, we have a tremendous amount of traffic, that traffic is going to be on TripAdvisor and grow on TripAdvisor, we hope for the foreseeable future, folks looking to figure out where they want to stay that aren't yet brand loyal.

And our offering to the chains is help take this booking directly through our Instant Book in an affordable manner and use the hotel chain now have the opportunity to woo that independent traveler to become a brand loyal traveler. I wouldn't say, as I said before, it hasn't gone as quickly as we had initially hoped, but I find the conversations with the hotel chains productive, positive, and each time we're chatting on quarterly calls, we have more that we have signed up.

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

Thank you.

Operator

Manish Hemrajani from Oppenheimer.

Manish Hemrajani - *Oppenheimer & Co. - Analyst*

Yes, thanks for taking my call. Can you talk about the sales cycle, if I may call it that, to get a hotel, be it a large chain or independent onboard the Instant Book platform? And has that elongated or shortened? Also, can you highlight maybe three things that hotels are really looking for from the Instant Book platform, and maybe if those were addressed onboarding would be faster? Thanks.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Sure. So the sales cycle has been certainly longer than we had hoped, but the hotels have -- hotel chains have an awful lot on their plate these days. When we look at what it actually takes, it's a contact, it's a sales pitch, it's a commission negotiation, and then it's into the development queue which each company treats quite differently, a testing process and a rollout.

As we say, the number of signed partners is greater than the number of live partners, those folks are all in various points in implementation. I can't point to any specific item other than a commission conversation that is a blocker in our discussions with the hotel chains. But every hotel chain, rightfully so, is looking to address their overall distribution costs. TripAdvisor comes in and can be an effective way to grow their direct bookings, but it's still a distribution cost that hotel chains need to fully understand.

There's a piece of the sales cycle that we recognize that we perhaps didn't fully appreciate a year ago. We're not an OTA and we're not pure media with our Instant Book. We're not an OTA because we're not taking the booking, we're not charging the credit card, we're not providing the support. But we're not pure media because, well, actually the consumer is doing the booking while they are still on a TripAdvisor page and we're sending all the consumer information direct to the hotel so that they are charging the credit card, they are providing the support.

So it's a model that they haven't seen before, and there's a bit of, well, how do we, the hotel chain, model this out, how do we make sure it is not cannibalistic to our participation in meta. And we have lots of sales materials, I think our sales team is doing a pretty good job going through it, but it, I admit, has been taking us longer than we expect. I couldn't name three things to do to clearly speed the cycle that I'd be willing to do, so, again, progress every quarter but no silver bullet there.

Operator

Robert Peck from SunTrust.

Rodney Hull - *SunTrust Robinson Humphrey - Analyst*

Yes, hi, this is Rodney for Bob. I just wanted to follow up on sort of the deleveraging aspect as we go into 2015 and think about, how should we think about your sales and marketing deleverage potential or leverage potential as opposed to year two in your three- to five-year plans as we look out past 2015? Thanks.

Steve Kaufer - *TripAdvisor Inc. - CEO*

So a couple of factors. Certainly, we are expanding our TV, we've got a really exciting message to get out there to our audience. TV is a fabulous way to do that quickly. You've seen some of the branding change on the site. But plan, compare, and book helps from a positioning perspective pull travelers back to TripAdvisor maybe after they have selected the hotel they want and now they need to compare prices, and, hey, some of the folks don't realize that TripAdvisor is the best source out there to do that.

And, hey, there's an educational component and we're -- to be clear, we are not moving away from our core asset of reviews and communities, but we want to extend our brand value proposition to include price comparisons so you can find the best price, and the convenience of booking it once you've found that great price. So you have some deleverage that you can point to TV on. Then as we are dramatically growing the other component of the business, we kind of look at it as, hey, how does -- how would we as stewards of this Company look at the opportunity in the attractions category?

And we say, wow, fantastic, could turn it profitable tomorrow by a lot if we wanted to but why would we choose to do that when the growth opportunity is so tremendous? We feel so optimistic about this category because it's so big and we're the ones that can bring the demand and the supply together, we just need more inventory. With more inventory, we can both grow our organic demand and buy more demand, and then we become known as the aggregator of, hey, what do I want to do when I get there.

And that feeds upon itself, we get more supply, we get more demand, bingo, and we not only retain our current leadership position in that category, but we become unassailable over years. And then, as with any business like this, margins flow really nicely out of it because as traffic builds, especially if it's repeat traffic or organically grown traffic or app traffic, customer acquisition is nil and you've got a beautiful margin machine here because it may not be hotel level margins, but you have a very nice margin structure in the attractions biz.

In restaurants, again, proven example, OpenTable is a remarkable company out there, terrific margins, strong team, amazing supply in the US, and it's greenfield in so many other countries. And we are expanding in a number of those other countries with a different model, a bit, a different value proposition in part, but just the same to us a proven space that we are a leader in, in several countries, looking to expand. So, again, a great opportunity to grow and secure that leadership.

When we look at vacation rentals there's a couple of other big players in there which have clearly proven that the market size is large. We have our own set of demand. We've made the transition to free list really nicely. That's going to be, as we indicated, a majority of our business on the transaction model, which we think is a better model than a pure subscription one, so mostly through that transition, and it continues to be a strong grower for us. So, again, really nice opportunity.

What we tried to do with some of the segment reporting is to give you some visibility into, how the management team do we sit around and balance the investing in the core hotel versus these newer growth vehicles. And you can see in the breakout, the newer growth vehicles, we could be pulling profits but we're choosing to reinvest in growth because from our perspective it's not a question of if the markets are there, or if the markets are big enough. It's a clear answer, yes, the markets are there, yes, the markets are big, yes, we have either an existing leadership position or have a strong growth position in that market so the opportunity is clearly worth chasing, ergo, the investment philosophy that we have for that segment.

Operator

Tom White of Macquarie.

Tom White - *Macquarie Research - Analyst*

Great, thanks for taking my question, two if I may. First is on hotel shopper growth, it accelerated on a slightly easier comp. I realize it's a bit early after this new campaign has been announced, but any kind of early findings there? You guys are doubling ad spend this year and the comps get easier for hotel shopper growth, how should we sort of think about that potentially accelerating in 2015?

And then, just on the, sort of putting Instant Booking aside for a moment, on kind of the core meta-auction, how should we think about CPC pricing kind of trending from here? That's it, thanks.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Sure. Very good questions, Tom. We think about them all the time. Hotel shopper growth, super hard for us to predict, some in our control, some not, all the various channels bringing more demand to the site. We don't -- we can't talk about the overall growth.

I remind you that on the TV campaign, even though $60 million is a pretty big number, we deal in a lot of markets with a lot of amazing sort of hotel shopper numbers such that the TV campaign will have an impact in the hotel shopper growth, but it's not one of those that we would expect to have a tremendous impact purely because of the scale at which we operate. As to comps and this and that versus 2015, sorry, it's hard for us to predict.

The core meta-auction on CPC pricing we predict or we model, I should say, a seasonally adjusted neutral CPC. So it's not to say CPCs don't go up and down over the course of the year, but when we look at this year versus a view into last year without meta, I mean without taking into account the lapping from the year before, we don't assume -- let me just start again. We don't assume that the auction dynamics will drive up or down CPC pricing going forward.

So the mix will shift a bit to international if this year was like last year. That might have a little bit of an overhang. Our mobile traffic will continue to grow, mobile revenue will continue to grow. That has a lower average CPC than desktop, so that's a bit of a headwind, if we're to average all of the CPCs. But when we do our modeling, we model first desktop and then mobile and add them together. And so the core question of, hey, are we counting on auction trends pushing CPCs up or down, the answer is no to both.

Tom White - *Macquarie Research - Analyst*

Great, thanks for the color.

Steve Kaufer - *TripAdvisor Inc. - CEO*

I'm not sure that there are big opportunities out there in auction land for the CPCs in travel to go up a lot. So the auction has been running for many, many years and I think the big players have mastered the techniques of running in our auctions. So I'd be surprised if there was all of a sudden a big uptick, I wouldn't be able to explain it.

Tom White - *Macquarie Research - Analyst*

Okay. And then, do you have any expectations for ADR growth baked into that CPC forecast?

Steve Kaufer - *TripAdvisor Inc. - CEO*

No, it's a fair point. If ADRs continue to rise and conversions stay constant there might be some natural CPC lift. ADRs up or down haven't been part of our forecasting techniques.

Tom White - *Macquarie Research - Analyst*

Understood, thank you.

Operator

Douglas Anmuth from JPMorgan.

Douglas Anmuth - *JPMorgan - Analyst*

Great, thanks for taking the question. A couple things. Steve, first, just on a higher level, can you talk more about when you think mobile could shift here from a headwind to a tailwind, how you think about that? And then, as you move more toward the transactional model with Instant Book, could you talk more about how you ensure a good user experience on the site, how you balance that? And then, Julie, I may have missed it, but could you just mention the FX impact that's implied in the high-20s revenue growth for 2015? Thanks.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Sounds good. So mobile, when will it stop becoming a tailwind. I guess I have a bit of a split personality on mobile because the hotel traffic, the shoppers are moving to mobile. But we have the best mobile product out there for planning a trip and the downloads are showing that, the ranking is showing that and everything, every data point we can find says people are using the TripAdvisor mobile experience more than any other travel product.

Therefore, we love the adoption, consumers are liking it, but they don't monetize as well, clearly. So are they using it to do their research and then popping back to the desktop to finish their transaction on TripAdvisor, or are they using it -- are they using the phone app and then popping over to somewhere else to finish buying something?

With our Instant Booking initiative, and the fact that the app is so much more comprehensive than the alternatives, we feel that as people continue to use the app on the trip they get stickier and stickier with our experience. We introduced Instant Book, it makes that purchase relatively seamless. We're not fulfilling it, it's an OTA or a supplier, or a brand dot-com, whatever. But the convenience of doing that all-in-one app, the same app that helps you find a restaurant, the same app that helped you plan out your day, the app that's given you your map to get from where you are standing to where you are eating or where your hotel is, that's all part of an experience that's part of what makes that TripAdvisor, planning that TripAdvisor on the go something that sticks with you.

Therefore, if it sticks with you, you are going to come back and use TripAdvisor the next time. So the app monetizes better than the mobile Web for us. We make continuous improvements in how all of that functions, and if we can do a good job of tying mobile together with the booking piece we feel we will be able to both improve monetization of the app, as well as get folks ready to continue to use TripAdvisor for all of their experiences.

And when I compare that scenario to a Google or some of the other travel sites, it's just not -- we have something that is more complete, more full lifecycle and, therefore, deserves by way of functionality to be stickier. There was a second part of the question?

Julie Bradley - *TripAdvisor Inc. - CFO*

The Instant Booking experience.

Steve Kaufer - *TripAdvisor Inc. - CEO*

So the Instant Booking experience, clearly, in our view, much better than the meta-click off experience, and we're still in early days there. We want to present enough information in that TripAdvisor flow to make the traveler completely comfortable that they are getting the best price, they are getting a great room selection, they are getting all of the support signals that they need in order to know it's the right hotel at the right price, right location, right everything to finish booking.

And other companies have had years and years of experience in that part of the transaction. We haven't. And so we continue to improve. And can I tell you the team has done a really nice job over the past six-plus months improving that transaction flow, improving experience, giving folks what they are looking for. And we know that because we see the conversion rate continually improve month over month over month.

In terms of the mobile app experience, I just love it. It's hands down better than meta. I can't recall seeing any feedback that says I prefer a meta experience over the Instant Book, so we've got a winner there. It is still subject to people being comfortable booking the leisure trip on their phone. But our partners -- our Instant Book partners are saying terrific, love the bookings, love the experience, and they call it a direct booking, and that's part of the name of the game for them is to be able to get more of those bookings. So no real concern about Instant Book being a problematic user experience, we just need to make it better and better in order to improve the conversion on our site

---

Julie Bradley - *TripAdvisor Inc. - CFO*

Okay, for the quick answer, the FX impact that's embedded in our guidance was as of foreign exchange rates last week, so we tried to use the latest and greatest, and that is included in the high-20s revenue growth and low- to mid-teens EBITDA growth. And just from a comparison sake, as I stated in the prepared remarks, if we had used rates from Q4 last year then revenue would have been -- revenue growth rate would've been 3% higher and EBITDA growth rate would've been 5% higher.

Douglas Anmuth - *JPMorgan - Analyst*

Thank you.

Operator

That concludes today's Q&A session. I'll now turn it back to Steve Kaufer for final remarks.

Steve Kaufer - *TripAdvisor Inc. - CEO*

Great, thank you very much. 2014 was a great year and an import year as we continue to build a bigger and more important travel business. And I look forward to updating everyone again next quarter. Thanks very much.

Operator

Ladies and gentlemen, that does conclude today's conference. Thank you for your attendance, you may now disconnect. Everyone, have a great day.

THOMSON REUTERS