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TripAdvisor, Inc. Q3 2019 Prepared Remarks

(All comparisons are against the same period of the prior year, unless otherwise noted; some calculations may not foot due to rounding)

We are dissatisfied with our Q3 results, which are particularly frustrating considering we entered 2019 with such great momentum built on strong profit growth, improving auction trends, and a return to sustained Hotel revenue growth seemingly well within our sights.

Q3 was more difficult than we anticipated.

- Trends worsened in our Hotel click-based auction, leading to a 14% decline in TripAdvisor-branded Hotels revenue and 12% decline in Hotel Media & Platform segment (HM&P) revenue. We believe our most significant challenge remains Google pushing its own hotel products in search results and siphoning off quality traffic that would otherwise find TripAdvisor via free links and generate high margin revenue in our hotel click-based auction.
- In our Experience & Dining segment (E&D), we expected revenue growth to taper in the back half as we lap last year's hyper growth on the TripAdvisor channel; however, 19% revenue growth in Q3 was still slower than forecast. While a competitive environment exists, we believe we can and should execute more efficiently to capitalize on our differentiated assets and market leadership.
- These softer than expected revenue trends caused consolidated revenue, GAAP Net Income and adjusted EBITDA to decrease 7%, 28% and 12% year-over-year, respectively. Changes in foreign currency negatively impacted revenue and adjusted EBITDA growth by an estimated 2% and 3%, respectively.

We are taking the following actions:

First, we are focused on driving non-auction revenue growth. Looking inside HM&P and E&D, we are growing in our key non-auction revenue lines:

- In HM&P, both our display advertising and our hotel B2B solutions have grown year-to-date, and we believe there is plenty of opportunity for double-digit growth for these revenue lines in the years ahead given our global salesforces and our ongoing influence with hundreds of millions of travelers on our platform planning trips.
- In E&D, Experiences revenue continues to grow by double digits, and inventory at triple digits. We are in the early stages of educating the TripAdvisor traveler that all of these exciting things to do are available to book on TripAdvisor, which can drive improved conversion, repeat bookings and future growth.

- Finally, Restaurants transaction revenue also continues to grow by double digits in current markets, and is expanding in new countries, establishing leadership positions and building habit with consumers, particularly on mobile. Our Restaurants media ads revenue continues to grow by double digits as well, and we have an opportunity to deliver value to more of the 5.1 million restaurants on our platform.

Digging further into HM&P, during the past 12 months, we appointed new Presidents to both the Hotels and Core Experience teams to lead growth initiatives aimed at deepening customer engagement on our platform and monetizing our influence. We see growth opportunities in 2020 and beyond, and we are addressing them with urgency. As outlined last quarter, these include:

- Modernizing our media advertising platform to accelerate Display and platform growth;
- Reimagining our TripAdvisor app (anticipated Q3 2020 launch) and growing and serving members through product, loyalty and membership initiatives;
- Launching impactful brand advertising that lays claim to our differentiated consumer value proposition (anticipated Q2 2020 launch);
- Broadening our hotel B2B offerings, with the objective of launching at least two new products in 2020.

In addition, though not a Q3 development, we have begun taking steps to offer rentals inventory within our hotel sort order to better serve consumers' evolving needs, and to drive conversion and improve monetization.

In E&D, we are investing in product enhancements, inventory growth, and marketing to bolster our Experiences and Restaurants offerings and gain share in these attractive categories. For Experiences, owning the transaction experience is an advantage, and TripAdvisor has significant consumer demand shopping for things to do. In Restaurants, The Fork is a leader in its markets, and its transaction business enables a more local and more frequent consumer relationship and strong mobile app engagement. Our Restaurants media offerings enable us to serve an even broader, global customer base and drive high-margin revenue.

In all, we are making excellent progress on non-auction revenue objectives in these two segments. As these offerings gain scale and profitability, we believe they collectively can more than offset auction headwinds that are dampening near-term growth.

Second, we are evaluating our cost structure. Loss of revenue in our SEO channel in hotel has been negatively affecting our bottom line, and we will prudently reduce and re-allocate expenses in certain parts of our business to preserve strong profitability while investing in strategic growth areas.

We expect to drive material savings against our current run-rate by:

- Right-sizing E&D to grow more efficiently following a period of considerable investment;
- Reducing other targeted costs across the company; and
- Optimizing brand advertising investments across newer, more impactful mediums compared to our historically television-focused campaigns.

We plan to reinvest some – but not all – of the abovementioned savings into newer growth areas, such as media advertising revenue, TripAdvisor Restaurant services, Hotel B2B services, and membership and loyalty efforts.

Our variable costs (cost of revenue, revenue related taxes and performance marketing) are broadly expected to grow with revenue.

We believe these measures will enable us to continue to generate strong adjusted EBITDA and free cash flow in 2020.

Third, we are returning more capital to shareholders. Our board has approved that we do this in two ways:

- 1) Declaring a special cash dividend of \$3.50 per share; and
- 2) Increasing our existing share repurchase authorization by \$100 million to \$250 million.

The special cash dividend is payable on December 4, 2019 and we expect to total approximately \$490 million in the aggregate.

We have ample liquidity to execute our capital allocation strategy. We operate a very profitable and cash generative business, with year-to-date adjusted EBITDA of \$347 million, cash flow from operations of \$364 million and free cash flow of \$304 million, as of September 30, 2019. We have a strong balance sheet with cash, cash equivalents and short-term marketable securities of \$933 million as of quarter end, and no outstanding debt. We have additional access to capital through a \$1.2 billion revolving credit facility. M&A remains part of our capital allocation strategy, and we have the requisite flexibility to be opportunistic on that front. Our strong balance sheet and cash generative business give us the flexibility, both now and in the future, to simultaneously invest in growth areas, fund M&A and return cash to shareholders.

Beyond Q3 results and the above measures, we are also pleased to have entered into an exciting strategic partnership with Trip.com Group Limited (Nasdaq: TCOM) (“Trip.com Group”, formerly known as Ctrip.com International Ltd. (Nasdaq: CTRP)). This strategic partnership has three components:

- First, we entered into a joint venture for our TripAdvisor China business. We will own 40% of the joint venture, and will contribute a long-term exclusive brand and content license, as well as certain other assets of our China business. Both companies have also agreed to share inventories in travel categories at the joint venture level. We anticipate our contribution of China assets to the joint venture will not have a significant impact on our ongoing consolidated operating results.
- Second, we entered into global content agreements providing for distribution of selected TripAdvisor content onto Trip.com Group, including Trip.com, Ctrip.com, Skyscanner and Qunar.
- Third, we entered into a Governance Agreement pursuant to which Trip.com Group will have a nomination right for one TripAdvisor, Inc. Board seat commencing upon the relevant regulatory bodies' approvals of the transaction. To maintain the nomination right, Trip.com Group must acquire up to 6.95 million TripAdvisor shares or TripAdvisor shares valued at \$317.6 million through open market transactions within one year following the regulatory approvals.

HM&P update

HM&P segment revenue was \$238 million, a 12% decrease year-over-year, due to continued hotel click-based auction headwinds. HM&P adjusted EBITDA was \$93 million, a 4% decrease year-over-year, and HM&P adjusted EBITDA margin was 39%, a three-percentage point increase year-over-year. We estimate that, excluding changes in foreign currency, HM&P revenue and adjusted EBITDA decreased approximately 11% and 2% year-over-year, respectively.

Here are Q3 updates on our stated HM&P growth initiatives aimed at long-term non-auction revenue growth:

- **Scaling high-margin media advertising revenue:** TripAdvisor's high intent, global audience (nearly 460 million monthly unique visitors in Q3); brand-safe, non-competitive platform; and travel domain expertise are attractive attributes in what eMarketer estimates is a growing, \$479 billion digital media advertising market. It is still early days, but we increased inventory availability via programmatic in Q3. We have introduced in-app monetization and a number of new ad formats. While Q3 was still too early for revenue benefits to accrue, our sales pipeline is growing, and we are gaining traction. As we continue to build out a more modernized, high-powered media advertising product suite spanning native, video and programmatic, we expect to drive more value for a bigger and broader advertiser base and faster media revenue growth in Q4 and beyond.
- **Driving consumer product enhancements that grow membership and cultivate long-term loyalty:** TripAdvisor membership growth accelerated for the fifth straight quarter and we are currently adding more than 200,000 members per day. We are focused on serving members through personalization and loyalty initiatives, as part of a broader goal to deepen consumer relationships. We believe our growth potential here is huge, as more frequent consumer engagement increases monetization dramatically.
- **Executing impactful TripAdvisor brand advertising:** We recently partnered with new media buying and creative agencies and started working on cost-effective ways to amplify TripAdvisor's differentiated consumer value proposition.
- **Expanding hotel B2B product offerings:** On the hotel B2B side, our revenue grew by double-digits for the third straight quarter driven by hotel sponsored placements, which is on track to nearly double this year. We plan to leverage our existing global sales force and traffic scale to bring at least two new products to market in 2020.

E&D update

E&D revenue grew 19% to \$141 million, while Experiences & Dining segment adjusted EBITDA reflected ongoing long-term growth investments. We estimate that, excluding year-over-year changes in foreign currency, E&D revenue grew approximately 23%.

- **In Experiences:** Strategic investments in new product categories with attractive consumer price points (e.g., events, tickets and unique experiences), as well as our TripAdvisor, mobile and non-English channels helped accelerate bookable experiences inventory growth to 115%, drive

strong conversion growth, and deliver mid-30% bookings growth in Q3. Having established best-in-class inventory, our focus increasingly centers on merchandising inventory to improve conversion, helping consumers search and discover things to do, especially on mobile and our TripAdvisor channel. TripAdvisor remains our fastest growing channel for experiences bookings, and our strong top of funnel position gives us ample growth opportunity.

- **In Restaurants:** Bookable restaurants grew 27% to 67,000, and seated diners growth accelerated to mid-30%. Restaurants remains a strategic business for us: it adds frequency with consumers when they are not on a trip, more than 70% of bookings are coming via mobile, and it provides helpful data points that enable us to delight consumers and deliver a more robust in-destination experience. On the media revenue side, Restaurants media ad placements and premium subscription offerings once again contributed growth. We have ample runway to drive more value to more of the 5.1 million restaurants listed on TripAdvisor.

Other update

Other revenue decreased 30% to \$49 million and adjusted EBITDA margin improved to 43%, primarily driven by the elimination of some marginal and unprofitable revenue within some non-TripAdvisor branded offerings in late 2018, which reduced revenue and slightly increased profitability.

Forward-looking statements

Given current hotel click-based auction trends:

- We continue to expect Q4 HM&P revenue performance to improve versus Q3, although we do not expect to achieve Q4 HM&P revenue growth;
- We expect year-over-year consolidated revenue and adjusted EBITDA trends to improve in Q4; and
- We expect single digit adjusted EBITDA growth for full year 2019.

Although 2020 planning is ongoing, we point to the following puts and takes for next year:

- In HM&P, we will fully lap hotel auction performance marketing optimizations in Q1 2020. After Q1, we don't anticipate a revenue headwind or a profit tailwind from year-over-year efficiency target differences. Although difficult to forecast, we prudently anticipate that SEO headwinds will remain a challenge to both top and bottom lines next year. However, we expect to grow both media advertising revenue and hotel B2B revenue.
- In E&D, we expect continued growth, improved profit margins and continued enhancement of our competitive position and long-term shareholder value.

TripAdvisor's third quarter 2019 earnings press release is available on the Investor Relations section of the TripAdvisor website at ir.tripadvisor.com. The earnings release is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the U.S. Securities Exchange Commission, or SEC, on November 6, 2019, which is available on the Investor Relations section of our website at ir.tripadvisor.com and the SEC's website at www.sec.gov.

Forward-Looking Statements:

These prepared remarks contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The following words, when used, are intended to identify forward-looking statements: “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,” “should,” “will,” and similar expressions which do not relate solely to historical matters. We caution investors that any forward-looking statements in these prepared remarks, or which management may make orally or in writing from time to time, are based on management’s beliefs and on assumptions made by, and information currently available to, management. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements are more fully described in Part I. Item 1A. “Risk Factors” of our Annual Report on Form 10-K. Moreover, we operate in a rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise.

Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC and to other materials we may furnish to the public from time to time through current reports on Form 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements.

Use of Non-GAAP Financial Measures:

These prepared remarks may include references to non-GAAP measures, such as adjusted EBITDA (including forecasted adjusted EBITDA), free cash flow, and constant currency measurements, such as, non-GAAP revenue before effects of foreign exchange, and adjusted EBITDA before effects of foreign exchange, which are considered non-GAAP financial measures as they are not prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures are not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

We encourage investors to review our earnings press release as it contains important information about our financial results, including tabular reconciliations to the most directly comparable GAAP financial measure, definitions, limitations and other related information about these non-GAAP financial measures. We have not reconciled consolidated adjusted EBITDA guidance to projected consolidated GAAP net income (loss) because we do not provide guidance on GAAP net income (loss) or the reconciling items between adjusted EBITDA and GAAP net income (loss), as a result of the uncertainty regarding, and the potential variability of, certain of these items. Accordingly, a reconciliation of the

non-GAAP financial measure guidance to the corresponding GAAP measure is not available without unreasonable effort.

The earning press release in addition to other supplemental financial information is available on the Investor Relations section of our website at <http://ir.tripadvisor.com/>. The earnings press release is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the SEC on November 6, 2019, which is available on the Investor Relations section of our website at <http://ir.tripadvisor.com/> and the SEC's website at www.sec.gov.

Key Business Metrics:

We review a number of metrics, including unique visitors, hotel shoppers, and revenue per hotel shopper, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base around the world. For example, a single user may have multiple member accounts or browse the internet on multiple browsers or devices, some users may restrict our ability to accurately identify them across visits, and we are not always able to capture user information on all of our platforms. As such, the calculations of our active users may not accurately reflect the actual number of people or organizations using our platform. Our metrics are also affected by applications that automatically contact our servers for regular updates with no discernible user action involved, and this activity can cause our system to count the users associated with such applications as active users on the day or days such contact occurs. As such, the calculation of some of the metrics presented may be affected as a result of this activity. We regularly review our process and may adjust how we calculate our internal metrics to improve their accuracy.

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EDITED TRANSCRIPT

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PRESENTATION

Operator

Good morning, and welcome to TripAdvisor's Third Quarter 2019 Earnings Conference Call. As a reminder, today's conference is being recorded. At this time, I would like to turn the conference call over to TripAdvisor's Vice President of Investor Relations, Mr. Will Lyons. Please go ahead.

Will Lyons - *TripAdvisor, Inc. - VP of IR*

Thanks, Victor. Good morning, everyone, and welcome to our call. Joining me today are CEO, Stephen Kaufer; CFO, Ernst Teunissen; President of Hotels, Kanika Soni; and President of Core Experience, Lindsay Nelson.

Last night, after market closed, we distributed and filed our third quarter 2019 earnings release, and we made available our prepared remarks 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. You will also find supplemental financial information, which includes certain non-GAAP financial measures discussed on this call as well as other performance metrics.

Before we begin, I'd like to remind you that this call may contain estimates and other forward-looking statements that represent management's views as of today, November 7, 2019. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release as well as our filings with the SEC for information concerning factors that could cause actual results to differ materially from those forward-looking statements.



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Now here is Steve, who will share a few thoughts before we open the call up to questions.

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Thank you, Will, and good morning, everyone. Q3 was more difficult than we had anticipated, and this has somewhat dampened our outlook for the remainder of the year. However, we are taking action: First, we are focused on driving non-auction revenue growth and continue to make excellent early progress on a number of growth initiatives; second, we are evaluating our cost structure, and we'll prudently reduce and reallocate expenses in certain parts of our business to preserve strong profitability, while investing in strategic growth areas; and third, we are returning more capital to shareholders, including declaring a special dividend of \$3.50 per share and increasing our existing share repurchase authorization to \$250 million.

In sum, we are allocating our resources and our capital prudently and have the flexibility, both now and in the future, to simultaneously invest in growth areas, fund opportunistic M&A and return cash to shareholders to drive long-term shareholder value.

We are also very excited to have entered into a strategic partnership with Trip.com Group, an important step to further strengthen our position as a global travel leader. Now as many of you know, during the past 12 months, we focused on building the leadership team we need in order to execute against attractive long-term opportunity and welcome 2 talented and experienced leaders for this next stage in our company's growth. I'm very pleased to have Kanika Soni, our President of Hotels; and Lindsay Nelson, our President of Core Experience, joining us today during Q&A to discuss these initiatives aimed at deepening customer engagement on our platform and monetizing TripAdvisor's influence.

We'll now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from line of Deepak Mathivanan from Barclays.

Deepak Mathivanan - *Barclays Bank PLC, Research Division - Research Analyst*

I understand that it's a highly fluid dynamic. But on your 4Q commentary and then also in 2020, is there a scenario that could cause 4Q to be worse than 3Q? Or is the benefit of lapping the marketing optimization powerful enough to offset any traffic headwinds? How should we think about this in 2020 in the Hotel HM&P business?

And then second question. Can you give a little bit more color about what steps you are taking to scale the non-auction advertising unit? Is the operational efforts that's involved largely related to hiring ad sales teams? Or what else is required before we see that business reach meaningful scale as a bigger part of revenues?

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

Deepak, this is Ernst. We have indeed in our prepared remarks said that we expect Q4 trends to improve versus Q3. There is a lapping of the optimizations that you mentioned. There are also the non-auction revenue items in our HM&P segment that we will talk about a little bit more, where we expect a meaningful contribution now from these new initiatives that we have started in Q4. So even with the trends in the core auction as they are, we believe we can improve the revenue performance versus Q3. Previous quarter, we thought we would actually get to growth year-over-year in HM&P. We said this quarter that given the more recent trends, we don't believe that is likely. But we do believe -- still believe that it's going to narrow -- the negative growth is going to narrow in the fourth quarter.

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What about 2020? We expect continued improvement into 2020. We are going to continue to see benefits from these non-auction revenue items. We are also next year no longer disadvantaged from the year-over-year trends in paid marketing. We're, at this point, prudently not putting a fine point on when we expect HM&P would go back to growth but somewhere in 2020 is our expectation. On non-auction, I'll actually pass that on to both Kanika and Lindsay to talk more about. But as I said, non-auction is an area where we expect, not only in Q4, to see initial positive impact. But as we look ahead to the future, that is an area where we can drive double-digit growth in those revenue lines. And so we're excited to see that happen. And maybe, Lindsay, you can kick off what we're doing on the display media side.

Lindsay Nelson - *TripAdvisor, Inc. - President of Core Experience Business Unit*

Yes, Deepak. Thanks for the question. So we've been working on growing the media business for the last 6 months or so, addressing some infrastructure and capabilities over the past few months. We actually, as you know, already sit on a fairly large sales organization, and we're on the other side of a reorg that we executed at the beginning of this quarter. So we expect to get some additional leverage out of that current sales team. Of course, next year as we look to expand our customer base, we'll look to bring on additional sales folks. But we're actually pretty pleased with some of the investments that we've already made. Just this quarter alone, we've rolled out 10 new products to the market, and we're already seeing some really great traction and some promising pipeline there.

We're also focused on some other leading indicators like growing inventory. We have a tremendous amount of capacity on the platform that we're looking to unlock, and we've already grown monetizable inventory by double digits. We're also focused on expanding the customer base, and I think one of the things we're really proud of is we have 189 new advertisers this quarter alone, which I think demonstrates that both our audience, our platform and our marketing solutions are attractive to not only marketers within the travel category but also marketers in finance, food and beverage, auto. And then finally, we're focused on really making sure that we're doing a good job of expressing our value proposition to partners. And we're starting to see the results of that work by growing our average deal size. So certainly, more work to be done. But we have a large team today. We have a lot of capabilities today. And our outlook on the future remains unchanged.

Kanika Soni - *TripAdvisor, Inc. - President of Hotels Business Unit*

Great. And I'll take the B2B side. We obviously have a very healthy business today there. As Ernst mentioned, our B2B business is growing by double digits already driven mostly by sponsored placements, which is on track to double in size this year. That's a very solid foundation for us to be building from, and I remain very bullish on the space and the opportunity that this segment presents. As we look into the future, we've outlined 3 key priorities for this part of the business, and we're actually making great strides against each of those priorities. Number one, we want to execute with a very partner-first lens. And while that sounds very simple, it's actually a pretty big cultural shift within the organization for us. And to that end, Lindsay touched on this earlier as well, we've done a pretty big sales reorganization with the sole objective of creating single point of accountability at the partner level across our portfolio of products. We believe this will give us better visibility into partner needs and priorities and really allow us to bring products to market that fit their needs.

Number two, we want to focus on innovation and speed, and that means rapid deployments, more upgrades, more features, as far as our existing products go. And at the same time, also maintaining an ongoing pipeline of new products. And with that as an objective and goal in mind, we aim to bring 2 new products to market in 2020. We also want to create new sources of value for our partners, which means looking more holistically and taking a wider lens and a broader lens to how we serve our partners and the value that we create in extending that value to beyond direct bookings. So again, B2B, as Lindsay mentioned on the media side, more work to go, but we've got a lot of the foundational pieces in place already. A great business to work from, and we remain really excited about continuing to leverage our assets to build and grow in this segment.

Operator

And our next question will come from the line of Lloyd Walmsley from Deutsche Bank.



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Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Two, if I can. First, maybe for Steve or Ernst. On the E&D segment, just curious if you can explain a bit more about why you'd be reducing investment in what seems like a pretty strategic growth area for the company, one where you guys have an advantage now. Do you worry about underinvesting there if you're looking to cut back? And then secondly, Lindsay and Kanika, great to have you on the call. A very helpful background already you guys have shared with us. But maybe you can talk about some of the things you're most excited about in terms of the expanded ad units on the site? And then how meaningful do you guys think this can get to in the revenue mix, some of the new stuff you all are working on?

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Super. Thanks, Lloyd. This is Steve. I'll take the E&D one. We look back at the level of investment that we've applied to both Experiences & Dining over the past 4 or 5 years and say, it's been incredibly beneficial to the company. We moved into these huge categories that the TAM is wonderful, we've talked a lot about that. And we've invested quite heavily, and we absolutely believe it was the right thing to do. We continue to invest in both of these areas. And so what we're really talking about is shifting some of that investment from the building of supply, and you guys can all see the fantastic results of that, to leveraging the demand that we already have, speaking specifically of Experiences, of course. TripAdvisor has hundreds of millions of travelers each and every month planning this considered trip and finding that great thing to do is part of that equation. And so with the supply, I'd say with a firm lead, with excellent connectivity, with a rebuild tech stack in many different parts, we can say, excellent job team internally, and now we can work on the demand side, converting the demand that's already on Trip, that's already on Viator, that's already flowing through our third parties into finding the right product for the right individual. It's a personalized recommendation. It's a frictionless consumer path. It's the right reminders in trip and preplanning all to help. So when we look cost-wise, we see the opportunity to help move folks from essentially the back end, the supply piece, towards the conversion end to really help address the customer needs.

I -- that's not unusual in terms of when one builds up a marketplace. You have to have enough supply in order to make the match. Now that we feel we do have enough supply in almost all parts of the world, it's our opportunity to make that demand match off of the traffic that, I like to remind people, we already have on our points of sale. For us, it's not really a question of figuring out how to go find the traffic. We have the hundreds of millions of visitors monthly already looking for something to do on a considered trip.

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

And I would add, from the competitive lens, competitors are investing as well. But we were early at this game, and we've invested way ahead of the competition so far. As Steve was saying, we have the largest supply base. And so we feel we have invested sufficiently and will continue to invest sufficiently. But we can tailor some of that expense and we can actually reduce in some areas where we have, maybe, overbuilt a little, and it can direct that towards other growth initiatives. And then to point out, versus our competition, we have some assets that some of our competitors may not have. We have the vast TripAdvisor audience, not only on our things to do pages and restaurant pages, but also the ability to cross-sell from an entire travel experience perspective. And so we think we have some really important demand assets, and it's not just a dollar number as well.

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Maybe for the expanded ad units and those opportunities, I'll refer over to Lindsay.

Lindsay Nelson - *TripAdvisor, Inc. - President of Core Experience Business Unit*

Thanks. So there's a lot of things that I am excited about around our media business, but I'll try and narrow in around 3 areas. I think one of the things that's super interesting about my job is I both oversee our marketing budget, and I have folks inside of that organization thinking about customer segmentation, thinking about creativity, thinking about ROAS, and those same people sit in the same organization as our sales organization who's trying to build solutions for marketers. And my litmus test when joining the company is would I invest TripAdvisor's marketing dollars on TripAdvisor? And I can say the answer is now, yes. And the things that I get most excited about are, are we enabling premium programmatic? And



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that's because marketers want to transact programmatically because it gives them increased visibility into all of their data and customer segmentation. And we should be able to enable that kind of transactional buying without having to sacrifice creative excellence, and that's an area that we're putting a lot of attention in. The second is leveraging our first-party data. We have a huge push on the consumer experience side around personalization and loyalty. The more we understand the traveler, the better we can serve them. And we can also take advantage of that data by turning those travelers into customer segments that are incredibly important to our partners but also incredibly proprietary to TripAdvisor. I think we have one of the most robust and important first-party datasets, where we have an understanding not only who you are, where do you live, what's your affluence, what are your preferences, how big is your family size, what are your travel patterns, do you tend to fly, do you tend to drive, and those are all signals that our marketers want access to. And so we're doing some of the technical lift and infrastructure work to be able to enable that kind of segmentation, which I think is really great. And the third is, which I think is also pretty unusual for us is, how do we connect -- sort of, the ultimate challenge for most marketers right now is thinking about the relationship between brand building and performance marketing, and we're also thinking about that. On the marketing side, is how do you stitch those strategies together and understand how both of those budgets can actually leverage one another. And so while we have historically worked with a lot of our travel partners in the performance marketing space, we're really excited to work with them on the brand building front but also connect those 2 streams together so that they can have a clear understanding of both the performance and the outcomes but also how those channels are actually quite complementary.

Operator

And our next question comes from the line of Naved Khan from SunTrust.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

I have a few questions. Just maybe on the Hotel business. Maybe, Steve, maybe, can you talk a little bit about the incrementality of the headwinds? It just seems like things may have gotten a little worse, but was it related to the changes that Google might have made to the offering? Or was it just a result of something that might have happened in the quarter before that? So just give us some sense of that. And maybe, if you can go into some detail about what exactly are the kind of changes that Google is making, that would be helpful.

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Sure. Thanks, Naved. So yes, unfortunately, we did see some incremental SEO headwinds over the course of the quarter. It's always hard to know exactly what Google is doing. We think of it as how far down the page is our organic result. And I think you're seeing this across the industry as Google has gotten more aggressive. We've been predicting this, of course, for the past many years. We talked about on our last call, we know that this SEO piece is an ongoing trend, and we're not predicting that it's going to turn around. Having said that, we're doing a better and better job of making or helping our travelers find the right hotel when they're in hotel shopping mode. And then our focus around the whole TripAdvisor brand is enabling folks and offering many more reasons why they want to come back to TripAdvisor to plan the considered trip and then that hotel shopping part of that entire trip flows out the bottom as added benefit to TripAdvisor.

As we with the brand positioning, as we with our CRM efforts, as we with our loyalty programs get better and better at that, we have the opportunity to return the auction itself to growth. Over the shorter term, we've talked more and more about these non-auction revenue sources, including media, including hotel B2B, restaurants, experiences, the sets of things that are already growing for us and that we feel all have clear double-digit growth ahead to make up for anything that comes our way in Google headwinds.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

So that's helpful. So last night, we also heard from Expedia talking about similar issues. And they talked about spending more on paid advertising. Is there, sort of, a secondary effect where the OTAs, which are one of the, sort of, large advertisers on your platform might also be spending more with you overtime? Or do you see any sort of secondary benefits from this -- from the Google changes?



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Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

So those are pretty -- it's a great question. Those are pretty hard for us to measure. We've seen a pretty stable environment from our key partners in the hotel auction over this year. And of course, they have many places, many choices, in which to spend their performance dollars. As Lindsay and Kanika would add, by making our offering that much more valuable by qualifying the traffic on our site before we send it downstream to an OTA, by helping OTAs get their brand message across on our platform, there's still a, we feel, wonderful opportunity to help our clients in lots of ways, not just with the individual clicks on our platform today.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

One last question, if I may. And this is on -- so congrats on the Ctrip partnership and on getting them potentially over time as an Investor in TripAdvisor. I just wanted to, sort of, get more context around the deal. How quickly did it come around? And then just in regards to the dividend payout, how do you decide? Or why did you choose a dividend versus just doing a share buyback?

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Sure. I'll take the first part on the deal with Trip.com Group. They've certainly been a partner of ours for many, many years. We've operated TripAdvisor China for quite some time, and they've been a fantastic partner for us there. We feel like we've done a good job in China. But when we look at the size of the -- especially the outbound travel audience, where outbound is where our content excels, we thought partnering up with Trip.com Group in this manner, offered a much better, much more global, much more exciting opportunity for all parties. And certainly, the combination of our strength in outbound content, global content, their strength in so many things, including the eyeballs of the domestic Chinese traveler, made for just a fantastic strategic partnership. So we do have lots of excitement around the JV. We welcome them pending regulatory approval on to our Board. I -- and feel like there's many opportunities ahead.

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

Yes, Naved, on the dividend and the buyback, we are obviously very cash generative, and we have a significant cash balance. We had, last quarter, over \$900 million of cash and cash equivalents on our balance sheet, have no long-term debt and have been generating very attractive profit levels and good flow-through to free cash flow. We have, from time to time, used our proceeds for M&A, and we continue to see an opportunity for M&A in, sort of, targeted, selected areas. But even taking that into account, in a recent review, we think we have significant cash on our balance sheet that we could return to our shareholders, and we thought this quarter was a good opportunity to start returning some cash to shareholders. We thought dividend was an attractive way of doing that at scale in a relatively short period of time. You've also seen that our Board approved a further capacity for buyback. We're now back up to \$250 million of buyback capacity, and so we have that in place as well. And as we look forward, yes, we will continue to have room for M&A, but we think dividends and buybacks are attractive opportunities for us to return cash to shareholders as well.

Operator

Our next question will come from the line of Tom White from D.A. Davidson.

Thomas Cauthorn White - *D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst*

I think in the letter, you talked about membership growth and how it's accelerated. I was hoping you could just elaborate a bit on your initiatives there, how you're driving that growth. And maybe, if possible, give us a sense of how that impacts the revenue model, be it better pricing because of more data, that sort of thing? And then just secondarily, one of your peers in the space last night talked about, sort of, ADR softness, sort of, broadly. I was curious if you'd seen any evidence of that impacting your business.



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Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Sure. So thanks, Tom. This is Steve. I'll take the membership growth piece. When you dial it up and look at our overall strategy, and as we've spoken about this before, it does center around inviting more people to join TripAdvisor, become loyal, plan that considered trip, not just the hotel, not just the attraction, not just the restaurant, but really, the entire package. Having someone as a member and then a loyal member is a fantastic way to be able to reach out, communicate with them and help them throughout the different planning phases of the journey. Frankly, it's a little less interesting if it's a single one-night stay somewhere. But if you're planning that week-long trip somewhere, there really are quite a few different aspects of the trip that we can help with. Becoming a member, telling us something about yourself, the type of trip, when you're going, obviously, where you're going, the sorts of things that we might learn about you, we believe, helps cement that loyalty to TripAdvisor, that reason to come back specifically to TripAdvisor because we know you, and hopefully, we know you better than anyone else. The amount of traffic that we have coming to our site every single day affords us the opportunity, unlike many other sites out there, to offer reasons to join today and build upon the membership and the benefits of membership over time. I'll turn it to Lindsay if she wants to comment on the revenue opportunities on that membership piece.

Lindsay Nelson - *TripAdvisor, Inc. - President of Core Experience Business Unit*

Yes. I think you have to think about membership holistically, and it starts becoming a virtuous cycle. We sit on a tremendous amount of members today, mailable numbers, but that we've had a CRM strategy and tech stack that isn't meeting our needs and doesn't enable us to drive personalized communication. And what we know is that the more personalized we get, the better the results, the more revenue we drive. And that includes not only an e-mail communication but also the on-site experience. And so I don't think you can think about membership by just looking at one piece, right? There's the registration component, how do we onboard more members? When we onboard you as a member, what do we know about you? And how do we get more sophisticated at getting members to share information with us that we can then turn around and deliver a better on-site experience and more relevant communication. And then finally, over time, how do we create enough of a value exchange that's going to drive the direct and habitual relationship that we aspire to. And that's a platform strategy, which includes some of the work that we're doing around the native app, so how do we close the gap between TripAdvisor and our users? And that, first and foremost, starts with having a unique enough and valuable enough experience that you can't get anywhere else.

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

And on your question about ADR softness, Tom, that some have commented on, yes, we run on the Hotel side, we run an auction. And obviously, what impacts our partners will impact us and especially, what impacts our 2 biggest partners. We've called out, at various points, some of the macro trends that we've seen, either regionally, what's going on in different regions and softness in certain regions, and ADR is another area that's being talked about. So that makes an impact on us, obviously, we're calling out the Google impact on this call because it's the most impactful one. But the general macro travel environment and currency are also factors that play into our results.

Operator

And our next question will come from the line of Mike Olson from Piper Jaffray.

Michael Joseph Olson - *Piper Jaffray Companies, Research Division - MD & Senior Research Analyst*

I have 2 questions. When looking at the potential for cost structure changes that you mentioned, maybe could you just provide any early thoughts on what kinds of cost cutting might be considered? And maybe, how many changes on that front could be done without potentially impacting top line growth?



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And then second, related to Experiences, you mentioned having a strong set of supply and now focusing more on conversion. Does that, kind of, imply that competitively, you're just not really seeing anyone else out there that has anywhere close to your supply in that category? Or I guess, maybe you can just tell us what are you seeing competitively there?

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

Mike, this is Ernst. On the cost saving and some detail there, as we outlined in our prepared remarks, we see 3 areas where we can reduce cost from our run rate. And one is on the E&D side. And Steve alluded that to reorienting from supply more to demand growth. The second area is generally a targeted reductions of cost and overhead that we can see across the business and we see opportunity for across the business. And third is to look at our brand budget. We're revamping our brand strategy for next year, and we think there are opportunities for us to do that more cost efficiently going into the next year. So if you look at that together, this is, sort of, early days, but what we are currently, sort of, anticipating is to take a meaningful, call it, \$60 million - \$80 million out of our run rate and use that to fund some of the growth areas, and we don't think we need all of that to fund some of the growth areas, which are in the area of our media business, in the area of building membership, in the area of our restaurant solutions business and in the area of our Hotel B2B. And we think that is a prudent measure to take at this point. We are looking at the headwind, which is not just a revenue headwind, but obviously, a profit headwind that we see in our auction right now. And we don't know if that extrapolates into next year and how much of a headwind that is next year. But we prudently just assume it is, and, therefore, we're taking measures to protect our EBITDA because that's very important to us. We want to continue to drive strong EBITDA, and these cost measures are our way to achieve that for us. And obviously, what we're doing is we're looking across our cost base and say, how can we do this with minimal impact to revenue? How can we take out areas of cost that do not directly drive revenue and where we think the line to even long-term revenue is a little bit tenuous. And so that's our focus point there. And we anticipate, therefore, this largely will allow us to fund other areas.

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

This is Steve. I'll take the Experiences question. So I do want to be clear. I think we've done a fantastic job exceeding many of our own expectations in terms of how quickly we've been able to grow supply over the past couple of years. And we are not, by any stretch of the imagination, stopping the onboarding of additional supply in all of our markets. The opportunity, however, is to slow down a bit on the supply because we feel we already have a ton of great stuff to offer to our consumers and shift more towards the conversion, shift more towards discovery, shift more towards making sure we're presenting the right inventory at the right time. In terms of competition, there is competition on the demand side, and there's competition in the, sort of, OTA for attractions that's out there, and they each have different angles of where they might be particularly strong in supply. And we respect those competitors immensely. But we are the ones that have such an incredible amount of demand already -- people, travelers, already planning a leisure trip, looking for something to do, and we have, we believe, a plenty big enough supply footprint to satisfy most of that demand. We need to become better at matching that demand. You hear us talk about membership and loyalty, the site experience, how do you discover this, and to reiterate, of course, we will continue to be adding supply to the equation. We're not stopping, but it's just no longer one of our primary focal points for the coming year.

Operator

And our next question will come from the line of Mark Mahaney from RBC Capital Markets.

Shweta R. Khajuria - *RBC Capital Markets, Research Division - Assistant VP*

This is Shweta for Mark. A few quick ones, please. For restaurants, is this similar to Experiences? Bookable restaurants and diners both grew at a pretty healthy clip. What are you most focused on in terms of -- are you focused on growing more restaurants? Improving the product for diners? Improving conversion? Where do you see most opportunity there? And then the second one is on M&A. You called it out, you're looking at it. What categories are you targeting, and you're, sort of, looking at? And then finally, on display. Is display revenue expected to double in the next 3 to 5 years? Are you reiterating that? Just following up on what you said last quarter.



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Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Thanks, Shweta. This is Steve. I'll take the restaurant question. We certainly expect to continue to grow supply, grow seated diners in all of our markets. It is an area where, again, we continue to grow across all dimensions, key focus for us is building the habit. Most of the transaction, most of the seated diner growth comes from our mobile offerings. That's to be expected. And the more habit we can build amongst more people, the better off. To build a habit, you have to have a terrific supply footprint. That's what we have, so we'll continue to expand that. But if you ask me, which is, kind of, the most important habit, repeat visits, loyal users, and you get that by driving supply focus points.

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

And in terms of M&A categories, we think across our non-auction revenue growth areas, we have the ability to grow without M&A, and we have a lot of capabilities that we have or can build. But complementary M&A in these areas may make sense from time to time. And so those are the areas that we look at. In terms of your question on display, yes, we said we expect the business to double in the next 3 to 5 years, and we continue to do so. I think what Lindsay was describing before is the team is fully focused on that, is rolling out new products and sees a lot of opportunity. And we continue to think that is well within our reach.

Operator

Our next question will come from the line of Eric Sheridan from UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe following up on the last one, just, sort of, asking it from a little bit different question. And maybe, Steve, I don't know if you could take this, but how do you think, sort of, broadly about the competition you're seeing from Google at the top of the funnel and the competition for direct traffic at the bottom of the funnel from the OTAs, and whether the broader, sort of, better travel advertising layer of the industry needs a pretty-extensive consolidation to, sort of, have much more scale or interesting dynamics in the auction and the ability to, sort of, reclaim some of the dynamic that existed in the industry, sort of, 3, 5, 7 years ago? Just kind of curious broadly, like, your big picture view on that, sort of, consolidation between Google at the top and, sort of, the OTAs at the bottom as a potential way to create shareholder value. And then you made a lot of changes to the [platform] (corrected by company after the call), make it a little more social, a little more interactive over the last 12 months. I don't think it was talked about earlier in the call but any sense you give us on what that's doing for engagement or session length or, sort of, broad engagement trends you're seeing with your users as they come to the site that might lead to better conversion over time?

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Sure, Eric. A great question, certainly something we think about all the time. We are blessed by having such an incredible footprint of traffic, a global brand and a trusted brand. So when folks all over the world are looking for that considered trip, for that special vacation, they're turning to TripAdvisor. They may find us through a variety of different channels but it really is TripAdvisor that they're looking for. When we think of the specifics of, hey, how do you compete with a Hotel Meta auction against all of the sets of the competitors, including Google? That's a challenge. There's a lot -- Google is up-funnel from us. The OTAs are, some of our biggest clients, also have meta engines of their own. Our answer is to be not the world's -- not for people to think of us as a metasearch engine for hotels but to think of us as a site to plan an amazing vacation. And that's not the space that others occupy. You can't go to a Google or an OTA or any of our incredibly strong competitors and look for recommendations from people like you about where to go and how to maximize your precious vacation time. TripAdvisor, with the size of our footprint, with the content that we have, with the recommendations that we make today with our different sort orders and going forward with what we'll be able to do going down the road, we think, remains the category of 1 in the ecosystem. So in summary, we already have the scale, so it's not a scale issue. Competing in the individual category case, that's challenging because you do have niche players and you do have Google top-of-funnel from us. But as a considered trip, as planning the whole vacation, we believe we are the ones best suited to address that need. When it comes to how we do that, we've done a number of things. Our review count continues to grow. We have a number of social features on the site for the folks that are looking



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for that type of inspiration. And then I pull us back to our growth in membership because when we query our audience, when we do our user feedback survey, everyone continues to tell us, we love the recommendations, especially when they are people like me helping take me where I want to go, have an amazing time. And the social connection combines extremely nicely with the trust that people already have in the TripAdvisor brand and the fact that it's not just a magic algorithm, it's real people behind the content helping you do that trip. That's where you'll see us continue to focus in the coming year and multiple years, because we believe it is truly a differentiator between what TripAdvisor has and the set of competitors that you named and whatever new competitors arise over the next decade.

Operator

And our next question will come from the line of Doug Anmuth from JP Morgan.

Dae K. Lee - JP Morgan Chase & Co, Research Division - Analyst

This is Dae on for Doug. First, on last quarter, you wrote about reimagining your TripAdvisor app. And this quarter, you gave a timing around the release. I appreciate the clarity on when we can see the change. I was curious to hear what change we should be expecting to see? What you're trying to improve from your current app?

And then secondly, on buyback. It's good to see additional authorization but just curious to hear why you didn't buy back shares year-to-date? And how we should think about the cadence of buyback going forward?

Ernst J. Teunissen - TripAdvisor, Inc. - Senior VP, CFO & Treasurer

All right. Lindsay, you want to take the first?

Lindsay Nelson - TripAdvisor, Inc. - President of Core Experience Business Unit

Yes. So I can take the app. So as we shared, we expect to release a new native app sometime in the middle of next year. There's a number of things that we hope the new native strategy will deliver on, some really practical ones like speed and performance, how do we make the app just faster and more lightweight so that it can address the on-the-go use case. We plan to focus a lot on just enhancing and modernizing the user experience. How do we make it so easy and intuitive to plan your entire trip, whether you're moving from the app and back to desktop or moving back into e-mail. So we have a focus on user experience and also planning tools, how do we help you save the things that you're excited to go do and deliver back to you when you reopen the app, those ideas. We also are really optimistic about the commercial opportunity. Historically, we haven't had much display advertising -- or we actually had no display advertising in the native app until recently. So we're excited to build both the consumer strategy and the commercial strategy together. And we think there's a lot of opportunity to leverage the unique data that you can only get on a mobile device.

Ernst J. Teunissen - TripAdvisor, Inc. - Senior VP, CFO & Treasurer

And in terms of buyback year-to-date, we have a continuous dialogue here internally and with our Board about capital allocation. And we look at what M&A pipeline do we see ahead of us or maybe even what transactions are ongoing versus returning cash to shareholders. And that, year-to-date, didn't conclude in a buyback. But as we've outlined clearly, this quarter, we're leaning in more on shareholder returns with the dividend and also with the expansion of the buyback capacity.

Operator

And our next question will come from the line of Kevin Kopelman from Cowen and Co.



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Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Just had a couple of follow-ups on some of the SEO dynamics that you mentioned that are being going on here in the industry this quarter. So first, within the context of SEO having been pressured for a number of years, can you just give us a sense of if you've seen any stabilization in recent weeks following the, kind of, mid-quarter deterioration in SEO? Are you seeing the kind of current wave of SEO deterioration continuing to develop or get worse to date?

Stephen Kaufer - TripAdvisor, Inc. - Co-founder, President, CEO & Director

This is Steve. It's always, kind of, hard to tell. These things don't tend to drop off a cliff on one particular day. And so I couldn't comment on anything over the past couple of weeks. We've forecasted in general where we think SEO is going to go going forward. And we don't see any reason to think that the trends will be different in terms of Google continuing to take more and more space in the search results. We believe our strategy around diversifying the HM&P revenue stream off of the auction onto other pieces, combined with our other segments, combined with the holistic, bringing the TripAdvisor story around the considered trip for which the Hotel auction and everything else will benefit, is our way forward in light of these ongoing SEO headwinds.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Steve, that's helpful. And then just one more follow-up. Can you give us an update on your SEO exposure as a percentage of overall trip revenue today?

Ernst J. Teunissen - TripAdvisor, Inc. - Senior VP, CFO & Treasurer

Yes, we're not going to be getting precise on the percentage of SEO, but it's a significant minority of our auction revenue.

Operator

And our next question comes from the line of James Lee from Mizuho Securities.

James Lee - Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst

Steve, a follow-up question on JV with Trip.com here. And maybe help us understand a little bit, besides TripAdvisor China, any other assets you're putting to JV? And also what does Ctrip bring to the table into the JV? And what do you foresee as the key synergy between the 2 companies? And what are you hoping to achieve on the longer term?

And on the same topic, question for Ernst. How should we think about the assumption on valuation for the JV specifically? Is it fair to say you're effectively selling 60% of TripAdvisor China, and -- which enable you to highlight your asset value and also letting Ctrip run the business more effectively?

Stephen Kaufer - TripAdvisor, Inc. - Co-founder, President, CEO & Director

Thanks, James, for the question. Ctrip is certainly contributing not only cash but really, their expertise in identifying what's going on in the China market, especially towards outbound. They have a ton of experience on the user profiling side, on the understanding what that customer segment wants as well as, sort of, best-in-class booking capabilities across the board.



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I think TripAdvisor, to the flip side, brings an intense and insane amount of relevant content for the traveler, no matter where they're going. And so when you combine those 2 strengths into this TripAdvisor China opportunity, we feel the possibility for that JV entity to really become a much more meaningful player in the China travel ecosystem emerges. And that's something that TripAdvisor, I don't think, would have been able to do on our own. Ctrip doesn't have historically, the type of content play, especially for outbound, that TripAdvisor brings to the table. So the long-term goal, it's not confusing, it's being able to take the assets that both parties bring to the table and create something really magical, doing a fantastic job serving that outbound traveler.

Ernst J. Teunissen - *TripAdvisor, Inc. - Senior VP, CFO & Treasurer*

Yes. In terms of valuation, it's going to be a valuable company going forward. As Steve was describing, there's cash going in, there's assets going in, our brand is going in, content and the vast expertise that we have and Trip.com Group has specifically around China. And so we think that is a company, a joint venture set up for success in China. We've been in China ourselves for a while, and we bring a lot to bear in China. But we have, on our own, not been able to be a significant player, and this JV has more of a chance to become that. So we're very excited about our opportunity to do that together with Ctrip.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Okay. Great. And let me ask a follow-up question on Experiences here. I think, Ernst, you talked about shifting investment to more on the demand side as opposed to supply side. Maybe, Steve, you said the same thing too. And maybe give us more color on what investment you're making here? Are you increase your bookable supply so remove the friction for consumer to book the experience they are looking for? Or are you changing the user interface on your various property to make that more seamless from a consumer perspective? Or are you investing promotion and marketing for customer acquisitions on to your websites? And help us understand that a little bit.

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Sure. I think we have the opportunity to do many of those things. I'd say our focus would be helping the travelers that are currently looking for things to do, that are on TripAdvisor and Viator today, helping the travelers that are already planning a considered trip be matched with the right set of bookable inventory that we probably already have. But as I said, if we feel we are missing something key, I mean, that's an ongoing process to go add that to the platform. But whereas we're very happy with our triple-digit bookable supply inventory growth, that's not one of the core metrics that we will be chasing in years to come as we feel like we have a lot. Now it's a question of matching it with the demand that we already have in a better, more inspirational, clearer, more helpful way, matched with the additional info, we're learning about our membership growth on TripAdvisor.

Operator

And our last question will come from the line of Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Great. Two, if I may. One, on the Ctrip agreement, congratulations. Does that allow you to work more closely with Makemytrip now?

And then second, just on the last point on, sort of, managing demand. In terms of putting the best bookable supply for activities, is that kind of an initiative where your internal supply force works with the best providers? Is that how you, sort of, think about managing it?



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Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

This is Steve. So I mean, Makemytrip has been a client for many years. I couldn't really opine as to whether this particular JV helps that. I know they run pretty independently. But again, we already have an excellent relationship with them, Makemytrip. With regard to Experiences, we already generate a number -- quite a large transaction volume for quite a few suppliers. We're important to their ecosystem. We love having them as part of our platform. I think what I was alluding to before was more capturing the needs on the part of travelers that are currently on TripAdvisor and Viator and making sure our suggestions, for which of our bookable supply is best suited for their needs, is a very nice opportunity. We already have the traffic, we already have the supplies, so it's product, it's UI, maybe it's promotion, other ways to help make that match during the considered trip. And then when we know someone is actually on the trip, help them find the amazing something to do when they're already there that they may not even have known about but we know who they are, we know where they are, and so we're able to send a push message or a highly contextual email that's extremely helpful to that traveler.

Operator

I would now like to turn the call back over to our CEO, Steve Kaufer, for any closing remarks.

Stephen Kaufer - *TripAdvisor, Inc. - Co-founder, President, CEO & Director*

Great. Well, thanks, everyone, for joining the call. In closing, Q3 didn't meet our expectations, but we are moving forward with urgency towards our future growth opportunities. I look forward to updating everyone on our progress next quarter. Thanks.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.

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