



# Tripadvisor

## Q4 and Full-Year 2019 Shareholder Letter

### Dear Fellow Shareholders:

Challenging 2019 hotel auction trends persisted in Q4, though our financial results were in line with our lowered expectations.

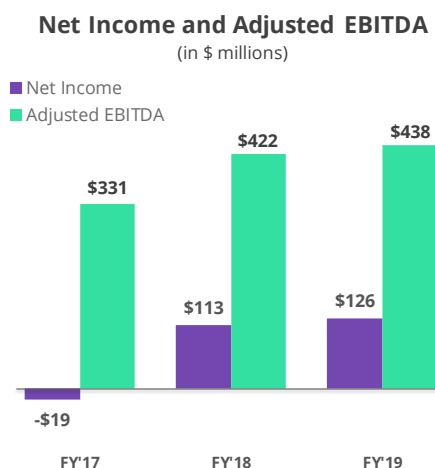
As we outlined in November, we took action in our three important focus areas. Specifically, we:

- 1) Continued to focus on driving revenue growth outside of the hotel auction;
- 2) Adjusted our cost structure to support continued strong adjusted EBITDA and free cash flow; and
- 3) Returned a total of \$548 million of capital to shareholders through a special dividend and share buyback.

In addition to our previously announced strategic partnership with Trip.com Group Limited, we also closed two acquisitions that further bolster our fast-growing Restaurants offering in Q4. We also recently reorganized to execute efficiently and effectively on our customer-focused objectives, drive differentiation, deepen customer relationships and convert our platform's influence into monetization.

Consolidated revenue declines narrowed sequentially in Q4 to 3% year-over-year, driven primarily by lapping impacts from performance marketing optimizations in the Hotels, Media & Platform segment (HM&P). GAAP net income increased by \$8 million year-over-year, while adjusted EBITDA reaccelerated to 6% growth. Excluding changes in foreign currency, we estimate consolidated revenue declined 2% and adjusted EBITDA grew 7%, respectively, year-over-year.

We also preserved strong profitability. Full-year 2019 GAAP net income grew 12% to \$126 million, adjusted EBITDA grew 4% to \$438 million. Cash flow from operating activities grew 5% to \$424 million and we delivered \$341 million of free cash flow.



Our results demonstrate our ongoing disciplined approach to growth, investment, profitability and capital allocation.

**Related to our first focus area, we delivered strong revenue growth outside the hotel auction in 2019.** We achieved year-over-year revenue growth from a number of our priority offerings: Experiences, Restaurants, display advertising and hotel B2B solutions. Collectively, these offerings grew by double-digits in 2019.

More specifically, Experiences & Dining segment (E&D) revenue scale approached that of the hotel auction in the second half of 2019, and we expect that E&D will pull ahead of auction revenue in 2020. This underlines the increasing importance of our non-auction revenue to overall revenue growth, a key strategic priority for us.

On average, Tripadvisor had over 400 million unique visitors each month throughout 2019, demonstrating not only Tripadvisor's scale but also our ongoing influence as the world's largest travel website. We have been laying important groundwork to drive growth: repositioning the Tripadvisor brand; executing on product, membership and engagement initiatives; and completely redesigning our Tripadvisor mobile app. (See updates on these initiatives in the "HOTELS, MEDIA & PLATFORM SEGMENT RESULTS" section below).

**Related to our second focus area, we have adjusted our cost structure to preserve strong profitability.** We recently instituted measures to preserve adjusted EBITDA and cash flow in 2020, including:

- Reducing E&D headcount expenses to grow revenue more efficiently following considerable platform investments from 2014 through 2019;
- Making targeted headcount-related cost reductions company-wide; and
- Optimizing and reducing brand advertising investments in 2020 versus 2019 as we leverage newer, more impactful (and efficient) mediums compared to our historically television-focused campaigns.

These follow measures taken over the past three years that successfully reinvigorated HM&P profitability. We also believe we can achieve attractive E&D growth at increased profit margin by focusing on better merchandising our best-in-class inventory. We have reduced our expense run rate company-wide by approximately \$80 million and we expect to reinvest roughly half of these savings into strategic growth areas. Most importantly, we expect these measures will enable us to offset expected hotel auction revenue declines and preserve strong adjusted EBITDA and free cash flow generation in 2020.

**Our third focus area is to capitalize on strong ongoing profitability and execute a comprehensive capital allocation strategy.** During Q4, we used our strong balance sheet to:

- 1) Allocate \$110 million to two acquisitions that bolster our Restaurants offering (see acquisition details in the "EXPERIENCES & DINING SEGMENT RESULTS" section below);
- 2) Pay a special cash dividend of \$3.50 per share, returning \$488 million to shareholders; and
- 3) Repurchase approximately 2.1 million shares for \$60 million.

We ended 2019 with \$319 million of cash and cash equivalents, and no outstanding debt. We remain very cash generative, with 2019 cash flow from operating activities

of \$424 million and \$341 million of free cash flow. Our initiatives around revenue growth outside the hotel auction and cost savings measures will help ensure we remain very cash-generative in 2020. With an additional \$1.2 billion of capacity from our undrawn revolving credit facility, we have ample liquidity to simultaneously invest in growth areas, fund M&A and return capital to shareholders.

## HOTELS, MEDIA & PLATFORM SEGMENT RESULTS

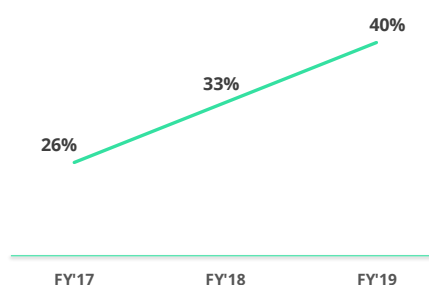
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HM&P revenue was \$939 million in 2019, making up 60% of consolidated revenue.

HM&P revenue declines narrowed sequentially in Q4 to 6% year-over-year. We lapped the bulk of marketing optimization impacts in Tripadvisor-branded hotels revenue; however, hotel auction headwinds persist.

Full-year 2019 HM&P revenue declined 6%. HM&P adjusted EBITDA was \$73 million, up 4% year-over-year in Q4 and was \$378 million, up 15% year-over-year for the full-year 2019. Q4 HM&P adjusted EBITDA margin was 38%, a four-percentage point increase year-over-year. We increased full-year HM&P margins significantly to 40% (7% better than 2018 and 14% better than 2017) through our progressive marketing optimizations and overall prudent cost management.

Hotels, Media & Platform Segment  
Adjusted EBITDA Margin



**Hotel auction headwinds have not yet abated.** We noted stronger-than-expected SEO channel headwinds in our Q2 and Q3 earnings commentary, as Google continues to siphon off high quality traffic that would otherwise have visited Tripadvisor. Hotel auction revenue declined by double digits year-over-year in Q3 and Q4, which was softer than trends observed in early 2019 and second half 2018. As a result, Tripadvisor-branded hotels revenue decreased 9% in Q4, despite double-digit hotel B2B revenue growth.

Hotel auction softness has continued into 2020. Thus far in Q1, Tripadvisor-branded hotels revenue year-over-year performance has decelerated compared to Q4, which we believe is partly due to a continuation of these second half 2019 trends, but also could be due to a softer travel spending environment.

Hotel auction performance remains only partly within our control, and we will continue to work to stabilize results. At the same time, we will continue to aggressively build our non-auction revenue streams, delivering customers more value in areas where we can bring Tripadvisor's unique assets to bear.

With 463 million average monthly unique visitors in the 2019 peak summer travel season, Tripadvisor has the world's largest travel audience as well as significant influence over travel decisions. The balance of our HM&P commentary updates our progress on membership, personalization, and app initiatives **to increase traffic quality and deepen customer engagement on our platform, which can lead to increased monetization over time.** Beyond their standalone growth potential, these engagement efforts also could benefit our hotel auction results.

**Deepening consumer engagement:** Member growth accelerated for the sixth straight quarter in Q4 and we added over 50 million new Tripadvisor members in full-year 2019. This significantly increased the number of active members on our site. Members visit directly more, cross-shop more, come back more frequently and generate more revenue than the average Tripadvisor user. There remains not only an enormous opportunity to continue to grow our member base, but also to deepen member engagement by making membership more valuable, building communities and leveraging our valuable content to further personalize trip-planning features.

**Deepening advertising partner engagement:** We have outlined our business-to-business growth objectives in two distinct areas: 1) Modernizing and scaling our display advertising offering; and 2) Growing hotel B2B products and services.

- Display advertising: Throughout the second half of 2019, we started building the foundation to better leverage Tripadvisor's global audience, content, data, travel influence and brand-safe platform, and capture a bigger piece of the large and growing digital media advertising market. In Q4, we continued to grow monetizable inventory, particularly on mobile, as well as expand programmatic, helping partners more effectively advertise on Tripadvisor. Moreover, we launched Tripadvisor Media Manager, our first self-serve advertising platform, and Tripadvisor Connect, an off-platform media solution enabling advertisers to reach custom audiences beyond Tripadvisor's website and app.

These launches demonstrate our commitment to help more advertisers reach more relevant, high-intent audiences both on and off the Tripadvisor platform. We added more than 200 new clients in Q4 with success spanning both endemic and non-endemic clients, such as airlines, finance and beauty. We saw some early benefits in our Q4 revenue performance, and expect greater contributions moving forward.

In 2020, we will continue to expand our advertising solutions suite and deepen relationships with both existing travel and tourism partners, as well as new non-travel-endemic partners. We like our continued progress and aim to accelerate 2020 media revenue growth compared to 2019.

- Hotel B2B: Our Tripadvisor-branded hotels revenue line also includes Hotel B2B solutions, a growing suite of media offerings as well as subscription products and services sold directly to hotels. Q4 marked the fourth straight quarter of double-digit revenue growth in this area, driven by partner adoption of hotel sponsored placements media advertising, which doubled in 2019.

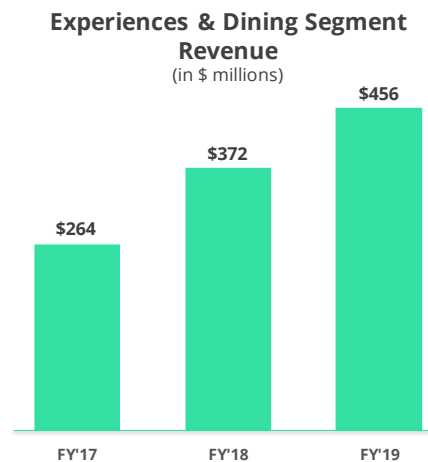
In 2020 and over the years to come, we will equip our global salesforce with additional B2B products that leverage Tripadvisor data and insights. We are actively exploring commercial opportunities in areas such as business intelligence, reputation management, revenue optimization, marketing and business operations.

We enter 2020 with momentum along our customer-focused execution strategy. We remain committed to earning customers' affinity within every interaction. We believe this will enable us to convert Tripadvisor's influence into engagement, monetization and profitable growth.

## EXPERIENCES & DINING SEGMENT RESULTS

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E&D revenue was \$456 million, or 29% of consolidated revenue in full-year 2019.



E&D revenue grew 16% in Q4 and 23% in full-year 2019 driven by both our Experiences and Restaurants businesses. In Experiences, revenue grew double digits led by strong bookings growth on our Tripadvisor channel. In Restaurants, transaction revenue (via TheFork) and media revenue (via Tripadvisor Restaurants Solutions) delivered continued strong growth as well.

Q4 E&D adjusted EBITDA reflects revenue seasonality against a relatively fixed cost structure, and full-year 2019 E&D adjusted EBITDA reflects accelerated product, supply and marketing investments (namely in non-English, mobile and our Tripadvisor channel) aimed at driving scale and long-term growth.

In Q4, we allocated \$110 million of capital towards M&A in the E&D segment. These acquisitions closed in December and were not significant to our Q4 consolidated results; however, looking ahead, we expect these businesses to contribute meaningful E&D revenue and flat to slightly positive EBITDA in 2020.

More broadly, Experiences and Restaurants are off to a good start quarter-to-date, and we expect strong results this year. Importantly, we expect to achieve attractive growth at increased profit margins, following considerable platform investments in recent years.

### Experiences

Since acquiring Viator over five years ago, we have invested heavily and successfully grown a two-sided marketplace that helps connect consumers with an industry-leading selection of things to do. Investments in new product categories with attractive price points (e.g., events, tickets and unique experiences), non-English markets, mobile, and performance marketing, all have yielded numerous benefits. For instance, in 2019, we nearly tripled the number of partners

we work with, and bookable products reached 345,000, up 116% year-over-year.

Our go-forward focus centers on improving how we merchandise our best-in-class inventory to improve conversion, turning more of the “lookers” on Tripadvisor into bookers. We also made continued progress in Q4 helping consumers find and book the experiences they want, in the language they speak, with the payment methods they use. We accelerated conversion gains on the Tripadvisor channel, which remains a fast growing channel in 2019 and, in the second half of 2019, became our largest channel in terms of number of bookings. Overall, the number of bookings grew approximately 30% in Q4. We saw strong Q4 experiences bookings growth on the Tripadvisor app, as well as further acceleration in January.

We remain at the forefront of a compelling travel category and we are focused on capturing more of our growth potential. The global travel activities market is estimated to be \$183 billion in 2020 (per Phocuswright estimates) and roughly 80% of bookings still happen offline. Tripadvisor, with the important bookable supply and consumer demand components in place, remains at the forefront. In addition, Viator remains a leading OTA brand and we have taken decisive steps in 2020 to unlock more of its growth potential.

### **Restaurants**

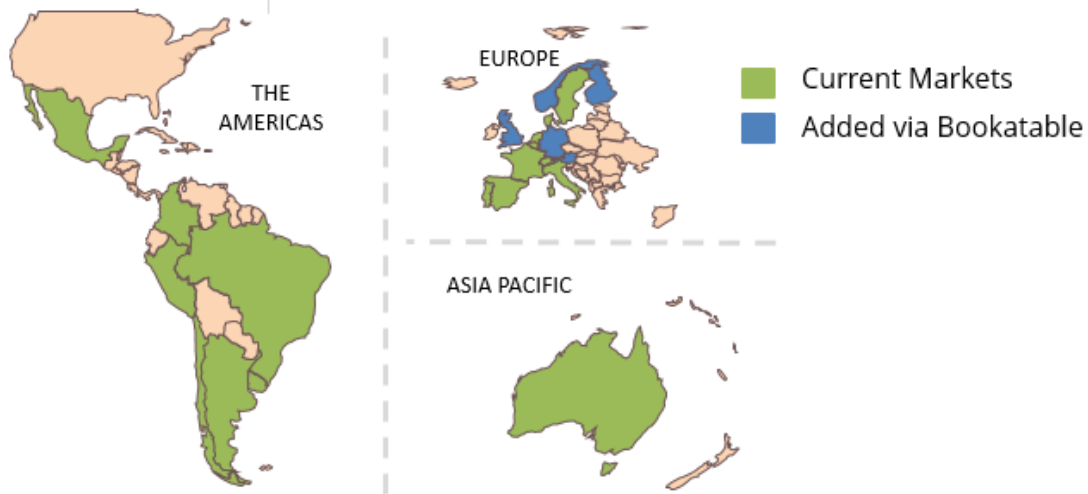
Restaurants remains a fast growing business for us, and we are executing strategically in two ways. First, we help consumers beyond just when planning or taking a trip, driving increased frequency with our platform. Second, it uniquely positions us to serve B2B products and services to a global client base, helping them harness the internet and leverage the Tripadvisor platform to manage, and grow, their businesses.

As referenced above, we completed two acquisitions in Q4 that enhance our Restaurants offerings. First, we acquired UK-based [Bookatable](#). This further bolsters [TheFork](#)'s leadership position in Europe, enabling us to consolidate in some existing markets as well as expand into five new countries: the United Kingdom, Germany, Austria, Finland and Norway. Once fully integrated, Bookatable should add approximately 14,000 more restaurants to TheFork's platform.

This acquisition will further reinforce our position as the world's largest online restaurant booking platform, which has 84,000 total bookable restaurants spanning 4,500 cities across 22 countries.



## Current Markets



On the consumer side, TheFork's seated diners grew by mid-30% in Q4, with more than 70% of bookings coming via TheFork mobile app.

On the TripAdvisor Restaurants Solutions side, we are expanding the B2B products and services we offer with one sole objective: to make the job of a restaurateur easier. An example from Q4 was our acquisition of SinglePlatform, a leading, NYC-based menu and listings management platform. Consumers check menus 93% of the time when making dining choices, and SinglePlatform's software enables restaurants to easily update and publish their menus online on sites like TripAdvisor, Yelp, Google, Facebook and OpenTable, among many others. This acquisition roughly doubles the number of B2B partners we work with and, through growth in our Premium and Sponsored Placements media offerings over the past couple of years, our client network now spans more than 150 countries.

We are very pleased with our progress building, launching and growing B2B offerings. We look forward to delivering these solutions to a greater number of the 5.2 million restaurants on the TripAdvisor platform, particularly outside of North America.

## OTHER RESULTS

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Other revenue was \$165 million, or 11% of consolidated revenue, in full-year 2019.

Other revenue decreased 30% to \$32 million in Q4 and adjusted EBITDA margin was 38%. Full-year 2019 Other revenue decreased by 32% to \$165 million and adjusted EBITDA grew 22% to \$55 million. These results were primarily driven by year-over-year impacts from eliminating some marginal and unprofitable revenue within some non-TripAdvisor branded offerings in late 2018, which reduced revenue and slightly increased profitability, as well as continued competition faced by our Rentals offering.

## ADDITIONAL FINANCIAL DETAILS

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During Q4 and full-year 2019, we estimate that **changes in global currencies** had the following impacts on our financial results:

	Q4 Revenue	Q4 Adjusted EBITDA	FY 2019 Revenue	FY 2019 Adjusted EBITDA
HM&P Segment	-1%	-2%	-2%	-4%
E&D Segment	-2%	n.m.	-4%	n.m.
<b>Consolidated</b>	<b>-1%</b>	<b>-1%</b>	<b>-2%</b>	<b>-3%</b>

n.m. = not meaningful

During 2019, several countries introduced unilateral **digital service tax (DST)** initiatives, which impose new types of non-income taxes, including taxes based on a percentage of revenue. In July 2019, France signed into law a 3% DST to be applied retroactively as of January 1, 2019. Therefore, we recorded \$3 million digital service tax to general and administrative expense for 2019. We continue to assess the financial impact of this new law and monitor other countries in which we do business, such as Italy, Spain and the United Kingdom, who have enacted or proposed similar taxes which are likely to be applicable at some point during 2020. We currently estimate the total impact will be slightly lower than 1% of 2020 consolidated revenue.

Our **GAAP effective income tax rate** increased from 34.7% in 2018 to 35.1% in 2019. Our 2019 rate is higher than the federal U.S. statutory rate primarily due to an income tax expense related to changes in our intercompany cost-sharing arrangements for stock-based compensation, partially offset by a release of valuation allowances on certain foreign deferred tax assets. We expect our 2020 GAAP effective income tax rate to be similar to 2019, due to stock-based compensation tax accounting at a lower share price. We believe our non-GAAP tax rate, which is not subject to share price volatility, will be less impacted than our GAAP tax rate.

Finally, during the fourth quarter of 2019, we revised our Adjusted EBITDA definition to exclude restructuring and other related reorganization costs. We believe that excluding these amounts better enables management and investors to compare financial results between periods as these costs may vary independent of business performance. This revision to our definition did not have a material impact to Adjusted EBITDA for any period prior to the year ended December 31, 2019; therefore, no reclassifications have been made to conform the prior periods to the current period presentation. This revision had no effect on consolidated GAAP results in any period. These costs were not significant in Q4 2019. We estimate we will incur approximately \$6 to \$8 million of restructuring and other related reorganization charges in Q1 2020.

## OUTLOOK

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*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.*



Tripadvisor turns 20 years old in 2020. Over two decades, we have built an iconic brand, attracted a massive global audience and generated significant influence in the \$1.7 trillion dollar travel industry. We are focused on building direct, durable relationships, and more effectively converting Tripadvisor's travel influence into increased repeat, intentional, engaged usage and monetization.

To accomplish this, we have started exciting product transformation work, including modernizing Tripadvisor's look and feel and delivering a cohesive consumer experience. In January, we rebranded the visual identity of the company marking our 20th anniversary. We have additional brand and product work rolling out in Q2 2020. In Q3 2020, we are excited about our planned launch of a new, completely reimagined Tripadvisor mobile app. This will be a critical user experience upgrade, giving our most engaged audience a fast, powerful, on-the-go travel companion to help them discover, plan and book.

We also recently reorganized to align teams along our "One Tripadvisor" vision. These changes bring together - and streamline - the Tripadvisor user and shopping experience, leveraging our differentiated, people-powered planning position to ensure the user experience is as personalized and as engaging as possible.

Financially, in 2020 and the years beyond, we expect to improve Tripadvisor's revenue profile towards a significant majority of revenue from E&D, hotel B2B and display advertising growth areas. Capturing the growth opportunity in E&D is key. We believe our recent organizational changes will generate continued strong growth in Tripadvisor Experiences, as well as further unlock Viator's potential. We also remain very pleased with Restaurants' strong growth trajectory. We expect E&D revenue alone will exceed the hotel auction in 2020 and, over the coming years, the relative sizes of these revenue lines will reduce hotel auction's influence on our results. We also believe our changes to align our "One Tripadvisor" efforts will convert Tripadvisor's influence into high margin revenue growth.

With that as context, we provide our 2020 targets:

- On a consolidated basis, we target:
  - Adjusted EBITDA at least flat to 2019, with year-over-year performance second half-weighted.
- In HM&P, we expect:
  - HM&P revenue growth to decelerate in Q1 2020 vs Q4 2019.
  - Full-year HM&P revenue performance to improve in the second half compared to the first half due to easing year-over-year growth comparisons.
- In E&D, we target:
  - Accelerated E&D revenue growth.
  - Improved E&D adjusted EBITDA in 2020 versus 2019, with benefits second half-weighted.
  - E&D to increase as a percentage of both consolidated revenue and consolidated adjusted EBITDA, with annual E&D revenue greater than hotel auction revenue for the first time.

- In Other, we target:
  - Other revenue declines to narrow in 2020 as we have now lapped the elimination of some marginal and unprofitable revenue as well as resource reallocation efforts that negatively impacted topline results throughout 2019.
  - Other to decrease as a percentage of consolidated revenue.

## Conclusion

In summary, we are enhancing our position in an attractive, and competitive, travel market. We have strong, unique assets and our progress makes us optimistic about our future. In 2020, we intend to diversify revenue growth, contain costs and deploy our significant free cash flow in attractive ways. As we did in Q4, we will appropriately balance selective acquisition opportunities and returning capital to shareholders. Despite the recent hotel auction headwinds, we are optimistic about our future revenue growth prospects, as we believe potential hotel auction headwinds will be more than offset by our growing revenue lines in the years to come. These objectives, along with our trusted, global brand, rich travel content, large monthly audience and significant influence, are the solid foundation upon which we can improve results and drive long-term shareholder value.

Sincerely,

Steve Kaufer, Co-founder & CEO  
Ernst Teunissen, CFO

## Conference Call and Webcast

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Tripadvisor, Inc. management will host a conference call to discuss results as well as other forward-looking information about Tripadvisor's business tomorrow morning at 8:30 a.m. Eastern Time. Domestic callers may access the earnings conference call by dialing (877) 224-9081 (International callers, dial (224) 357-2223). Investors and other interested parties may also go to the Investor Relations section of Tripadvisor's website at <http://ir.tripadvisor.com> for a live webcast of the conference call.

\* \* \*

Tripadvisor, Inc.'s fourth quarter and full-year 2019 earnings press release and supplemental financials are available on the Investor Relations section of the Tripadvisor, Inc.'s website at [ir.tripadvisor.com](http://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 February 12, 2020, which is available on the Investor Relations section of our website at [ir.tripadvisor.com](http://ir.tripadvisor.com) and the SEC's website at [www.sec.gov](http://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," "target," "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 consolidated 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 February 12, 2020, 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](http://www.sec.gov).

#### **Key Business Metrics**

We review a number of metrics, including unique visitors, hotel shoppers, and other metrics, 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 - Q4 2019 TripAdvisor Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 13, 2020 / 1:30PM GMT

## OVERVIEW:

Co. reported 4Q19 results.



## FEBRUARY 13, 2020 / 1:30PM, TRIP - Q4 2019 TripAdvisor Inc Earnings Call

### CORPORATE PARTICIPANTS

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

**Lindsay Nelson** *TripAdvisor, Inc. - Chief Experience & Brand Officer*

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

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

### CONFERENCE CALL PARTICIPANTS

**Bradley D. Erickson** *Needham & Company, LLC, Research Division - Senior Analyst*

**Brian Nicholas Fitzgerald** *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

**Dan Wasiolek** *Morningstar Inc., Research Division - Senior Equity Analyst*

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

**Douglas Till Anmuth** *JP Morgan Chase & Co, Research Division - MD*

**Eric James Sheridan** *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

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

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

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

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

**Michael Joseph Olson** *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

**Nathaniel Holmes Schindler** *BofA Merrill Lynch, Research Division - Director*

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

**Philip Rigby**

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

### PRESENTATION

#### Operator

Good morning, and welcome to TripAdvisor's Fourth Quarter and Year-End 2019 Earnings Conference Call. As a reminder, today's conference call is being recorded. At this time, I'd like to turn the conference over to your TripAdvisor's Vice President of Investor Relations, Mr. Will Lyons. Please go ahead.

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

Thanks, Kyla. Good morning, everyone, and welcome to our call. Joining me today are Steve Kaufer, our CEO; Ernst Teunissen, our CFO; and Chief Experience and Brand Officer, Lindsay Nelson.

Last night, after market closed, we distributed and filed our fourth quarter and year-end 2019 earnings release and we made available our shareholder letter on our Investor Relations website located at [ir.tripadvisor.com](http://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. Also on our IR site, you will find supplemental financial information, which includes certain non-GAAP financial measures discussed on this call as well as other performance metrics.



## FEBRUARY 13, 2020 / 1:30PM, TRIP - Q4 2019 TripAdvisor Inc Earnings Call

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, February 13, 2020. 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 those forward-looking statements.

Now here's Steve, who will share a few thoughts before we open the call up to your questions.

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

Thank you, Will, and good morning, everyone. As we outlined in our shareholder letter, challenging 2019 hotel auction trends persisted in Q4, though our financial results were in line with our lowered expectations. We've taken action in our 3 important focus areas. Specifically, we've continued to focus on driving revenue growth outside of the hotel auction, we adjusted our cost structure to support continued strong adjusted EBITDA and free cash flow and we returned a total of \$548 million of capital to shareholders through a special dividend and share buyback.

We also closed 2 acquisitions that further bolster our fast-growing restaurant offering in Q4. More recently, we reorganized to align teams on a One TripAdvisor vision. These changes bring together and streamline the TripAdvisor user and shopping experience, leveraging our differentiated people-powered planning consumer value proposition.

Our target travelers want to take a trip that's really important to them, come to us to plan that entire trip. We, therefore, expect our Non-Hotel auction revenue will drive the lion's share of our future growth. We expect E&D revenue alone will exceed the hotel auction in 2020. And over the coming years, the relative sizes of these revenue lines will reduce the hotel auction's influence on our overall results.

In summary, we are enhancing our position in an attractive and competitive travel market and clearly differentiating ourselves from every other travel company. We continue to have strong unique assets and our progress makes us optimistic about our future.

We'll now open up the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question comes from Deepak Mathivanan with Barclays.

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

Two quick questions. So first, can you talk about the trends in Hotel auction business during 4Q versus third quarter. Did Google impact get worse or was it largely stable? And did your commentary on the revenue growth improving in second half of 2020 depend on Google's efforts being relatively stable? Or can you do it just largely given the comps?

And then the second question, a little bit more near term. Can you comment on what you're seeing from the coronavirus impact so far in terms of traffic and maybe the OTA partner bidding activity related to that? How are you thinking about that in the guidance, too?

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

Sure. Deepak, this is Steve. Thanks for the question. Hotel auction was stable Q3 to Q4, but it's still challenged. What we're doing about it is building direct relationships with our travelers and you can see that in the increased membership rates. With this direct relationship, we're getting more repeat traffic and a higher percentage of our revenues coming from these members. And that's great for our long-term health of our business.

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Perhaps just as important, we're focused on extending this relationship we have with the traveler to beyond hotel to help them on the full trip. Say, you're going to Cancun, the hotel is important, but you should definitely consider any number of the tours that we offer to really make that trip special. And how about some restaurants? And all that stuff is working. As you can see, more travelers on TripAdvisor are booking experiences than ever before, and our media and reservation businesses, they're growing double digits.

In terms of the SEO impact later in 2020 -- look, we always assume some continued Google headwinds, but nothing dramatic. Nothing like that is baked into our plan.

To your second question, the coronavirus. One has to believe it's part of our softer start in the Hotel auction for us. And we do see some unexpected, new cancellation levels in Asia, but we're not that exposed to Asia as an overall part of our business. So we're watching it closely. We might see a point or 2 or low single-digits impact. But at this point, it's there. We're watching it closely. It's not that material to us.

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### Operator

Our next question comes from Lloyd Walmsley with Deutsche Bank.

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### Unidentified Analyst

This is Chris on for Lloyd. I believe you guys had called out exiting the year at 30% booking growth in the Experiences business. So can you just talk a bit about how you're thinking about the shape of bookings growth this year?

And then separately, we've seen some press that indicates you guys may be in the process of flexing the pricing lever in the Experiences business, and I was curious if you guys could give us some color on how that's factored into the guidance for E&D segment revenue to accelerate this year?

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### Stephen Kaufer - TripAdvisor, Inc. - Co-founder, President, CEO & Director

Sure. This is Steve, again. So we're super bullish on our overall Experiences & Dining segment and Experiences, in particular. Internally, we've changed things around to really focus both on the TripAdvisor opportunity, which has been growing strongly, as we told you, to help center around the traveler and whether that traveler is looking at a hotel or a restaurant or an experience, help that traveler finish that considered trips. So we look at bookings growth rate on TripAdvisor as remaining strong. When we look at Viator, which is the other part of our change, we're adding a bunch more focus on that platform. And with that focus as a pure-play for Experiences, we're excited about its reacceleration in terms of bookings growth and overall focus for the year.

In terms of the pricing question, our marketplace had grown dramatically over the past several years and we discovered that there were parts of the marketplace that frankly, weren't fair to a number of suppliers, given different suppliers had some different margins on the platform and we wanted to fix that. We firmly believe in a fair marketplace for all of our suppliers and a fair marketplace is going to give the best results for travelers no matter where they're traveling. I don't think that's a big impact on overall financials, but it is important for the health of the marketplace.

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### Operator

Our next question comes from Naved Khan with SunTrust.

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

A couple of questions. So on the E&D side, how should we think about the potential for organic growth in 2020 in their business? And how is the restructuring going to affect revenue growth? And then on the Hotel side, as we think about your commentary on the decel you saw in January. What are the primary factors for that? Did one of your partners pull back spending?





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

Naved, this is Ernst. Thanks for your questions. First, on Experiences & Dining. We have made 2 impressive acquisitions. They are going to help with the reacceleration of growth that we highlighted. But we are, as Steve just said, also very bullish on the organic prospects we have in the business. On the dining side, we've seen continued strong performance from LaFourchette, they've been able to continue their organic growth, and we expect them to continue their organic growth as they have been. They are pushing deeper into secondary and tertiary markets, other cities. They are making progress on loyalty of their customers, repeat the rate to their customers, so very solid piece of the business.

On the Experiences side, as Steve was just saying, we see opportunities as well. We see an opportunity to integrate the Experiences business deeper in the overall TripAdvisor offering and benefit from being able to offer experiences not only to people of the Experiences pages, but also on other parts of their travel.

Viator. We believe we can reinvigorate the positioning and the growth of that business. And so we feel very good about the overall impacts of that. You asked about restructuring impacts. Yes, we have taken out some costs out of the Experiences business, in particular, within the E&D segment. We have come out of a period of about 3, 4 years of significant investment. We have more than doubled our cost in Experiences, for instance, in the last few years to build a supply base, which we have done very aggressively, and we are very happy with now. And build like our systems for a larger scale. And we feel we've come out of that investment cycle, and we're now pivoting towards focusing more on the demand side, which is less labor-intensive than the burst in the supply build has been. So we felt we could take out some costs. We don't believe that's going to have a meaningful impact on our ability to execute for the rest of the year.

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

That's helpful. And then on the Hotel auction piece. Can you just give some color on decel?

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

Yes, sorry. The deceleration we saw early in the year on the Hotel side, not so much due to partner bidding levels, but more due to the continuation of the Google trends, but maybe an overall travel spending and coronavirus impact that we've seen. And we've seen that decelerate versus what we saw in Q4. As we look ahead, of course, what we're focused on, super focused on, on the Hotel business is making sure we grow the nonauction lines. We have some ambitious plan for 2020 for our hotel B2B business, which was growing double digits last year and we have aggressive growth plans for this year. And of course, our Media business, Lindsay is on the line, and she's going to talk later more undoubtedly about our Media business. But we see a reacceleration of our media business as well into 2020. And these will offset some of the pressures we've seen in the auction.

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**Operator**

Our next question comes from Shweta Khajuria with RBC Capital Markets.

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

Two questions, please. First, member growth accelerated for the sixth consecutive quarter, I believe, that's from the letter in the fourth quarter. Could you provide a little bit more context around member versus nonmember trends? So how much more do they spend? Or how much more do they engage? What is their demographic profile versus nonmembers? Any context there?

And then second, your fiscal year '20 guide calls for Experiences & Dining to be higher than auctions revenue. I don't believe you break out auctions, but any context on how big that is as a part of the branded Hotels revenue? Could we assume 70%, 80% of that revenue is auctions?

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

Sure. Shweta, this is Steve. I'll take the first question. Member growth does continue to accelerate, that's a lot of fresh users who had been coming by our site, haven't found a reason to log in and now they're doing so. That allows us to reach out to them again through our CRM efforts. We added 50 million, as we indicated in 2019 and we're on a great pace going into 2020. Members do come back more, no surprise there. They are a higher percentage of our overall revenue is now coming from members, as I had said. And while we're not kind of ready to share specific numbers about increased monetization rates, every great business builds its loyalty based upon people view themselves as members signing in as 1 attribute. We're coming back to domain direct, coming back for more and more of their travel purchases.

Critical to this kind of focus of ours, and it really is a focus and you can see the results, is that considered trip in helping those members plan, not just what they originally started on for TripAdvisor but the rest of that travel cycle. They started on a restaurant. They become a member, that's fantastic. We can help them with the experience with the hotel, with the flight, et cetera.

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

And Shweta to your second question, our TripAdvisor branded Hotels line consists of 2 main components of the auction as well as our hotel B2B business. Without putting a finer point on the split between the 2. You're correct to assume that a large majority of that revenue today is in the auction. The other part, the B2B Hotel business is the part that is growing. It's been growing last year. We expect it to grow nicely this year as well. So, over time, we see within the Hotel line, the auction be less impactful and especially less impactful than the overall HM&P revenue line.

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**Operator**

Our next question comes from Brad Erickson with Needham & Company.

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**Bradley D. Erickson** - *Needham & Company, LLC, Research Division - Senior Analyst*

I guess, can you just give any kind of a finer sense of what promoted listings, video ads, stuff like that ended up being financially last year as you've gotten started? I guess, that one might be for Lindsay. And just kind of how big of a contributor we should expect that to be here in 2020? And then also, can you just give the updated monthly active users on the site in Q4.

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

Sure. This is Steve. Could you clarify the promoted ads? That's not really the term we use. Are you referring to our sponsored placements or us....

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

Our media business.

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

Our media business.

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**Bradley D. Erickson** - *Needham & Company, LLC, Research Division - Senior Analyst*

The sponsored placements, I guess, is what I was getting at, the piece of the business. I know it was small, but I think it was roughly doubling last year. Just ended up wondering if you got there and kind of how much of a contributor that becomes in 2020.



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

It was, again, another nice growth rate for that product. It's a very popular product for our customers. A significant part of the growth that we've seen this year in our hotel B2B was as a result of our continued growth in sponsor placements. We expect that to continue to grow into 2020. It's not the only growth area in B2B in 2020. We have some new products that we're building out that are B2B products for our hotel base. So sponsor placement, plus other products, we see continue to drive hotel B2B revenue next year.

In terms of overall users, the decline of the users narrowed in Q4. We had a little over 380 million users in Q4. Q4, of course, is a seasonably low number for users compared to Q3. The point remains that we have huge scale and the overall unique users is only a fraction of what we really look at. We look underneath, we look at membership growth, we look at the quality of these users. And we've highlighted in our prepared remarks, a few of the great green shoots that we've seen there. We're particularly excited about being able to grow membership because members just have a better ability for us to market to, especially on e-mail, but they also tend to be much more loyal and much more higher revenue generating. So we look at the trends underneath the 380 million users, and we're actually quite pleased with where that's trending.

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**Operator**

Our next question comes from Brian Fitzgerald with Wells Fargo.

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**Brian Nicholas Fitzgerald** - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

I had a couple of questions with -- around the engagement on TripAdvisor media manager and then some color there on the mix and dynamics between ramping endemic versus nonendemic clients. And then related question with TripAdvisor Connect, it's your new self-serve off platform kind of audience extension media solution. What are the puts and takes there for advertisers? Is it -- may we get a holistic view of our travel marketing spend and ROI in 1 place and 1 dashboard and we don't have to hassle with managing multiple DSPs? Would they get better rates there versus going directly to a DSP? Can you give us some color there on TripAdvisor Connect?

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**Lindsay Nelson** - *TripAdvisor, Inc. - Chief Experience & Brand Officer*

Yes. Thanks, Brian, for the question. To take it up a notch, I mean, we remain pretty optimistic about the potential of the display business, given the massive scale that Ernst just talked about. And we're also pretty proud of the brand-safe environment and the access to first-party data, particularly in a world where identity and authentication of 1 user base is getting harder and harder for many other publishers in the space. This very much connects with our ambition around membership. The more logged in members, the more people we have a deep understanding of and the better we can attribute them on behalf of our marketing partners.

So to your question around TripAdvisor Connect, the challenge many marketers have is once you identify a high-value audience, how can you continue to remarket and start a conversation with that audience whether they're on TripAdvisor or off platform. So that's a product that meets that demand. We're seeing a lot of interest in that product. It's already starting to grow quickly, particularly with both endemic and nonendemic advertisers. Just to give you some highlights as we closed out the year, the leading indicator that we continue to pay attention to as to whether or not we can double this business in 3 to 5 years is whether we're growing our new customer base. We added over 200 new advertisers in Q4. We also increased our average deal size. We grew average deal size by about 20%. And I think that's a pretty remarkable achievement to not only continue to grow your customers to be able to maintain pricing integrity in the overall deal volume and the impact of each of those deals. We've also increased our programmatic business relative to the overall growth in the market. Programmatic of the channel for us grew by 100%. And we continue to grow monetizable inventory across the sites and increase sell rates.

So when you think about the spectrum of the market, and to your question around the self-service platform, we believe that we have great solutions for enterprise partners to do multiyear deals, particularly around exclusive data relationships. But we also think we can serve that small- and medium-sized business through the self-serve platform. And if you look sort of the other vertical on the matrix, we believe we can meet the sort



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of highly transactional, programmatic buyer, but also introduce high-touch solutions like branded content, like sponsorships. And so far, the market has been reacting pretty positively.

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### Operator

Our next question comes from Tom White with D.A. Davidson.

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### Philip Rigby

It's actually Phil Rigby on for Tom. So the letter you talked about conversion gains with experienced shoppers and how to accelerate it. I was hoping you could just elaborate a bit on your initiatives there and how you're driving better conversions and experiences. And then maybe can you talk about those 10 products rolled out in Q3 and how those are performing? I think you touched on some of those earlier in the call. And just lastly, any more color you can give us on your product pipeline would be great.

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### Stephen Kaufer - TripAdvisor, Inc. - Co-founder, President, CEO & Director

This is Steve. I'll take the Experiences conversion. I might ask you after I finish to repeat the second question. So with the Experiences, it's a 2-part answer. On TripAdvisor, we're getting better and better at helping travelers no matter where they are in the funnel, discover the experiences and make it very easy for them to buy the right experience around that point of interest. So if it's the Buckingham Palace, is it a guided tour, is it a skip the line, is it a private tour, what's the best experience -- what's the best thing that we can offer to help sell that particular attraction.

On Viator, the fact that we have so much more choice and that we're improving our ability with the streamlined methods to actually complete the purchase, still a bunch of low-hanging fruit that we're excited to tackle that we started on over the past several quarters and have a rather robust road map to help our travelers on that particular point-of-sale.

I reiterate the focus that our recent changes are allowing us to pursue in terms of helping the traveler throughout the trip on TripAdvisor, makes us extremely bullish given the hundreds of millions of travelers on our site planning a considered trip. And then on Viator, occupying the mind share around being the place to go to have that magical experience, whether I discover Viator when I'm in destination or whether I'm a planner and I'm picking out the absolute best hike or tour or vatican experience or whatever. Could I ask you to repeat the second question?

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### Philip Rigby

Yes. That's very helpful. And then -- so you -- on your last call, you talked about 2 or 10 new product launches that you rolled out over Q3. Just wanted to get any more color on how those are performing or what your product pipeline looks like for 2020.

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### Stephen Kaufer - TripAdvisor, Inc. - Co-founder, President, CEO & Director

I don't think we referred to 10 products. We had launched a couple on the ad side that Lindsay had covered in the last answer. And certainly, there are different ad units on our site, different than a rectangle or we have a new homepage placement that we've been talking about. The short answer is, it's all part of the mix that makes us comfortable that we are executing on our plan to double our media revenue over the next 3 to 5 years. We're not sure any 1 product is going to be a breakaway hit, but our strategy is really to focus on our audience, segmenting it for the right buyer and leveraging the fact that we have so much first-party data, which is becoming scarcer across the media universe.

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### Operator

And our next question comes from Jed Kelly with Oppenheimer.

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

In the prepared comments, in the E&D segment, both seated diners and bookings you mentioned they grew over 30%. And revenue in that segment, I think, grew 20% ex FX. Can you just talk about what the gap is between your key KPIs and the overall revenue growth?

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

Yes. Seated diners and bookings are obviously volume indicators, particularly in Experiences, and we've highlighted this before this year. We've made a push into new products with a lower AOV. So they have lowered our revenue per booking, and that may be a short-term impact as we just sign up more -- new customers with offering them more attractively priced lower AOV products. But that has been the main driver on the Experiences side. On the dining side, there has been less of a shift between volume and pricing year-over-year. As we look forward into next year, we see an opportunity for both of those segments to keep driving volume but also have opportunities to keep driving AOV as well. And so we look ahead, and we believe both of these metrics are great leading indicators for what we can do over time.

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

And then on Experiences and on the cost rationalization, has that impacted how you're thinking about your overall marketing that product in 2020?

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

The cost rationalization, I want to be very clear, has been on the back of a number of years really deeply investing particularly in supply growth and overall platform growth, the overall scalability of our platform. We've been growing, as you have been able to see in our statistics, bookable products very aggressively, triple-digit type of growth that we've seen. We feel now we're in a very good place. We've made a big spurt. We thought it was important to make a big spurt of available inventory. We have that now. We're shifting now towards the less labor-intensive activity of pushing on the demand side. So we have a lot of initiatives that we're driving to stimulate demand, and we've shifted our focus that way. It doesn't have a direct implication on how we can execute on that side. The fact that we've tapered our expenses on the other side.

**Operator**

Our next question comes from Eric Sheridan with UBS.

**Eric James Sheridan** - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe two, if I can. First, on the auction dynamic, is there any way we can get a little additional color on whether it's advertisers adjusting budget, how much of it is macro industry issues versus pricing dynamics versus budget dynamics that you're seeing in the auction. And how you're -- maybe the assumptions you're making looking out to 2020 and how those might change from what you saw in 2019.

And then on Experiences, could you help frame how you see the competitive landscape in Experiences playing out from 2020 beyond? There's a lot of players in travel, albeit probably not at the scale you guys are at today of inventory, trying to go after that opportunity. So how do you see the competitive landscape playing out, especially reflected in trying to continue to scale inventory and choice for consumers in Experiences?

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

Yes, Eric. I'll take the first, and then Steve will take the second one. In terms of the auction, there have been a number of factors at play. The macro, we believe, is important. The continuation of Google is important. The overall willingness to transact of users is important. Of course, advertisers



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are adjusting their budgets accordingly when they're on other platforms. So it's sometimes a little bit difficult to tease apart, but we put it in the bucket of external headwinds that have come in on overall travel spending by consumers as the most important driver.

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

And on the Experiences side, let's all remember, 80% of the bookings are done off-line. And so when you look at -- with the TripAdvisor brand lens on, we have so many of those travelers already on our site. Our job is to match that traveler demand either in planning mode or in destination. We don't have to pay additional dollars to get those travelers. It's a clear advantage we have over basically every other competitor in the attraction space. When you look at Viator, with its supply footprint, certainly in the markets where we are strong, we're sort of a clear leader, a clear player with all of the heavy, not all, but most of the heavy lifting already done in terms of building the supply footprint and infrastructure. So when you compare Viator's closer to stand-alone entity versus their head-to-head competitors, certainly, we believe we stand ahead and we stand tall. We have better supply. We have a ton of traffic. We have more direct traffic, more brand awareness. It's really quite a good story that we plan to leverage going forward. Great markets bring lots of competitors. So we're not particularly nervous about other pure-play attraction players. We're certainly watching carefully because the market is so big and had such nice growth opportunities.

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**Operator**

Next question comes from Mike Olson with Piper Sandler.

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**Michael Joseph Olson** - *Piper Sandler & Co., Research Division - MD & Senior Research Analyst*

So related to the E&D segment, and particularly looking at Experiences, it sounds like there's a high degree of confidence in continued growth there. And you talked about new ways to engage and convert users, but are there also just certain regions or categories that just may have more opportunity for growth or less penetrated that you're looking into? And I guess, along those lines, are there also been areas where supplies may be less robust today that you're particularly working on?

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

Yes. Excellent question. There's certainly a plethora of opportunity around the globe. And so we do have to focus in on certain areas. We're not trying to do everything in every geography. So naturally, we go where we already have good supply footprint and/or a great traffic footprint, particularly on the TripAdvisor point-of-sale, so that we at least come with either a strong supply footprint or a strong demand footprint as opposed to having to start from scratch in either. That's pretty much how you can see our product strategy, our supply strategy and our demand strategy rolling out between TripAdvisor and Viator, leveraging either a supply or a demand footprint. And there will be other players, we recognize that. That grab of foothold in a market that we're not particularly strong in at the moment. However, our overall considered trip with our current audience, where we can bring the demand, if we don't have the supply ourselves, we cut the supply relationships with somebody else, perhaps. There's lots of different ways to do what's right for our traveler.

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

And Steve answered this question mostly for Experiences. But if you look at the dining side, there are exciting opportunities there as well. And these 2 acquisitions that we've been making are supporting that as well. LaFourchette with its transactional business has been able to grow in the footprint that they've had within Europe because it's still underpenetrated. But the acquisition with Bookatable that we've made allowed us to more deeply penetrate the U.K. and Germany, which were 2 white spaces for LaFourchette, which is very exciting. LaFourchette will now be a truly pan-European player, and able to leverage the scale associated with it. Earlier last year, we made an acquisition in South America, as you know, which is another growth market that we're focusing on. So on the transactional business, there's a lot of growth opportunity ahead geographically, but also deeper penetration within market that we have ahead of us. And then the other component of this -- of restaurants, as you know, is the products that we're selling through restaurateurs on TripAdvisor, which is our restaurant services business that we've been able to grow very nicely.



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The other acquisition we made SinglePlatform [gives us the] (corrected by company after the call) ability to add more product to the sales force that is selling this [B2B products] (added by company after the call) to restaurants on TripAdvisor. And so it's highly synergistic. We've bought a company that was not growing as part of the platform that they were on. But we are able to take that and put that on top of the sales force that we've created and offer more product to the same restaurant. So another area of product additions, product proliferation for restaurants is another nice growth area on the TripAdvisor restaurant services side.

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### Operator

Our next question is from Justin Patterson with Raymond James.

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

Great. Could you expand on the redesign of the TripAdvisor app? You change the user experience not that long ago. So I'm curious how this redesign compares to the last, what you're trying to solve and how we should think through the business impact?

And then the second question is on Experiences. Steve, I think you just said 80% of attractions are still booked off-line. Where would you say the industry is in that shift from off-line to online? And what can you do to accelerate that shift to convert more bookings online?

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### Stephen Kaufer - TripAdvisor, Inc. - Co-founder, President, CEO & Director

That's terrific 2-parter. I'll ask Lindsay to handle the first, and you'll see how it dovetails nicely with the second.

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### Lindsay Nelson - TripAdvisor, Inc. - Chief Experience & Brand Officer

All right. Thanks, Mike, for the question about the app, as we shared a few months ago. We've been in the process of overhauling the app for about 2 quarters now and we have about 2 quarters more to go. As you can appreciate, these projects are not only about what the consumer sees, but also how we manage the back-end services that support not only app but that will also improve the web platform experience.

Overall, our ambition is just to create world-class consumer products, and that includes not only the planning experience, but also the shopping and booking experience. And while there's a lot to love about the current app, we think there's a lot of areas of improvement to not only make it much more lightweight but also just much more reactive and personalized and intuitive for the traveler. We recognize that the travel planning process happens across many surfaces. Sometimes that happens on your phone. Sometimes it happens on your desktop. Sometimes you want to exchange e-mails with your travel partner to compare the best hotel or a really exciting tour. And we don't make it easy to hand off across those platforms. We really want the app to be that sort of in-your-pocket hub for all of your travel planning moments, but also your on destination companion where you can not only organize all of the things that you've booked on TripAdvisor, but also discover great deals, last minute opportunities or recommendations from travelers like you.

I would say that the most important thing to take away for this group is just the importance of personalization and ongoing member communications. We recognize that not every traveler is the same. It's important that we don't have a blunt instrument experience. And so we believe that on the back of the membership opportunity, which is why we sequenced the focus on membership in advance of the launch of the app, that the more logged in users we have, the more questions we ask those users, the more information we have about what your travel preferences are, the better recommendations and merchandising we can do across any category on TripAdvisor. And we believe that the combination of data collection within membership and the delivery of that through the new experience is not only going to increase engagements and repeat users, but it will ultimately drive revenue because each app user will be given an app experience that is tailored to their preferences and we're pretty excited about that.



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

And as you can imagine, downloading and being a frequent user of the app is an ultimate sign of loyalty. And so when we look at that 80% off-line experience purchase, a chunk of it is, I have no reason to book in advance and all of a sudden, TripAdvisor and Viator are now giving you a reason because of convenience. You can always cancel 24 hours before the thing. There's a different payment methods. There's potentially deals and there's just the convenience of buying through a safe channel like TripAdvisor or Viator in advance. And then for all those things that you put on your wish list -- not ready, not because you don't like the tour, you're just not sure if you're ready to take it. Now you're in destination, you open up our app and there it is in that exact same format and now you're ready to buy it because, heaven forbid, it's now sold out. And with the app continue push notifications, telling you that, hey, inventory is getting limited or now is a good time or here are some 3 other things you might want to do. Imagine it down the road, how incredibly helpful it can be to have a travel agent, a travel wizard in your pocket, giving you recommendations based on where you are, what the weather is like, the things that we've learned about you to just make that in-destination travel experience so much easier, so much better. And that's the sign of loyalty that we feel we're in a great position to deliver. To be clear, that is not a Q3 launch. A Q3 launch is the beginning of the app. It's a new surface. We're very excited about it. It's the -- what I talked about was the several year vision of how the traveler becomes super loyal to us because of all the services that we're providing, both in planning and in-destination.

**Operator**

Our next question comes from Dan Wasiolek with Morningstar.

**Dan Wasiolek** - *Morningstar Inc., Research Division - Senior Equity Analyst*

Two, if I may. So the first one on marketing expense, which saw some pretty strong leverage in 2019. How should we think about your ability to continue to optimize channels and the impact you're increasing loyalty member base and the app relaunch might have on direct traffic in 2020 and beyond? And should we think about marketing expense leverage potentially again in 2020? And then just in regards to Google, it looks like it might be testing place in some organic links above its meta in some markets. If that were to become prominent, how might that impact your business? That's it for me.

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

Dan, this is Ernst. On marketing first. We've gone through a serious effort, as you know, over the last few years in improving the efficiency of our marketing on the Hotel side. We're through that cycle now. So going forward, on the auction side, we expect marketing to grow with demand, to grow with overall revenue volume. The same actually for our growth businesses for Experiences, for Dining, we see marketing grow with overall volume.

To your point of channel diversification and will reinvigorate app help us actually lower marketing cost. That is definitely a potential. Not baked into our numbers at the moment or our forecast at the moment, but that is definitely a potential that we are able to reduce our dependence on some of these paid marketing channels.

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

This is Steve. With regard to the test that Google seems to be doing, putting an organic link above some of their placements. We'll see how it goes. Far, far too early to tell whether that's a no effect or a modest positive. But a little hard for me to believe that it would be meaningful from what I've seen so far.

**Operator**

Our next question comes from Lee Horowitz with Evercore ISI.



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

Great. Just one, if I could. On the reshuffling of the management team and the alignment in the Experiences business, focusing on Viator as a separate product and Experiences on TripAdvisor as it's their own kind of stand-alone business. Why was this the right timing to seemingly break these 2 businesses somewhat apart, given that you've tried to integrate them a little bit more closely over the last couple of years?

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

Thanks, Lee, for the question. Excited to answer. We had a plan many years ago when we first bought Viator. First, turning it into a marketplace from very curated selection, growing supply. Doing it geographically and leveraging the demand that existed on the TripAdvisor and the Viator platform. And we needed to teach ourselves how to best merchandise experiences having been kind of -- from the TripAdvisor side, not in that business previously. And so the 1 team that was responsible both for TripAdvisor and for Viator was leveraging all those new learnings for how to effectively sell experiences to travelers. With several years now of getting that into our DNA, we're now able to split it off and say, "For TripAdvisor, we've got the merchandising down. Let's now tackle how an experience is part of a key considered trip." And that's a little bit of a different muscle that's very unique to TripAdvisor because of all the traffic we have across all of the verticals. So reorganization applies a focus towards helping that traveler on TripAdvisor, no matter whether they're looking for, a restaurant, a hotel or an experience.

Flip it back over to Viator. Now we have an opportunity as a pure-play OTA for experiences to really build up both the brand, the focus on the merchandising on just the Viator point-of-sale, leveraging our third party relationships, of which there are quite a few, and focus from a set of consumers that are looking for just the best thing to do while they're in destination or beforehand. And while some may go to TripAdvisor, which will be great for TripAdvisor Media group, they will be a set that are just looking for a pure-play experiences offering and we want Viator to have all the leverage to win in that space. So it's kind of like it was always part of what we thought would happen and I think we timed it well in terms of being able to have both sides, learn the merchandising, learn the best practices and then enable each brand to chase its audience.

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

And the other component of this reorg, of course, is this focus on TA and the overall TA platform, which is really important to us. We have developed TA very attractively vertical by vertical. There's a huge opportunity that we outlined in looking at the consumer much more holistically. And with great hires that we made with Lindsay and Kanika, we feel we have the right plan in place right now to actually affect that.

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**Operator**

Our next question comes from Doug Anmuth with JPMorgan.

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**Douglas Till Anmuth** - *JP Morgan Chase & Co, Research Division - MD*

Just want to ask two. First, can you just give us some more color on how your brand campaign will evolve in 2020? You talked about optimizing and reducing some investments. If you could just help us kind of quantify '19 and '20.

And then separately, just on the at least flat EBITDA in 2020 relative to '19. Can you just talk more about some of the bigger puts and takes there and just how we should think about top line growth that's contemplated in the guide.

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**Lindsay Nelson** - *TripAdvisor, Inc. - Chief Experience & Brand Officer*

Yes. So I'll give you a little bit of big picture color on the brand campaign. So last year when I joined, we initiated a brand transformation. And when I think about what it means to transform a brand, especially one as iconic as TripAdvisor, it's not just about a paid marketing campaign. It's about



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how do we define and reset, how we think about the target customer, the role we play within travel and ultimately define strategically and creatively what it means for us to be the world's preeminent people-powered guidance company. The first external signal of that transformation was a very exciting moment for us a couple of weeks ago, where we relaunched the visual identity of the company, including a simplification of the iconic Ollie logo. And consumers will continue to see rolling updates not only across the platform, but also all of the channels that we own and operate over the next couple of months.

We will be in market in April with a pretty high impact, but targeted city campaign, where the company will do out-of-home for the first time, particularly in major transit hubs like airports and subways and train stations.

We will continue to think about what our communication strategy is for the first half of the year. And as we look into the back half, right now, we are acutely focused on the channels that we actually own and operate, that we don't pay for. As we talked about earlier, we have an enormous, very valuable audience. Historically, we haven't necessarily taken advantage of that audience. Using open inventory to merchandise and promote our businesses, such as the growing experiences opportunity on TripAdvisor. So we'll have a big focus there.

The second is CRM. As Steve said, it's sort of a simple acronym, but what it means is for all of our new members -- these are people we can connect and communicate to directly. And CRM as a channel has been very fast-growing for us, not only in volume but efficacy. And we expect to double the revenue contribution from that channel this coming year. And that extends, of course, into push as we continue to grow app downloads, even in advance of launch. Again, that's a coveted audience that we have a direct line into.

From there, we'll look to the back half as we identify what our specific campaign objectives are. And as we have an understanding of how the business is doing, we'll put our back half media plan together and allocate the budget accordingly.

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

As you can tell from what Lindsay says, TV marketing, as we've done in previous years, it's going to have less of an overall weight in the way we go-to-market with our brand. The other ways we go-to-market with the brand, as Lindsay outlined, are going to be more efficient and effective, we believe. And so we're looking at a reduction year-over-year in our overall brand budget from last year. It's one of the areas where we've seen cost efficiency for the upcoming year.

In terms of your second question on the puts and takes in our at least flat EBITDA outlook for 2020. Let's start with E&D. E&D a source for profit growth in 2020 for us. Not only does the top line continue to develop very nicely. We are also seeing improved margins in E&D this upcoming year. It's partly from the scale we are achieving in dining, it's partly from the scale we are achieving in experiences. And as you know, and as we have outlined, we've taken some cost out of the experiences business as well. And so that combines to a meaningful profit improvement for the year.

The other part of the puts and takes is our Hotel auction. The pressure on the Hotel auction is putting some challenges on the profitability of that particular line item.

And then thirdly, we have identified other cost savings areas that we have outlined in our prepared remarks as well. There are three: There's experiences, there's other areas of the business that are less strategic or we can take some efficiency work, taking some cost out and then the brand marketing I just talked about.

We're partly reinvesting about half of it -- of the savings of \$80 million of our run rate that we're creating. We're reinvesting in growth areas of the business, in our restaurant business, in particular, but also in building capabilities around our core Experiences, Lindsay's area as well as the Hotel B2B. So partly reinvesting by taking some efficiencies. So that all together combines in our outlook for the year of at least flat EBITDA.

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### **Operator**

And our next question comes from Nat Schindler with Bank of America.



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**Nathaniel Holmes Schindler** - *BofA Merrill Lynch, Research Division - Director*

Was wondering -- I don't know if it was really clearly answered, but I think Shweta asked what portion of the TripAdvisor-branded Hotel revenue is auctions? Because I'm trying to clarify your guidance on trying to figure out how much of E&D is going up. And then if you could give at least some partial direction on how much of the E&D growth is acquisition-related.

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

In terms of the auction as a percentage of the TA-branded hotel, I said it's a large majority. We're not breaking it out, but it's a large majority. And Shweta produced some percentages on it. And directionally, she's correct in thinking it's a large majority of that business.

In terms of E&D inorganic contribution, so we made 2 acquisitions last year, as stand-alone businesses in 2019. They created about \$50 million, 5-0 million, of revenue with a flat bottom line with no profitability. The component of our Q4 financials was very de minimis. We made these 2 acquisitions at the very end of the year -- at the end of December, and so it didn't have a meaningful impact at all on Q4.

Going forward, we're looking at these 2 assets as incredibly powerful add-ons to the overall dining business. As a stand-alone businesses, they were actually growth-challenged, but we think we can reinvigorate that on top of our platform. And it's going to be a part of what we do next year. Organically, as we have said a number of times, we also believe we can meaningfully continue growth or in part, accelerate the growth that we've seen before.

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**Nathaniel Holmes Schindler** - *BofA Merrill Lynch, Research Division - Director*

Okay. One other clarifying question. What other than auction is in the TripAdvisor-branded Hotel, just for clarification. And then a second additional question. Is it the -- can you go back over the last -- it's about 2 years. Your E&D margins have kind of fluctuated wildly and they seem to correspond with the inverse fluctuation in your Hotel revenue -- Hotel margins. Have you done anything to change over the last couple of years your attribution of marketing between those because, obviously, someone who comes into your site because coming in for multiple reasons. And so it's somewhat subjective what they're coming in for.

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

First part of your question is about that line of hotel revenue, 2 main components, auction and the other is Hotel B2B services, which split between subscription services as well as sponsor placement services. So Hotel B2B is the other component there. There is -- there has been no reallocation of expenses over the last years or marketing expenses between the segments. So that's not a driver. The correlation, as you're identifying, I don't think is there. There have been very specific reasons why our E&D margins came down over the last year and now up again, and we talked about that in significant investment cycle we've had over the last 2 years, specifically in our Experiences business and a shift from supply growth through demand growth now in the upcoming year.

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

Yes, this is Steve. If you look back, we had wanted to diversify our business over the past 5 years. And with our acquisitions of LaFourchette and Viator, the subsequent set of acquisitions and the investment that we put behind them at the expense of margin over the past several years, you can see that it paid off pretty much as we had looked for in terms of growing the overall E&D component. And so now we're sitting here, yes, with the hotel auction that's challenged but a growing hotel B2B business, a growing media business, a growing experiences business, a growing restaurant business as we successfully with still lots more to come, but successfully moved the core focus of our overall business from Hotel auction to a much more diversified and growing set of segments.

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### Operator

Our next question -- I'm sorry, our last question comes from James Lee with Mizuho Securities.

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

Ernst, just want to follow-up on the contribution from acquisition for the restaurant reservation business. Is it fair to say that the additional contribution is in line pretty much with the growth of the restaurant supply that you added from the acquisitions here?

And then also for Steve, I think over the last couple of quarters, you've been speaking very highly of your newsfeed product. I was wondering any new learnings there? Any new improvements or features you plan to add for 2020 to increase the engagement of travelers on your website?

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

So to your first question, that math is probably too simplistic that you have outlined. It is going to make a contribution. As I said, these assets stand-alone have been growth-challenged, but we can integrate them into our platform. It's going to be somewhat difficult going forward to fully tease apart how much the acquisitions have delivered and how much we've done with it as part of our overall platform. We see acceleration of growth in our overall E&D line. These acquisitions are going to help, but also other lines, the organic growth lines, we see a very important opportunity as well.

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

And this is Steve. The list is quite long in terms of additional product enhancements in 2020 to help drive engagement. We talked a lot already about members. We talked about a new app experience. We talked about better able to help the traveler plan out and save all the different things that they're looking to do and present that in a more convenient way and enable travelers to share that with their traveling companions all in the engagement category to the feed question that we had launched. The feed is still there. Everything still gets posted. It helps in different types of content contribution. We like all that. It's just kind of one of the many things in 2020 that we expect will be helping to drive engagement.

### Operator

And at this time, I'd like to turn the call back over to CEO, Steve Kaufer for any closing remarks.

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

Terrific. Thanks, everyone, for joining the call with us today. In closing, we're executing on our plan, and I look forward to updating everyone on our continued progress next quarter. Thanks.

### Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.



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