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Julie M. B. Bradley – Chief Financial Officer, TripAdvisor, Inc.

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Mark S. Mahaney – Analyst, RBC Capital Markets LLC
Michael J. Olson – Analyst, Piper Jaffray, Inc.
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the TripAdvisor Q4 2013 Earnings 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 follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Will Lyons. Sir, you may begin.

Will Lyons, Senior Director-Investor Relations

Thanks, Ann. Good afternoon, everyone, and welcome to TripAdvisor's fourth quarter and year-end 2013 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 views as of today, February 11, 2014. 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 this 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 exclude stock-based compensation, and all comparisons on this call will be against our results for the comparable period of 2012.

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

Stephen Kaufer, President, Chief Executive Officer & Director

Thank you, Will, and welcome, everyone. 2013 ended on a very strong note punctuated by broad-based growth for us on entire product set. Growth to our click-based and display-based revenues accelerated sequentially in Q4 and was complemented by continued growth in subscription transaction and other revenue. This resulted in full year total revenue growth of 24%, and adjusted EBITDA growth of 7%. We're very pleased with our financial results, but are even more excited by our continued strong traffic in content growth, given our global scale, as well as successfully transitioning the core business to meta, the transformational part of improvement we made to dramatically enhance the hotel shopping experience on TripAdvisor.

Top of the funnel metrics remained strong, as total traffic to TripAdvisor sites grew 50% during the quarter and 55% for the year, with more than 2 billion unique annual visitors in 2013, according to Google Analytics, a testament to our global brand-building efforts and powerful network effects.

Hotel shoppers grew 25% in the quarter, to 36% for the year, with notable strength in our core U.S. and UK markets. Internationally, we rolled out four new points-of-sale in 2013, and we're planning to roll out eight more in 2014, delivering a more localized experience to international users.

Our members are more engaged than ever, contributing nearly 50 million reviews and opinions in 2013, increasingly coming from international users, in foreign languages and via mobile devices. We recently launched new member profile pages on our website, more prominently showcasing a member's contributions and iconic bubble ratings, a theme that also shines through in our full site brand refresh and our TV ads.

This year, we are integrating photos from our recent Oyster acquisition into TripAdvisor, we're working on a more engaging member experience on mobile, and we have plans to make TripAdvisor membership further come to life for users. I wouldn't be surprised if a lucky member or two makes a cameo in one of our new TV spots, which are due out this spring in advance of the busy summer travel-planning season.

Strong traffic, content growth and member engagement are at the core of our unique understanding of travelers. In 2014, we plan to leverage this knowledge further to develop a more customized and personalized experience for every user on the site. We started beta-testing our Just For You personalization initiative in Q4 and believe we are just scratching the surface in terms of providing a more targeted travel-planning experience as we seek to delight our users with a Personal Guide when they are on their trip.

While the TripAdvisor travel community did its part in making the product better in 2013, our product and engineering teams have done the same in spades. I'll highlight three of these product initiatives: meta, mobile and TripConnect, which illustrate how we're expanding TripAdvisor's reach within the travel-planning funnel and enhancing TripAdvisor's value to users and partners alike.

The first, meta, has been the most transformative usability improvement in our company's history. While the estimated financial impact proved to be choppier than we had originally expected, the bidding landscape matured during the fourth quarter, driving nice sequential upticks in CPC pricing and, correspondingly, revenue per hotel shopper. I'm pleased to report that the bidding landscape remains healthy year-to-date and that consumers love the new hotel shopping experience.

Secondly, on mobile, tablet and phone traffic as a percent of total traffic nearly doubled in 2013 to 40% and app downloads grew nearly 150% to 82 million. On tablet, we made further improvements to the new native app and we are in the midst of rolling out more immersive user experience on tablet web. On phone in 2013, we delivered a more engaging user experience by adding hotel price and availability and integrating friend content on both mobile website and the native app. As previewed on our last call, we are working on an assisted booking path to optimize the smartphone hotel shopping funnel and to deliver hotel shoppers a simpler, more elegant hotel booking experience on TripAdvisor.

We are working with our OTA and hotelier partners and believe that the assisted booking path could result in more bookings and improved downstream conversion for partners. In turn, we believe this will benefit smartphone monetization, a nice potential win-win-win for users, partners and TripAdvisor.

If meta was the key product focus in 2013, and assisted book on mobile is a key product focus in 2014, then TripConnect is the product enhancement aimed at 2015 and beyond. That platform, which launched last quarter to connect independent hotels to the TripAdvisor CPC auction, remains in the early stage of the adoption curve. While it's still very early, we believe TripConnect will allow us to build a deeper relationship with a broader set of partners as we match more hotel shoppers with independent hotels on TripAdvisor.

The theme of reducing friction for users and partners in order to enhance our long-term opportunities isn't just limited to our core CPC business. In Display, sold impressions were up 34% during the year due to a larger, more productive global sales force coupled with our Delayed Ad Call product innovation which has found great traction with a growing list of hotel chains, airlines, financial brands and travel brands.

In Business Listings, we ended the year with 69,000 subscriptions, up 38% due to better client-facing tools such as an improved property dashboard, sales force productivity gains and a new value-based pricing model that more closely ties a hotel's subscription fee to the bookings we generate through our platform.

In Vacation Rentals, shifting the business to a transaction-based model in early 2013 better aligned user, owner and TripAdvisor interests. We've seen positive results in terms of accelerated inventory acquisition, more traveler inquiries, more bookings and greater revenue growth. Including our recently integrated Niumba inventory, we now offer travelers approximately 550,000 listings to choose from, up more than 80% year-over-year. Increased choice for travelers has generated more inquiries and bookings on the site which, in turn, has allowed us to drive more product improvements and better owner engagement.

In 2014, we plan to further optimize the free-to-list platform by adding more high-quality listings, allowing us to drive additional improvements to the research and transaction funnel.

In China, DaoDao and Kuxun remain among China's leading online travel brands. China has recently become the country with the most outbound travel expenditures and we are focused on winning that traveler. During the year, we broadened our suite of travel products tailor-made for Chinese travelers and have seen strong demand for international content from our repeat users. We saw accelerated annual growth in 2013 and we remain squarely in investment mode in this market in light of the huge long-term opportunity that it represents.

Before I conclude, I just want to again highlight our philosophy on traffic growth. While we may already be the most popular travel site in terms of monthly unique users, we believe there remains a huge opportunity to introduce our brand and community to the billions of travelers who are not TripAdvisor users. And, just as important, we want to stay top-of-mind with those travelers who have tried our services once or twice, but do not rely upon our site for every trip they take. To capture this audience, we will grow our current channels, try new ad platforms, optimize traditional brand-building strategies, and invest additional dollars in areas that we believe are yielding results.

As it relates to our efforts in search engine marketing, social and TV, to name three big ones for us over the past few years, we are willing to invest up to a zero incremental profit margin in order to expand our reach and increase what we call trial of our site. In the case where we cannot measure a decent return on our investment, we'll work on improving, optimizing and changing whatever it takes to figure out a successful path forward. Viewed through our long-term growth lens, we will always reinvest profit whenever we can efficiently grow our community and our top line.

Similarly, I'll remind everyone that we do not manage the business to a specific margin target. Therefore, should an investment opportunity emerge during 2014 to enhance our long-term growth prospects, we'll likely take that option, even if it comes with a short-term impact to our bottom line. As we've always said, we are in it for the long-term.

In summary, 2013 was a great year but we are even more excited about how we've positioned the business for strong long-term growth. Finally, I want to thank all TripAdvisor employees around the globe. It's your hard work that delivers these great results and whose continued dedication will deliver an even better 2014.

I'll now turn the call over to Julie.

Julie M. B. Bradley, Chief Financial Officer

Thank you, Steve and hello everyone. Fourth quarter total revenue growth of 26% was broad-based and well ahead of our internal expectations. Currency also provided 1.5% tailwind to total revenue this quarter. On the bottom line, as expected, adjusted EBITDA growth slowed to negative 19% versus positive 17% in the year ago quarter, due to the high concentration of TV ad spend this past quarter.

Click-based revenue growth accelerated to 17% in the quarter, driven by hotel shopper growth of 25% and stronger pricing from our high-value meta leads. This was offset by continued headwinds from smartphone and international traffic growth, with smartphone impact intensifying on a relative basis given continued strong hotel shopper growth on that device.

As for meta's impact, we're winning on all fronts. We've seen more bidders per property on average, more properties with at least one bidder, and increasing CPCs as a function of both greater competition in the auction and that the meta auction has had enough time in the marketplace for the value to partners to be realized. Add in some onsite conversion, and we are pleased to say that we believe the meta transition achieved revenue neutrality in December.

While this is obviously a great way to end the year, it drives home two facts that I have mentioned on previous calls; first, our model is highly sensitive to pricing; and second, CPCs can fluctuate widely in a short span of time. Nonetheless, we are pleased to see this positive trend continue thus far into 2014. On the unit growth side, 25% hotel shopper growth is a solid outcome up against strong growth rates in the year ago quarter, and 50% total traffic growth for Q4 signals continued strength at the top end of the funnel. For full year 2013, 36% hotel shopper growth drove 18% CPC revenue growth, with a nice re-acceleration in December and into 2014.

Display-based revenue growth finished on a very high note, accelerating for the fourth straight quarter to 46%, due to better sell-through rates in APAC and EMEA, as well as compared to a seasonally weak Q4 2012. Full year 2013 Display revenue grew 26%, well above our 2013 expectations, fueled by global sales coverage and productivity gains, and bolstered by our Delayed Ad Call innovation.

Subscription, transaction and other revenue grew 53% for the quarter and 60% for the year, ahead of our full-year expectations. The primary drivers were sales productivity and pricing improvements in Business Listings, and increased brand awareness, inventory and transactions in Vacation Rentals.

Specific to geographic mix, our core U.S. and UK markets showed notable strength in traffic and revenue growth. International revenue, revenue to sites other than dot-com, increased slightly as a percentage of total growth based on hotel shopper growth globally and strong performance of our Display and Business Listings products overseas.

On the expense side, in line with our expectations, Q4 expenses increased sequentially to 75% of revenue, driven primarily by the timing of our TV ad campaigns.

Moving on to taxes, our full year 2013 GAAP effective tax rate was 28%, which was in line with our expectations and is a good proxy for our effective rate in 2014, dependent on international revenue and expense mix, among other factors.

We ended 2013 with 145.3 million diluted shares outstanding, and we estimate that our diluted share count will increase roughly 1% to 2% by the end of 2014, subject to our stock price movement, potential share buybacks and new share issuances.

CapEx for the quarter was $16 million or 8% of revenue; full year CapEx was $55 million, or 6% of revenue. Capitalized engineering salaries represented roughly half of our full year CapEx, while the remainder was driven by data center expansion to support our traffic growth and leasehold improvements. We expect 2014 CapEx as a percent of revenue to remain in line with 2013's exit rate given the number of new and existing office expansions planned to support our head count growth.

From a liquidity standpoint, our cash, cash equivalents and short-term marketable and long-term marketable securities increased $85 million during the year to $671 million driven primarily by free cash flow of $294 million.

We also allocated $145 million to repurchase common stocks throughout the year and paid an aggregate of $35 million to acquire six companies. We enter 2014 with just over $100 million remaining on our existing share repurchase plan, outstanding borrowings of $340 million, as well as an undrawn credit facility of $200 million.

With that, let me provide our thoughts for 2014. We exited 2013 with great momentum and are looking forward to build on that throughout 2014, which we believe will be another exciting year of growth and innovation. Based on the positive trends that emerged throughout Q4, we expect click-based revenue growth to accelerate throughout the year as we lap the meta transition in Q2, resulting in full year revenue growth in the low-20%.

As a reminder, our click-based revenue is highly sensitive to fluctuations in hotel shopper growth, and increasingly, from hotel shopper growth on smartphone, as well as partner CPC pricing, all of which are risks. Conversely, this forecast does not contemplate any meaningful lift from our assisted booking initiative on mobile, nor does it include any material traffic or repeat visitor lift from our TV ad campaigns, so those represent potential upside from a traffic and revenue standpoint.

We expect mid-to-high teens display-based revenue growth for the full year, as our worldwide traffic growth gives us a unique position in the marketplace and our differentiated CPM products allow us to maintain premium pricing. Note that we are up against some very strong 2013 comps and this forecast does not include a repeat of 2013's Q4 growth rate.

We expect low-50%s growth from our Subscription, transaction and other business lines, with subscriber growth, pricing, and sales efficiency gains driving Business Listings strength and continued mix shift to our fast-growing free-to-list Vacation Rentals product. These expectations imply that full-year total revenue growth will be in the mid-20%.

On the expense side, we anticipate a similar level of investment as 2013, as we invest in talented people, global brand amplification and traffic growth. Steve alluded to our traffic acquisition philosophy and I'd add that while we could operate the business to drive higher incremental margins, we believe that maintaining this level of investment is appropriate given our strategic growth objectives and the opportunities in front of us. Rolling it up, we expect strong full year 2014 EBITDA acceleration, growing roughly in line with total revenue.

Note that these expectations are based upon January data, historical patterns and other factors. While we attempt to be appropriately conservative, this represents our best-thoughts as of today. In summary, 2013 was a great year for the business. We enter 2014 with notable strength in our core products and are leveraging our expanding position in the travel-planning funnel to capture unique opportunities in new markets, new products and monetization.

We will now open the call up to your questions.

QUESTION AND ANSWER SECTION

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

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: Thanks, guys. I'm wondering if you can just help us understand the hotel shopper growth number in the quarter and kind of your outlook. It looks like it decelerated a bit more than we would have expected particularly with the ramp in direct marketing spend and yet the click-based revenue line and the revenue guide was much stronger even if you kind of zero out the meta drag. So, with a lot of the deceleration in markets that were not really monetized very well and thus have a lower impact on click-based revenue, if you could help us understand that. And then on the booking path side, just wondering if you can give us an update on the timing of facilitated booking in smartphones?

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. Thanks, Lloyd. Certainly, two good questions. The hotel shopper growth, the first thing as we called out really was a tough comp in the prior year. And we'll be facing a similar tough comp in the first half of 2014. So we were really thrilled that we had seen such strong growth previously with the overall scale in which we're operating. And so, when we look at the current growth rates, we think they're more down to, hey, this is what reality looks like for a business of our size. The fact that we were able to continue to deliver some nice click-based revenue growth on that hotel shopper is not only the dissipation of those meta headwinds but also the on-site conversion work that we had been doing and the other kind of normal operating parts of the business. So we see that as trending nicely not only at the end of 2013 but also through January 2014.

So on the booking path part of the question, we don't have a specific timeframe that we're ready to release yet. We're happy with the progress that we've made. We're a company that surprised ourselves on going quickly. I'll make the note specifically because we've been talking about the meta headwinds and are overcoming those to just make sure folks understand that while meta was truly transformational for the company, a phenomenal win for our travelers, and after our choppy waters, a great win for us now as we look forward to being positive on the meta transition, it was difficult for us and our partners to do that full conversion from the old click style to the new meta model.

We didn't give anyone really the choice to not participate. If you wanted to buy leads from TripAdvisor, you had to move over to the meta model. Assisted book is much more of an optimization of what we're able to do on the phone, reducing the friction and all the rest of the reasons we have described. But to be clear, we don't require anyone to do it. The product will still work just as well as it does today.

If assisted book is there or isn't there, obviously we expect it to be positive, but it's much less of a dramatic change for our partners and, frankly, much less for TripAdvisor ourselves. And so the timeframe for us to get assisted book to be successful and a positive driver for our travelers in 2014, there's just a lot less urgency than what we were facing in 2013 with the meta transition.

<Q – Lloyd Walmsley – Deutsche Bank Securities, Inc.>: And just as a follow-up, when you say the on-site conversion is better, is that just getting users who land on the metasearch pages to interact more with the monetizable clickthrough to the OTAs?

<A – Steve Kaufer – TripAdvisor, Inc.>: Yes. And it's whether they are landing on the metasearch pages or, frankly, anywhere on the site, we made some nice progress in getting travelers to move down the funnel to both check more prices on properties as well as follow through and actually click through to our clients.

And one of the things that we theorize on the backs of increased CPC from our clients is that the leads that we're sending folks, as of now, is better, they're more valuable than the leads that we might have been sending them six months ago based upon the work that the team has done on the site where a more qualified visitor leaves TripAdvisor is further down the buying cycle in their minds. And so when they land on a partner site, they're more likely to finish the transaction.

We also just have a lot more or many more clients who are active in the auction on many of our different points of sale, so that extra competition I'm sure has played a part in the price increases that we've seen recently.

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

<Q – Mark Mahaney – RBC Capital Markets LLC>: I'm sorry. Can you hear me?

<A – Steve Kaufer – TripAdvisor, Inc.>: Yes.

<Q – Mark Mahaney – RBC Capital Markets LLC>: Sorry about that. Can you just give any color on your hiring of the creative ad campaigns, your thoughts on how the TV ad brand campaigns have been going so far? And then there was a real quick reference in the press release to maybe one-time items or seasonal items in the display advertising number in the December quarter. Could you just put a little more color on what those were, what those may have been? Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. Thanks, Mark. The TV ad campaign, we were pleased to be able to see in all four markets results in terms of domain direct traffic and awareness surveys that we had conducted. So this was our first foray into TV at any magnitude, and we were pleased that what we had put together delivered to the market, delivered results on the site. As with anything we do, we look to iterate, expand, drive more efficiencies, and in case of our campaign, we're looking for perhaps a harder-hitting campaign, something that's going to be a bit more memorable than some of our commercials.

I think what we delivered was an excellent beginning. And now we look to the team and say, "Great, we've got our feet wet. We've proven that we can measure our success there. So now let's go in for some more." And if you recall, when we first talked about TV, there was the, "Hey, we'll try it, and if we can see signs that it's working, we'll continue." Well, great, we saw signs that it was working, and now we're looking to continue and optimize.

In terms of the fourth quarter display items, we were genuinely surprised on our own forecasting ability that a couple of larger orders dropped into the quarter that hadn't been part of our normal forecast. For whatever reason, Q4 tends to be tough for us to get an accurate read on. In Q4 2012, it was tough; in Q4 2011, it was good. So we've been seesawing a little bit. And so, hey, we're pleased to have it. When we look at our 2014 forecast, we're not banking in another big quarter due to big items coming in the fourth. Though, when we look at the whole year, we feel that display had a pretty good year.

There's certainly the notion of kind of year-end budgets being flushed, for lack of a better word, on CPM and other display campaigns. We probably got a piece of that. But in prior years it either hadn't happened or we missed a piece. So it's a bit tough for us to forecast accurately.

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

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

<Q – Mike Olson – Piper Jaffray, Inc.>: Hey, good afternoon. As far as the assisted book on mobile initiative, how are hotel and OTA partners reacting to that? Do the partners have any concern about not having those shoppers coming into their environment, or do they not really care as long as they get the booking?

<A – Steve Kaufer – TripAdvisor, Inc.>: Good question. So it's tough to generalize all partners. If I were to characterize in general the supplier community in general says, "Great, we're happy to take the booking. We're going to service the customers." The fact that it happens in your app, no issue from their perspective relatively, that's more of a technical connectivity, how do we get it all done than a philosophical question.

A number of the OTAs, online travel agencies, are super excited to have their inventory as part of the store; don't really care whether it's on their site or our site. Again, they get the customer. They get to market to the customer, they get to e-mail and otherwise own the customer for a lifetime. So, again, happy with that set of OTAs.

There's a handful of other online travel agencies that might prefer us not to change the model because they're perfectly happy getting the clicks themselves and preferring to drive more app downloads or other activities that they wouldn't necessarily get as much of a chance to do if we were taking a transaction.

So I think many are saying, "Well, we understand why you're doing this, TripAdvisor. It is in the name of providing a better customer experience. So we'll give it a try." And really, that's what we're looking for. We feel that the customer experience, especially on the phone, is something that we have to address. From our perspective, there isn't really much of a choice in the matter and I think all of our clients are quite sympathetic to that line of reasoning.

<Q – Mike Olson – Piper Jaffray, Inc.>: Okay, thank you.

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

<Q – Bo Nam – JPMorgan Securities LLC>: Hi, this is Bo Nam on for Doug. Thanks for taking our questions. A follow up to the TV ad spend in 2014. Do you see a strong correlation between the TV ad spend and hotel shopper growth and do you think that can help the growth once you pass your tougher comps in the first half of the year? And then kind of related to the traffic, when you think about the other parts of your traffic that are non-hotel, do you have any plans to further monetize that or be able to generate some growth from that? Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Certainly. To the question of TV driving hotel shopper growth, yes, we would expect meaningful campaigns to start to drive growth in hotel shoppers. There is just a law of big numbers out there, and at the size of which we operate, it's a bit tough for TV to be able to drive a meaningful enough amount of domain direct traffic. Our challenge and the challenge of anyone doing TV is being able to measure the overall lift. We're savvy enough, or we believe we're savvy enough, to want to look at TV spend and the overall branding spend on a much longer-term basis. So when we made the decision to continue TV in 2014, we were looking at establishing more of a presence on TV as opposed to a big concentrated buy, which in Q4 was October and November kind of specifically. And the reason we did that heavy concentration is because at a certain point of time, we would be able to best measure against our very large denominator of traffic how well that TV worked. Concentrating the buy in such a short period of time was not the smartest by way of driving the overall efficiencies, but it did make it easier for us to measure, which is why we did that.

So going forward, now that we were able to measure, we were able to see a bunch of the lift that we were looking for, and while it's still a bit murky as to how TV has helped all of the rest of our channels, we're believers to the point that we've allocated spend in 2014 going forward. It's always going to be a little hard I predict for us to answer definitively, "Hey, how much is your TV spend? What portion of your hotel shopper growth is driven by your TV spend?" We will certainly be learning more as we do and we will be continuing to experiment in presumably some big markets and some smaller markets to learn more and become experts at the type of TV advertising that drives business in the travel channel.

To the second question, monetizing non-hotel traffic. Certainly we have a lot of it. It is growing. It is extremely worldwide. We do have an eye on that category. We see it as kind of nothing but upside, with very little in our plan currently in terms of being able to drive more revenue. We don't currently have internal metrics that's revenue per non-hotel shopper sort of thing. You can tell we'll be much more serious about it when I start to talk about metrics like that. But in the meantime, suffice to say, it is in our thinking. We recognize that there's a lot of traffic there, but our hands are full with business listings and coming out of meta, further optimizing the hotel shopper simply because it's a larger growth opportunity for us right now.

<Q – Bo Nam – JPMorgan Securities LLC>: Great. Thank you.

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

<Q – Nat Schindler – Bank of America Merrill Lynch>: Yes, hi. Thank you for taking my question. When you mentioned the revenue neutrality in December for meta, that was right in line with your original predictions but much better than your predictions from last quarter. It sounds like that change occurred mostly on the pricing side. Have you done much to address the problem of breakage which you mentioned as a headwind for you as of last quarter?

<A – Steve Kaufer – TripAdvisor, Inc.>: So, when we were last on our call summarizing Q3, we were looking at the auction that hadn't quite developed the way we had expected, and it was a bit of a mystery to us as to whether pricing would recover to the level that we thought it should. After all, we only have partial visibility and we had built our year plan around a much stronger recovery.

By the time November rolled around, October, November, or November specifically, we had started to see some pricing increases and December saw a pretty nice lift yielding, again mostly price, but some conversion yielding that revenue neutrality and stuff that's continued to head in the right direction in January.

So breakage, we didn't do anything specific to address the breakage. I think assisted book really takes care of the issue, period. We can theorize that the meta experience has pulled more people back to TripAdvisor for that second purchase, and so we're benefiting a bit more from that. You can theorize that because we're showing all sorts of different pricing on the page and people are getting used to that, that people are sticking around and clicking through more.

But we have to be honest with ourselves and say, we just don't know that part. We're thrilled that the leads, as pricing would indicate, are now at least as valuable, if not more valuable than they were before as our metric of revenue per hotel shopper is up year-on-year at this point.

<Q – Nat Schindler – Bank of America Merrill Lynch>: Great. Thank you.

<A – Steve Kaufer – TripAdvisor, Inc.>: Certainly.

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

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great. Thanks for taking my question. A couple on TripConnect, maybe you could comment on how we should think about increased participation from some of the smaller hotels affecting CPC pricing in the auction. And I believe hotel needs to be a business listing subscriber to participate. So should we expect it to maybe impact that subscription revenue line before the CPC revenue line? And then just a clarification, if 2015 your main product focus is TripConnect, does that mean that there will be no sort of assisted booking product on desktop next year? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So I'll try to answer from my notes, and then if I miss one, please prompt back on. Small hotels do require a business listing, independent hotels do require a business listing in order to participate in TripConnect. That certainly does limit the opportunity of TripConnect for this point of time. We have over 65,000 properties that we've connected via Internet booking engines. So if, as an independent hotelier, you are one of those 65,000, you can now go buy business listing, if you don't already have one, and start buying traffic on a CPC basis.

We think for 2013 we probably had more of the lift from driving additional business listing sales than the actual CPC generated by the clients that had started CPC bidding in fourth quarter. We'll see what the net answer to that would be next year or 2014. And it's clearly our long-term goal to grow that number and establish those relationships with the independent hoteliers on a per-click basis.

To the 2015, is kind of TripConnect the big product plan? I'd say it is a piece of the long-term strategy to be able to establish ourselves as a major traffic in booking driving channels for these independent hotels. I certainly wouldn't call it the only part of the product strategy for 2014 or 2015. We have the big personalization initiative; we have many other things in the hopper. Assisted book, we are fully committed to it for the phone in 2014 and we're saying, "Hey, we'll wait and see how it goes before we make any comments or commitments to ourselves as to launching that on other platforms."

We're building it in such a way that if we wish to launch it on other platforms, we would be able to with smaller amount of effort than the initial implementation on the phone. But it's really aiming at the phone that has been what's been driving the initiative. On monetization rate on the smartphone just isn't where it should be given the growth of traffic and the assisted book, we believe, will help us get to our fair share of those mobile transactions.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Great. Thanks for the color.

<A – Steve Kaufer – TripAdvisor, Inc.>: Thank you.

Operator: Thank you. Our next question comes from Anthony DiClemente of Nomura. Your line is now open.

<Q – Anthony DiClemente – Nomura Securities International, Inc.>: Thanks a lot. Sorry if – I guess I should know this, but can you just remind me does the hotel shopper metric include users to TripAdvisor's native applications?

<A – Steve Kaufer – TripAdvisor, Inc.>: Great question. As we look at that, it does include shoppers on the TripAdvisor mobile website, but due to essentially some challenges around the moving from – how do I explain it? We had over the course of the year a native app that was partially what's called a web view, so it used some web pages as part of the app and so those would be counted naturally, I believe, as part of the hotel shopper metric.

When we launched the full native app, for those that downloaded the full native app, those would not be included in the hotel shopper metric, not because they shouldn't be, but because technically we're not able to do that at this moment in time. Hotel shoppers also don't include our hotel shoppers on Daodao, our China website. They don't include, to the best of my recollection, our native shoppers on Android as well as iPhone. And...

<Q – Anthony DiClemente – Nomura Securities International, Inc.>: I guess, what I'm getting at is, you mentioned the tough comp, but for people who are asking about the deceleration in hotel shoppers, isn't it safe to say that there are some mobile app-only users of TripAdvisor that are not being captured in the year-over-year growth rate and that's what could be an explanation for the modest deceleration in the hotel shopper metric?

<A – Steve Kaufer – TripAdvisor, Inc.>: That's certainly a fair point and that would certainly account for a bit. Again, the factors in there are the amount of our mobile usage app versus web and the timing over which people moved from the partial-native app to the full-native app, and we didn't go back and look at that. When we report in over Q1 as we'll have had a full quarter of fully-native, I think we will have a bunch of that tracked at that point and be a great question to revisit. But short answer is I think you're right, we are missing some hotel shoppers in that number there.

<Q – Anthony DiClemente – Nomura Securities International, Inc.>: Great. Thanks. And one more quick follow-up, if I may. I guess, Steve, can you just update us on how investors should be thinking about Liberty's decision to spin its stake? If you can just maybe update us on the timing and talk about the outcome there? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: I don't really sort of pay much attention to it. They're a wonderful controlling shareholder for us. There's an entity change there, and it's kind of nothing on the part of TripAdvisor. So we'll see what happens. I'm not sure what the latest rumors are for when the time – but by all means, ask Liberty directly.

<Q – Anthony DiClemente – Nomura Securities International, Inc.>: Okay. Thanks a lot.

<A – Steve Kaufer – TripAdvisor, Inc.>: Okay, thanks.

Operator: Thank you. Our next question comes from Naved Khan of Cantor Fitzgerald. Your line is now opened.

<Q – Naved Khan – Cantor Fitzgerald Securities>: Yeah. Thanks. Just on the marketing and selling expense, if we ex out the – if we normalize for the TV spending, how does the marketing efficiency look like? And then I had a follow-up.

<A – Julie Bradley – TripAdvisor, Inc.>: So are you talking about for a clarifying question, 2013 or 2014?

<Q – Naved Khan – Cantor Fitzgerald Securities>: Specifically Q4 of 2013, if we normalize for the TV ad spending that you did, how does the marketing efficiency look like?

<A – Julie Bradley – TripAdvisor, Inc.>: If you were to – as we had said, a significant amount of our TV advertising was spent in the fourth quarter as we were very focused on testing and trial. So wasn't looking for a meaningful uplift in revenue during that testing period. So if we were to exclude that, I think that that would have dropped to straight to the bottom line and you'd see EBITDA margins closer to previous quarters.

<Q – Naved Khan – Cantor Fitzgerald Securities>: I guess, I was looking for some color on the – in terms of your return on your advertising, if you would not have spent on TV, but more on maybe direct channels?

<A – Steve Kaufer – TripAdvisor, Inc.>: So I think if we had not spent on TV, most of that money would've dropped to the bottom line. We already spend in our other channels at a pretty aggressive rate, so certainly we could have used the dollars to spend at a loss in other channels, but that would be contrary to the direction that we always had.

<Q – Naved Khan – Cantor Fitzgerald Securities>: Understood. And then second question on the recent settlement in Europe between Google and antitrust regulators, any commentary around that and the impact on your business?

<A – Steve Kaufer – TripAdvisor, Inc.>: I mean, I'm not particularly happy with the current proposed settlement and we hope that – since there is nothing formal yet, we still have hopes that something more reasonable will be reached.

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

<Q – Peter Stabler – Wells Fargo Securities LLC>: Thanks for taking the question. A quick one, Steve, can you offer us some color on regional trends? Thanks very much.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. I mean, we generally don't go into too much detail on the regions. We have commented that the U.S. and UK were looking stronger. I guess that's against our forecast. And where you see in general around the world, sort of macroeconomic challenges, we absolutely see those in both traffic and CPC levels. So, people still love to shop for travel, but where there's a high unemployment or a deteriorating economy, the shoppers, even though they may click to our partners, that's a lower CPC to us, and so those markets are just harder. And so I'm not sure I'm explaining anything particularly helpful there, but that's about all the color that we provide.

<Q – Peter Stabler – Wells Fargo Securities LLC>: No worries. Quick follow-up, if I could. Should we assume that consistent with prior commentary, that large global events like World Cup would not provide any sort of meaningful contribution?

<A – Steve Kaufer – TripAdvisor, Inc.>: Yeah. No, we tend to look at those large-scale events as more likely to be a negative than a positive. So the Summer Olympics, people stay home and watch the games more so than the people traveling to the game. I know that's a little counterintuitive, but that's what we've experienced over the Summer Olympics.

I don't think the World Cup will have nearly the effect. It's just not as big an event, similar to the Winter Olympics would be a much smaller thing. So, net-net, those outside of the Summer Olympics, specific holidays, festivals, World Cups, tend to be too small for us to bother forecasting against.

<Q – Peter Stabler – Wells Fargo Securities LLC>: Great. Helpful. Thanks.

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

Operator: Thank you. Our next question comes from Kevin Kopelman of Cowen & Co. Your line is now open.

<Q – Kevin Kopelman – Cowen & Co. LLC>: Hi. Thanks. Just a question on Business Listings. Can you tell us anything about that opportunity? When you look at the 775,000 hotels on your platform, what percentage do you think are appropriate for that product? And then can you give us a little more color on the value based pricing that you rolled out? Thanks.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So we have out of the 775,000-plus hotels, and again separate from all the vacation rentals we have, these are just hotels, inns, B&Bs; last I checked we had over 300,000 of those were registered owners. So, we've got a lot of them already in our database registered, interacting with us. And kind of, of that set, 69,000 subscribers as of the beginning of the year. So feel we'll never get to all 775,000 of them, but as the site grows, as more and more owners want to read the reviews of their property on their site, we have that as the touch point. That touch point yields an engaged owner. If the properties are really terribly rated, we don't call them up and ask for a subscription. But most properties on TripAdvisor are in the good to very good, to great range and that makes for an exciting prospect for our sales reps to call.

So as we continue to grow traffic, as we continue to grow brand, as our stickers continue to be placed in windows, in plaques in hotels all around the globe, all of that drives more and more interest in Business Listings. So, our sales force is now very much worldwide, very much multilingual. We see continued growth there, so we don't feel we're capping out in any way, shape or form on the opportunity of Business Listings. And it's going to appreciate, it's a subscription business, so revenue keeps recurring.

The value based pricing, was just – we improved the mechanism by which we price the properties from more based upon whether the city was a popular one to the particular value that we're delivering for a particular property.

And the value for the property is a combination of, look, what is their ADR? What's their average daily rate for the property? How many rooms do they have? How important is TripAdvisor as a part of their business? Do we drive a lot of page views of their property or very small because it's much lower in rankings on our site?

And so, when we changed to our value-based pricing, which we put in place last October, we saw an overall price increase, which reflected not only the increased value because more visitors are coming to TripAdvisor every month looking at all these properties, but it's also just – it was a fairer way to price the product, because the hotels that could afford it, they were seeing clear value, getting a lot of traffic, ended up paying more and the price went down on some other properties that – price went down on some properties. And the new pricing for prospects was more value-based, was lower where it needed to be, where TripAdvisor wasn't driving enough page views.

We think we're at a pretty good place right now. So there will always be some tweaking. There's some clients in last year that would have faced much higher price increases, but we chose to cap the increase in order to preserve the hotelier relationship.

So we'll continue to tweak, but we think we're in a pretty good state right now.

<Q – Kevin Kopelman – Cowen & Co. LLC>: Thanks a lot.

Operator: Thank you. And our next final question comes from Brian Nowak of Susquehanna. Your line is now opened.

<Q – Brian Nowak – Susquehanna Financial Group LLLP>: Thanks. I've got two, one for Steve and one for Julie. The first one, Steve, just to go back to Anthony's question, roughly how big is that hotel shopper number now, just so we can kind of better understand the long runway ahead and how small it is and how much growth potential there is in there going forward? How big are you on an absolute basis, just roughly now?

And then secondly, Julie in the past, you've given very helpful ranges on the size of mobile and international and meta headwinds, so I think mobile got a little bit worse and meta clearly got better. How big were those headwinds and tailwinds in 4Q, and how should we think about 2014 and kind of what's embedded in the guidance? Thanks so much.

<A – Steve Kaufer – TripAdvisor, Inc.>: Sure. So I'll start. We generally consider the traffic to our site to be about half and half. Half hotel shoppers, half looking to either plan the rest of the trip or looking around that, what to do or where to eat locally. So I think about half and half and we already shared kind of the 2 billion unique visitor number that Google Analytics reports.

<A – Julie Bradley – TripAdvisor, Inc.>: On the BRIC side, we didn't give the exact specifics of those ranges, but I would say they're consistent with what we have been discussing all year with the international and mobile continuing to be a drag on hotel shopper growth in the 5% to 10% range. We did call out that the mobile drag has intensified, just because of the overall strength in mobile growth and that we're still monetizing it at a very low rate. This past quarter we had some favorable tailwind with some FX of about 1.5%. And on the meta side, when we last spoke in October, we were clearly seeing that it was continuing to be a drag on hotel shopper growth as compared to textlink revenue. But we did hit neutrality in December and that's really calculated when we look at revenue per hotel shopper that troughed in Q3 and then recovered nicely at the end of the year following into – and we're still continuing to see it today. And then, the other aspect of it I'd add were some on-site conversions. So, I think that kind of sums it up for Q4.

Looking at 2014, we still expect to see headwinds from international and mobile. And we hope with assisted book on mobile rolling out in 2014 that will help improve monetization rates, and decrease the amount of the drag. And meta, moving forward, especially as we lap, the rollout should be a positive.

Operator: Thank you. And at this time, I'd like to turn the call back to Steve Kaufer for any closing comments.

Stephen Kaufer, President, Chief Executive Officer & Director

All right. Well, thank you, everyone, for joining us today. It was a great year for the business and we're heads down on making the product even better in 2014. We look forward to updating everyone on our progress in the next few months. Thanks much.

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