PARTICIPANTS

Corporate Participants

Will Lyons – Senior Director, Investor Relations
Stephen Kaufer – President, Chief Executive Officer & Director
Julie M. B. Bradley – Chief Financial Officer, Treasurer, CAO & SVP

Other Participants

Lloyd Walmsley – Analyst, Deutsche Bank Securities, Inc.
Nathaniel Holmes Schindler – Analyst, Bank of America Merrill Lynch
Mark S. Mahaney – Analyst, RBC Capital Markets Equity Research
Scott W. Devitt – Analyst, Morgan Stanley & Co. LLC
Tom Cauthorn White – Analyst, Macquarie Capital (USA), Inc.
Laura A. Martin – Analyst, Needham & Co. LLC
Mike J. Olson – Analyst, Piper Jaffray, Inc.
Peter C. Stabler – Analyst, Wells Fargo Securities LLC
Douglas T. Anmuth – Analyst, JPMorgan Securities LLC
Brian T. Nowak – Analyst, Nomura Securities International, Inc.
Brian P. Fitzgerald – Analyst, Jefferies & Co., Inc.
Kevin C. Kopelman – Analyst, Cowen & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the TripAdvisor Fourth Quarter and Year-End 2012 Conference Call. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session and instructions will be given at that time. [Operator Instructions] As a reminder, this call may be recorded.

I'll now introduce your host for today's conference, Mr. Will Lyons. You may begin.

Will Lyons, Senior Director, Investor Relations

Thank you, Ashley. Good afternoon, everyone, and welcome to TripAdvisor's fourth quarter and year end 2012 earnings conference call. I'm Will Lyons, Senior Director of Investor Relations for TripAdvisor and joining me on the call today are our CEO, Steve Kaufer and our CFO Julie Bradley.

Before we begin, I'd like to remind you that the estimates and other forward-looking statements included in this call represent the company's view as of today, February 13, 2013. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to today's earnings release and TripAdvisor's filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements.

You'll also find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on our call in our Q4 earnings release which is available on our IR site, ir.tripadvisor.com. Finally, unless otherwise stated, all references to selling and marketing expense, general and administrative expense, and technology and content expense excludes stock-based compensation and all comparisons on this call will be against our results for the comparable period in 2011.

With that, I will now turn the call over to Steve.

Stephen Kaufer, President, Chief Executive Officer & Director

Thank you, Will, and welcome, everyone. The fourth quarter closed out a great 2012, a year in which we made wonderful progress along our growth initiatives. We drove strong member and content collection across our increasingly global footprint, we invested in our social and mobile offerings to enhance brand awareness, we laid the foundation for growth in our business listings and vacation rentals products and we continued to innovate the TripAdvisor platform for our users and customers alike.

For the quarter, as expected, revenue and adjusted EBITDA growth accelerated, growing 23% and 17%, respectively. TripAdvisor hotel shoppers grew in the mid-30's, driving 24% click-based revenue growth. For the year, over 30% hotel shopper growth drove 20% total revenue growth, 18% Click-based revenue growth and 9% Adjusted EBITDA growth – strong results in light of the substantial revenue headwinds and our ongoing commitment to invest for the long-term. Julie will discuss our financials and outlook in more detail shortly.

On the consumer side, we are pleased to see continued strong traffic growth around the globe. Specifically, according to our logs, total monthly unique visitors to TripAdvisor branded sites grew approximately 45% in the fourth quarter, with Asia Pacific leading the way at over 75% growth. Over 60% of our traffic originates from outside of the core U.S. and U.K. markets and in 2013 we are focused on enhancing the TripAdvisor brand in these markets amassing more local language content to drive more user growth and engagement. While we continue to grow hotel shoppers fastest in newer international markets, we are also seeing healthy growth in the U.S. and U.K., despite their relative maturity, showing that there's headroom even in our most established markets.

As it relates to our Social initiatives, according to AppData, TripAdvisor's Facebook app reached the #1 spot in terms of Monthly Active Users in late Q4 – and was the only travel app in the top 20. During the year we more than doubled our members acquired through Facebook, helping us grow marketable members nearly 100% year-over-year to 44 million. Currently, 35% of our new reviews are coming from Facebook-connected members and we're rapidly closing in on our 100 million reviews and opinions milestone.

Rich user-generated content is the lifeblood of our business, and our travel community is on pace to add more than 30 million contributions in 2013. In January, we emailed all 2012 contributors thanking them for their reviews, the photos, the room tips, the forum posts – all the things that make our site better and better every day. Leveraging Social and community remain a key piece of our membership and brand growth strategy.

As it relates to our Mobile initiatives, we greatly improved our smartphone user interface – our user experience by rolling out a new meta display to all smartphone traffic in Q4. We doubled our smartphone and tablet app downloads to more than 31 million and our 45 million average monthly mobile uniques in Q4 was up 190% year-over-year according to our log files. Additionally, we launched 20 new free City Guides across iOS and Android, bringing our coverage to 80 cities.

To give you a better sense for the mobile growth we're experiencing, over the past year TripAdvisor phone and tablet traffic have each doubled, each now accounting for approximately 10%-15% of our sessions. Smartphones currently account for less than 5% of our Click-based revenues, whereas Tablet now accounts for approximately 10%-15% of revenues. We don't expect the phone's monetization rate to improve materially in 2013, but we are okay with that given that it's more of an in-market tool for travelers. We anticipate continued traffic and revenue growth on mobile devices in 2013 and enhancing our mobile presence remains a top strategic priority.

Shifting gears, on the partner side we've been providing rank reports to test clients and bid recommendation reports to a broader set of clients, and we are working on adding functionality that will allow them to update their bids more frequently. On the whole, we are pleased with the progress we've made migrating the bidding platform to a more transparent, dynamic system that makes it easier for partners to spend more on TripAdvisor.

We have entered 2013 with great momentum from all of these initiatives and, true to our Speed Wins philosophy, we're innovating quickly to build the best experience for every user, on every device, in every geography. To that end, on the heels of a full meta rollout to smartphone traffic in Q4, we have begun integrating our meta display into all tablet and desktop sessions. We believe that pairing metasearch capabilities with our best-in-class user-generated content provides a superior user experience. Hotel shoppers can price compare without leaving TripAdvisor, resulting in higher-quality leads for partners. Barring unforeseen circumstances, we expect to complete this transition in the next three to six months. And despite revenue headwinds in the first half, we are cautiously optimistic that this change, once complete, will end up being revenue neutral to TripAdvisor monetization.

It goes without saying that meta is an important and exciting change for our business. Now to be clear, with 45% Q4 traffic growth and mid-30's hotel shopper growth, the business is obviously in great shape, even in our world of large numbers. But with our new price shopping value proposition, we feel the time is now right to be even more aggressive, and begin a global offline marketing campaign, which we expect to kick-off some time in Q3. Complementing TripAdvisor's permanent branding campaign – the awards, the certificates, stickers, badges – that many of you see in hotels and restaurants and attractions and travel websites all around the globe, a meaningful offline marketing campaign can showcase TripAdvisor's value and help build a more far-reaching indispensable travel brand.

We will approach this offline campaign with the same iterative test-and-learn process as we do with our other major initiatives, as we look to measure and quantify the results in each market. Also, the outlook that Julie will describe shortly does not contemplate a meaningful lift in repeat visits or traffic from the offline spend, so that could provide some upside from a traffic and revenue standpoint.

In light of this new branding investment, we are forecasting that expenses will grow faster than our revenue this year. This is squarely aligned with our stated objectives to prioritize long-term revenue growth over expanding profit margins.

In summary, the fourth quarter capped a great 2012 and I want to extend a special thanks to all of the TripAdvisor, Inc. employees around the globe who set the stage for an even better 2013. Before I close, I'd also like to extend a thank you to Barry Diller for his leadership as Chairman over the years and formally welcome our new Chairman, Greg Maffei. Liberty has participated on our board since the spin-off and the management team and I look forward to further deepening that relationship.

I'll now turn the call over to Julie, who'll provide some color on the Q4 results as well as our financial outlook.

Julie M. B. Bradley, Chief Financial Officer, Treasurer, CAO & SVP

Thanks, Steve, and good afternoon everyone. Driven by strong hotel shopper growth in our Click-based business Q4 came in a little better than we had expected, with revenue and profit growth accelerating to 23% and 17%, respectively. Assuming constant currency, revenue would have been 1% higher.

Our Q4 Click-based revenue was up 24%. When comparing to hotel shopper growth in the mid-30's, lower year-on-year pricing – from Expedia and other partners due to macro weakness and F/X – is the main driver of why click-based revenue did not track closer to hotel shopper growth. Additional factors also include increasing international and phone traffic, our meta rollout on smartphones plus impacts from Hurricane Sandy – all of which are much harder to quantify independently.

More importantly, 2013 has gotten off to a great start. We are seeing strong hotel shopper growth and better year-on-year pricing. We believe that this is at least partially due to an improving European landscape and higher quality traffic.

As it relates to geographic mix, Non-U.S. revenue was 50% of total revenue during the quarter which was consistent with Q3 and up slightly from 48% in the fourth quarter of 2011. As a housekeeping note, starting on our Q1 2013 earnings report, we will disclose geographic revenue breakout by region – North America, EMEA, LATAM and APAC – which is more consistent with how we measure the business internally as opposed to U.S., U.K. and rest of world. Of course, we will also provide historical quarterly information on our metrics sheet back to 2010.

While year-over-year Click-based comps eased in Q4, the opposite was true for our Display business. Display-based revenue was down 3% year-over-year due to a tough Q4 2011 comp driven by a large buy that did not reoccur. However, due to our continued geographical diversification for this product, we are forecasting the business to return to year-over-year growth in 2013.

Subscription, transaction and other revenue, which includes Business Listings, Vacation Rentals and our transaction businesses had a good Q4, growing 56%. In Business Listings, we closed 2012 with more than 50,000 subscribers, up more than 40% year-over-year and have a strong global sales force in place to drive growth in 2013. On the Vacation Rentals side we saw listings and inquiries accelerate in the back half of the year, driven by increased visitor demand and healthy renewal rates. Travelers can now research more than 300,000 properties in more than 160 countries.

We have also launched a couple of payment systems to promote a more satisfying and frictionless booking process. Our fast-growing global traffic brings a unique value proposition to property owners, and in 2013 we will continue to expand our service offerings in these areas.

As expected, overall expenses for the quarter increased as a percent of revenue, primarily due to how revenue seasonality impacts our largely fixed cost structure. As we mentioned last quarter, we continued to increase direct marketing cost in Q4 in an effort to diversify traffic, expand internationally, and fuel user engagement through social networks. These remain important 2013 initiatives for us, as well as beginning to invest in a traditional offline marketing campaign.

For full year 2012, depreciation and amortization, stock-based compensation expense and CapEx each came in just under 4% of revenue. Stock-based compensation was higher than expected this past quarter due to accelerated vesting for certain directors' equity pursuant to change in control provisions. For 2013 we expect depreciation, amortization and CapEx to be consistent with 2012, and stock-based compensation expenses to increase slightly to approximately 6% of revenue.

Moving on to taxes, our Q4 GAAP effective tax rate was 31%, slightly lower than Q3, primarily due to geographic mix favoring lower foreign tax jurisdictions, and an international reorganization completed during Q4 that further helps the foreign tax rate differential. We expect our 2013 effective tax rate to be in the mid-to-high-20%s, reflecting a full year's worth of benefit from the international reorganization.

With that, let me share some thoughts on 2013's outlook. 2012 faced several revenue headwinds, namely the site redesign, spin-related changes in Expedia pricing and SEM changes. In terms of year-over-year revenue growth, 2012 headwinds abate, which we are seeing today in terms of on-site conversion and pricing. However, we do have a potential revenue headwind in 2013. Although we believe the meta transition will end up being roughly revenue neutral once complete, there most likely will be a modest near-term impact. We have assumed that the transition is mostly complete in the first half of 2013 and that for the full year, total revenue growth and Click-based revenue growth will be in the low-20%s. Our forecast for Click-based revenue assumes continued hotel shopper growth and robust partner participation in our meta auction.

In addition to the near-term impact of meta, other potential revenue headwinds include a mix shift towards international markets and faster hotel shopper growth on smartphones, where we are seeing lower CPC pricing. Remember, hotel shopper growth can fluctuate widely in a relatively short span of time making it very difficult to predict, but we believe that it should remain strong given our growth plans and marketing initiatives.

On the pricing side, there will be some volatility in the first half of the year, as partners re-align their bids to match the better conversion they are seeing from our meta offering. To facilitate a smooth transition for us and our clients, we are allowing our clients to bid separately for smartphone traffic, the new desktop meta traffic, as well as our traditional desktop traffic. Conversion rates on our partner sites differ dramatically between these three types of leads, and so we believe it makes sense to allow our clients to bid separately for each type.

We expect Display-based revenue growth in the high-single digits, as macroeconomic concerns weigh on discretionary ad spend, and as we experiment with new ad products. We also expect full-year subscription, transaction and other revenue growth in the low-50s, driven by investment in our Vacation Rentals business and salesforce productivity gains in Business Listings.

On the expense side, due to our ongoing investments in traffic acquisition and diversification, social initiatives as well as the introduction of an offline marketing campaign, we expect to see deleverage on the sales and marketing line throughout the year, particularly in the back half. We expect sales and marketing as a percent of revenue to progress from the mid-30s to low-to-mid-40s as a percent of revenue throughout the year.

We expect Tech and content will de-lever slightly throughout the year as we continue to acquire talent to pursue our technology initiative. And G&A as a percent of revenue should remain fairly consistent with 2012 levels and show some slight leverage for the full year. As a result, we expect high-single-digit Adjusted EBITDA growth in 2013 and expect higher margins in the first half of the year than the second half, due to the planned timing of our offline marketing campaign. Absent the offline marketing campaign, we believe full year adjusted EBITDA growth would have grown in line with our expected 2013 revenue growth of low-20s.

In summary, TripAdvisor had a great 2012 and we have exciting plans for continued growth in 2013. We'll now open the call to your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question is from Lloyd Walmsley of Deutsche Bank. Your line is open.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: Thanks. Wondering if you can just talk a little bit about the shift to meta search and meta display, and mechanically how you expect that to work? Is it still going to be primarily CPC based revenue model or will there also be some rev sharing? And then, as you think about kind of effective take rates in that model, is there any reason why you don't think they could go up as you're delivering more qualified leads to clients as opposed to the neutral-ish guidance you talked about?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. Excellent question, and on the minds of many, I'm sure. So, we expect to remain in a mostly CPC, cost per click-based environment. We're certainly open and with some clients we'll have some component of the traffic being paid for on a rev share basis when it makes sense for them and when it makes sense for us. At the end of the day, we believe we have a tremendous number of hotel shoppers coming into the top of our funnel and nothing – and meta really doesn't change any of that. So what it does is it enables that visitor to do a bunch of price shopping while staying on TripAdvisor, which in fact doesn't generate any click or any revenue event for us. But when the client or when the traveler does in fact click over to a client, they're qualified by the hotel they were looking at being available, and it being a price that they can afford.

Now we've had years of experience with this in our flights product, which has been meta for many, many years. There's no doubt in our minds because we've seen the data from many clients that the downstream conversion of these travelers as they land on our client's site, they're much more ready to book. So the question in our mind truly comes down to, we know we will generate fewer clicks from our website to our clients, we know that those leads will convert at a much higher rate. If in fact those two numbers balance, for instance if we send a third less leads that convert at 3X the number of – 3X the conversion rate on the part of the client's site, then we're even assuming neutral pricing, i.e. price goes up 3X because our clients get 3X the benefit. Our clients always have measured us on how many bookings we've actually delivered. So if the higher quality leads deliver the same number of bookings, it works for all parties.

Finally, we talked a little bit about our caution in the transition because it's very natural and we've started to roll it out, to send these new leads over. They're much higher qualified and clients are clearly, as evidenced in our test, willing to pay much more for them. But to be fair, they need to have some time to measure that the conversion is in fact 3X or 4X or whatever the numbers might be in order to justify to themselves that it's worth paying that much more for the leads. And then, of course, our system is an auction one, so we're not dictating the prices to our clients, they're bidding up the prices and a bid-up in an auction depends upon how many people are interested in those leads. So we need the full auction dynamics to be in effect.

From our test environment, from the percentage of traffic that we've given on desktop and combined with our months of experience on mobile, we see it happening and we expect it to come to a very positive fruition. At the end of the day, positive or negative, we just don't know yet.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: And as a follow-up, I was just thinking, is there a way you can help us quantify the opportunity from the improved user experience around meta to close the gap between hotel shoppers and unique users? So in other words, as the experience improves, what kind of percent of your traffic is actively already hotel shoppers that could perhaps – and versus the percent that's not, that could be converted into hotel shoppers from the better user experience? Is there any kind of color you could provide there?

<A – Steve Kaufer – TripAdvisor, Inc.>: I – sure. I'm not sure I'd look at it that way. In general terms, I can give you the guidance that you can think of, about half of TripAdvisor's traffic is in hotel shopping mode and half is doing other stuff. It varies and there's lot of puts and takes there, but it's a ballpark number you can hang onto. While we think hotel – while we think meta will absolutely increase the number of people that enjoy the experience of hotel shopping and therefore tell their friends and come back and use TripAdvisor as the first place they go to plan that trip, I'm not convinced, or rather, we didn't build meta in order to get folks who are looking at restaurants or attractions over into the hotel shopping funnel. We have a lot of personalization efforts, we have a lot of cross-sells, obviously we do a lot with all the traffic that comes to the site, but if you're looking for a restaurant, fundamentally there's no way I'm going to get you interested in a hotel no matter what the commerce technology is.

Operator: Thank you. Our next question is from Nat Schindler of Bank of America Merrill Lynch. Your line is open.

<Q – Nat Schindler – Bank of America Merrill Lynch>: Yes, hi. Thank you. You mentioned that less than 5% of your revenue – your click-based revenue comes from smartphones, but as I understand it, it wasn't at all monetized prior to meta. So was the launch of meta all of that revenue from smartphones this quarter? And all incremental to Q4 results?

<A – Steve Kaufer – TripAdvisor, Inc.>: No. No, we actually had what we call our classic version on the phones where you'd enter your dates for the hotel and we would show you the logos of our providers and you'd click on a logo and you'd open up another web page and land on that site. It was just an incredibly painful experience on that very small screen real estate. So, shifting that experience to the phone wasn't actually, to the best of my recollection, revenue negative at that point. But we didn't feel it was a true reflection of desktop, again, because the experience was particularly painful on the phone. So we think of that as just more of a better conversion and I wouldn't – the growth in mobile was truly growth in traffic based as opposed to the meta switchover.

<Q – Nat Schindler – Bank of America Merrill Lynch>: Okay. And one more question on meta. When we last spoke about meta, you discussed it being launched on the desktop throughout all of 2013, largely to minimize the risk of a revenue hit. Is there any – this sounds like you have sped up the timetable on this. Is there a reason why you have, and what have you been seeing from your initial tests that kind of drove you to do that?

<A – Steve Kaufer – TripAdvisor, Inc.>: Well, I'm not sure I'd ever talked about a specific timeframe; we had said earlier that we'd begun testing meta. And, as we've tested it, certainly we feel the experience is significantly better. We've gotten our clients on board with the new bidding model, the new pricing and we've seen the benefits of the conversion. So, it's really about that user experience that has gone so well and the fact that the technology is in place now that it's – I guess you could say, we've been able to speed it up, but I think we've always been interested in releasing it as soon as we can. The ongoing open question mark on the timeframe is in part making sure our technology can scale and in part making sure our clients have enough time to adjust their processes for buying traffic on TripAdvisor to this new model.

Operator: Thank you. Our next question is from Mark Mahaney of RBC. Your line is open.

<Q – Mark Mahaney – RBC Capital Markets Equity Research>: Thanks. I think there was a comment made about demand trends in Europe picking up a little bit. Could you just clarify that a little bit? It seems a little at odds of what we're hearing in other places. Is there some particular region – part of Europe that seems to have recovered a little bit more quickly? Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: I guess it's always a little hard for us to tell how much is the good stuff we're doing versus a macroeconomic picture. It might just be from our perspective more market stabilization, so the rest of our campaigns, our search engine optimization, our traffic purchases, our search engine marketing – allowing those efforts to kick in, in a stronger basis. But we have seen some growth worth mentioning in Continental Europe, and obviously we didn't really see much of a slowdown elsewhere.

<Q – Mark Mahaney – RBC Capital Markets Equity Research>: Thank you, Steve.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure thing.

Operator: Thank you. Our next question is from Scott Devitt of Morgan Stanley. Your line is open.

<Q – Scott Devitt – Morgan Stanley & Co. LLC>: Hi. Thanks for taking the question. A few around the hotel shopper growth. Just wondering if you could talk through the drivers, or to the extent that I maybe missed them, of the acceleration to the mid-30%s in the fourth quarter. And then also Julie mentioned some of the factors of why the click-based revenue did not track closer to the hotel shopper growth – I think Expedia and other partners due to macro weakness, and then FX. I was just wondering if you could bridge those for us? And then lastly, to the extent that you can share with – embedded within your 2013 guidance what you're expecting for full-year hotel shopper growth? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. I'll try, Scott. A bunch of questions in there; so part of the hotel shopper growth rate we believe has been the growing brand presence that we have around the globe. So, it's getting harder and harder to travel to any tourist destination certainly and not see signs of TripAdvisor as you go. We think that's a nice halo effect that's coming right back, reflecting in domain direct traffic growth, as well as the harder to prove, but it is what we believe growth in our search channels. So, as people, for instance, do a travel-related search on Google and they see TripAdvisor in the results, because it's a brand that they saw a sticker on or they saw a certificate of excellence in the hotel they last stayed at or saw a label on a bus, or whatever it might be, more likely to click through.

So we've seen growth in all of our major channels, the free ones, the paid ones, and some of that again we can only direct at the ongoing strength of the brand and the global nature of it.

<A – Julie Bradley – TripAdvisor, Inc.>: So, I will take the second part of that. So when we were looking at click-based revenue up 24% compared to hotel shoppers growth in the mid-30%s, the largest driver is year-on-year on pricing. And, I think the largest component of that is the roll-out of the change in the Expedia pricing in Q4 of last year that was related to the spin. And also some of our other – some partner pricing on a year-over-year basis, a little weaker I think tied to some of the macroeconomic weaknesses. The – on a positive factor on pricing is that sequentially we did see an increase in pricing. And then I listed off a bunch of other factors that are just frankly more difficult to quantify individually, but we did see an increase in international traffic, phone traffic that we've mentioned earlier, the fact that meta was rolled out on some smartphones and then probably to a lesser extent the impact of Hurricane Sandy.

Operator: Thank you. Our next question is from Tom White of Macquarie. Your line is open.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Taking my question. Just wanted to see if there was any update on where you guys were in the roll-out of the minimum bid pricing threshold for the CPC product. Maybe talk a bit about how you're setting those levels and what the feedback has been from your largest partners? And also on the offline marketing campaign, I guess, I'm just sort of curious if you can elaborate a little bit more on why now? You've talked a bit in the past quarter or so and today about how your brand, the brand flywheel has been humming. Is the decision to do this around kind of expected or current increased competition in the meta search space? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure thing. So on minimum bids, we have rolled out to our major clients a – what we call property level minimum bid. It's part of our transition over to the meta – to the meta space. And, we're giving our clients some time to adjust and the rules vary a little bit in terms of what happens if the client has a bid that is below the minimum level. We want to work with our major clients. You have to – we certainly appreciate and the world needs to appreciate that we're trying to often manage bids on tens or hundreds of thousands of properties with different bids depending on where the traveler lives in the world. So it might be 100,000 properties times 20 different locales, each locale being worth a different amount in terms of a click from that client. And now we add on our request that our ability to let clients bid at a mobile level, or I should say a phone level, a desktop classic level, and a desktop meta level.

And so, it's a fair amount of complexity. Minimum bids are rolling out – have rolled out on the meta side of things, desktop meta, because that's where our world is going. And, the client reaction has been fine. We just want – clients just want to make sure that they're reasonable, and in general if they can't afford to bid at the minimum level they probably weren't getting any traffic anyways because even in our old auction if we had five or six players and you were number six, it wasn't a particularly meaningful property for you anyways.

So I don't actually think the rolling out the property level minimums affects the folks who are active in the auction very much, and it's a little sort of protection/bidding control in what we call the long tail of the properties. In building a model and trying to evaluate how that's going to affect our clients, it – I wouldn't think it would be particularly meaningful.

In terms of the offline, it's an excellent question. To paraphrase, hey, you haven't really done offline advertising before, why now? And our answer is, we've been considering it for quite some time, but we've always come to the conclusion of, wow, that brand flywheel as we've called it before is humming along great, and we have some tremendous traffic growth. And, when we're talking about visitors in the hundreds of millions a year and all of a sudden it's at a 45% growth rate at that scale, holy cow, that's just an awful lot of traffic coming to the site. Some inside the company can take the position; have taken the position, great. It's doing just fine on its own, why bother? Others, and I'm in the other camp at the moment, have said, look, we have a brand-new value proposition with this price shopping. It's really good.

We have a couple of the existence proofs out there in terms of the other meta search players that just have the price shopping and have made a name for themselves with generally offline advertising. Great. Congrats to them. It shows in our minds that, that message all by itself resonates with consumers and TripAdvisor now has that or will soon have that rolled out globally. So we take that price shopping message, you combine it with an incredible value proposition around finding the best hotel; so take the best hotel and our ability to find the best price on the Internet for that hotel, and wow, that's a great message that frankly we just want to tell the world about much sooner than they would find out about it on their own on TripAdvisor.

So as I maintain, we're in it for long-term growth. And by going with an offline campaign, a global offline campaign, we feel we can accelerate that growth in the coming years. Now we haven't baked any of that in this year. If we do a great job out of the gate, hey, we can look for some revenue upside from that. But it is something that we believe is right for the business and the existence proofs out there saying and offline campaign does work for that message amongst our target audience, so it's pretty natural at this point for us.

Operator: Thank you. Our next question is from Laura Martin of Needham & Company. Your line is open.

<Q – Laura Martin – Needham & Co. LLC>: So I was really fascinated by your comment, Steve, about your Facebook growth. Could you talk about both strategically how you think about Facebook versus Google in your revenue mix, and also economically, does it save money as you move traffic acquisition over to Facebook, please?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. Thank you, Laura, for the question. Facebook has so many parallels to TripAdvisor as a company in the sense that it's very global, it is social and it occupies, yes, quite a different space. So, for us to be able to reach a global audience, global online audience, there is search marketing. Great. We know that, we've mastered that and it's a major channel for us. And then there's Facebook, and this is a channel that very few people, when we look around for examples of who's mastered this channel, it's very hard to find companies that have really done extremely well other than the game companies that have built a business on Facebook. So we really haven't built our business on Facebook, but we figured out this great way to tap into that audience.

And so it's the – our ability with the instant personalization, with our TripAdvisor cities, I've visited map application, we've touched hundreds of millions of Facebook users; rather Facebook users have told their friends that they've been using TripAdvisor, which is just fantastic social proof. So, it's been a membership vehicle for us, it's been a content contribution vehicle for us, it hasn't been much of a traffic acquisition vehicle for us yet, but we really like the direction that Facebook is headed with their Facebook Exchange and the other improvements to their – to their advertising network. So, we look forward and we're working pretty closely with Facebook to see how we can spend more, how we can do more with Facebook to get the travelers who are spending time on the network over to TripAdvisor to plan their trip.

I call the partnership excellent. It really helps both companies. They love the vertical, company like TripAdvisor that helps explain why wisdom of friends is a good thing. We love the social proof that for travel helps other people plan their trips based upon where their friends have been. And, I'd give the relationship an A-plus.

<Q – Laura Martin – Needham & Co. LLC>: Very helpful. And my follow-up question is on the $250 million share repurchase. Could you talk through, either Steve or Julie, how you think about, are there targets you have to invest that capital in your shares, or how do you think about how you're going to spend that money that you've just allocated to us today?

<A – Julie Bradley – TripAdvisor, Inc.>: Sure. Thanks for the question, Laura. So the board did authorize up to a $250 million share repurchase program. The program is really aimed at allowing the company to be opportunistic. This – as this being the first year as a public company, we're continuing to evaluate our optimum capital structure, and we just felt that a share repurchase program was an important element to have in place in order to optimize that capital structure.

Operator: Thank you. Our next question is from Mike Olson of Piper Jaffray. Your line is open.

<Q – Mike Olson – Piper Jaffray, Inc.>: Hey, good afternoon. Just following up on that marketing and social question. So you talked about how Facebook's an interesting channel, but more specifically, can you talk about how you'll weigh the balance between SEM and social in 2013? I think you kind of went back and forth to some degree in 2012, and then given your positive comments on Facebook, I guess will the focus be shifting more that way in the coming year? And then does the offline campaign impact any of the SEM or social initiatives?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure, Mike. I don't view them as kind of one or the other or shifting between, I look at maximizing each of the three, or in previous times, two. So I charter the SEM team with grow, get me the best traffic you can. Make it profitable. Bring it into the – into the TripAdvisor experience. Buy me some trial and do it in all markets with sometimes different profitability metrics depending on the market. Sort of nothing new there, it's just been a standard part of our playbook. Social, we've been investing for quite some time in adding the Facebook social elements to TripAdvisor to make it a better experience when you're on our site. And at the same time, adding more social brand awareness through the Facebook viral mechanisms which is really all about branding on that platform for us.

The team has – both teams have grown in size, both teams have grown in spend, the social team – the Facebook team versus the SEM team. And, if we can find cost-effective ways of buying traffic from Facebook we'd love to do that; I would not expect it to take a penny out of our SEM budget because they have an unlimited budget to spend at the ROI I set for them, and same with the crew, with the folks trying to buy traffic on Facebook; if we can find a vehicle, hey, we'll do that all day long so long as it meets our criteria.

The offline spend is the first time where we're looking at a meaningful spend where we don't expect a positive ROI on it, and that's again to let the world know of this new value proposition, take a page out of some other folks' playbooks, but really the whole engine is humming so well now in so many markets that it's – the ability to drop a little more fuel on the fire to get it going even faster is the game plan, basically.

<Q – Mike Olson – Piper Jaffray, Inc.>: Okay. And then as far as DaoDao, given the intense pricing war in the online travel market in China, is that having any impact on your business there? What are you guys seeing in that market?

<A – Steve Kaufer – TripAdvisor, Inc.>: I would – good question. I wouldn't say the pricing war is having too much of a challenge on our business. I guess, there's a pro and a con to us. The pro is hey, if you get more people traveling because hotel rooms are cheaper, that's good. More people discover us. It's a con in that the margins that the OTAs are playing with are a lot less, and therefore they can spend less on buying traffic from a site like DaoDao or Kuxun. So, in general, we like healthy margins on the part of our clients, so net-net I guess I wish there weren't a price war. We're very happy that Ctrip is – as the OTA. So, Ctrip plus eLong plus the other guys are all advertising on our platform, so it's a nice competitive dynamic.

Everyone's interested in the traffic we can send, and so like many of our markets it's less a sales challenge for us and more a biz. dev. – how do we grow traffic, how do we grow the content on the site. Clearly it's a nominally huge market – a lot, a lot, a lot left to do for us to turn it – to deliver the potential that's there for us.

Operator: Thank you. Our next question is from Peter Stabler of Wells Fargo Securities. Your line is open.

<Q – Peter Stabler – Wells Fargo Securities LLC>: Thanks. Two if I could. So at risk of beating the marketing horse here, could you give us a little sense of how you're going to allocate your spend? It's pretty easy to spend substantial sums in offline media around the world, so can you give us a sense of the prioritization of markets? And the secondly, wondering if you could comment on whether the Facebook success has helped you create a bit of a virtuous circle in terms of getting more TripAdvisor visitors contributing content to the platform? I assume that is one of the primary goals as well. Thanks very much.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So to the first question, the offline spend priorities, to be frank we have not mapped them out yet. We're at the earlier stages, so we think of the dollars as being committed, the timing being dictated in part by when meta completes its roll-out, but we haven't articulated it internally. We haven't come to our conclusions on where the spend is going to be. In terms of the Facebook – the Facebook success – we look at the overall spend there and say it has been remarkably effective for us. We can't tie it directly to traffic, as I indicated before, but the global nature absolutely generates more content for us. They become full members; everyone that interacts with our app we get the e-mail of; they get welcomed to our site; they get asked to write a review.

And we've learned something about them because as part of that Facebook connect process, we've learned where they've checked in, the things around the web that they've liked; again all this with the permission that they've given us, but it builds up the database of how we can show how this friend of yours can help you plan the next trip. You know the most popular places people have been to, for instance, when you pop to TripAdvisor. And you have a friends tab when you visit TripAdvisor, that's now populated with an awful lot of this information. I'm not sure I completely answered that so I'm happy to take a follow-up if you like.

Operator: Thank you. Our next question is from Doug Anmuth of JPMorgan. Your line is open.

<Q – Doug Anmuth – JPMorgan Securities LLC>: Thanks for taking the question. Steve, I was just hoping you could talk to us about how you think about the potential for more of a direct bookings path on the site in the future? And then secondly, any thoughts you might have on two of your biggest partners just buying similar businesses that look at least a little bit like TripAdvisor? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure thing. So direct booking, a topic that certainly comes up; some of the other sites out there that have meta search offerings have direct bookings that they really process or that are what you'll call an assisted booking inventory sourced by somebody else. We like our position in the media space. We really focus on what do we think our consumers want, what do the travelers want, and we're just not hearing at this point that the travelers want the ability to consummate a booking on the TripAdvisor site versus going to other, in most cases, very well-branded sites of their own.

Look, we don't have religion on the subject, but it's not a shift that we would do purely for hoping to get some extra margin on or something. Our clients do a fabulous – our clients, the Priceline's and Expedia's and Orbitz's and Travelocity's of the world and all the international ones – do a great job for what they do. They contract with hotels; they offer a tremendous inventory; they offer great rates. And we're very pleased with our position in the meta world of not only being able to provide the best recommendations fueled by millions of reviews from millions of travelers, but also now the best price that you can find on the Internet one click away. And, for us, that addresses what consumers are telling us that they're asking for.

To the second question, hey, Priceline is in the process of buying Kayak. And Trivago is – and Expedia, the same for Trivago. I don't see it interfering with our interactions with our big clients. We have the scale, we have the high-quality traffic, the auction is extremely robust – can't imagine why that would change the auction on TripAdvisor. All these folks still want our leads, and I can appreciate how each of those OTAs would also like to have a little more traffic under their own control to presumably reduce their dependency on a Google and a TripAdvisor and the other sources. So, it makes a certain amount of sense but doesn't sort of bother me at all in terms of our growth paths and our ability to help more and more travelers. We don't think a price search engine, if that's all you got, is a complete enough offering in the travel research funnel. And it's really hard, and I'm not sure either of those guys would even try to replicate the type of functionality that TripAdvisor is known for.

Operator: Thank you. Our next question is from Brian Nowak of Nomura. Your line is open.

<Q – Brian Nowak – Nomura Securities International, Inc.>: Thanks. I have two, please. First is, I wonder can you give us any help at all on hotel shopper growth by region, even if just a little more clarity on the U.S., and the more mature markets compared to the rest of world? And then secondly, there's a lot of focus on kind of marketing and traffic acquisition costs. I was wondering if you could help us understand kind of right now, within your variable marketing spend, what portion of that is dedicated to your mature markets, so the U.S., U.K. and Western Europe, versus the portion that's still related to emerging markets where you have a lower brand equity? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So we haven't broken out the hotel shopper growth by region other than to say, hey, everything grows faster in Asia-Pacific and LATAM and the brand newer countries because it's off of a lower base. We said earlier we're pleased with the growth in the U.S. and U.K., our most mature markets. And again, see no reason why those would be declining going forward – can't see a ceiling that we'd be tapping in to. For the variable marketing spend, again, a large chunk of the variable spend is around search engine marketing, and search engine marketing is a game of numbers. So where's the traffic to buy and that will help you figure out where we're spending the most. To put it in perspective, there is so much traffic in the U.S. that even if I was spending outrageously, inefficiently in Thailand it just couldn't match the amount of traffic that the U.S. has versus those emerging markets. I can't really give you too much color beyond that other than it's absolutely the variable spends, mostly SEM and it is mostly global. So it is global by definition. So, we're bidding everywhere we can.

Operator: Thank you. Our next question is from Brian Fitzgerald of Jefferies. Your line is open.

<Q – Brian Fitzgerald – Jefferies & Co., Inc.>: Thanks. Steve, wondering how your initiative to provide partners with more ROI visibility is progressing? And then maybe as a follow up, you mentioned City Guide coverage is up to 80 cities on the mobile side. How penetrated is that in terms of your total rollout that you see, and how quickly are you closing on that complete rollout? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure thing. So the ROI visibility to partners, I think they're quite pleased. In some cases we've delivered more information than they've been able to digest, rank reports by region, by property, when you're bidding or when you're advertising 100,000 properties on TripAdvisor, wow, that's a lot of data to be able to work with. I'd say, if you were to ask our larger clients, I think they would say they love the new information that they're getting. It is helping them. And they'd love to see it even more self-service automated and our public answer to them is – and we're getting there. We have been making meaningful strides each quarter for the past couple of quarters now and we're not slowing down. So, I think that piece of it is going well from all angles.

The City Guide rollout, it's an interesting question. We picked, we think the 80 most popular cities. We could release another 80 if we wanted to. There's just becoming, we're not at it yet, but there's a role or an issue of diminishing returns with, do we spend our time doing that, or do we spend some more time improving the features within the City Guides of the ones that we've rolled out. And then I'd say, that the team is correctly more focused on a very rapid iterative cycle of improvements and there's point-me-there, and there is check-ins, and there is trip journals, and there is all sorts of new stuff that they just didn't exist in the app three, six months ago. And, that's really propelling some really impressive engagement numbers. And that's a City Guides app.

TripAdvisor also launched a SeatGuru app, which is fantastic airplane advice. What seat do you want to sit on for these long haul flights and combined it with our flight meta search product and some other nice pieces. And it's a new app launched, I think it's already approaching a million downloads. Off to the Races, it's another app, another iron in the fire if you will, and you'll see a bunch of these sort of cross promoted in the future from TripAdvisor.

Operator: Thank you. And our last question comes from Kevin Kopelman of Cowen & Company. Your line is open.

<Q – Kevin Kopelman – Cowen & Co. LLC>: Thanks. Just as we think about revenue growth throughout 2013, do you expect a headwind from ad changes to be at its biggest in Q2 or in Q1?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sorry, do I expect the headwinds from ad?

<A – Julie Bradley – TripAdvisor, Inc.>: From meta.

<A – Steve Kaufer – TripAdvisor, Inc.>: Oh, the – sorry, the meta. Q2 is clearly going to be the quarter where we have the most headwinds, will be the most fully into that transition. Again there's some chance that there's really nothing because the option comes into play quicker than we expect, but we're pushing forward on this. And if it means that we take a bit of a revenue hit in that quarter in order to get the auction off to the races, and get to the endpoint faster, we're willing to do that. It's just a quarter. As I say, we've already started in Q1 and we're not – our best guess at the moment is that we won't be completely done by the end of Q2, so you might see a little bit headwinds following into Q3, but again, that's our best guess at the moment and we certainly reserve the right to change the rollout schedule to be either faster or slower.

<Q – Kevin Kopelman – Cowen & Co. LLC>: All right. Thank you very much.

<A – Steve Kaufer – TripAdvisor, Inc.>: Very good.

Operator: And I'm not showing any further questions in the queue. I'd like to turn the call back over to Mr. Steve Kaufer for any further remarks.

Stephen Kaufer, President, Chief Executive Officer & Director

Well, all right. Thanks so much for – everyone, for joining us today. We're really excited about what 2013 holds and we look forward to updating everyone on our progress in the coming months, so thanks again.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This concludes today's program. You may all disconnect. Everyone have a great day.