



TripAdvisor, Inc. Q2 2016 Prepared Remarks

(All comparisons are against the same period of the prior year, unless otherwise noted)

We made continued progress along our key initiatives during the second quarter. With more than 385 million reviews covering 6.6 million businesses and 350 million average monthly unique visitors, TripAdvisor's influence on travel continues to grow. We are leveraging these competitive strengths and are focused on creating an even stickier, end-to-end user experience on all devices throughout all phases of travel planning, booking and trip-taking.

Across our Hotel and Non-Hotel businesses, we are positioning TripAdvisor to deliver on our vision of what a traveler's next-generation, phone-first, and app-first experience should be. As anticipated and previewed at the outset of the year, these initiatives have come with visible near-term revenue and profit headwinds. However, we continue to navigate a dynamic travel landscape on what we believe is the best path to maximize long-term shareholder value.

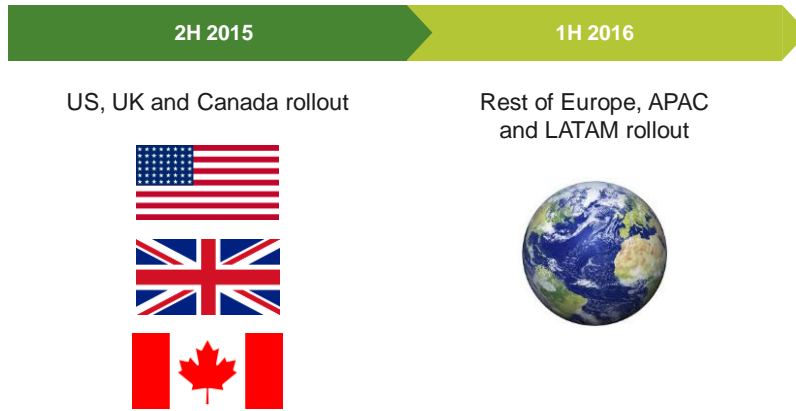
Operational Results - Hotel Segment

At 81% of our total revenue in the second quarter, our Hotel segment continues to be the biggest driver of our financial results, and we are very excited about the improved hotel shopping experience that we are building. Instant booking is a key piece, since it gives TripAdvisor users a more seamless way to plan, compare prices and book hotels. It also uniquely positions us to address the significant monetization leak inherent to our click-off model. We are early days, but during the quarter we made a lot of progress along this four-phase initiative.

Phase one: add bookable supply. We continue to deepen our partnerships with large hotel chains, OTAs, and with an ever-increasing number of independent hotels. In just two years, we have built direct connections to enable users to book more than 500,000 hotels on TripAdvisor.

With hoteliers in particular, TripAdvisor instant booking offers a wonderfully attractive value proposition: increase your reach on our platform with greater access to our global audience of high-value hotel shoppers; take direct bookings at very competitive commission rates; and leverage the consumer information we share. This resonates with many of the largest chains in the world, as well as with a growing number of independent hoteliers, the vast majority of which have been using the self-service tools in order to join our instant booking platform. With all hotel and OTA partners, we share pertinent data to enable them to better serve the consumer pre- and post-stay.

On the heels of phase one success last year, we accelerated phase two: our global product launch. What started last year with a full rollout in the U.S. in August and the U.K. in September, culminated in the second quarter this year with our rollout to users in Russia, Japan and a number of smaller countries. Each successive country launch has gone smoother than the last, and Q2 was the first quarter in which we were live to substantively all our major markets.



We are still in the early days of phase three: taking what we have learned thus far and testing and learning in our typical Speed Wins fashion to make the booking experience even better. For instance, we are helping more hotel partners improve conversion by offering more high-quality and engaging room content. This includes adding bigger and more helpful photos to tens of thousands of top hotels, as well as more engaging panoramas and walk-throughs to help users decide if a particular hotel suits their needs. This also includes streamlining and localizing the user booking flow, where implementing slight differences by country can have a significant positive impact on conversion.

We are also getting smarter about both how and when we promote the instant booking option. In the months, weeks and days leading up to a hotel booking, a hotel shopper moves from researching, to price comparing, to figuring out where to book. We continue to test ways to make our hotel pages more responsive in order to better anticipate, and more frequently satisfy, these needs. We also know that affordability matters to consumers the world over, especially in more uncertain economic times. With this in mind, we are testing ways to make it easier to find the lowest room prices across the one million hotels, inns, and B&B properties listed on TripAdvisor, regardless of whether it is offered by a partner in metasearch or in instant book.

We are also improving our transaction business acumen and increasing consumer awareness about our new booking capabilities through improved onsite messaging, more targeted email marketing campaigns and consumer promotions.



Users will continue to see a number of different sweepstakes and booking promotions on our site, and these are just some of the ways we are re-allocating direct marketing dollars that were dedicated in prior years to television advertising. With instant booking now live, we believe we are in a great position to tout our improved hotel shopping experience in order to engage more users on this feature.

Our efforts are yielding nice gains in user conversion rates, repeat rates and monetization rates. Looking at our longest standing market, the U.S., desktop instant booking conversion rates have grown approximately 20% year-over-year. U.S hotel shoppers that click on instant booking are increasingly repeating on our site, coming back to shop, input dates, and click, when compared to users that click off to a partner in metasearch. Still in the early stages following our global rollout, we believe we still have plenty more low-hanging fruit to pick as we test and learn, and test again, focused on improving the booking experience.

We are also in the early days of phase four: earning a user's trust as their booking site of choice, which we believe is potentially our biggest long-term business driver. Brand re-education may take time, yet we are already seeing nice indicators. Travelers are increasingly storing their credit cards to make future purchases fast and easy, and the percentage of bookings using a stored card continues to grow. A substantially higher percentage of first time bookers are coming back to book again compared to last year. Prior instant bookers are converting at better rates than first-time instant bookers and prior meta bookers. A greater percentage of prior bookers are also visiting TripAdvisor through direct channels, which have much lower overall acquisition costs.

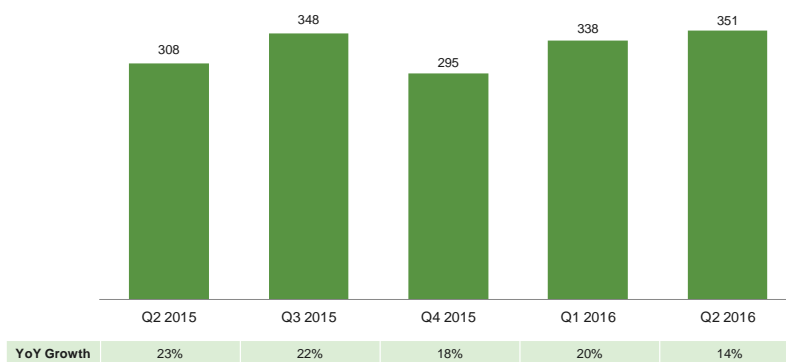
Mobile is playing, and will continue to play, a growing role. TripAdvisor-branded click-based and transaction revenue grew in excess of 30% on phone in the second quarter. One third of hotel shoppers in the second quarter visited on the phone, and on some days phone represents more than 40% of shoppers. We are most pleased with our growth on our app, where hotel shoppers and TripAdvisor-branded click-based and transaction revenue each grew by approximately 50% in the second quarter. Looking again at the U.S., we are pleased to see our most engaged shoppers on our app, as users are more likely to convert in our instant booking flow than if we were to send a user off to a metasearch partner. High repeat usage rates on app exhibits our brand strength and engagement potential. On the monetization side, this year we have seen that repeat revenue from U.S. mobile app bookers is approximately double the repeat revenue from other devices.

Helping more users book on TripAdvisor, particularly on the phone, achieves our key strategic objectives of driving more user engagement, building the repeat booking habit, and plugging the monetization leak. This is true not only in our Hotel business, but also in our Non-Hotel business.

Operational Results - Non-Hotel Segment

Complementing our hotel initiatives, we are enhancing our attractions, restaurants and vacation rentals products to better serve our 350 million average monthly unique visitors in more moments on the trip. We have significant competitive advantages in these categories: first, users already frequently engage with our rich content, as more than half of monthly unique users visit our attractions, restaurants and vacation rentals pages; second, similar to hotels, we receive only a small fraction of the value relative to the massive amount of travel commerce we help to generate; and third, by adding booking capabilities, we are driving increased user stickiness and engagement, helping users book more parts of their trip through our TripAdvisor app. Our attractions and restaurants offerings are a particular strength, as TripAdvisor uniquely helps travelers discover and experience the key moments that make any trip memorable and our restaurants offerings keep TripAdvisor more top of mind between trips.

Average Monthly Unique Users



Attractions remain our largest area of focus in this segment. On the supply side, we have grown the number of bookable products in our Viator Marketplace by more than 45% since the beginning of the year. This is fueling great consumer choice, better conversion, and strong bookings and revenue growth. We maintain a very active global sales pipeline and the team is focused on signing all top attractions in top cities this year, as well as increasing bookable products from existing suppliers. Suppliers are also increasingly providing real-time product availability via our Viator API.

On the consumer side, we continue to rollout instant booking for attractions, and in the second quarter we launched improved email campaigns and new push notifications, helping more users find and book more activities. Through our app, travelers can now be notified with a “welcome to Venice” message, for example, offering to help a user not only find a great tour or activity, but also to book it right there on their mobile device. With 690,000 listed businesses, rapid supply growth in our Marketplace, and fast-growing traveler demand, we believe we are uniquely positioned for continued growth in this category.

Moving to restaurants, we implemented mobile app notifications that engage users with helpful tips such as best restaurants nearby, popular dish recommendations, and user review snapshots, all of which drive increased awareness, stickiness and mobile engagement. With 4.1 million listings, restaurants continue to drive strong user growth, enabling TripAdvisor to help more users, more frequently in more moments, when they are traveling and when they are close to home.

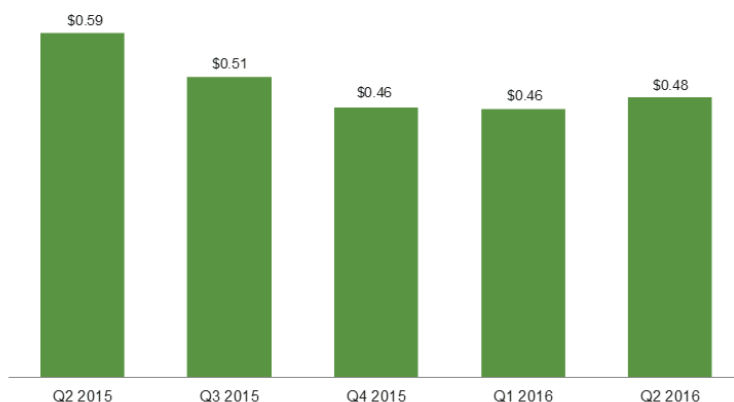
Finally, in vacation rentals, we have integrated the high-demand urban inventory from our HouseTrip acquisition and can now offer users 815,000 properties to choose from, approximately 80% of which can be booked online. Our team remains focused on adding high-quality supply, making easy-to-use tools that help more users find and book a great alternative accommodation.

We operate this segment along the three- to five-year horizon we outlined at the beginning of 2015. We believe continued supply growth, and improvements to our consumer products and our partner platform, will enable us to scale these businesses quickly, globally, and profitably in the years to come.

Financial Results

Consistent with the first quarter of 2016, second quarter consolidated total revenue declined 3% in both reported and constant currency. Hotel segment revenue declined 8% year-over-year in Q2. TripAdvisor-branded click-based and transaction revenue, which includes metasearch and instant booking revenue on TripAdvisor-branded sites only, declined 15% year-over-year in the quarter. Revenue per hotel shopper declined 19% year-over-year, which was a slight improvement from our result in the first quarter.

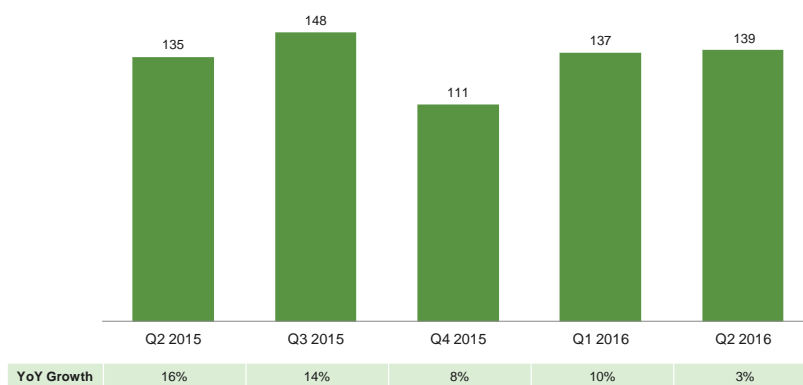
Revenue Per Hotel Shopper



Similar to the first quarter, year-over-year revenue and revenue per hotel shopper performance in the second quarter was impacted by our global instant booking launch, which includes both lower monetization as well as a higher percentage of revenue recognized at stay, as opposed to being recognized at the time of a click. The ongoing user shift to phone continues to dilute our revenue per shopper growth, since phone monetizes at significantly lower rates compared to desktop and tablet. Throughout the first half of the year, we have also been up against a tough metasearch auction compare from last year. Additionally, the increased number of macro events in recent months, and quarters, have also generated headlines and we believe these events dampened normal travel seasonality in the quarter.

These same factors impacted unique monthly hotel shopper growth, which was 3% year-over-year. Looking at recent trends, monetization headwinds from our first full quarter since our instant booking launch in major markets, as well as the accelerated user shift to phone this year, have reduced our ability to grow on variable marketing channels. We note that the macro events and softer trends observed in June have continued in July, making us more cautious.

Average Monthly Unique Hotel Shoppers



Our Non-Hotel segment accounted for 19% of our second quarter revenue and revenue growth accelerated to 21% year-over-year. Adjusted EBITDA margins improved sequentially to negative 13%. As was the case last quarter, more vacation rentals revenue is now being recognized at the time of stay, due to the continued shift to our free-to-list model. This dynamic is increasing seasonality in our Non-

Hotel segment results, since a greater percentage of revenue and adjusted EBITDA is now being recognized in the back half of the year.

Consolidated GAAP net income declined by 41%. Total Adjusted EBITDA declined by 23% in both reported and constant currency and our lower adjusted EBITDA margin compared to last year was due primarily by reduced revenues in our Hotel segment. The revenue recognition shift towards transaction-based revenue in both the Hotel and Non-Hotel segments had less of an impact to Q2 revenue and adjusted EBITDA growth than in Q1.

As anticipated, consolidated expenses grew ahead of revenue in Q2. In addition, sales and marketing expenses grew year-over-year as a percentage of revenue due to slower revenue growth as well as from investments in marketing and online traffic acquisition as well as additional headcount for the Hotel business.

Our Q2 GAAP effective tax rate was 24%. We continue to expect our 2016 GAAP effective rate to be in the mid-twenties, dependent on international revenue and expense mix, among other factors.

We generated \$237 million of cash from operating activities during the second quarter – an increase of 19% when compared to the same period in 2015. This was primarily due to a net increase in working capital movements. CapEx for the quarter was \$19 million, or 5% of revenue, a decrease of \$4 million from the second quarter of 2015, primarily due to the completion of our corporate headquarters building in 2015. As a result, second quarter free cash flow was \$218 million, an increase of 23% compared to \$177 million in second quarter of 2015. We note that our cash flow in Q1 and Q2 benefited from a substantial seasonal buildup of our deferred merchant payable, which is expected to result in a working capital outflow during the third quarter.

Our liquidity position remains strong. Cash, cash equivalents and short-term and long-term marketable securities balance was \$891 million at June 30th. We ended the quarter with an available balance of \$907 million from our \$1 billion credit facility. During the second quarter, we allocated \$11 million to repurchase our common stock and we have \$92 million of capacity remaining under our share repurchase plan.

Our chosen path in 2016 continues to dampen near-term financial results. In the third quarter, we begin to lap the instant booking rollout and the tough metasearch auction comp eases, though recent softness and the frequency of recent macro events make us more cautious about the balance of the year.

In summary, we continue to play the long game, navigating our business to deliver the best user experience in travel as well as sustainable growth and profitability. We thank our employees for their continued hard work and we know that we have much more work ahead. On behalf of our management team and our employees, we thank our investors for their continued support.

Appendix

Webcast and Conference Call Details

TripAdvisor will audiocast a conference call to answer questions regarding second quarter financial results on Thursday, August 4, 2016 at 8:30 a.m. Eastern Time. The live audiocast will be open to the public at <http://ir.tripadvisor.com/events.cfm>. This letter will not be read on the call.

Non-GAAP Financial Measures

This letter contains references to certain non-GAAP measures, which, includes adjusted EBITDA, adjusted EBITDA margin, free cash flow, and constant currency measures. These non-GAAP financial measures should be considered in conjunction with, but not as a substitute for, financial information presented in accordance with GAAP. Please refer to our 2nd quarter 2016 press release and the investor relations section of our website for all comparable GAAP measures and full reconciliations for all non-GAAP measures to their comparable GAAP measures.

Safe Harbor Statement

This letter and our conference call, which will be held at 8:30 a.m. Eastern Time on August 4, 2016, may contain statements regarding management's future expectations, beliefs, intentions, goals, strategies, plans or prospects, including, without limitation, statements relating to TripAdvisor's future financial performance on both a GAAP and non-GAAP basis, and the Company's prospects as a comprehensive destination for hotels, attractions, and restaurants, may constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 and other federal securities laws. Forward-looking statements can be identified by terminology such as "anticipate," "believe," "could," "could increase the likelihood," "estimate," "expect," "intend," "is planned," "may," "should," "will," "will enable," "would," "would be expected," "look forward," "may provide," or similar terms, variations of such terms or the negative of those terms. Investors are cautioned that statements in this press release, which are not strictly historical statements, including, without limitation, statements by our chief executive officer with respect to growth objectives, strategic investments, and statements regarding management's plans, objectives and strategies, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors including those risks, uncertainties and factors detailed in TripAdvisor's filings with the Securities and Exchange Commission. As a result of such risks, uncertainties and factors, TripAdvisor's actual results may differ materially from any future results, performance or achievements discussed in or implied by the forward-looking statements contained herein. TripAdvisor is providing the information in this press release as of this date and assumes no obligations to update the information included in this press release or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRIP - Q2 2016 TripAdvisor Inc Earnings Call

EVENT DATE/TIME: AUGUST 04, 2016 / 12:30PM GMT



CORPORATE PARTICIPANTS

Will Lyons *TripAdvisor Inc. - VP of IR*

Steve Kaufer *TripAdvisor Inc. - President and CEO*

Ernst Teunissen *TripAdvisor Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Brian Fitzgerald *Jefferies LLC - Analyst*

Lloyd Walmsley *Deutsche Bank - Analyst*

Eric Sheridan *UBS - Analyst*

Perry Gold *MoffettNathanson - Analyst*

Mike Olson *Piper Jaffray & Co. - Analyst*

Robert Peck *SunTrust Robinson Humphrey - Analyst*

Naved Khan *Cantor Fitzgerald - Analyst*

Peter Stabler *Wells Fargo Securities - Analyst*

Douglas Anmuth *JPMorgan - Analyst*

Chris Merwin *Barclays Capital - Analyst*

Tom White *Macquarie Research - Analyst*

Mark Mahaney *RBC Capital Markets - Analyst*

Nat Schindler *BofA Merrill Lynch - Analyst*

Kevin Kopelman *Cowen and Company - Analyst*

Stephen Ju *Credit Suisse - Analyst*

PRESENTATION

Operator

Good morning and welcome to TripAdvisor's second-quarter 2016 earnings conference call. As a reminder today's conference call 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

Good morning, everyone, and welcome to our second-quarter earnings conference call. Joining me today are Steve Kaufer, our CEO, and Ernst Teunissen, our CFO.

Last night after market close, we distributed and filed our Q2 earnings release as well as 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.



Also our IR website contains a supplemental financial information document which includes certain non-GAAP financial measures discussed on this call as well as other performance metrics. Instead of reading our prepared remarks on this call, Steve will provide a couple of thoughts and Ernst will follow up as well and we will talk about our recent progress and then we would jump right into Q&A.

Before we begin, I would like to remind you that this call may contain estimates and other forward-looking statements that represent the Company's view as of today August 4, 2016. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release and our filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements.

With that, I will pass the call over to Steve.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Thank you, Will, and good morning, everyone. Thank you for joining the call. Hopefully you have had a chance to read our prepared remarks that we published them that we published last night after market close. I will summarize by saying that we continue to grow content and community especially on mobile devices. We are operating the business with a long-term forward-looking view and we continue to leverage these competitive strengths as we create a stickier end-to-end user experience throughout all phases of travel planning, booking and trip taking.

We are pleased with the progress that we made in the second quarter along our key initiatives. Instant booking is now live across the globe and we continue to improve our booking capabilities not only in hotels but in attractions, restaurants and vacation rentals. Ernst?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Thanks, Steve, and hello everyone. I will just add that these initiatives come with visible near-term revenue and profit headwinds as anticipated and also as communicated at the outset of the year.

We continue to navigate a dynamic travel landscape and we believe we are on the best path to drive long-term shareholder value.

With that, we will open it up for our questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thanks guys. Had a couple of questions. The first one is around mobile. You talk about better book rates coming out of mobile and you highlight versus other devices. When you say other devices, is that both desktop and tablets so just a little clarification there? And then wondering if there is any dynamics to call out with the Samsung relationship and how that is progressing.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

I will take the first question. Yes, against other devices, that includes desktop and tablet. Mobile is really our best performer in that case.



Steve Kaufer - *TripAdvisor Inc. - President and CEO*

And thanks, Brian for the question. The Samsung relationship generated a number of pre-installs many years ago but I wouldn't characterize that as a critical partnership even back then and certainly not going forward. We appreciate all the installs, we have hundreds of millions of them but that is just a small piece of our mobile puzzle.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thanks, guys.

Operator

Lloyd Walmsley, Deutsche Bank

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks. Two if I can. One on desktop shoppers and one on mobile. First, it looked like desktop hotel shopper growth was negative so wondering if you saw that across markets or maybe if certain markets like North America where revenue accelerated, was desktop shopper growth holding up okay? Any color you can provide on that or whether this is kind of structural or temporary would be helpful.

Secondly, on mobile you guys called out app hotel shoppers and revenue both growing at a strong 50% but it seems like that would imply mobile monetization which has been improving a lot, didn't grow much this quarter in terms of revenue per shopper in app. So wondering if we are interpreting that correctly and can you kind of walk us through what may have slowed the progress there, how you think it can reverse out? Thanks.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, thank you, Lloyd. In terms of number of shoppers and the geo split in that, we have seen weakness across the world in all markets and especially we called out into the back half of the quarter. We have seen, we have not seen the usual holiday spike or summer spike that we would have seen and that was across geographies. Having said that, especially earlier on in the quarter outside of the United States in all those markets where we rolled out instant booking, we perhaps saw a larger impact that is in part driven by the fact that we can spend less as we saw the impact of instant booking. But hotel shopping is not completely isolated to outside the US.

Your second question on mobile monetization, we did see year-on-year improvement of revenue per shopper in mobile. Mobile revenue grew at about 30%. Our shopper count was up a little over 20%, 23% in mobile so that implies an improved monetization for the mobile.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thank you so much. Maybe two questions around the sales and marketing efforts of the Company. Just wanted to understand a little bit better on ROI and what you might be seeing or how you could help us understand some of the discounting or incentives you put in place. In the later commentary you sort of laid out that the shift away from TV advertising has sort of moved into those incentives on property to get people to book the first time. Maybe we can understand a little bit how that is progressing, what kind of returns you are getting and what it might mean for how you spend on the sales and marketing line in the back part of the year? Thanks so much.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure, thanks for the question. This is Steve. We certainly have been trying a number of different promotions, anything from a sweepstakes to an Amazon gift card to a discount on an attraction once you've booked a hotel. They are all just different ways that we are both driving home, TripAdvisor is a place that you can now book the hotel, not just read the reviews.

So to be clear, part of that kind of promotional goal is really building the brand around this is a place you can book and part of it certainly serves to drive that first-time booker or second time booker into the flow because we have our evidence that says once we get someone to book once, they are more likely to come back and book again. And if we can get them to book once or book twice on the app for instance, it becomes an even stronger habit. And that is what we are looking to build over time.

Figure out the set of users, the large set of users that already trust us for our reviews and push them into the trusting us for that booking experience and we have great scores of when we measure how people feel about the booking experience once they have gone through it.

So the promotions are taking some of the dollars that we had spent in TV. We feel as I've said before that leveraging the vast amount of traffic we have globally that is already on our site is simply a more efficient way for us to get our message out there than some of the other off-line activities.

It doesn't really tell you much on -- I'm not really able to tell you much on the relative spend for those type of programs in the back half of the year other than to point out what I think is fairly straightforward. Those aren't anywhere near the materiality of the TV spend even in the lightweight ways we were doing it last year.

Eric Sheridan - *UBS - Analyst*

Thank you.

Operator

Perry Gold, MoffettNathanson

Perry Gold - *MoffettNathanson - Analyst*

Thanks for taking the question. Can you provide an update on where we are in terms of conversion rates for instant booking versus meta-search maybe either by geography or device and how we should be thinking about the pace of improvement? Is that 20% uplift on desktop in the US for IB likely to be representative in terms of the pace of growth for IB conversion on mobile or maybe in other regions? Thank you so much.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, we have said before and this is still the case that conversion rates in the US have been converging and our similar to the conversion rates in meta. We have seen very good results there. We see continued evidence of the monetization gap narrowing. Outside the US in all of those markets that we launched in the second quarter, we have seen as expected what we saw early on in the United States as well that the conversion rates are lower, that there is a much larger gap compared to the US and we believe there is a lot of low hanging fruit that we have to improve those conversion rates over time and like in the US hopefully ultimately see conversions that are more similar.



Steve Kaufer - *TripAdvisor Inc. - President and CEO*

This is Steve. The standard test and learn that we are doing, we know will drive improved conversion rates over time in each of our markets. We also get the benefit of the repeat bookers coming back and those folks obviously have been around the longest in the US so they have a higher conversion rate and haven't been around as much in some of our newer markets.

So we will see the overall conversion rate for IB climb in our newer markets over time anyways because we are simply pulling back people that have already tried it, already liked it.

On the app is where we continue to be most excited because that is the best spot to build the habit. When we look at building a habit for someone that travels once, maybe twice a year, it is just less interesting to us than the more frequent traveler who can now with the stored credit card on the app open up the app, make the booking, go and it is really simple, it is really easy. We have tremendous coverage in most markets and that kind of habit enables that device and enables that value proposition to continue to grow for us. And so we would expect to see continued on average conversion improvements because frankly we are attracting our repeat visitors more and more often but that does take quarters and years to build.

Perry Gold - *MoffettNathanson - Analyst*

Great. Thanks, Steve.

Operator

Mike Olson, Piper Jaffray.

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

Good morning. You had a significant uptick in number of bookable products in Viator and at this point how would you describe the impact on monetization from that uptick in bookability versus just being a resource for information on tourism attractions with limited ability to monetize? What is the reaction from tour and attraction partners to instant book? I think it would be positive given they may be less concerned than hotels about retaining brand awareness, etc. Thanks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure. That is a great question, Mike, thank you very much. Viator has been doing this for quite a while so we have picked up a lot of the popular tourism activities over the years but there is hundreds of thousands more that want to be online, may have their own website but haven't yet connected to any platform like ours. And TripAdvisor has over 600,000 things to do in locations; many of those places sell tickets and would love the ability to have the booking from our audience. That is the whole story around the attractions.

To the second part of your question, I just haven't ever heard of an attraction owner saying no, I don't like the notion of instant booking because it takes away from that branded experience because as you point out, the attraction is much less likely to be a repeat visit than the hotel. So the attraction is much less interested in building that direct loyalty. They want to make sure their attraction is highly rated, highly visible on Trip, easily bookable, best inventory, most available inventory and our biggest challenge frankly is just getting the pipes, all that connectivity working for as many attractions as we can. And then back to the consumer side on TripAdvisor teaching folks that not only can they figure out the things that they want to do, they can book it, they can book it on desktop and more importantly in our long-term view, they can book it on their phone when they are in market and that is that whole instant booking attraction picture.

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

Thank you.

Operator

Robert Peck, SunTrust.

Robert Peck - *SunTrust Robinson Humphrey - Analyst*

Yes, thank you so much. Two quick questions please. One, when we look at the click-based revenue, it decelerated slightly to I think down about 15%. And last quarter you were helpful breaking out some of the headwinds that you saw whether it be seasonality, macro or the instant book transition. I was wondering if you could maybe go through and help break out what you saw there in those various components?

And then Ernst, as we think about 2017 and what could be more of a normalized growth rate on the top line or stabilized margins, that would be helpful as well. Thanks so much.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

So if you look at revenue per shopper, the story is somewhat similar as in the previous quarter so the largest impact on the year-on-year decrease of revenue per shopper is the instant booking dilution. We have obviously now been in market outside of the US, UK where we were before for a complete three months in the second quarter and that has made a significant impact. That is both as a reminder a booked revenue issue as well as a revenue recognition issue in instant booking. So that is a large one.

The second in revenue per shopper is the shift to mobile. We have seen a faster shift to mobile than we anticipated in the second quarter and this continues to be a drag on the aggregated revenue per shopper number. As we said before, revenue per shopper of mobile is increasing but is substantially lower than on desktop and therefore with the mix shift, a reduction of the overall.

We have also in the second quarter had tougher meta comps compared to a year ago. We called that out earlier, that is a front half issue that will abate that will ease in the second part of the quarter.

We have also called out that we did see some softness particularly in June and into July which we think might be impacted by the macro environment by the various events that we have seen around the world be it terror related or economic events like Brexit and we believe that has made an impact on us as well on the volume side, on the number of shoppers' side and perhaps also on the revenue per shopper side.

Your second part of the question about 2017, in February, we made some statements painting a picture for the shape of 2016 but also into 2017. We have no reason to update that today but I also don't want to put a finer point to that. The teams here internally will start to shift over the next month in more detail planning for 2017 and when the time is right we will provide you some appropriate comments about 2017.

Robert Peck - *SunTrust Robinson Humphrey - Analyst*

Thank you so much.

Operator

Naved Khan, Cantor Fitzgerald.



Naved Khan - *Cantor Fitzgerald - Analyst*

Thank you. Just a couple of questions. Steve, maybe you can give us some more color on the shopper growth and how it might be affected by the spend on the available advertising channels. It looks like you are spending more on promotions related to instant book. Is that taking away from the spending on traffic acquisition and maybe even hurting the meta-search?

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure, I will try and answer. The basic variable marketing channels that we have traditionally used, the standard ones, continue at pace, no fundamental change in how we approach them. With the revenue per shopper decline, that impacts based upon our ROI neutral approach to those channels and impacts how much we are able to bid in those channels. So you have seen we believe partial decline in the hotel shopper growth because of a lower ability to spend in those channels.

I wouldn't call out the promotions as -- well, I am telling you the promotions are not coming at the expense of the variable marketing channels. They are marketing dollars that we are choosing to spend to build up the brand of TripAdvisor as a trusted place to book but I would caution against thinking of it as I mentioned before, in the same magnitude as TV because it is not.

Naved Khan - *Cantor Fitzgerald - Analyst*

Understood. And then just a follow-up, can you just talk about the dynamics for the meta auction in the second quarter. Was there any impact from Expedia under-indexing in their channel -- they talked about that on their earnings call?

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Yes, we had heard that and from our seat, we are kind of used to various partners, big ones and small ones, having small to medium changes in how they act quarter on quarter on quarter. So Expedia may have been talking about a little bit different approach or different stuff this quarter. We see it but other partners also change their smallish bids from time to time.

I wouldn't view it as the most relevant thing in our overall model. Pricing overall impacts our CPC auction. We continue to make revenue optimization headwinds and we look at the macro issues impacting online travel as another aspect that can both affect revenue per shopper as well as total shoppers coming in the store.

Naved Khan - *Cantor Fitzgerald - Analyst*

Thank you.

Operator

Peter Stabler, Wells Fargo.

Peter Stabler - *Wells Fargo Securities - Analyst*

Good morning. Thanks for taking the question. In your prepared remarks I think, Ernst, you said that you are now live in quote substantively all our major markets. Wondering if you could help us understand when kind of from a timing perspective you might be experiencing maximum IB transition headwinds and when that curve might start improving? Thanks.



Ernst Teunissen - *TripAdvisor Inc. - CFO*

So in terms of rollout as we said, this second quarter was really the quarter that we had the full three-month impact of the IB rollout globally. As we have said over time, we have made improvements in the United States but this is really the initial rollout outside of the US and the UK and the full impact of that. We believe that as we go forward, as we enter in this phase three and phase four that we were describing in our prepared remarks, we hopefully should be able to make improvements to our offering and improve our conversion rates over time.

Peter Stabler - *Wells Fargo Securities - Analyst*

Great. If I could one more. Do you think IB conversion rates could never exceed meta? Thank you.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

This is Steve. I certainly do believe that IB rates can and sometimes do exceed meta. It very much depends on the property, the type of traveler.

I will give you a very simple case in point if a user is looking for a relatively straight forward stay, low research intent vacation, staying three nights in a Best Western, the conversion rates are really quite high and near as we can tell higher than the downstream meta. It kind of makes sense, it is a simple transaction, TripAdvisor has given you plenty of information and there is not a big reason to shop around.

But the week stay in Cancun where you are looking for a lot more information and sometimes information that frankly TripAdvisor doesn't quite have in the form that you are looking for, then instant booking is not converting as well as a meta.

So I certainly understand your question and we think over time, yes, we do believe instant booking can and should always be able to be better if our pricing is good than a meta-click and when we look on average, we see in the US app, we are already there. But again, the on average already better than meta is a great statement. I still drill it down to different segments of properties and different segments of trips because we want to make sure it is not on average great, it is great in every different situation that we come across.

Peter Stabler - *Wells Fargo Securities - Analyst*

Thank you, Steve.

Operator

Douglas Anmuth, JPMorgan.

Douglas Anmuth - *JPMorgan - Analyst*

Thanks for taking the questions. First, I just wanted to go back to North America and the revenue growth there accelerated a little bit in 2Q. Just wanted to understand the acceleration better and I guess just in particular how much is that lapping some of the instant book impact versus some of the conversion improvements in areas where you are doing better?

Secondly, can you just talk a little bit about your strategy for determining when you are showing instant book and kind of when you are moving it up and down the page kind of through the booking process? Thanks.



Ernst Teunissen - *TripAdvisor Inc. - CFO*

I will take the first part of that question. So the geo split that you see is the first thing to point out is a mix across our entire business so it includes TripAdvisor, auction revenue but it also includes obviously other hotel brands as well as attractions, vacation rentals, etc. But having said that, across the board and also in our TripAdvisor core, our revenue performance in the US has been better than outside of the US for a number of reasons. Most importantly that we are much further along in driving improvements in our instant booking offering. We have seen lapping of things that we did last year and we have seen significant improvements we have made in conversion in the United States. So we are very pleased with that and we see very good performance there.

If you compare that to EMEA in our breakout and APAC and LATAM, you see that the trends are different there. That is a function of the rollout that we have just done and you also see in addition that particularly in LATAM and APAC we have seen weakness. So if you were to ask is where in the portfolio have you seen strong performance and less strong performance in the second quarter on a year-over-year basis, clearly US a stronger performer, mobile a strong performer and outside the US, Europe weaker and especially outside of Europe, LATAM and APAC weaker.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

And this is Steve. You are wise to point out that change in the IB instant book presentation on the website as internally we call it sort of flexing the user interface to show instant book where we think it is truly the best offering for the consumer and not fully deprecating but lowering its visibility when we don't think that is going to make for a successful experience. We were perhaps a little too ambitious when we rolled it out originally putting IB top, front and center no matter what the price was in IB and no matter how appropriate IB was for what the user was looking for. Looking back to that example of a Best Western purchase versus a week in Cancun.

Now when you look at our site, again depending on the market, you will see instant book positioned as a terrific option if it is the right property and the right price and you will actually see it float in a different spot depending possibly on whether you have booked on TripAdvisor before.

So the team did a terrific job helping to figure out when instant book is likely to be successful and when meta is actually a better offering or a better choice for that traveler at that point in time. The traveler as they go through their journey in fact sometimes is more interested in a meta-click off for looking at more inflation and sometimes is more interested in just finishing the booking right there because the price is the same and the purchase path is simple.

So again, I would suggest if you care to continue to look at the site because we expect to continue to look and optimize where and when you see instant booking again per hour mission helping that traveler plan and book the perfect trip, what are the right times when we are going to see it.

The really nice thing and then I will end my point is that as we have flexed the user interface to show meta or IB at the right time, we have increased our revenue and we have not had a meaningful drop in our instant bookings because fundamentally we are lowering its visibility in cases where we weren't converting anyone anyways.

So in this case, the team again, nice job because we hey are getting our revenue back which helps our traffic acquisition and our overall topline and we are not losing on the instant book trial piece which furthers our building a habit using instant book strategy.

Douglas Anmuth - *JPMorgan - Analyst*

That is helpful color. Thank you.

Operator

Chris Merwin, Barclays.



Chris Merwin - *Barclays Capital - Analyst*

Great, thanks. I just had a couple of questions. First, I think the commentary was still that we will see in upward shape in the revenue curve for the back half of the year. Is that going to be mainly driven by revenue per hotel shopper or also a pickup in hotel shoppers as well?

And then just a second question, I think still we sometime see a difference in price between instant book and meta and if you wouldn't mind just reminding us how that works and to what extent like a lower price on instant book is helping conversion? Thanks.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes as you all know, we don't provide a formal guidance but we have made the comments that -- a few comments. One is we see our comp easing in the second half. This is the comps from the IB rollout but also the meta-comps that we have highlighted before. We are also commenting though that there are recent softer trends that we have highlighted and they make us more cautious as we look at the rest of the year.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

And then to answer the pricing question, the instant book price is generally speaking be best price that we get from all of our instant booking partners which is frequently the hotel itself, chain or independent, and then likely one or more of the Priceline companies and then perhaps another or a different OTA. I have said many times that instant book price is not actually the best price in our meta-auction and so since travelers the world over care most or care hugely about price, when our instant book price is not the best price, we are generally not featuring it at the top of the page because we know it is not what users are going to want the most.

Our goal is going to continue to sign up independent hotels, chains, online travel agencies, resellers, every possible partner who is able to take the booking for a hotel so that when you come to TripAdvisor and use the instant book product you will see TripAdvisor having as good a price as any of our meta-partners and frankly as anyone across the web has. And so we measure -- getting technically here -- we measure the meet, beat, lose ratio of how our instant book price compares to our own meta-auction to know how many times a smart traveler should be picking instant book option because it is equal to the best price in the meta-auction.

Chris Merwin - *Barclays Capital - Analyst*

Okay, thank you.

Operator

Tom White, Macquarie Capital.

Tom White - *Macquarie Research - Analyst*

Great, thanks for taking my question. Steve, you just touched on kind of ramping hotel supply, both the kind of independents and chains as well OTAs. Can you maybe give us a sense of how many direct hotel relationships or contracts you guys have and maybe how quickly that is growing?

And then just secondly on conversion rate, there are some discussion of conversion rates for IB versus meta. I'm curious to know whether there is a meaningful difference in conversion rate for IB when kind of the connectivity or the booking is processed by an independent versus one of the large OTAs like booking? Thanks.



Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Thanks, Tom. Two good questions. We are not at the point to release total supply, direct supply numbers. I think we talked about having the vast majority of the chains on board and we have quite a few independent properties. One of the nice points of that independent property piece is that so many of them are hearing about us through their channel partner or aware of us because they are responding to reviews and so they are actually going through our self-service module to sign up. And if that independent hotel uses an Internet booking engine that we support and we support well over 100 now, it is pretty easy for that property to come on in, put in their credit card, hit a few buttons and away they go. And then they are able to take direct bookings via TripAdvisor. And again, they like it, feedback is good. We have had the strongest desire to be as broad as we can with instant booking so our natural focus has been the big chains because they can bring on thousands of properties at once and of course, the big OTAs and we have a super partnership with the Priceline brands and so you have seen both not only booking.com but also Priceline and Agoda appear in our auctions, not only in the US but in many more markets as well. And as we expand all of that inventory to that OTA relationship, we are delivering instant book to more customers in more languages.

So the question of the instant book conversion via supplier direct versus an OTA, it is a little hard for us to measure simply because it is apples to oranges. The big chain supply we have tends to be kind of the big names, the high confidence and in general those tend to convert quite well, oftentimes better than a good OTA partner because there is some -- near as we can tell, some brand preference for the supplier direct.

It is a little more nuanced when it comes to the individual properties signing up, whether the consumer preferences an OTA versus the independent.

I'd leave you with the generalized statement that if the independent or the supplier direct has excellent content in our system, so good room descriptions, good photos and absolutely have equal pricing, then the supplier is likely to get a higher share of the bookings.

When we ask ourselves what matters the most -- I want to be very clear -- it is price. So hoteliers who are very good at making sure their own website has the best pricing and that is what is shown on our site reaps the benefits of that where pricing is variable across different of their partners, then the hotel itself will lose some of the bookings because consumers prefer the cheapest price simply put.

Tom White - *Macquarie Research - Analyst*

Great, thank you.

Operator

Mark Mahaney, RBC Capital.

Mark Mahaney - *RBC Capital Markets - Analyst*

Great. You talked a couple of times about the mobile monetization gap. And I just wanted to get back to it and ask a couple of basic questions. How big is the gap between mobile and desktop and tablet monetization? What is the trend like? What are you think basic factors causing that gap and do you think that that is just inevitable that long-term that that closes or gets eliminated? Thanks.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

The monetization gap that we currently have so global monetizes roughly at about 30% of -- phone, not the tablets, the phone monetizes roughly at 30%, one-third of desktop and we have seen that improve over time. It is better today than it was a year ago and we continue to believe that we are well-positioned to continue to make improvements and we lead with our mobile product.

So as we think into the future, we do anticipate that we see further conversions of the monetization of the phone and desktop. Where that will exactly land is a little difficult to predict at this point.



Steve Kaufer - *TripAdvisor Inc. - President and CEO*

And I would caution folks that sometimes when you hear us and others talk about mobile, it includes tablet. We try to be clear when we talk about our phone monetization being one-third because tablet for us looks pretty close to desktop.

Mark Mahaney - *RBC Capital Markets - Analyst*

But qualitatively can you talk to the factors that are going to cause that gap to narrow over time?

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Sure. This is Steve. Absolutely the biggest factor is the consumer building a habit and the expectations of being able to book with us on the app. So there is the macro and I think almost every travel company at least will talk about how the phone bookings monetize less per booking than desktop because the phone is still used at least in my opinion for the lower decision support purchases. It is the easier hotel, it is the one night, you know what you want, there is less research involved. And the heavier more expensive purchases are happening, the less commoditized purchases still are happening more on the desktop. As users' comfort grow on the phone, as phone apps become even better, that will lessen and the average price of what is booked on the phone will come closer to desktop. Average price is a good proxy for average amount that any of us make on those bookings.

For us, the habit of booking and rebooking and rebooking on the phone, on the app specifically, is going to be what we believe drives our future monetization model. We kind of have the best of many worlds because we have this awesome meta price comparison engine on any device that allows the traveler to make sure they are getting the best deal and we have moved into the transaction business so that they don't have to go anywhere else to get that best deal. They can book right on TripAdvisor

If you believe as we do that it is going to be an app world and to many, it is already in app world, to Facebook is already in app world but in that sort of travel purchase, it is moving in that direction. Our app being able to help people find what they are looking for, make sure they are getting the best price, click off in a meta model if they are not getting the best price, use their stored credit card to easily book when we do have the best price so that they made the travel research, they made the travel purchase, now they are taking TripAdvisor on the road with them in that single app to deliver that next experience of what am I going to do when I get there? Where am I going to eat, how can I make all those reservations? And that app world means my overall revenue per shopper A, gets amortized over all the different stuff that we sell, not just hotels. But B, building that app because we have earned the spot on your phone makes that monetization because of the repeat usage that much better over time. And it is true that on TripAdvisor desktop, we have been phenomenally blessed with so much traffic, so much trust, so much awareness around the globe but the desktop website isn't that sticky.

It has been our challenge to get people who do the price comparison on Trip, who read the review reviews on Trip to not immediately pop over and book somewhere else such that we have completely lost the credit. And that is not a complaint against any of our partners that we deserve all that credit, we are trying as hard as they are to correctly attribute the credit to us. On the app with instant booking, we don't have that challenge anymore because we have built the habit, people come back and finish their booking right on Trip.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thank you Steve. Thank you, Ernst.

Operator

Nat Schindler, Bank of America.



Nat Schindler - *BofA Merrill Lynch - Analyst*

Hi. If you look at your revenue per hotel shopper was down and you're seeing mostly from instant book, but wouldn't it be down considerably just from mix shift as desktop shrank from mobile? And how much of that difference would there be?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes, you are correct. If you look at the drivers in order of importance, the number one driver was the instant booking impact in the second quarter, consisting both of the booked revenue impact from the lower monetization IB, as well as from the revenue recognition. The number two driver indeed was the shift from desktop to the phone, and we are not sizing the individual impacts of all those drivers, but it was a significant impact.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Just on a quick follow-up to that, how much is -- just on IB, what is the difference in monetization between desktop and mobile?

Ernst Teunissen - *TripAdvisor Inc. - CFO*

We are not breaking out that in specifics. We have said overall, the monetization on the phone is 30%, one-third of meta. We're not breaking that down between IB on the phone or IB on the desktop.

Nat Schindler - *BofA Merrill Lynch - Analyst*

Thank you.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

What we like about that phone aspect is we continue to see our best repeat rates on the app, we continue to see the strength of the habit, kind of more people booking four and five times on the phone than on mobile web or desktop. And if you look at the app experience verses mobile web or desktop, you see that we are pushing harder on instant book as the best and easiest option.

When you look at the folks who are logged in, already members on the app huge, huge percentage of people that are clearly identifying themselves as TripAdvisor members and happy to book. Combine that with the constant increase in credit card storage, the constant repeat bookings and it takes time but we are pretty happy with how that picture is shaping up on the app.

We are going to face, to be clear, a continued headwind of the shift over to mobile because even though our mobile monetization rate is growing and the app usage is looking really strong, it is still coming from such a smaller rev per shopper base than desktop. But that is one of the reasons why we launched IB or the whole concept of instant book in the first place was to kind of solve this problem so that we would be in a phenomenally strong position in an app world in a few years.

Operator

Kevin Kopelman, Cowen and Company.



Kevin Kopelman - *Cowen and Company - Analyst*

Thanks. I wanted to ask about the softness in June and July. Can you give us any sense of the relative size of the softness this year when compared to the slowdown in meta-auction pricing they saw in June and July last year? Thanks.

Ernst Teunissen - *TripAdvisor Inc. - CFO*

Yes. I don't want to -- I will put a finer point on it than we have already done. We did see as we called out, a softness really into June more than in April and May in the particular quarter and we have seen that softness continue into July and as I said before, usually we see a very significant spike in June and July that is seasonal. We have seen that much to a lesser extent this year.

We've talked about what we believe are some of the headwinds that we are looking at. It is difficult to size the total impact of the macro. We have seen obviously impacts, localized impacts, in the particular markets that were impacted and we can size those to some extent. But we believe there is something larger going on in the travel environment that is harder to quantify.

So we have seen that in June and July. When we say, when we look at the rest of the year that we are more cautious, it is really because it is difficult for us to forecast how much of that June, July weakness is going to persist throughout the end of the year and that is the reason for our cautiousness.

Kevin Kopelman - *Cowen and Company - Analyst*

Thanks, Ernst.

Operator

Stephen Ju, Credit Suisse.

Stephen Ju - *Credit Suisse - Analyst*

Thanks. So, Steve, 0.5 million bookable hotel properties now. Any way to characterize the number of rooms? And when you are pretty much done getting full adoption of IB, what do you think the bookable property count and the room count will look like? Thanks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Thanks, Steve. So because of the Priceline group relationship and the fact that we have all of their inventory, I would say the bookable properties number is huge, covers just about everything we want because you think of how strong the Priceline group companies are covering basically most interesting bookable hotels.

We have always looked at our meta auction by hey -- as a percentage of page views, how many of the properties that we have do we have a commerce link for and that number has been quite steady for several years and I think the number now that we have this 0.5 million bookable properties is going to be pretty steady.

Priceline generally has most if not all of the rooms at a property so we don't generally go down to the room level count. But if you think of our inventory as the super set of the Priceline brands plus the Expedia affiliate network brands via Tingo plus Get a Room, plus the other suppliers that we have signed up, in total bookable properties, I can kind of say at least in English, I can kind of say check mark, got all that matter.

I can't say check mark yet on do we have the best price on all of those properties because Priceline as strong as they are on pricing doesn't always have the best price and that is why people generally shop around on the net. They are very, very good at it. TripAdvisor has the opportunity to be

even better because when Priceline has a great price for a property, we can take from them, when the hotel itself is a better price, we can take the price from them and they can both be instant book partners.

So I wouldn't look at or I don't care much about at this point the trajectory of bookable properties, I care more about how we are doing by way of content and pricing for those properties and then the expansion into as many languages as we can support.

Stephen Ju - *Credit Suisse - Analyst*

Thank you.

Operator

At this time I'm showing no further questions. I would like to turn the call back over to Steve Kaufer for any closing remarks.

Steve Kaufer - *TripAdvisor Inc. - President and CEO*

Thanks everyone for joining the call. I want to thank all of our employees around the globe for their continued hard work. Everyone is doing a great job for us. We appreciate that and we look forward to updating all of you on our progress next quarter. Thanks very much.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. This does conclude the program. You may all disconnect. Everyone have a wonderful day.

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