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# EDITED TRANSCRIPT

TRIP - TripAdvisor Inc at Goldman Sachs Lodging, Gaming, Restaurant and Leisure Conference

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## CORPORATE PARTICIPANTS

**Steve Kaufer** *TripAdvisor Inc - President & CEO*

**Heath Terry** *Goldman Sachs & Co. - Analyst*

## PRESENTATION

**Heath Terry** - *Goldman Sachs & Co. - Analyst*

Great. My name is Heath Terry; I cover the Internet space for Goldman. We're really excited to have with us, Steve Kaufer, CEO of TripAdvisor. Steve, I know incredibly busy time for you guys, so thanks for taking the time to be with us. We really appreciate it.

Obviously, everybody in the room here knows TripAdvisor at the very least as a user of the site. But how would you define what TripAdvisor and all of the different assets within the brand are as a company?

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

So it really has grown quite a bit beyond the original kind of hotel reviews for which we became known. In the hotel category it has become reviews or plan and compare, get the best price wherever we can find it and book, which is a pretty big evolution over our years. And then from the traveler's perspective, there's the hotel piece and more lodging options like bed and breakfasts and inns and vacation rentals all that help you find the best place you can stay.

And while we've had attractions in restaurants, I won't say it's an afterthought, because they're really popular in tens or hundreds of millions of reviews and those it didn't get a lot of focus from TripAdvisor until the past year, where we kind of redesigned all the pages, giving our travelers or diners a much better experience and picked up the leading attraction activity tour company Viator and the leading restaurant reservation company in Europe La Fourchette.

So, we're creating this package that we're pretty excited about, where the traveler, not just where you're going to stay but help me plan my entire trip, and come on what makes the memories of the vacation is a little bit where you stay and a whole lot about who you are with, what you're doing, the excitement of a vacation. And so by packaging all the great stuff that we do in the attractions, the food that you were able to taste while you were there plus the hotel, we're creating a memory for the whole trip. And kudos to us, you've hopefully done a lot of that planning to deliver the great memories using TripAdvisor. So we want you, the traveler, to remember that. And that feeds into why people came to TripAdvisor in the first place, they wanted the honest truth in order to find the great hotel stay, and now we're just expanding that vision.

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**Heath Terry** - *Goldman Sachs & Co. - Analyst*

And so that answer has changed a good bit over the last five years, how do you see it changing over the next five?

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

Always little hard, dicy, to predict where we might move next. But when you think of, all of our traffic and the biggest asset that we have to bring in all of our community, it's about helping people have a great time on a trip. And so, taking the restaurants and the attractions activities folding that in, that's a pretty big new additional focus. And it's not like there isn't a lot more we can and will do on hotels to really match what you as an individual want for a stay experience and the wealth of information that we have, which is to one degree way too many choices, but to another degree enough data that we have to match perfectly with what you might want to do on this vacation, amplified by attractions.

We think we're in a perfect position to become thought of as to use industry jargon the OTA for attractions and activities.



Where you're going to go to figure out what you're going to do when you're in market. We don't know that we'll be able to change consumer behavior a lot to plan all that stuff in advance versus the next morning I open up my smartphone and I'm looking for something to do that afternoon, or the next day. You want great content, you want honest content, you want to know what's going to make you personally happy on this trip and you want availability and you want cost. And we're in a really nice position now to deliver a lot of that. And we have hundreds of millions of app installs already used by people that are planning the trip after they've already gotten there.

So we've kind of got nice position merging supply and demand or bringing supply and demand together in a brand new category that will take years to build. But when we look at it, gosh, it has so many similarities to the wonderful businesses built in the hotel OTA space. And then I move on to restaurants and like, who takes a vacation doesn't think about where they want to eat the great meal that they want to have. And so we seed our demand with those travelers and then we dive really deep to the local because you're not just eating when you're on vacation, you are looking for great places wherever you live. And being able to make the dining reservation online, I say open tables proved it to be extremely successful in the markets in which they are strong and we have a similar profile in markets in which they are not active. So it's geographically complementary with a similar product expense.

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**Heath Terry** - Goldman Sachs & Co. - Analyst

We've seen a lot of M&A in the space broadly over the last year or two. How does that impact TripAdvisor?

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**Steve Kaufer** - TripAdvisor Inc - President & CEO

So I guess each acquisition will play a different story. We haven't seen anything out there to-date that has dramatically changed how we look at the universe. Not to say wouldn't happen down the road, but in our space Priceline buying Kayak, did that change much? I'm kind of hard pressed Priceline is wonderfully successful, Kayak is still successful.

So okay, not much there, Expedia buying Travelocity or in process with Orbitz. Some consolidation, modestly indifferent on my end. We have a couple of strong players in our auction that's how it affects me, maybe to a hotelier or to a brand, maybe not so good news because of the further consolidation there, but everyone will view it through different lenses not much on our end.

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**Heath Terry** - Goldman Sachs & Co. - Analyst

What seems like increasing revenue concentration, does that ever become a concern?

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**Steve Kaufer** - TripAdvisor Inc - President & CEO

So long as it's not a concentration in one given our auction it's less of a concern. So, when I look at Expedia doing what they've done with Travelocity and Orbitz, I think of it as a very modest immaterial net positive to us just because the margin structure that we think they would be able to bring to those companies would enable them to be a bit stronger in our bid landscape. Again, could not end up that way, but most of our revenue is going to come from who is playing in, in the top 3 slots, of which it's mostly the top 2 slots of which Expedia just got a bit stronger in our view. So that's probably good hence the modest.

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**Heath Terry** - Goldman Sachs & Co. - Analyst

Gotcha. You have also though been doing a lot to build more direct connections with your suppliers, with the hotel suppliers specifically. What's the strategy behind that and with all of the different offerings that you've got Instant Book and Meta Search, where do you stand?



**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

So you can kind of clock what we do on the scale of, as our audience grows, we're looking to do a better and better job for our travelers and the travelers that came to the site umpteen years ago. Saw a bunch of windows pop up, and that wasn't great, we moved to a meta model, much better for that traveler. And a bunch of our clients complained at the time, because the model wasn't really in their best interest, so they said at the time, everyone is adapted and it's fine now and we stay focused on, yes, it undoubtedly helped the consumer.

Now when we move from Meta to Instant Book, there's a lot of consumers out there that want to be able to book, feel the safety of booking directly with that hotel, independent or chain doesn't matter, but it's the, hey, I want to work directly with an OTA, I have known this for a while and built phenomenally strong businesses based on the large segment of other folks that didn't want. So we know people come to TripAdvisor, they look at the reviews for a brand hotel or an independent, then they bounce over to the independent's website and they book it. Or they bounce somewhere else.

So with instant booking, hey, how can we help that consumer achieve that direct booking while staying on TripAdvisor, especially useful to independents who don't necessarily have a great mobile website, don't necessarily have a mobile app that anyone would download, but they're on the TripAdvisor app. So now, if you view it through the lens of a traveler, I want to be able to do this booking, I like this hotel, love the reviews, love the photos, love the content and I'd have to bounce out of our app to somewhere else to go and book, maybe an OTA, okay, the hotels on website, maybe not because it might not be mobile optimized versus stay right on TripAdvisor. I already have an account here. So it's a couple of clicks and I'm done. Wow, that's just much easier for the consumer.

And if that's our guiding star then, hey instant booking on the phone is pretty obvious. When you look at desktop, not too far away. We're not ever planning on saying instant booking is the only way to do things, we love offering consumers the rich content that's our heritage. And then the price comparison, hey, no matter whether you're booking on TripAdvisor or somebody else's site, we want to be able to offer you the best price we can find on the Internet. Excellent. If it's all the same, you get to pick whoever you want to book with, if the prices are different, you the consumer can make that trade-off, I want to save \$10 and book over there, or book through a site I know better or instant booking on TripAdvisor, because I like some aspect of that. It's up to the consumer, but staying on Trip, is one option that we know from our testing a set of consumers find valuable. So, we do it.

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**Heath Terry** - *Goldman Sachs & Co. - Analyst*

Can you give us a bit of an update of sort of where you are in terms of building out Instant Book, what hotels have you signed up so far. What does the pipeline look like?

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

So it's a great question. It is a kind of slow build with the end in mind. So we look and say, we've got a handful of chains on board already and choice and Best Western and Accor and K+K a bunch of other chains that come on board, they like what we're doing, it's working, nobody's ever dropped out, why would they and we have a set of OTAs that are on board accepting bookings, doing service and are consumers like this. And we have set of independent properties that have signed up with very little effort on our part. But have raised their hand and say hey, I'd like a chance to do that instant booking ourselves, correct.

So, we now have experience with all different types mostly focused on our US demand because that's where we've rolled it out. And we've been improving and improving getting that experience for the consumer to be where we want it to be. And there's kind of devil in the details. Some of what we expected, some that we're learning, I need to make sure all the room descriptions for all the independent hotels and chains and OTAs are up to the quality that a consumer expects in order to finish the booking that's part of the conversion. We are getting there, but not perfect there yet, I'll need to translate that into a bunch of different languages at the right time when we do that international rollout.

So, when we look, we say okay, we'll get the chains slowly, there is a challenge that they face with their franchisees. If it comes down to, well let me phrase it this way, when we look at what TripAdvisor can do for the chains, it's really meaningful in terms of traffic and bookings. And they may be a little bit less interested at the moment, because the occupancy rates are quite high.

But we're encouraging them to plan ahead a bit; it's not always going to be this rosy and having us as a partner driving a ton of traffic to fill those rooms, that's going to be a very good thing.

It's hard for them to play in our meta auction; it's easier for them to play in the instant landscape. So, and again we've got a number of them signed up and discussions underway with basically everyone.

For the independents, it's a little bit different story because there is a technology challenge of making sure we have the plumbing in place to get the rates and availability from all the different hotels, all over the world and getting all the translations done when that comes. That's actually gone a bit ahead of schedule, ahead of our internal plans, but it's a multi-quarter, multi-year build over time.

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**Heath Terry** - Goldman Sachs & Co. - Analyst

Yes, and so for most hotels it sort of seems like the pitch would be pretty compelling, less expensive, booking channel for them, online, fast growing. When somebody says no, what's usually the reason?

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**Steve Kaufer** - TripAdvisor Inc - President & CEO

For an independent property, the most frequent answer is, hey it sounds great, are we connected yet. So the no is a technical bottleneck where it's like well soon we will be. Next to that it's, hey, how many bookings do you think you'll be able to drive? And we have a model, and if it's not enough, it just might be a, well come back when you've turned it on fully, because it's not fully rolled out, we're upfront with that. The no otherwise, we just don't hear many from independents. We're not rolling it out as fast as we could there, because we don't have all of the on-boarding systems in place that we want. We don't have the translation piece and it's not fully rolled out. So we want to bring on independents that we'll make happy from day one.

For chains, again, we have existence proof with the chains that are on board that it's working, from the consumer perspective, it's working from our perspective and every chain that's signed up is still on board, so it's working from their perspective. So I do believe that additional chains will be signing up, I was wrong on the prediction of the timeframe earlier, and so I'm not making any more predictions, the conversations are certainly ongoing.

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**Heath Terry** - Goldman Sachs & Co. - Analyst

Yes. Where do you see, if you look at sort of the broader travel economy, where are we in consumer demand? How does that vary regionally?

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**Steve Kaufer** - TripAdvisor Inc - President & CEO

I would say it's pretty strong at the moment. So, I always love to predict future summer travel season, but as we look ahead, or near as we can tell, I'd say overall travel industry should be feeling pretty good.

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**Heath Terry** - Goldman Sachs & Co. - Analyst

And when we see the strong demand and you've got high occupancy rates and lack of supply at least at some level within the hotels. How does that impact TripAdvisor?

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

I don't -- I'd say prices have gone up a bit and that probably has some impact on demand. I wouldn't phrase occupancy as, hey, that's limiting travel, it's just moving the selection criteria around, there's still plenty of rooms available that we can see. And a less expensive euro for American travelers is going to boost some travel plans in that direction.

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**Heath Terry** - *Goldman Sachs & Co. - Analyst*

So one of those, you talked about sort of moving things around. Lot of discussion today around the alternative accommodation model, you guys have made some acquisitions in that area. How do you see the opportunity there, for TripAdvisor?

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

I see -- I'm quite bullish at it. Again, we look at it from what type of accommodations are consumer shopping for. And for us, in our space, looking at the, I'm interested in a vacation rental. Because it's a category that was more established, it was better than a hotel in a lot of vacation rental destinations. It's cheaper, it's more private and the service out there, the opportunity to find a great vacation rental was fragmented. It's gotten better over the years as more players have come into the space, TripAdvisor included, we've doubled, tripled our inventory over the past several years.

Wow, that just gives more choice to everyone. We're still integrating it in with the overall TripAdvisor experience. But the business is doing really well for us. And I don't see any reason why it would slow down. Now you look at the other vacation rental businesses, that are also doing well, Priceline has a thriving one, airbnb is doing gun blazing and HomeAway is no slouch either.

So, if all of the category players and I kind of think of it as those four category players are all reporting strong results in the vacation rental space. And airbnb is in a slightly different segment as well. Straight, so maybe some of that extra travel demand is being fulfilled by the apartment hotels or either I think less extra rooms in a house, I think that is more demand that never would have been there. But really apartments in the city, because the hotel is so darn expensive, it's got to be stealing some demand from hotels. And we play in that.

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**Heath Terry** - *Goldman Sachs & Co. - Analyst*

Yeah, we've seen the sort of -- a couple of different models pursue there and you talked about airbnb between sort of the listings model the transaction model, you guys are actually pretty evenly split between the two. How do you view those two alternatives, and particularly as you're starting to see some of the deals like Kayak and HomeAway yesterday, the idea of listing more of that inventory alongside hotels within your search.

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

We're completely agnostic in terms of if a consumer wants to see a vacation rental instead of a hotel we'll show a vacation rental period full stop. When -- it's a little hard for us to figure out proactively what that consumer might be most interested in, even in a vacation rental rich destination. So we try to make it as available as we think prudent.

To the model question, transaction model we think is better. Our inventory is clearly shifting. We've done a great job shifting it over to the transaction model because it aligns the incentives with the owner and the traveler in and us as a intermediary in the right direction. We're trying to get the best product into the hands of the consumer that wants it the most and the slice in the middle there is kind of better than the listing fee model.

We are keeping listing fees because some of our owners really want to go that way. So, we don't want to disappoint them, but our future is in the transaction model.



**Heath Terry** - Goldman Sachs & Co. - Analyst

Great. So we've got time for questions from the audience. If there are any please feel free to raise your hand, you've got mic in front of you.

## QUESTIONS AND ANSWERS

### Unidentified Audience Member

Hi there. If you think about the different ways that you can put -- bring supply on to the Instant Book channel. You've got the OTAs or they've already talked about the two big ones in terms of their thoughts on the current iteration of the products, the chains, we've heard a couple of times now are let's depending on that OTA channel and they paid generally lower commission rate. So I think the independent channel would be the place where you offer the best value proposition. Can you talk a little bit about how you're attacking that area and kind of what organization you need to do with anything to go after that model to bring supply on?

**Steve Kaufer** - TripAdvisor Inc - President & CEO

Sure. In fact I'll touch upon all three as categories because I really don't view it as a one or the other. So with OTAs, we continue to bring on OTAs each quarter not the two big ones, but other ones that offer inventory around the world.

Chains, again, I absolutely believe the chains will be on board. It's just a question of time and discussions around sort of branding and other components as part of that picture, but it is in their interest. We do drive a large part of the business. Some of the concerns expressed long ago were, hey, you might be, we don't want to create another OTA and I think we've gone well beyond that now. Because TripAdvisor is here, we are big, we are established and we have a lot of demand looking for those properties and I think the chains are starting to internalize that and that makes for a good win-win partnership.

When you look at the independents, clearly you represent a ton of demand for them as well. The connectivity piece is a little bit challenging, we don't, again better than planned progress on this. But it's slow going because there is so many that we actually want to get on board and they all have different systems at the end of the day.

To the question of organizationally, we already built up a TripAdvisor for business sales organization, selling our subscription product. So, while we'll tweak that org as we continue to roll out Instant Book, it's not like I have to go hire a new sales force to be able to do instant booking.

And I'd add based upon a little bit of experience now that selling a business listing is -- it's a great value for a hotelier, but it is a little bit, hey, this is good. You get the phone number and the URL and visibility on our site and a special offer, but the last tying it the last mile to how much more money they made is impossible.

Instant Booking is commission model. It is literally a free product to set up. You don't have to have a business listing, you don't have to have any of the relationship with TripAdvisor. And so you have people just coming to the website each day, signing up on their own, no sales touches whatsoever, because, hey, they know how to independent hotels, they worked commission models for years and years. They have an Internet booking engine that's already connected. So, there is no question there. We sent them an email saying, hey, would you like to take advantage of our instant booking? We only sent the email to those whose IBEs we have connected and some percentage are saying, what is this, let me check it out and they come in, they sign up and take their credit card done.

I don't want to represent at all that this is a self-served product or a model, we're catching the early adopters, which is great. But we're also taking our time, because when you catch the early adopters who have a hotel that doesn't have a lot of demand on TripAdvisor today, because it's only rolled out on the phone and partially US. I don't really want to sign up and then that person saying, oh yeah, I signed up on TripAdvisor I got one



booking last month, not representative, because we're not rolled out. So we're taking our time in targeting from the sales force the hotels for whom we think we can drive a fair number of bookings.

And then you can go on, pause, you can go on the website today and look for that book on TripAdvisor link and if it says with name of hotel, then you know that that's an independent hotel that has signed up on a commission basis and is working with us.

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**Heath Terry** - *Goldman Sachs & Co. - Analyst*

Any other questions? So Steve, you guys have made the decision to double your television advertising spend, curious what your early efforts in television have taught you and how it stacks up from an ROI perspective compared to what you're used to seeing through your online channels?

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

So boy, do I love those online channels, I can measure to the Nth degree and I know exactly where I'm profitable by day, by time of day practically, it's beautiful, we grew up that way and I love it. And wow, what a learning experience moving on to TV where so many of the companies that I've spoken with who measure TV very scientifically, no they don't, they just don't. They take their best guesses and they tie revenue lift to TV spend, draw a correlation say it's because of TV, which is nice, but we're at the size where that's really hard to do, given all the other factors affecting TripAdvisor traffic, hotel funnel or shopper growth, et cetera.

So we have to be a little more scientific in sort of carve a few new paths, one of which is, look we survey the site how, what drove you to TripAdvisor and we watch how TV changes based upon whether we're on air off air, and we draw very strong correlations, then we look at the percent that TV drove and calculate an ROI based upon that. And what we've seen to answer your question over the past three years is that it's better and better each year.

Some combination of the ads building on themselves, the awareness building and the ads actually getting better and us buying media in a smarter and cheaper way. So, I'm very glad that we did it in a gradual manner, because, it's a lot better now than it was when we started. We have a new campaign coming up that we hope will be even better.

When I look at would I spend even more in TV, the more confident I get on that ROI, the happier I am, because I know it's building a longer-term value. And right now with this planned compare book message, I have a level of urgency to get the message out and it's not just reviews, it's price comparison and it's booking. And the more I can do that, the more our rev per hotel shopper goes up, the more repeat traffic and the more our overall number expands. And I'll do that all day long if I can.

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**Heath Terry** - *Goldman Sachs & Co. - Analyst*

Steve, thanks so much for taking the time to join us, we really appreciate it.

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**Steve Kaufer** - *TripAdvisor Inc - President & CEO*

My pleasure. Thank you.

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