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# EDITED TRANSCRIPT

TRIP - TripAdvisor Inc at SunTrust Robinson Humphrey Internet & Digital Media Conference

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## CORPORATE PARTICIPANTS

**Julie Bradley** *TripAdvisor Inc. - CFO*

## CONFERENCE CALL PARTICIPANTS

**Robert Peck** *SunTrust Robinson Humphrey - Analyst*

## PRESENTATION

**Robert Peck** - *SunTrust Robinson Humphrey - Analyst*

Obviously, with us today we have TripAdvisor CFO, Julie Bradley. Julie is responsible for overseeing corporate finance, investor relations, accounting, corporate development. Previously she served as SVP and CFO over at Art Technology Group, which was successfully acquired. In 2010, she received a CFO of the year award honoree by Boston Business Journal. Julie was also President of Finance at Akamai Technologies. So thank you, Julie.

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**Julie Bradley** - *TripAdvisor Inc. - CFO*

Thank you. Thank you for having me.

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**Robert Peck** - *SunTrust Robinson Humphrey - Analyst*

So I wanted just to start high level for a second. Could you talk just a little bit about where you are now, with TripAdvisor, and if you could just go over quickly -- one of the top questions we want to get out of the way was, just on the guide for 2015 and going through the basic assumptions there.

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**Julie Bradley** - *TripAdvisor Inc. - CFO*

Sure. So TripAdvisor is -- continues to grow at a very fast rate. We are the largest online travel site in the world. Last quarter, we clocked 340 million unique -- monthly uniques. And over half of that is coming to look for hotels. And half of that is coming to look for restaurants and attractions and vacation rentals, several of our emerging markets that we are pretty excited about.

We did, to your question pecifically; we reiterated guidance on our last call. We did experience about a 200 basis point additional FX headwind, just in the strengthening dollar. But, due to the strong performance in our underlying business, our outlook was still within our guidance ranges. So we were pretty excited about that.

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**Robert Peck** - *SunTrust Robinson Humphrey - Analyst*

Yes. That is fantastic. So that basically implies that organically the business was doing better than you thought to maintain guidance going against an FX headwind.

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**Julie Bradley** - *TripAdvisor Inc. - CFO*

Yes. On a constant currency basis, the business continues to perform very well. So, we are -- that is based on a spot rate as of just a couple of weeks ago. So further changes in that would, of course, affect it, but we are pleased where the business is right now.



**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Could you just talk a little bit about some of those fundamental drivers? Why is that? Why is the business doing better than maybe you would have thought six months ago or so?

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**Julie Bradley** - TripAdvisor Inc. - CFO

Yes. Our hotel business grew at a much faster pace, so click-based revenue; we saw hotel shopper growth of 26%. Very strong auction dynamic. So our pricing remained high and our clicks from our users also remain strong. So that is evidence that we are getting the right top of funnel traffic. And they are highly engaged with the site and when they go to click off, they are actually converting at a higher rate and that kind of comes back in the terms of pricing.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Well, you brought up Hotel Shoppers, which is one of the questions I asked on the earnings call. So you can get a 300 bps acceleration to 26% growth versus 23%. An easier comp off a year ago. How do we think about that number going forward? How should investors try and frame that going forward in their minds?

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**Julie Bradley** - TripAdvisor Inc. - CFO

Sure. So we were really pleased with the sequential acceleration. Good point. It was off an easier comp in the year ago quarter, but if you look at the year prior to that -- so Q1 of 2013 -- it was a very challenging comp. So, I think it was great progress even if you look at it on a two-year stacked basis. Especially considering these are off very large numbers. So we are getting a little bit of law of large numbers, but a 26% growth is -- we were quite pleased with.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

And then, along with that, how should we think -- can you help us think a little more granularly around the revenue for Hotel Shopper? How we should be thinking about that?

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**Julie Bradley** - TripAdvisor Inc. - CFO

Yes. Revenue per hotel shopper was strong. It was actually down slightly, but due to FX, if you were to look at it on a constant currency basis, it was actually up sequentially. So I think, which that points to, strong auction dynamics and motivated travelers. So we had -- we push on all fronts. We are trying to get more in the top of the funnel of the right type of traffic that is going to convert well. We want a great user experience. We are building out the community. We are pushing on content.

And we are also trying to get more in the auction to stimulate pricing. So, there is a multifaceted approach to getting the overall best consumer experience, but also in monetization of those shoppers.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

One of the things that Steve has talked about that's interesting, we see as an opportunity is the, quote-unquote, leakage, right. So the amount of visitors you are getting versus the monetization of them. I believe the OTA is monetized a little bit higher than you. Can you talk about that opportunity in that leakage and capturing some of that leakage back?

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**Julie Bradley** - *TripAdvisor Inc. - CFO*

Yes. We think that is a huge opportunity and it is really a catalyst to instant book. So just to kind of frame the leakage a little bit more, let me just give you a quick example. If you were booking -- looking to book a hotel, you're spending time on TripAdvisor and you think you -- you read all the reviews, you know the prices, you know it's available, okay, you're ready to book. You click off to Expedia, for example. And you are in that purchase path getting ready to enter in your credit card. And you forgot to check with your wife.

So you go back and make that check. Yes, all looks good. And then you say, okay, where was I in the booking path? Oh, I was in Expedia. So you go back directly to Expedia. We got paid for that first click, but we didn't get paid for the subsequent click. Or if you are off at Expedia and they were able to cross sell you or upsell you, and you came back to that.

What we are looking at is quite a large opportunity. So last year, we commissioned a study by comScore. And we found that 40% of all brokers who ultimately booked a hotel had been on TripAdvisor. We are not getting 40% credit for all hotel nights.

So by training the user to use our new product, Instant Book, they will participate in the community. They will have their ratings, their reviews, pricing, availability. And then they are going to be able to book on TripAdvisor.

So, in that example, if you needed to go check in on that booking before you completed it, we are going to be top of mind. Where was I last? Oh, I was at TripAdvisor. I was in the funnel-- I'm going to go back there. And we are going to see more -- a larger increase of the coverage and start to plug that leak.

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**Robert Peck** - *SunTrust Robinson Humphrey - Analyst*

When do you think you can start to see some of that leakage being recaptured? Is there an inflection point period in your mind? Is it over the next 12 months, 18 months? How are you thinking about when you think you can start seeing that gradually come back -- the leakage?

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**Julie Bradley** - *TripAdvisor Inc. - CFO*

I think it is going to take some time and just to be clear, we are in kind of a measured rollout. So we rolled out to US Mobile first. Because it was just that much better of a user experience. And I wouldn't want to glean too many of the statistics from conversion rate or plugging the leak from mobile because it is quite dramatic in the user experience. And we are on a phase rollout with -- on desktop, and we will go international as well.

So I think we are actually going to -- it will be over time, and then, what we is really going to be exciting is what we start to see the change in consumer behavior. So, when we are actually able to see cohorts. You went through our booking path. You booked.

I am really curious today. What is the repeat rate on that? And that opens up a lot more possibilities for us.

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**Robert Peck** - *SunTrust Robinson Humphrey - Analyst*

Could you talk about -- because we are talking about Instant Book. Could you talk about the sales cycle for particularly the hoteliers -- the hotel chains?

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**Julie Bradley** - *TripAdvisor Inc. - CFO*

The independents?



**Robert Peck** - SunTrust Robinson Humphrey - Analyst

The independents. How does that work? And how should investors think about that process and therefore, when we can start to see even a faster acceleration of I'm getting on the platform?

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**Julie Bradley** - TripAdvisor Inc. - CFO

I think it is very exciting for the independents to be able to take a booking on TripAdvisor. So, even though we say we are going to take the booking from the consumer on TripAdvisor, we are actually having that booking fulfilled by either an OTA, the independent hotel, or a chain on the back end. So it is almost like a direct booking for the independent hotels.

And from what we have done to go after this market is we first partnered with over 70 Internet booking engines. So we need that connectivity. We need to be able to surface real time price and availability at scale. And we think that is the best way to do that is through the Internet booking engine. We have only been at it with the independents for a little over a quarter and we have thousands that are bookable today, which we think is great traction and speaks to the potential velocity of the sales cycle.

We are utilizing our business listing sales force so we have a global sales force, primarily telesales that has been selling business listings subscriptions. And we look at their ability to sell Instant Book as just another product in their sales bag.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Right. Right. How do we think about the economics of Instant Book? And that going forward.

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**Julie Bradley** - TripAdvisor Inc. - CFO

Yes. So with the -- there is kind of two parts of that. The near term is that the OTAs are fairly efficient with their spend. They know that there is a lifetime value of a customer. And so they will speak publicly about this spend, 100% of their commission on TripAdvisor. And if -- in order to get those leads.

So if that is high teens, in some cases, that is a pretty high hurdle threshold. Instant Book, we have been pricing in the 10% to 15% range. It is not complete apples to apples, because the OTA does customer service and also has the credit card fees. Whereas we are passing in the background a 100% converted lead off to, say, the independent hotels and they will incur the credit card fee and do their own customer service, just like they were taking it direct.

So there potentially is some opportunity costs if the click was to go to Instant Book versus meta. But, if you have a little -- a longer lens on that, the repeat rate from those consumers and potentially higher conversions, would come out of the ability for the consumer to book directly on TripAdvisor.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Conversion is such a big question. Could you just talk a little bit about conversions and how you think about that rate in different buckets?

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**Julie Bradley** - TripAdvisor Inc. - CFO

So, it is hard for us without a fully rolled out Instant Book to talk about it -- conversions -- because once the click leaves TripAdvisor and we send you off to an OTA, we will lose sight of what happens -- did [they abandon] their cards, were they -- did they cross sell to another property? So it is a little bit tough to say, but early on we have been, with the consumers -- or like the experience of booking on TripAdvisor, and that is on desktop. And on mobile, the conversions were just so low that this much improved consumer experience has to drive higher conversion rates.



**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Okay. Back to the economics for second. The 10% to 15% [was your] out there. Would it ever make sense to lower those economics and accelerate adoption? Or is it one of those things, keep a measured pace and maybe can't handle all the adoptions you would want to take originally just because of bandwidth, just getting everything together. How do you think about that balance?

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**Julie Bradley** - TripAdvisor Inc. - CFO

So it is a great question. We have been talking about change first talking about them for a year or so. I think that is the first thing we needed to do was some education. We are not an OTA. We are different. We are sending you completed bookings. You're going to have some branding. You will still own the customer.

So there was education in that process. And now, discussions about terms, pricing, which is one of them, I'm sure if we cut the price in half tomorrow, that would increase the velocity of adoption. But I don't think we have to.

I think where we are in the process is making solid partnerships for a longer period of time where both parties feel good about the economics, feel good about the branding, the process. So I think we are in a good place and we will see how those negotiations go.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

So we agree. Pricing is just one of many things we think you would be negotiating. Without giving us contract details, what are other things to be thinking about that are also important? So we think a lot about data. Data sharing. Customer relationships, customer data. Help us think about what those other items are that a part of the overall negotiation?

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**Julie Bradley** - TripAdvisor Inc. - CFO

Sure. So pricing is just one. How does the loyalty program work? Who gets points? How does the billing work? I mean, for a chain, do you bill at the headquarter level or do you go out to the franchisees. Who gets to make the decision to increase pricing? What is the amount of guaranteed share they are going to get from -- and to participate in Instant Book? What does the branding look like? Who owns the customer, what does the confirmation email look like. And who can -- how long before you can send out an email campaign to that customer.

So there is many different elements of the negotiation and -- but I think it is healthy because we need to think it through, all these permutations, in order to develop a relationship that we are -- both parties are going to be happy with. So, I am sure there are things that we could give on immediately, but I don't think that would be the right decision over the long term.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

All of that makes a ton of sense to us. As we think about that evolving and then you think in your mind as far as planning out that sales cycle, therefore, is that something that takes six months, a year, a year and a half, as you work through all of those details? Because there are a lot of details to go through.

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**Julie Bradley** - TripAdvisor Inc. - CFO

So we think you need to look at the chains and the independents completely differently.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Agreed. Completely agree.

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**Julie Bradley** - TripAdvisor Inc. - CFO

The sales cycle with the independents is actually fairly quick. It is just a matter of targeting the ones. We are targeting BL sales customers first or customers that are getting a lot of page views that had a lot of coverage. And it is a pretty straightforward conversation. The chains, we have been in discussions with them for a year. We had the fundamental discussions and we will continue to take away more of the t's and p's and the rules of the road going forward. But, I think it is a healthy process.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Great. So shifting away from the hotels, the large OTAs. Could you talk about, what is it you think needs to be seen for them to get more comfortable to come on board with Instant Book?

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**Julie Bradley** - TripAdvisor Inc. - CFO

I think there is more fundamental questions of the -- I think they really like the meta product. They loved the pop-ups. They were probably the only ones that loved the pop-ups. Because they were getting up to six leads. They converted it at a much lower rate, but they had the ability to cross sell and upsell them and that was a great experience for the larger OTAs.

The meta- -- with the meta-display, they are not getting as many leads, but they are converting at a much higher rate. But that does mean less to cross sell and upsell and to market to those consumers. Instant Book, we are passing -- we would be passing fully converted leads off to them. So, they still would get to own that customer and be able to market to that customer, but it would be subsequent visits versus in the booking path.

So I think there is the decision there of how meaningful those additional leads are to them.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

As you think about that balance of meta versus Instant Book, how do you think about that being optimized, let's say, over the coming quarters? Is there a plan in your mind which would make the most optimal sense as far as customer experience as well as your average (inaudible) customers?

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**Julie Bradley** - TripAdvisor Inc. - CFO

I don't think -- I don't see a time when meta is going to go away. I believe that it is a great consumer experience. Even -- and it can coexist with Instant Book. So -- and it kind of -- back to the fundamentals of TripAdvisor, we are all about choice. We show the consumers everything. All the listings, all the reviews, all the pricing, who has availability. We should also continue to show all the availability from different pricing -- for different fulfillment agents. Because a consumer could have an affinity to one brand versus the other and I think that is the best consumer experience.

From an optimization standpoint, we are always optimizing. Our motto is Speed Wins. We are pushing on many fronts at the same time, so we want to continually improve, evolve the meta-experience for the consumer. But also for our partners and from a monetization standpoint.

So you will see us doing lots of testing. I get questions all the time of oh; you changed that part of the site. We are like, that was probably on a slice and it was a test and we will see. If it rolled out more broadly, then it worked. If not, we take it back. So, I think we will continue to optimize those.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Great. Great. We do only have five or so minutes left here. So if there are any questions in the audience, we can start the microphone and pass it around. But I wanted to actually turn quickly to in destination. Can you buy a little more commentary on Viator, La Fourchette, and now The Fork, what you are seeing there? And ultimately, how you envision those businesses growing for you over the coming quarters, years?

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**Julie Bradley** - TripAdvisor Inc. - CFO

Yes. So we are very excited about the acquisitions that we made last year, especially given about 50% of the traffic coming to TripAdvisor is coming to look at those adjacent markets. The restaurants, attractions, and vacation rentals. And we really were not monetizing them at all.

So, we had this huge opportunity in front of us to monetize something that consumers were demanding. In fact, if you look at how our pages for restaurants and attractions have evolved over the last several years, it was really community-driven. In fact, we didn't even have a product manager on those pages until about 18 months ago.

So, we have a focus on that. It helps us from both the monetization standpoint, but also mobile and high frequency. So you may only stay -- well, all of us probably stay in hotels too often. But, most consumers stay a couple times a year. But you go out to eat all the time or you go to a museum tour. Other things that happen on your trip. And also, in just daily life, that we have consistently reminded you about TripAdvisor and the great user experience you are having.

So we acquired La Fourchette in Q2 of last year. Kind of the open table of France and Spain. And online restaurant reservations. And we have been aggressively through acquisition and also through organic efforts going to other countries for greenfield opportunities. And we see a lot of run rate there. So we run individual apps for the fork, but we are feeding all that information back to the TripAdvisor app.

So we have more and more restaurants that are bookable on trip. And then, the attraction space, we acquired Viator in August of last year. It is the leading online attractions and tours site. And they have been a partners of ours for years, just a great highly curated content that they pick the best helicopter tour in Las Vegas and drive consumers to that which worked quite well and they have a nice, roughly 20% take rate on it. And with being part of the TripAdvisor family, they are also now focused on showing all attractions that are available through Viator marketplace.

So, giving consumers more choice and ability to read the reviews and just like when they are going through that research project like you would be looking at a hotel, you're doing the same thing for attractions. And we think that tight relationship with them we have been able to drive a lot of growth from our TripAdvisor traffic for consumers that are coming to the site trying to figure out what do they want to do on their vacation or what do they want to do next weekend.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Switching gears over to TV ad spend. Can you talk to us a little bit about what you are seeing there so far, maybe some metrics? You probably can't get to an ROAS or anything, but generally how should investors be thinking about the effectiveness of what you're seeing so far?

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**Julie Bradley** - TripAdvisor Inc. - CFO

We like what we are seeing so far. We are doubling our ad spend this year; we spent \$30 million last year. We will spend \$60 million this year.

Two primary goals. The first one is we have a very important consumer message to get out and that is the plan, compare, and book on TripAdvisor. And we really think TV is the right medium to get that information out. So our ads are going to lean in more on the book part of it as we are trying to change consumer perception about what they do on TripAdvisor and what they use it for. And then, the second goal is to drive more traffic.



And in our mature markets, where we have been spending at least one year, we are seeing some nice traction there. I think it is a little -- we do measure return on ad spend. We do it through a survey basis to give us an indication of why the consumer was there and the data scientists extrapolate a whole bunch of really useful information about it. So we are excited that the traction we are getting and especially given that we only measure on same session basis. So we are not looking at that lifetime value of a customer.

Going back to the Instant Book conversation, understanding when the exact transactions are made and to be able to do that cohort analysis will give us even more visibility into the positive impact on TV.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Great. We have a couple of minutes left. Are there any questions in the audience?

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**Unidentified Audience Member**

Could you comment on how significant the consolidation in the online travel agency is to TripAdvisor and what is the impact in terms of just the overall market?

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**Julie Bradley** - TripAdvisor Inc. - CFO

Sure. There has been quite a bit of consolidation. I think we feel overall it is neutral to positive for TripAdvisor. The underlying brands tend to bid in our auction independently. So even though, Expedia, for example, has added more subsidiaries, there are more members under the umbrella to our auction. You will see them actually bidding against each other. So that is probably continuing to be neutral.

And then, from the positive standpoint, I mentioned that they bid to a breakeven basis. So with some of the synergies that I would expect in the consolidation, and being able to share inventory, we would expect they would be able to be more -- they would have more profits to spend on TripAdvisor.

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**Robert Peck** - SunTrust Robinson Humphrey - Analyst

Questions in the audience. We have got a minute or two left. I was wondering, on the vacation rentals side, could you talk a little bit about the momentum you are seeing there? I think listings are up 18%, 19% or so last quarter.

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**Julie Bradley** - TripAdvisor Inc. - CFO

Yes. Listings were up 18% and that is on a net basis which means that we are deliberately culling some of our inventory. So, if you are a homeowner and you are not updating your calendar and you are not responding to requests for bookings, then we are going to de-prioritize you or we are going to eliminate you from the site because we really want that great consumer experience to see a calendar that is up-to-date and to get a response within 24 hours as our highest performing inventory.

We have also been able to kind of unify the platform on vacation rentals. So from a consumer experience, you probably haven't seen much of a change, but being able to consolidate the back end, to run campaigns, to show inventory across the site on the payment side of it, it is much more efficient which will allow us to more easily add supply, either organically or in organically.



**Robert Peck** - SunTrust Robinson Humphrey - Analyst

We are out of time here. I want to ask one more question, if we could. On the M&A side of things, you have been a great job. Some of these acquisitions, Viator, La Fourchette, et cetera. As you think about your portfolio of assets across the company, are there certain areas or verticals where you think could be additive to the company?

**Julie Bradley** - TripAdvisor Inc. - CFO

Yes. We have been pretty busy in the M&A space. We have done 17 acquisitions in the last three years. Some of them have been [aqua] hires as we are looking for talented engineers or product or marketers. And then some of them in those adjacent spaces.

So namely, we have been busiest in restaurants and vacation rentals and I think there is definitely a lot of organic growth to be had for those markets. But I think there is more room to consolidate on an -- in organic basis.

**Robert Peck** - SunTrust Robinson Humphrey - Analyst

All right. Well, with that unfortunately, we are out of time. Julie, thank you very much.

**Julie Bradley** - TripAdvisor Inc. - CFO

Thanks for having me to the conference.

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