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TRIP - TripAdvisor Inc at Raymond James Institutional Investors Conference

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PRESENTATION

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Great. Thanks for everybody coming today. I'm Justin Patterson. I cover digital media and travel at Raymond James. Really excited to have Ernst Teunissen, the CFO of TripAdvisor, here with us today. I'm going to start off with just the standard fireside chat, starting at a high level and then digging deeper into the model. Sound good, Ernst?

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

Sounds good, Justin. Thanks.

QUESTIONS AND ANSWERS

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Great. So I guess starting at a very high level, you have tremendous scale. I think during your peak period, around 455 million visitors come to your website. Yet there's also been quite a few headwinds in the business on the hotel side the past few years. Can you walk through what some of those headwinds are and your strategic priorities to deal with them?

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

Yes. Well, good morning, everyone. A pleasure to be here and thanks for your interest in TripAdvisor. Yes, just to reiterate what you just said, Justin, we are a large -- very large, the largest travel site. We have 450 million unique users in our peak months coming to our site. And they visit across different verticals. They visit our hotel pages, restaurant pages, attractions, things to do, rental pages, flights. So we have very broad engagement from a pretty committed user set. Our brand loyalty is high. We have a very strong brand, very high engagement with our content and with the larger community. So that's really great. And that user base has been growing sort of nicely. Last quarter, it grew 17% year-over-year. And it keeps growing in sort of the mid-teens over the last quarters. And so the big opportunity that we still see at TripAdvisor is to make that travel experience for that user base more and more seamless, seamless from planning all the way through to actually booking something as well as seamless across these different products. Typically, when you're at home planning a trip, you think about your flight, you think about your hotel. But when you're on the trip, when you're actually in the destination, your focus starts to shift to things like, hey, where do I eat? Where do I -- What do I actually do? What's fun to do with the family? What's fun to do that is an activity. And so we want to have that seamless, end-to-end experience for our travelers.

Now that's a big monetization opportunity ahead of us. So the \$1.5 billion of revenue that we did last year on those 450 million users just indicates that we have a long way to go still to capture monetization opportunities there. And we're doing that on each of the verticals. So 3 years ago, we acquired a presence in attractions with Viator. We acquired a presence in restaurants with TheFork, LaFourchette. But really, there was already a large user base on TripAdvisor looking at attractions and things to do, we just couldn't book it. So we've been adding that and see very attractive growth, and we have a great position in attractions and in restaurants and launching still new products. We recently launched a new product for restaurants. And so monetizing our user base around these verticals has been great.



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On the hotel space, which is our largest user base, yes, we've seen some headwinds. We've seen a shift from desktop to the mobile phone, which has been a headwind for us because our monetization has historically been lower on the phone than on desktop. We're making improvements. And so our monetization of phone versus desktop was 30% maybe a year ago, is now 40%. So we're making progress there, but still some way to go. Our biggest opportunity on the hotel is very similar to our overall base is, yes, we still got a relatively small number of people engaged with price comparison, finding a great deal for your hotel and a relatively large portion of traffic on our site focused on finding the best hotels, engaging with the content, engaging with reviews for which we are so well-known. So our big opportunity there and really the focus of our product improvements over the last year, really the focus of the brand TV campaign that we have launched is, can we get more people that are already know us and love us and engage with us for -- on the planning side for hotels, can we get them excited about using TripAdvisor as a place to find the best price as well. And as we do so, improve our monetization. So that's been within hotel a very, very important focus point for us.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Got it. So you mentioned marketing within there. You spent about \$75 million on brand advertising this past year. Your goal for this coming year is around \$100 million to \$130 million. What's your learning been from those brand campaigns?

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

Yes. And so indeed, we are -- we started with TV back in June 2017, very specific campaign to communicate with our user base about our ability to offer great price comparison and find a good deal of hotel. It doesn't focus on our total TripAdvisor user experience, very deliberately so because that's the one thing we want to move. And we were making room for that TV investment by pulling back some on external marketing. We did that in 2017 and we'll continue to do so. So adding on TV is just not an additional bolt-on to advertising dollars. In fact, in 2018, we forecast for hotel to spend less advertising dollars in total despite of the fact that we invest in TV. So we're finding that TV is a very good channel for us to communicate with our user base about that value proposition that we have added on and are focusing more on finding the best price for a hotel in ways that marketing on search engines or social media doesn't allow us to do that. And so we've started that. So far seeing good traction actually. We're measuring, as you can imagine, awareness on multiple fronts, not just awareness as a travel site, but awareness specifically around price comparison, finding good deal, booking, and we're seeing good progress there. We also, of course, measure what we see in our branded channels. So if someone type into Google, TripAdvisor hotel Paris rather than just hotel Paris. And we are seeing some good progress there as well. In 2017, it was a loss-making channel for us. We went into this with our eyes wide open. This would be a multiyear campaign that would get us to breakeven and then beyond over a few years, but it's doing what it was planned to do, which is help us communicate that message to our user base.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Got it. So that's the traffic side of the equation. Then there's the monetization side. So the OTAs, Booking.com, Expedia, have taken some efficiency this past year. You can't control the OTA spend. How should we think about other factors that affect monetization? Is there an opportunity to get more chains bidding on TripAdvisor?

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

Yes. And so, indeed, you're referencing what happened in the third quarter of last year, which was one of our partners took some efficiency on us and on others in their marketing ecosystem. That stabilized in the fourth quarter. And so that was really a reset that then stabilized and didn't deteriorate into the fourth quarter. And we're seeing that as a sort of new normal level going forward. The best tool that we have to improve our monetization is to make sure that we have better and better conversion on our site. And so that means that we supply more and more traffic to our partners that is highly converting for them so they are bidding for that traffic on our site and make us revenue. And one of the very important ways of doing that is again that product improvement towards price comparison and the TV ad campaign around it. If we can get more people to not only consider us for that research and planning, but also then do the price comparison and click off to Expedia or Booking.com or a hotel or anyone, that means we can provide them with more qualified leads, which is ultimately our ability to improve the number of bookings that we generate per shopper on our site and the revenue that we create per shopper on our site. That's our big focus point.



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Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Got it. And you did do a reorganization of the hotel business at the start of the year as well as introduce the TripAdvisor Core Experiences SBU. Could you talk about what your priorities are for that, how you're incenting managers, how you might operate differently under this new structure?

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

Yes. We made some changes around our organization. We had -- traditionally, functionally organized the company and had moved into a bit of a hybrid situation as we were doing some acquisitions around attractions and restaurants, and we had created some verticals with intact P&Ls around those verticals. And we went -- we made that more consistent and also created a hotel P&L with clear accountability around revenue and profitability around the hotel business. The focus for that hotel business is squarely on what we have just discussed, creating that great shopping experience for whoever is on our hotel pages. So making sure that from planning that hotel visit to actually doing the -- planning the best deal, that is a great shopping experience, an integrated shopping experience. That's the focus point, clear accountability for the P&L. In parallel, we've created a unit that is we call our Core Experiences unit, which is a unit that is actually focused on capturing a lot of opportunity that we under-monetize on in the past. And so one is making sure that the user experience is more consistent and more thoughtfully approached by us across all these verticals. So how do we take a user through all these different stages of planning a trip and being on a trip? And what do we expose at what point? How do we think better by using the data flow that we have around that, the data that we generate for those 450 million users? How do we think differently about monetizing some of the more up-funnel traffic of people that are not yet specifically looking at a hotel or a restaurant, but are more generally looking around? How can we create better monetization of that? And so this unit's squarely focused on that. So hotel, very different focus, much more focused on the down-funnel behavior of that hotel user and the much more up-funnel and more interstitial focus of the core experience.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Got it. So experience is a good segue for the growthy part of the business, non-hotel. Within there, attractions is the biggest. It's about north of 10% of revenue. Talk about the opportunity you're chasing there and just how we should really think about the growth drivers in attractions going forward?

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

Yes, indeed, so non-hotel, about 25% of our total revenue last year, but growing much faster than the hotel business in total. And if you look at the components there, non-hotels for us is 3 businesses. It's our rentals business, our alternative accommodation business. It's our restaurant business. And it's our attractions business. And within those, attractions is about half -- last year was about half of that revenue pool. And restaurants and rentals were about 25% each. But attractions and restaurants clearly growing much faster than the average of that non-hotel business. And we have some very interesting -- making some very interesting progress there. Attractions is a relatively fragmented market, multiple players interested, but we seem to have built up a nice, early lead position in that marketplace. Our big advantage in that business besides having bought a great company with Viator 3 years ago is we already have a lot of users on TripAdvisor looking for things to do, either when they're at home or when they're actually in-destination on their app. And so we have all that volume of traffic already on our sites. And so now what we're doing is making sure we get more and more bookable supply and making more and more of the things you can do when you look on TripAdvisor bookable. And that's a very nice cycle that we have. And continue to invest in the Viator brand as well. So we're very excited about that business, the growth profile of the business. And what we saw last year is very nice margin improvement across both our attractions and our restaurant business as well, which meant that we saw for the total Non-Hotel segment a very nice margin improvement as well. So growing fast, starting to show some attractive margin, very pleased with that.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

And on that margin point, how should we think about what drove that improvement year-over-year? Was that primarily just revenue growth? Was that the benefit of listing on TripAdvisor? Walk through the mechanics a little bit.



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

Yes, So there are a few drags there. One of -- first is the business is growing in size. And early on, we consciously made some significant investments in the infrastructure and scale is starting to pay off. Particularly in attractions, last year, we saw that after some years of upfront investment, we could take some efficiency on some of our cost. And yes, that drove some really nice margin expansion. We're focused on revenue growth primarily for that business. So on the hotel side, we have said, hey, we want to think about trade-offs between revenue and profitability, but on the non-hotel side, there's no such thinking. It's really focused on making sure we capture on that big opportunity. So it's revenue-focused. But within that, we were able actually to start margin expansion last -- show margin expansion last year. And the scale of the business is starting to come through.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Got it. And then over on the restaurant side, you mentioned that was a healthy growing one, too. Talk through how you're competing against OpenTable, which is a very U.S.-centric model. Is this mainly European growth? And how should we think about the drivers going forward?

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

Yes, we have -- if you look at our restaurant business, we have 2 components to it. And so we have a business called TheFork, LaFourchette, which is like OpenTable, providing reservation services and has a model that is monetizes by getting paid on a per seated diner basis, strong in Europe. Strong markets are France, Spain, Italy. We're in the Netherlands. We're in Australia. Not present in the U.S. and the U.K. with TheFork, LaFourchette and much more regionally focused on expanding that pie. So that's one business growing very nicely, doing very well. Then we have a large number of restaurants actually on the TripAdvisor site. We have about 4.5 million restaurants on TripAdvisor -- listed on TripAdvisor. We have with rev share in the U.S., in the U.K., with rev share agreements, with some including OpenTable, created some revenue, but under-monetize that exposure that we have and have recently launched an ad product that allows restaurants to position their restaurant better on our site and have a sponsored link at the top of the restaurant sort order. That's early days. And we just started that at the back of -- end of last year, but is starting to show some interesting traction. And so that's an additional revenue stream in attractions -- in restaurants that we are building up. We moved to non-hotel. We moved away from hotel in our conversation. But by the way, a similar ad product for hotels we have launched as well that we had started with restaurants. So an ability for hotels to have an ad placement on our site as well, which is early days. We just launched it, but is showing some nice traction as well and is another way on the hotel business to monetize our significant position there.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Got it. And then final part of the non-hotel, the vacation rental business, obviously, a very competitive space with Airbnb on one side, Expedia with HomeAway, Booking.com is getting more aggressive. How should we think about TripAdvisor's strategy in vacation rentals?

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

Yes. So we look at the rental business, indeed you're saying, hey, this is compared to attractions, a very different competitive environment. Attractions is more fragmented. We actually have an early lead in that space. The rental side, yes, you have HomeAway and you have Airbnb very aggressively expanding their footprint in those areas. We're a much smaller player than they are, but we're profitable. And an important driver of the fact that we're profitable is we're able to actually use our TripAdvisor user base and therefore, monetize that really well. And so it's a profitable business for us. It's not growing as fast as other parts in non-hotel, but an important strategic component for us in terms of being able to offer to our user base, not only hotels, but also alternative accommodations. So we'll continue to make sure that, that is available to our TripAdvisor user base.



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Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

And then a big-picture question around that. At the end of the day, it's all leisure travel. So how should we think about vacation rentals and alternative accommodations relative to the hotel TAM? Is that net incremental? Is that a little bit cannibalistic back and forth? What's the big-picture prediction there?

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

Yes. The way we think about that is ultimately -- in accommodations is ultimately a place where a user wants to stay. And what alternative accommodations has done is open up much more choice for the users, which has not been a zero-sum game, which has opened up more opportunity for people to stay where they really want to stay. The interesting long-term question, of course, is how integrated is that going to be in the long term between hotels and rentals and how integrated will that be for our users over time. But clearly, users increasingly like to look at one of the 2 or both in parallel.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

So rolling up the different business units and the marketing spend, you've got a target of \$350 million EBITDA for the year, call it, flattish year-over-year. How should we think about the phasing over the course of the year since brand advertising is a new thing for the duration of the whole year?

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

Yes. So indeed what we said about 2018 that we're expecting approximately flat EBITDA year-over-year, 2017 to 2018. In terms of the phasing, what is different about the front half of the year versus the back half of the year is last year we started our television campaign in June, spent \$75 million, as you said earlier, between June and December of last year. This year, we're targeting \$100 million to \$130 million of TV, and we're starting right away in January. So you're going to have spend on TV in the first half that we didn't have last year. The other feature of the first half of the year is, we were just referencing some of the bid-downs in our core hotel auction in Q3. We're going to lap that later in the year, but not in the front half of the year. So these are all reasons that if you look at our approximately flat EBITDA year-over-year that the year-over-year comparison on EBITDA is going to be more favorable in the back half than in the front half, more weighted towards the back half than the front half in our expectations for those for those 2 -- for the reason of those 2 drivers in particular.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Great. So we've got some time for Q&A. If anybody has questions, shout it out and I'll repeat for the webcast. Yes?

Unidentified Analyst

So I think you've added a lot to the -- talk a little bit about around just with the move from the desk to the app. How are you getting your big user base to notice some of the new functions and getting them to use them? Doing any direct to consumer? Obviously, you're doing with the brand, new functions with that?

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

Yes. Did everybody hear that question? So what are we doing to manage that migration from desktop to the phone, and what do we do and how do you communicate with our users around that? You said desktop to app. To be clear is, when we look at mobile, the app is very important for us, but it's also mobile web. And some of the big improvements that we have seen in our monetization on mobile, which is quite significant over last year. So last quarter, in the fourth quarter, we had about mid-20s growth for both the number of shoppers on mobile, but also for the revenue per shopper on mobile, so the monetization per shopper. And a big driver of that actually was some significant improvements we've seen last year



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on our mobile web experience in which we put quite a bit of emphasis. And so what we're doing is really just improving the product. The volume is naturally shifting to the phone, to mobile, both desktop and app. It's a secular trend in the business. And the most important focus for us is making sure that when that migration happens that we monetize as well as possible. So we've always had a situation where revenue per shopper for mobile was about 30%, later 1/3 of the monetization of desktop. Last quarter, that went up to about 40%. So we're making real tangible progress in narrowing that gap of how we monetize a mobile shopper and a desktop shopper. We have some way to go there. So super focused on making the product better and better and making sure that we narrow the gap as far as we can.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

In the back?

Unidentified Analyst

Yes. Can you talk a little about the evolution of traffic that could be a -- so far, like where are you seeing trend probably directly to you, with Google with that?

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

Okay. I couldn't hear what you were saying. Did you hear?

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

Question on the evolution of search, was that it?

Unidentified Analyst

Yes, customer acquisition within search, where is that organic, be it Google first from the web with traffic sources.

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

Okay. So how we think about traffic sources and Google and others. So if you look at our paid channels, which is where I'll start. So the traffic that we buy has gone through an evolution. We started to increasingly buy more traffic on search engines, Google and others. More recently also started to spend on social media, had good traction particularly with retargeting on certain social media platforms. And so became good and interesting additional channels for us that we could target a little bit. It's like both on social media and on search engines, we can do both prospecting and retargeting. And so the suite of available products for us has improved quite significantly. And then, of course, we have our free channels. We have continued traffic on the app coming in, on domain direct, our email campaigns to our members and Google SEO, which are all great channels for us as well. As we look in the past 6 months and then go and looking into next year and we think about our traffic strategy, we are changing up our marketing mix towards spending more on branded channels, like TV, where we believe we can do a better job of communicating a different user proposition around hotels, plus believe that it's much stickier traffic and deemphasizing some of those paid channels that I was just describing, especially those on the margin where we were not making money. And so it's a rebalancing of our traffic approach on that side.

Unidentified Analyst

Can you talk about more of the context into TripAdvisor and how do you ensure that the user experience is integrated across, like works on the phone when I try it and use it, how do I ensure what doesn't work on the phone starts to work on the desktop?

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

Yes, excellent question. Everyone can hear it. So how do you ensure the coherence of the experience as you move during your trip or across different channels. And you asked, Justin, you asked this question about the organization change that we made. And I talked about this, putting this core experience group in place because, yes, we're absolutely seeing that is the danger of -- the downside of creating verticals around -- business units around verticals is everybody starts to optimize for those verticals and what about the coherence of the experience and how do you really manage a member or a user through these different cycles of their planning of their trip? And yes, that's really important to us and an area where we probably can optimize a lot of how we communicate with our users. And so how do we optimize that in-destination message when you have your app and you arrive in a place, how do we communicate with you. If you remember, and we send you emails, how do we think about that? If you're on a hotel page or any other vertical page, what's the right time to introduce another product? And we feel we've only scratched the surface in being able to do that and then use the data that we generate around that in a good way. And so the answer to your question is, been doing some but not enough, and we're going to do a hell of a lot more with that.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

And with that, we are just about out of time. So thank you very much, Ernst.

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

Thank you. Thank you, everyone.

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