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TripAdvisor, Inc. Q2 2019 Prepared Remarks

(All comparisons are against the same period of the prior year, unless otherwise noted; some calculations may not foot due to rounding)

In the second quarter and first half of 2019, we drove strong consolidated profit growth, expanded Hotels, Media & Platform segment ("HM&P") profit and profit margins and delivered rapid Experiences & Dining ("E&D") segment bookings and revenue growth.

Hotel performance marketing optimizations throughout last year and in Q1 this year continue to enhance profitability year-over-year in 2019. In Q2, we generated \$34 million of GAAP net income and grew consolidated adjusted EBITDA 17% to \$128 million. We estimate that excluding changes in foreign currency, consolidated adjusted EBITDA grew approximately 22%. First half results keep us on track to deliver double-digit consolidated adjusted EBITDA growth this year.

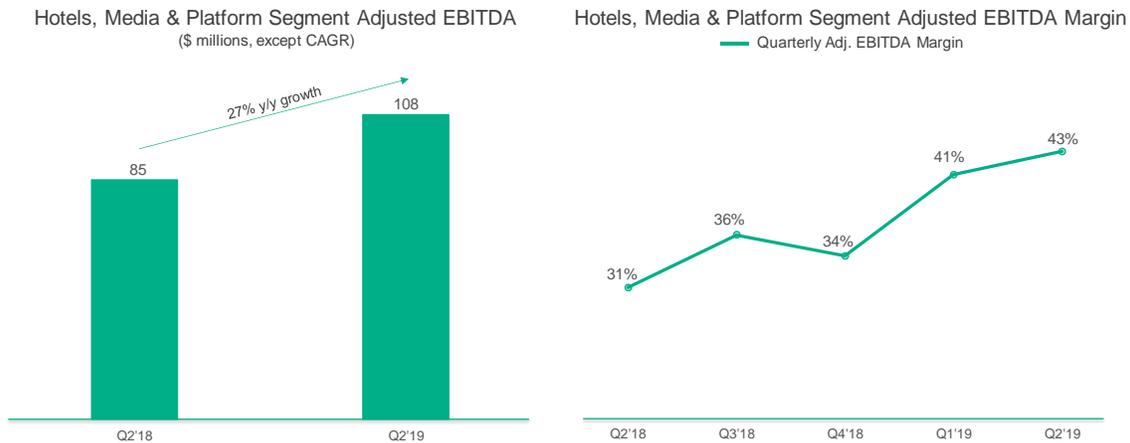
TripAdvisor is a powerful global offering built on people-powered information and a trusted brand. We help consumers discover, explore and experience their world. This year, we are operating with enhanced customer focus and we are executing a number of initiatives to deepen customer engagement and monetize our platform's significant influence. Member growth has accelerated, and we are in the early days of developing more authentic, impactful TripAdvisor brand marketing. We grew supply in hotels, experiences and restaurants, giving consumers greater selection and more convenience when planning and booking their trip. For partners, we beta-launched additional media advertising offerings and we are laying the foundation for a world-class media advertising platform to capture our fair share of the >\$400 billion digital media advertising market.

We are pleased with our 2019 progress towards our growth objectives.

Hotels, Media & Platform Segment Update

Q2 was another quarter of improved HM&P profitability and we made favorable early progress on foundational initiatives to deliver sustained, profitable growth.

HM&P adjusted EBITDA grew 27% to \$108 million, driven by significantly reduced year-over-year selling & marketing expense. HM&P adjusted EBITDA margin expanded by 12 percentage points year-over-year to 43%. Notably, we experienced only a single-digit percentage revenue impact despite strong margin improvement.



Q2 HM&P revenue declined 7%, including 9% lower TripAdvisor-branded Hotels (“Hotels”) revenue. We estimate that excluding year-over-year changes in foreign currency, HM&P revenue declined by 4%, and HM&P adjusted EBITDA grew by 31%. Q2 profit slightly exceeded our expectations while revenue lagged due to softer-than-anticipated demand trends. Hotels revenue decreased primarily due to performance marketing optimizations throughout last year and, to a lesser extent, adverse changes in foreign currency and lower SEO revenue. We attribute our SEO trends to Google increasingly pushing its own hotel products in search results, a practice we anticipate will receive increased focus from regulators moving forward. Performance was partially offset by strong hotel sponsored placements growth.

Looking ahead, we expect HM&P adjusted EBITDA growth in both Q3 and Q4 (though contributions from marketing optimizations lessen versus the first half) and we target returning to HM&P revenue growth in Q4.

A few factors influence this view. First, we expect Hotel performance marketing expenses will be meaningfully lower than last year again in Q3, which will help year-over-year profit but not revenue. This year-over-year expense difference, and therefore revenue impact, will narrow in Q4. We will fully lap associated revenue headwinds in Q1 2020, and expect to soon be in a position to grow revenue from these channels. Second, following modest SEO revenue growth in 2018, we expect a headwind to SEO revenue in 2019. Third, we expect additional second half Display and platform revenue growth as we execute early wins along our media advertising growth strategy.

Overall, with HM&P profitability much improved, we are executing initiatives to accelerate HM&P revenue growth beyond 2019. Our efforts center on four areas:

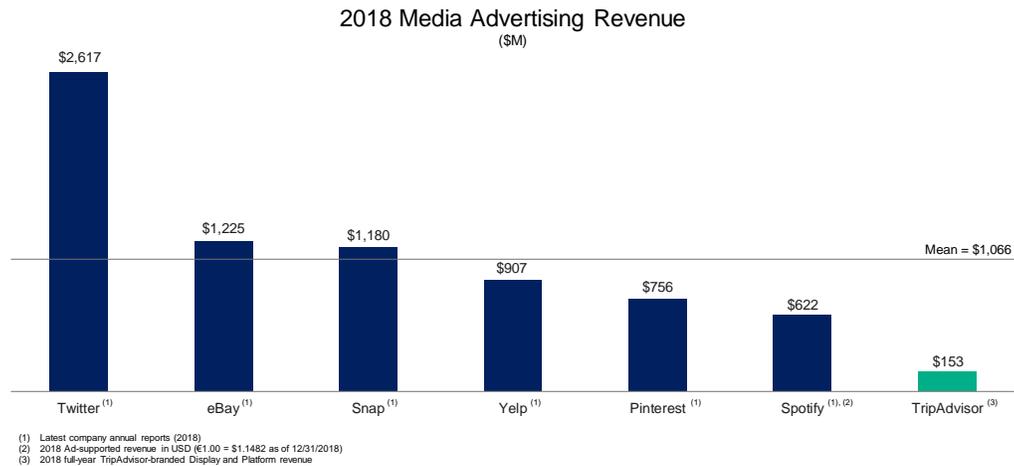
- 1) Scaling media advertising revenue;
- 2) Driving consumer product enhancements that grow membership and cultivate long-term loyalty;
- 3) Executing impactful TripAdvisor brand advertising; and
- 4) Expanding hotel B2B product offerings.

We outline these key areas in more detail below.

First, we have huge media advertising growth potential. Q2 TripAdvisor-branded display and platform revenue grew 5%, and we are laying the groundwork to drive faster growth on a world-class media advertising platform.

Efforts so far this year have involved synthesizing TripAdvisor’s robust data for audience building and more effective ad targeting. We also beta-launched content sponsorship opportunities in the first half of the year with both new and existing clients. Throughout 2019 and 2020, we aim to increase quality inventory, develop more high-impact ad units and implement the technology and delivery infrastructure needed to activate and serve a bigger, broader client base.

We believe our long-term prospects in this area are extremely underappreciated. Emarketer forecasts the digital advertising market to grow 14% annually and reach \$479 billion by 2022. TripAdvisor’s media advertising revenue, at only \$153 million in 2018, has long under-indexed relative to our large, global audience and significant commerce influence in the \$1.7 trillion travel market. Other internet platforms with a fraction of TripAdvisor’s monthly audience, and much less influence, demonstrate the opportunity in this area:



Industry trends are in our favor. Media dollars continue to migrate from traditional channels, like television and printed circulars, to digital. Google and Facebook have been the largest beneficiaries; however, in recent years, advertisers have increasingly sought brand-safe, non-competitive platforms with specific domain expertise and influence in attractive areas, such as retail, technology, music or travel. TripAdvisor can give advertisers access to a high-intent, global travel audience, enabling them to target and optimize campaigns and improve ad performance. We intend to offer clients a more modern, high-powered advertising suite spanning native, video and programmatic solutions, vectors that industry analysts estimate are growing by 20-30% per year. Given our media assets and opportunity ahead and, we aim to at least double Display and platform revenue over the next three to five years. We are extremely excited by our media revenue growth potential.

Second, we are ramping consumer product enhancements that increase habit and both grow and serve TripAdvisor members.

TripAdvisor is uniquely positioned to deliver consumers a more comprehensive, useful, intuitive travel product experience than any other brand. This year, we have more rapidly turned consumer feedback

into product improvements. For example, in Q2 we upgraded our “Saves” and “Trips” planning features, improved mobile maps, and tested many more features that are intrinsically habit forming. At 417 million average monthly unique visitors in Q2, TripAdvisor remains the world’s largest travel community. Given our global scale, our focus is on deepening engagement with our platform. We have seen early progress. For example, new member growth has accelerated this year and we plan to enhance growth efforts in the second half. Focused efforts have also helped monetization, as hotel metasearch revenue generated by members improved nicely year-over-year.

Our internal data shows that TripAdvisor members visit directly 5x more, cross-shop 4x more, come back to the site 3x more and generate more revenue than the average TripAdvisor user. Throughout the balance of 2019 and into 2020, we are constructing – and will scale – initiatives to make TripAdvisor membership more valuable and deepen member engagement on our platform. These initiatives include improving cross-device visibility and honing AI-driven prediction algorithms to anticipate member needs to deliver more relevant, personalized content; further upgrading and enhancing our CRM approach; determining which type of loyalty program makes sense for our community; and completely reimaging the TripAdvisor app. We have a lot of exciting work ahead.

Third, we are focused on delivering more impactful TripAdvisor brand advertising.

In Q2, we completed a comprehensive brand reappraisal. Working with a cross-section of stakeholders, consumers, travelers and partners, results indicated attractive potential to turn TripAdvisor, already a well known global consumer brand with strong consumer equity in travel information, into one that is ‘known well’ for addressing travelers’ many pain points throughout the travel journey. We recently selected a new global media buying agency and throughout the balance of 2019, we will develop an integrated brand strategy and new creative enabling our consumers to see more inspiring, more impactful TripAdvisor branding across an array of mediums. Importantly, we expect to accomplish this within our existing brand advertising budget – not only in 2019, but also moving forward – as we believe our brand dollars can be even more effective as we reach and engage consumers on a deeper level. Accomplishing this will accrue monetization benefits, platform-wide.

Lastly, over the longer-term, we aim to expand our B2B product suite that can help partners leverage TripAdvisor’s global platform to grow their businesses.

Hotel sponsored placements ad revenue grew by strong double-digits in Q2 and we re-aligned sales efforts to explore and deliver additional offerings that enable hoteliers to generate even more value on our platform.

In summary, Q2 was another quarter of impressive HM&P profitability and we are focused on executing initiatives to grow HM&P revenue.

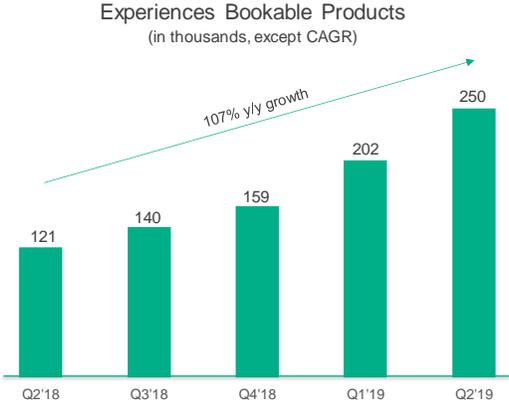
Experiences & Dining Segment Update

Accelerated E&D investments this year are growing bookable inventory, driving bookings and setting a foundation to increasingly monetize our influence across more travel categories.

Our teams are increasingly collaborating on customer-focused product initiatives. For instance, our Experiences, CoreX and Restaurants teams have been collaborating to provide dynamic recommendations on experiences and restaurants based on the time of day, local expertise and nearby

options. We made notable strides providing personalized, highly relevant, location-specific recommendations, as well as curated lists to help consumers make informed, last-minute decisions in-destination on their mobile device. We also expanded payment options and made mobile tickets instantly available within mobile wallet apps. We are pleased with our progress, and see ample growth opportunity as we cross-sell our spectrum of travel products.

For suppliers, in Q2 we launched self-service “Special Offers” for international tour and activities operators, enabling them to offer discounts and secure even more bookings during summer peak travel months. Experiences’ bookable supply growth accelerated to 107% year-over-year, reaching 250,000, and an increased percentage of affordable options (e.g., events, tickets, and unique experiences) to give consumers more things to do at attractive price points.



In Restaurants, product, supply and marketing investments are delivering strong growth as well. In Q2, LaFourchette’s seated diner and bookable restaurant growth accelerated again to 37% and 28%, respectively. LaFourchette offers 65,000 bookable restaurants across 16 countries. Conversion improved on the mobile app – our largest channel – in part from this additional supply choice as well as from product enhancements and successful marketing promotions. On the media revenue side, Restaurants ads and premium subscription offerings contributed diversified growth by leveraging existing sales channels.

E&D revenue grew 28% in Q2. We estimate that excluding changes in foreign currency, E&D revenue grew approximately 33%, which was in step with bookings growth across these businesses. Experiences quarterly revenue patterns can be seasonal and can fluctuate due to the timing of bookings and consumption. We view Q2’s accelerated supply additions and solid bookings as key indicators of long-term growth. Looking ahead, we anticipate E&D revenue growth will taper in the second half as we lap hyper-growth last year on our TripAdvisor channel in Experiences and in Restaurant media advertising, while our investments drive platform expansion and build future strength.

Another positive long-term indicator remains the sheer size of our market opportunity. Phocuswright estimates that global travel activities is a \$159 billion market that is currently 80% offline. PwC estimates the global restaurant market reached \$1.6 trillion in 2018 and expects its growth to accelerate through 2022. We want to reinforce our market-leading position now and remain far from profit-taking mode. We could choose to operate this segment closer to enterprise-level profit margins today; however, we believe investing in platform expansion to capture market share and long-term growth is the best way to maximize future profits and shareholder value.

“Other” Update

Other revenue decreased 32% to \$43 million in Q2, primarily driven by the elimination of some marginal and unprofitable revenue within some non-TripAdvisor branded offerings since the middle of last year, which reduced revenue and increased profitability. Other Adjusted EBITDA grew \$5 million.

Additional Consolidated Q2 Financial Information

Q2 GAAP Net Income grew 6% to \$34 million, while Non-GAAP Net Income grew 10% to \$64 million. GAAP Net Income and Non-GAAP Net Income were impacted by a cumulative income tax expense of \$15 million recorded during the three months ended June 30, 2019. We recorded this expense in response to a June 7, 2019, three-judge panel opinion issued from the Ninth Circuit Court of Appeals in *Altera Corp. v. Commissioner*, which reversed a United States Tax Court decision regarding the treatment of share-based compensation expense in a cost sharing arrangement.

In addition, we are in the process of evaluating France’s recently enacted digital services tax, which was signed into law in July. Financial impacts are not currently included in our 2019 outlook; however, early indications are that it is unlikely to be significant to our 2019 financial results.

Outlook

As a reminder, we endeavor to be as accurate as possible with our forward-looking commentary; however, a number of factors outside of our control can limit our visibility into future financial performance and can cause our results to vary materially from our current expectations.

We reiterate our expectation of double-digit consolidated adjusted EBITDA growth this year. We expect adjusted EBITDA growth in the second half to step down from the 15% growth we delivered in the first half, and we expect consolidated revenue and adjusted EBITDA growth to accelerate in Q4 versus Q3.

We believe that leveraging our strong global platform and executing with enhanced customer focus will enable us to accelerate consolidated revenue growth in 2020 and progress towards three to five year financial objectives outlined in our previous quarter’s prepared remarks.

TripAdvisor’s second quarter 2019 earnings press release is available on the Investor Relations section of the TripAdvisor website at ir.tripadvisor.com. The earnings release is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the U.S. Securities Exchange Commission, or SEC, on August 7, 2019, which is available on the Investor Relations section of our website at ir.tripadvisor.com and the SEC’s website at www.sec.gov.

Forward-Looking Statements:

These prepared remarks contain “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. The following words, when used, are intended to identify forward-looking statements: “anticipate,” “believe,” “could,” “estimate,” “expect,” “intend,” “may,” “might,” “plan,” “project,”

“should,” “will,” and similar expressions which do not relate solely to historical matters. We caution investors that any forward-looking statements in these prepared remarks, or which management may make orally or in writing from time to time, are based on management’s beliefs and on assumptions made by, and information currently available to, management. Such statements are subject to risks, uncertainties and assumptions and are not guarantees of future performance, which may be affected by known and unknown risks, trends, uncertainties and factors that are beyond our control. Some of the risks and uncertainties that may cause our actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements are more fully described in Part I. Item 1A. “Risk Factors” of our Annual Report on Form 10-K. Moreover, we operate in a rapidly changing environment. New risk factors emerge from time to time and it is not possible for management to predict all such risk factors, nor can we assess the impact of all such risk factors on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements. We caution you that, while forward-looking statements reflect our good faith beliefs when we make them, they are not guarantees of future performance and are impacted by actual events when they occur after we make such statements. We expressly disclaim any responsibility to update our forward-looking statements, whether as a result of new information, future events or otherwise.

Investors should also refer to our quarterly reports on Form 10-Q for future periods and current reports on Form 8-K as we file them with the SEC and to other materials we may furnish to the public from time to time through current reports on Form 8-K or otherwise, for a discussion of risks and uncertainties that may cause actual results, performance or achievements to differ materially from those expressed or implied by forward-looking statements.

Use of Non-GAAP Financial Measures:

These prepared remarks may include references to non-GAAP measures, such as adjusted EBITDA (including forecasted adjusted EBITDA), free cash flow, and constant currency measurements, such as, non-GAAP revenue before effects of foreign exchange, and adjusted EBITDA before effects of foreign exchange, which are considered non-GAAP financial measures as they are not prepared in conformity with accounting principles generally accepted in the United States (“GAAP”). These non-GAAP financial measures are not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

We encourage investors to review our earnings press release as it contains important information about our financial results, including tabular reconciliations to the most directly comparable GAAP financial measure, definitions, limitations and other related information about these non-GAAP financial measures. We have not reconciled consolidated adjusted EBITDA guidance to projected consolidated GAAP net income (loss) because we do not provide guidance on GAAP net income (loss) or the reconciling items between adjusted EBITDA and GAAP net income (loss), as a result of the uncertainty regarding, and the potential variability of, certain of these items. Accordingly, a reconciliation of the non-GAAP financial measure guidance to the corresponding GAAP measure is not available without unreasonable effort.

The earning press release in addition to other supplemental financial information is available on the Investor Relations section of our website at <http://ir.tripadvisor.com/>. The earnings press release is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the SEC on August 7, 2019, which is available on the Investor Relations section of our website at <http://ir.tripadvisor.com/>

and the SEC's website at www.sec.gov.

Key Business Metrics:

We review a number of metrics, including unique visitors, hotel shoppers, and revenue per hotel shopper, to evaluate our business, measure our performance, identify trends affecting our business, formulate business plans and make strategic decisions. While these numbers are based on what we believe to be reasonable estimates for the applicable period of measurement, there are inherent challenges in measuring usage and user engagement across our large user base around the world. For example, a single user may have multiple member accounts or browse the internet on multiple browsers or devices, some users may restrict our ability to accurately identify them across visits, and we are not always able to capture user information on all of our platforms. As such, the calculations of our active users may not accurately reflect the actual number of people or organizations using our platform. Our metrics are also affected by applications that automatically contact our servers for regular updates with no discernible user action involved, and this activity can cause our system to count the users associated with such applications as active users on the day or days such contact occurs. As such, the calculation of some of the metrics presented may be affected as a result of this activity. We regularly review our process and may adjust how we calculate our internal metrics to improve their accuracy.

THOMSON REUTERS STRETEVENTS

EDITED TRANSCRIPT

TRIP - Q2 2019 TripAdvisor Inc Earnings Call

EVENT DATE/TIME: AUGUST 08, 2019 / 12:30PM GMT

OVERVIEW:

Co. reported 2Q19 results.



AUGUST 08, 2019 / 12:30PM, TRIP - Q2 2019 TripAdvisor Inc Earnings Call

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Will Lyons *TripAdvisor, Inc. - VP of IR*

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PRESENTATION

Operator

Good morning, and welcome to TripAdvisor's Second Quarter 2019 Earnings Conference Call. As a reminder, today's conference call is being recorded.

At this time, I would like to turn the conference call over to TripAdvisor's Vice President of Investor Relations, Mr. Will Lyons. Please go ahead.

Will Lyons - *TripAdvisor, Inc. - VP of IR*

Thanks, Howard. Good morning, everyone, and welcome to our call. Joining me today are our CEO, Steve Kaufer; and our CFO, Ernst Teunissen. Last night, after market close, we distributed and filed our second quarter 2019 earnings release, and we made available our prepared remarks on our Investor Relations website located at ir.tripadvisor.com.

In the release, you will find reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures discussed on this call. You will also find supplemental financial information which includes certain non-GAAP financial measures discussed on this call as well as other performance metrics.

Before we begin, I'd like to remind you that this call may contain estimates and other forward-looking statements that represent management's views as of today, August 8, 2019. TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances. Please refer to our earnings release as well as our filings with the SEC for information concerning factors that could cause actual results to differ materially from these forward-looking statements.

And now here's Steve who'll share a few thoughts before we open up the call to your questions.



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Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Thank you, Will, and good morning, everyone. To summarize our prepared remarks from last night, in the second quarter and first half of 2019, we drove strong consolidated profit growth, grew Hotels, Media & Platform segment profit and expanded profit margins and delivered rapid Experiences & Dining segment growth in bookings, supply and revenue.

First half results keep us on track to deliver double-digit consolidated adjusted EBITDA growth this year, and we're pleased with our 2019 progress towards our revenue growth objectives.

TripAdvisor remains the world's largest travel community. We have a powerful global offering built on people-powered information and a trusted brand. We help consumers discover, explore and experience the world in unique and compelling ways.

This year, we are operating with enhanced customer focus and we are executing well on a number of initiatives to deepen our customer engagement, grow and serve our members, and deliver travelers a more holistic and seamless travel experience.

We're also laying the foundation for a world-class media business to enable partners to capture more value on our platform, which can enable us to further monetize our significant travel influence.

We'll now open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Deepak Mathivanan from Barclays.

Deepak Mathivanan - *Barclays Bank PLC, Research Division - Research Analyst*

So first, can you talk about the strategy behind the media efforts a little bit more in detail? The content, particularly on the feed, is improving steadily and we look at that very closely. And also, we noticed that you're launching some new ad units recently. Although it's still in early days, what should we expect to see both in terms of product and also in terms of monetization efforts over the next few quarters that makes this a more sizable business in the next few, say, the next few years?

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Sure. Thanks for the question. This is Steve. We first kind of want to remember more than 400 million unique users, and they're almost all on our site looking for a place to go, looking for a place to stay, looking for a thing to do, a place to eat. That's an incredible amount of influence across the travel ecosystem. And as you know, we've monetized through a couple of different vehicles so far in our history, but we really don't feel we've tapped into the opportunity to better understand who these folks are so that we can segment them and offer visibility to these users across all of our endemic clients as well as non-endemic clients.

So you've noticed a couple of different ad units. That's great. You'll see more custom pieces throughout the site. You'll see more native integrated pieces. The feed will be part of that, but I wouldn't guess, as we implement new products, I wouldn't guess that it would be a majority of the new pieces. We're going where we find consumers are at a decision point.



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Where can we inspire them -- or where can we help our clients inspire them to go to that location? And then how can we help select the right hotel, the right thing to do for them? All that comes down to new video units, better programmatic capabilities -- our clients can buy easier on our platform, more ad units across all of our devices and, in general, a better targeting ad tech stack that we're already in the process of assembling.

So this is new people, relatively new effort. I should say we have a very nice display and media business, but it's a nice opportunity for us to dramatically grow that using kind of latest technology where we hadn't invested as much before. Compared to some of our peers with our audience size, we see it relatively -- well, we see what we believe to be a fantastic opportunity for doubling this part of our business in the next 3 to 5 years.

Deepak Mathivanan - Barclays Bank PLC, Research Division - Research Analyst

Great. And then, Ernst, was the 2Q revenue trends in the HM&P segment a surprise to you at all? How are you thinking about it? And then looking at it in terms of the back half as well, so you're calling out returning to growth in 4Q. Is that primarily from comping through some of the marketing expenses? Or is there any other puts and takes that's going in there as well?

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

Deepak, the profit growth trend in HM&P was not a surprise to us. We continue to benefit from the optimizations that we've done around our marketing expenses. We saw continued aggressive profit improvement. First half now, we have a total of 31% EBITDA growth in our HM&P segment, and Q2 was very close to the 30% mark. So that was very pleasing and very strong for us.

On the revenue side, we had said that we would continue to see some weakness in the overall revenue line as a result of the marketing pullback. This quarter, we additionally saw some increased SEO trends as well that we focused on. But if you look ahead for the rest of the year, in Q4, we are seeing the segment go back to growth. Into Q1 for next year, we have fully lapped all the marketing -- the reset that we have done. We will be in the position to start growing our paid marketing channels again, and we're forecasting to return to growth on the HM&P segment in that year.

Display is an additional growth driver for the back half. So it's not just comping the paid marketing spend. The display initiatives that Steve was just talking about will start to kick in some extra contribution to our revenue growth as well towards the end of the year is our expectation.

Operator

Our next question or comment comes from the line of Lloyd Walmsley from Deutsche Bank.

Lloyd Wharton Walmsley - Deutsche Bank AG, Research Division - Research Analyst

Two questions, if I can. First, can you just talk about the comments in the letter on E&D segment growth tapering and what might be driving that? And where are you in terms of driving bookings through core TripAdvisor versus Viator? Is some of the impact competitive? Or are you kind of done making TripAdvisor kind of fully bookable?

And then second one, just when you talk about slower demand, is that on the consumer side in terms of hotel shoppers or the advertiser side or both? Any comment you can share on trends in metasearch pricing options would be great.

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

Yes. Lloyd, thank you. First of all, growth for the segment E&D in the second quarter was strong. It was 28%, but excluding the impact of currency, it was 33%. The product, supply and marketing initiatives that we're driving are progressing very nicely. Pleased with that. We're making a lot of investments this year that may not necessarily impact our revenue growth this year, but it's setting us up for longer-term growth on the platform. And as you know, a huge market opportunity across both restaurants and experiences that is very untapped, 80% off-line on the experiences side.



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There's a couple of things this year in the revenue trends that we called out before. One is currency. Obviously it's making an impact this half but also in the next half. We've called out before that we're comping some very high growth in our new restaurant products and the restaurant media products business that we built last year, and we're comping against that particularly in the back half of the year. That was a major factor last year.

But also, we had pretty explosive growth on the TA platform for Experiences last year which we're comping into as well. So if you dial back from all of that, we're making huge investments for the growth here -- for the future here. And there's long-term sustainable growth that we're able to capture, we believe. We're playing to win. Not everything is focused on optimizing revenue this year, but we see this as a long-term growth opportunity for TripAdvisor.

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

And then this is Steve. When you look at the actual, what's going on, on TripAdvisor, there is -- we think we're doing a much better job helping our travelers find the things that they really want to book in advance before they go. We feel there's a lot more headroom there. We're improving our, what we call, our Trips functionality so you can start building more of a trip together. That needs to include and will include abilities to book attractions and tours, those magical moments that are part of the vacation that Trip has. Whether they be things sold on the platform or just the wonderful advice that you can get, it's really that full package for that considered Trip that allows us to shine so well, and Experiences is a vital part of that.

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

To your second question, Lloyd, about the hotel meta auction, the trends that we're seeing are on the consumer side. So on the supplier side, we've seen consistency in the bidding behavior of our partners. We've seen slower demand in paid marketing, obviously, because we are bidding less aggressively on those search terms and we're getting fewer paid customers in. And on the SEO side, we made a comment that we saw some slowdown.

Operator

Our next question or comment comes from the line of Mike Olson from Piper Jaffray.

Michael Joseph Olson - *Piper Jaffray Companies, Research Division - MD & Senior Research Analyst*

Others in the space continue to talk more and more about getting more aggressive in the activities and experiences segment. Just wondering if you're seeing any evidence of more competition in that category or not really at this point.

And then also in Experiences & Dining, I realized you're pushing for long-term growth with continued investment in the segment. I believe you've said in the past that you think this segment can have a margin profile that's more similar to HM&P. Do you still believe that's the case? Or is there anything structural that would make that more challenging?

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Mike, thanks for the question. This is Steve. The focus -- the way we look at the overall experiences market is that it's really in the beginning. The demand is huge. This is a huge new category coming online. We got in really early. We have a number of other players that are also in the space. But the vast, vast majority of everything going on is still off-line, off-line in the pre-trip phase, off-line in destination, as in someone walks up and buys something. We truly believe all of that or a huge portion of that will migrate online and some of it will migrate online to our app, others for pre-purchase or pre-trip activities.



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We're doing our best to invest in all the different areas we need in order to capture more than our fair share of the marketplace. We fully expect all of our competitors to be on the same game plan, and the beauty is there's plenty of opportunity for there to be multiple winners in this category. We think our phenomenal traffic advantage gives us a great opportunity to do extremely well. So between traffic, between supply, between the frictionless booking platform we have now, it all works.

To your second question on margin profile for the business, we're not going to be too specific, but we do believe that the margins in this category do end up looking like hotel margins have evolved to. And so we feel it's a very natural opportunity for our marketplace to consolidate the supply. And we already have huge portion of the demand, and that makes for a great business with a ton of network effects.

Operator

Our next question or comment comes from the line of Naved Khan from SunTrust.

Naved Ahmad Khan - SunTrust Robinson Humphrey, Inc., Research Division - Analyst

Another couple of questions. Maybe on the Hotel side, as you talked about the SEO headwinds, is that -- are the SEO headwinds just limited on the Hotel side? Or is that something you're also seeing on Experiences? Can you just clarify that for us?

And then just based on the commentary, it just seems like if I look at the Hotel's subsegment, you're going to comp the advertising cost in Q1 of 2020. So is that -- when we should expect that subsegment to kind of stabilize or maybe even start seeing positive growth? What's the right way to think about that?

Stephen Kaufer - TripAdvisor, Inc. - CEO, President & Director

Sure. Thanks, Naved. This is Steve. I'll take the first SEO-related question. And let's start with the context that, of course, we get a lot of SEO traffic across all of our business units. And it's a great way for travelers to discover TripAdvisor and in everything we do. There is an effect of Google and other search engines moving more and more into the travel space, and that's a bit of the Hotel headwind we called out. Of course, it hits all of our business units, but we continue to look at the overall positive of how this traffic finds us, how we're able to educate them on TripAdvisor. And then at some point, if you want, we can go into the rest of the initiatives that we're doing to otherwise drive long-term loyal behavior of our customer base.

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

To your point -- to your second question, Naved, HM&P and growth in the future, yes, this year, 2019 is obviously a profit-focused year. We've been talking about the significant profits we've been driving. We have progressively throughout 2018 made improvements in our performance marketing. We're now in Q1 and Q2 flat on our returns there. We're happy with our returns. We're lapping into some benefit, but it's a diminishing benefit, and it should start helping revenue and our ability to start acquiring paid marketing again and grow that line. So in Q1 of 2020, we will have fully lapped that, and we will be in a position to start focusing on growth in our paid marketing channels again. So we've called out, in Q4, we are anticipating to go to growth for the segment. And into 2020, we're expecting growth from that segment.

Naved Ahmad Khan - SunTrust Robinson Humphrey, Inc., Research Division - Analyst

Okay. Just a quick clarification on that. I think on the last earnings call, you spoke about some weakness in auctions in the month of April. It seems like that might have been more advertiser-driven. Can you just give us some more color on how the quarter evolved and if that persisted? Or what are you seeing on your end? It seems like based on data risk out of the 2 large OTAs, their own business seems to be seeing room nights -- at least room nights growth in the double digits. So what are you seeing on your end and how those trends improved since April?



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

Yes. Naved, what we called out is it's not, from our perspective, an advertiser-driven event. It is more about the demand side, on the one hand, us pulling back on marketing and increasing in efficiency there, which has been an impact and was an impact in Q2, plus the SEO challenges that Steve just talked about. And so -- but we are going to lap through a lot of those changes throughout the rest of the year. And as I just responded, we see us returning to growth for the segment by the end of the year.

Operator

Our next question or comment comes from the line of Mark Mahaney from RBC Capital Markets.

Shweta R. Khajuria - *RBC Capital Markets, LLC, Research Division - Assistant VP*

A few questions. One, could you please talk about demand trends? You mentioned in the letter that there were softer-than-anticipated demand trends. A little bit more comment on that will be great.

Second, on your membership and loyal customer base. So that is very interesting. You shared some metrics around frequency as well as the ability to generate more revenue than an average user. Could you talk about what you are doing in order to get more members, in order to keep them more engaged and some of the initiatives that you have taken and may take the rest of the year?

And then finally, on EBITDA, thank you for sharing the -- giving some color on double-digit growth rate as well as acceleration in Q4 over Q3 and then back half growth being less than 15%. But could you talk about how you're thinking on investing in the Experiences segment? How should we think about EBITDA in the back half for that segment as you invest?

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Sure. This is Steve. Thanks for the question. When we look at membership, we look at the ability to sign somebody up, have them use our app, have them invest a bit in the platform, that might be writing a review. It might be saving a couple of things to a trip that they want to take. We then take that information, customize our CRM and our push notifications to make it highly relevant to what the customer is looking for and then encourage them to return to the site to either finish the booking process they were in the middle of or explore another adjacent activity. You can imagine when there's someone starting on a flight or a hotel, it's a great opportunity to add a thing to do, an attraction, a private tour. There's wonderful upsell opportunities that we'll have going down the road.

Look, job one for us that we've been working on is making sure the messages that we're sending to people are highly relevant. We want to make sure that when they come to the site, we know more about them than just their name and IP address so that we can give great recommendations. That all drives a wonderful value proposition for members. And you combine that with our activity of soliciting membership more and what we're happy to share is we've seen the past 4 quarters have been consecutive growth in our membership numbers, the year-on-year growth of how many new members we had each quarter. And we're on [track] (corrected by company after the call) for the rest of the year. That's just one indication of how we get from the 400 million monthly UUs to a more meaningful set of members who are coming back using us or letting us help them in all of their trips. That's also one aspect of how the demand question gets framed a year from now because we'll have a much more direct relationship with so many more members going forward.

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

To your second question about the Experiences & Dining EBITDA trends, this is obviously a year in which we're making investments for the future. This is a year in which EBITDA in this segment is coming down year-over-year, fortunately funded by significant EBITDA improvements on the Hotel



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side. We said before and we maintain that, that although EBITDA will be lower for the segment, we forecast to be positive for the year in the segment. And so going into the second quarter, expect to see additional investment in this segment.

Shweta R. Khajuria - *RBC Capital Markets, LLC, Research Division - Assistant VP*

And then on demand trends, that will be great. And that's it for me.

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Look, we already covered some of the demand trends. And then I talked about how membership -- I didn't talk much about app download, but that will be another aspect that we're working on and have seen some nice results in order to move this demand to be more in our control.

If you're referring to kind of overall travel demand in the industry, we see a number of different kind of signals out there when we listen to other companies' comments. There's a little confusion out there, but we're seeing a reasonably good travel environment at the moment. So in our prepared remarks, we're not commenting or we're not calling out anything particularly unique in travel that's causing a big plus or a big minus for us. So we're happy with the overall environment and we're executing, we think, well on our journey.

Operator

Our next question or comment comes from the line of Justin Patterson from Raymond James.

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

I wanted to go back to the ad platform opportunity. How should we think through the investment ramp and ad tech infrastructure and the sales force as you build out this new initiative? And another big picture one, if I can. I wanted to play devil's advocate for a second. I agree you're under-indexed on media revenue versus peers. However, it's also true that you're more vertical-focused, focused on travel, whereas a lot of those peers, it's either more horizontal in nature. Curious to hear how you think about that and how you think through potential ceilings on monetization.

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Sure. Thanks, Justin. I love the questions. So we're fortunate enough to have resources internally on the tech side that we were able to shift over. It includes some licensing and some buys not builds. But I wouldn't phrase it as a big multi-year lift to do this because we already have \$150 million-plus business built on a level of targeting and we just need to extend it, make it easier for clients to buy programmatic and then build some additional ad units, particularly video, fast-growing area where we just don't have the product offering. So I would say small tech lift there.

On the sales force side, we're already very global. Of course, we need to add some more folks as we reach into different sets of clients that haven't historically been advertising on our site but love the demographic that we represent. So we're probably pretty well covered in endemic. We feel like there's a lot of opportunity outside of travel with audience targeting, as evidenced by the many other companies out there that do it pretty well.

We are obviously pretty good at taking advantage of the vertical nature of our categories and we move into that transaction as we go. But of all the people that go to TripAdvisor, so many are purely in the research mode and they just are not ready to buy anything. That's a beautiful aspect of our site being up-funnel from many others.

So for the folks that aren't ready to buy, how do we monetize the ability to influence in one direction or another? And that's not a click off to an OTA. That's not a transaction of a private tour. That's a media opportunity to help educate a consumer on all the different stuff that they really

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should do. So we have a ton of influence in the category. We have a ton of traffic that is looking for something around their trip. And the more information we can get about who those folks are, the better we can do for overall general targeting. I hope that was helpful.

Operator

Our next question or comment comes from the line of Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Can you just speak on the new brand campaign, what the key message is going to be? And then can you provide any update on the amount you spent on television this quarter? And then one more, if I can. Any way you can give us some KPIs just around the membership opportunity in terms of percentage of MAUs or how many are converting to members?

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Thanks for the question. I'd say that I can't really share the details of the brand messaging in part because it's evolving and in part we're not ready to launch at this point. But I can tell you, it will most likely be focused on aspects that are relatively unique to the TripAdvisor value proposition versus what the other set of travel players can provide. We have done a lot of research on our travelers, the awareness we have in different markets and the irreplaceable value that we provide to so many travelers. So the brand campaign, we expect, will highlight that, delivered in unique and compelling ways across a wide variety of media.

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

In terms of the spend, we spent \$26 million on brand this quarter, which makes really the first half very comparable and spend almost the same as the year before. With all these changes that we're thinking about our brand advertising, it does not mean that we're increasing our budgets for it. So it shouldn't be an incremental spend now or even in the following year. We're doing this all within our existing budget.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

And should we expect to see the new television commercials this quarter?

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

No, it would be far too early. What we have going for next year is -- and I want to back up. I wouldn't phrase it as just a television effort because we really do believe that there's a host of different media opportunities available for us. And as the branding rolls out later in the year and the advertising begins probably closer to next year, maybe that will help set your expectations.

Operator

Our next question or comment comes from the line of -- we have Lee Horowitz from Evercore ISI.



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Lee Horowitz - *Evercore ISI Institutional Equities, Research Division - Co-Head of Internet Research*

I just wanted to dig in a little bit on the SEO headwinds that you guys had called out. Obviously, Google has been moving more aggressively into travel products for a long time now. And I was wondering what may be different in this quarter that warranted a headwind or impacted your business in a more meaningful way.

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Sure. So back up, we actually grew SEO traffic in 2018. Though, as I've mentioned many times, it is getting a lot harder due to Google pushing their own products. And by the way, we think it's entirely appropriate for regulators to be looking into this practice. But frankly, we're focused on what we can do about it.

This past quarter, they did a few things on the hotel front which hurt a bit more than usual, but we've been working on a handful of initiatives, some of which we've already covered to counter that for a while. So as we pointed out in the prepared remarks, member growth, app usage, building a stronger direct relationship with the travelers, new branding campaign, these are the sorts of things that we look to drive that deep consumer relationship that, while we love the Google traffic, while we love all search engine and all social traffic as well, we've been implementing, and have more on the horizon, initiatives that enable us to own the relationship in a tighter way.

Operator

Our next question or comment comes from the line of James Lee from Mizuho Securities.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

A couple of questions here. Just want to dig a little bit deeper about the trends in the second half here. Last quarter, you mentioned for the Hotel and Media business, you're expecting growth in the second half, kind of implying third quarter will be growing. I wonder what has changed. Is it more due to maybe the external environment where you see demand overall for travel is weak? Or is it more due to internal decision where you want to cut down marketing expenses as a result of revenues coming down?

And secondly, also on digital advertising, I'm sure you guys know it's obviously a pretty competitive space. And I was wondering, what new products are coming up that you feel confident is differentiated? And does the confidence that you put in this product include the news feed product advertising that we've been talking about the last couple of quarters? And how should we think about the growth rate for Hotel and Media business going to 2020?

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

I'll start with the first part of the question. So this year has been a year in which growth in our Hotels, Media & Platform business has been impacted by our decision to optimize the marketing expenditure, and that has been a major impact on the growth rates, as we've been calling out throughout, as we believe those will start to abate by the end of the year and fully lapping in the first quarter. So from that, we're expecting improvement. We are seeing growth for the first time to return in that segment in the fourth (corrected by company after the call) quarter, and then we're well set up for the period and beyond. You want to take the second, Steve?

Stephen Kaufer - *TripAdvisor, Inc. - CEO, President & Director*

Yes. And so for the media growth opportunity, as I've mentioned, new video ad units, better programmatic access to specific audience, us understanding our own data in conjunction with other data, which I'll just call it more enhanced segmentation allowing advertisers to buy that



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specific audience that they want, and some of this -- or I might argue, most of this is not actually rocket science. It's just an area that we have not invested in, in the past.

And so with the new level of focus, we've already seen some modest results. We rolled out a couple of additional products. We mentioned there's some other ad products that are in beta now, be able to sponsor a location or sponsor the discovery of a location. And there are just a lot of both untapped media dollars in travel, our endemic category, and then a wide-open opportunity. Of course, we have competition with that opportunity, but we have a ton of first-party data unique to our massive audience at a global scale. And that makes us a particularly nice compelling ad buy for quite a few folks looking for an extremely brand-safe environment.

James Lee - Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst

Great. Any commentary on growth rate for Hotel and Media business 2020?

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

Sorry, can you repeat the question? Sorry.

James Lee - Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst

Yes. Any commentary on the revenue growth rate for Hotel and Media business for 2020?

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

Yes. As we said, we are expecting to return to growth. It's a little early to be more specific than that. We'll do that in the quarters to come. We obviously have highlighted the various puts and takes there, the return to a more level-playing field around the marketing efficiencies and as well as the ambition we have in the media space, which we believe we can at least double in the next 3 or 5 years.

Operator

Our next question or comment comes from the line of Kevin Kopelman from Cowen and Company.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

I just had a follow-up on the HM&P revenue guide. So the second quarter was down, the revenue was down 4% ex currency, and it looks like you're expecting that to grow year-over-year in the fourth quarter. So in the interim, can you talk about how Q3 is looking for HM&P? Do you think it will be better than Q2? Or will you see the full quarter of SEO headwinds making it similar or worse than Q2?

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

Without putting too fine a point on it, we -- Q3 will be still a quarter in which we will have significantly lower marketing expense, which will be great for profitability, but it's still slowing the recovery of revenue growth. So Q3 will be another quarter in which we experience that. Really, in Q4, we see the more meaningful start of the lap of the marketing performance, and that's why we call out Q4 as the moment where the segment can come to growth.



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Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Okay. Great. That's helpful. And then -- and on that Q4, the confidence there in returning to growth, is that really across the segment? And how much of it is driven by what you anticipate in the display side for the fourth quarter versus really the display and also the TripAdvisor-branded Hotels?

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

Yes. It's a combination of the increased lapping into the marketing performances that we will see. But also, we have some exciting things in the works on the media side, and we expect positive impact from that in Q3 and more in Q4.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Okay. Great. And just one other just quick follow-up. Talked about the kind of SEO headwinds. It sounds like it started or maybe exacerbated kind of mid-quarter in the second quarter. Have you ever seen SEO-driven revenue down before? Or 2019, would you expect that to be the first year that that's happened?

Stephen Kaufer - TripAdvisor, Inc. - CEO, President & Director

We've seen our growth rates decelerate over the years, but I've kind of been talking about this for quite a while as Google continues to move into travel. The notion comes back to, with this trend that's been going on for several years, how we take control of that customer -- control is perhaps a bad word, how we help that customer and encourage the relationships so that they continually come back to us.

And with our growth in membership, comes, as we mentioned in our published remarks, the improved repeat rate, the improved monetization and the improved loyalty to TripAdvisor. And so we're particularly excited about the growth in our membership numbers. You should expect more from us in that store, and that helps address a number of the other concerns around the business.

Operator

Our next question or comment comes from the line of Brent Thill from Jefferies.

Stanislav Nikolaev Velikov - Jefferies LLC, Research Division - Equity Associate

This is Stan for Brent. I was just wondering from what you know so far about your brand spend, is it helping drive more incremental traffic to the platform? Or it's mostly shifting traffic from paid to direct channels?

Stephen Kaufer - TripAdvisor, Inc. - CEO, President & Director

Thanks for the question. It's hard for us to know that because we're blessed with so much traffic in so many of our points of sale, and our pure branding campaigns tend to be in our larger markets. It's a little hard to -- we know we are getting some additional audience, but the purpose of the campaign was really to drive different behavior of the people who already knew us. And so we've seen consistent improvement in conversion on our things-to-do section on TripAdvisor. Some of that is going to be the brand campaign. Some of that is going to be converted on the site, better implementations, better supply. Teasing out the difference is hard, but we know the brand campaigns have been helping on the TripAdvisor point of sale.



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Stanislav Nikolaev Velikov - Jefferies LLC, Research Division - Equity Associate

I got it. And one more question. Can you give us some color on international trends? Any specific markets or regions to call out?

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

Nothing really to highlight at this point. We see pretty uniform trends across the globe at this point. We called out in the past that we saw some softness particularly in Europe. That has started to converge. So we don't see a particular area, and we see actually the upside from all the initiatives that we are currently deploying in all our markets across the world.

Operator

I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to CEO Steve Kaufer for any closing remarks.

Stephen Kaufer - TripAdvisor, Inc. - CEO, President & Director

Great. Well, thank you, everyone, for joining on the call.

In closing, I want to thank our global travel community because you make the TripAdvisor site better every day, and we will work tirelessly to deliver you great products to help you experience the world. I also want to thank our partners. We will continue to deliver offerings that enable you to drive your business. And finally, I want to thank all of the TripAdvisor media group employees around the world. We have a lot of exciting work ahead.

And I look forward to updating everyone next quarter. Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.

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