know better ● book better ● go better

TripAdvisor, Inc. Q2 2017 Prepared Remarks

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

In Q2, we made great progress on our 2017 initiatives aimed at educating our traveler audience that TripAdvisor is the best site not only for reviews, but also for the best price when you are booking a hotel. We gave the global TripAdvisor brand a fresh new look, and we successfully launched our streamlined hotel shopping experience and our new, multi-year brand advertising campaign. It is still very early, but these efforts are showing signs of success.

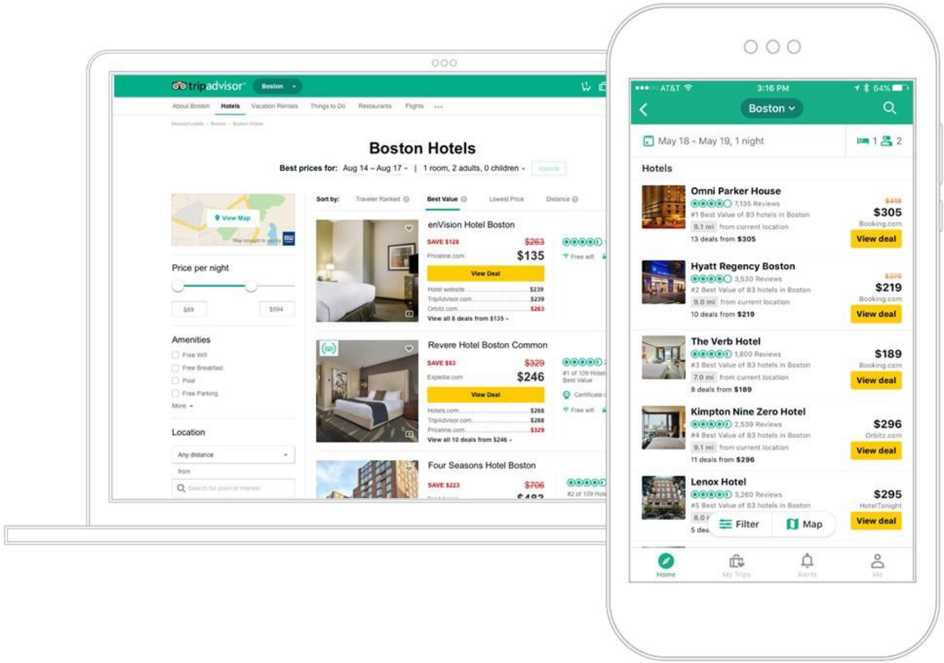
Q2 consolidated revenue growth accelerated to 8%, Hotel segment revenue decelerated slightly to 3%, and TripAdvisor Click-based and transaction revenue grew 6%. Currency headwinds were approximately 2% to each of these revenue lines during the period.

Adjusted EBITDA grew 6% driven by significant improvement in our Non-Hotel segment, where revenue growth accelerated to 31% and its adjusted EBITDA margin inflected to 17%. These businesses are key to the differentiated, end-to-end user experience that we deliver, helping users get the most out of every trip. We continue to execute well against our stated three-to-five year growth strategy and are pleased that our recent results have begun to highlight our continued growth opportunity and this segment's attractive longer-term margin potential.

The TripAdvisor travel platform remains large and growing, with nearly 415 million monthly unique visitors and 535 million reviews and opinions in Q2, up 18% and 39% year-over-year, respectively. We believe that as we continue to improve our end-to-end product offering, and as more users visit TripAdvisor to find the best prices before they book their travel experiences, the more transformational it will be to our long-term revenue growth, marketing efficiency and profit growth.

Q2 Hotel Segment Update

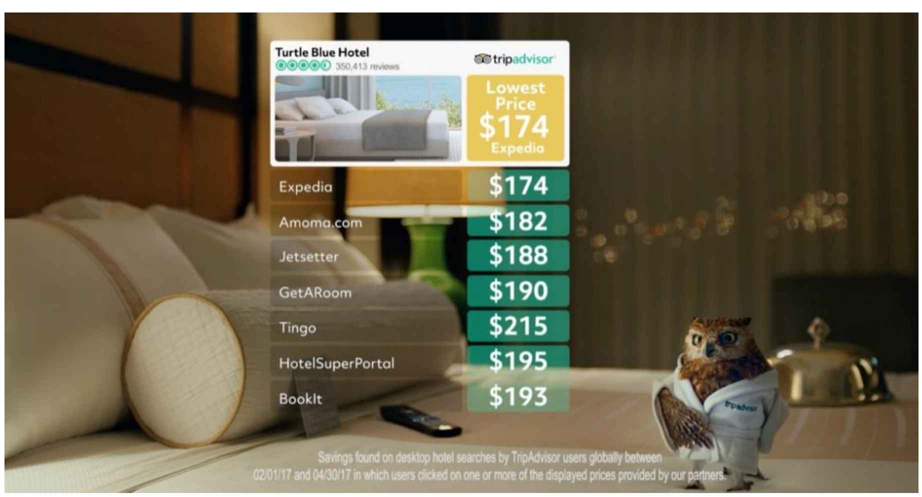
In May, we launched our brand refresh, which included a new color and a clean new look on all devices, as well as a streamlined hotel shopping experience that is faster and more intuitive, with improved merchandizing and search capabilities. Early indications are positive, as survey work shows upticks in user confidence that TripAdvisor is a site that helps them find the lowest prices.



(download: [iOS](); [Android]())

The refined hotel shopping experience nicely combines the work we have done over the past year to help users find great hotel deals. Our work here is never done, and we are currently working on further enhancing our price discovery tools, filters and maps to make finding the best hotels at the lowest prices even easier.

Our brand refresh and product launch paved the way for a return to offline brand advertising. In mid-June, we launched our global campaign in the U.S., followed by Canada, France, Spain, the U.K. and, in early July, Australia.



(View all our current and past television commercials [here]())

We invested $16 million in television advertising during Q2 as part of our $70-to-$80 million budget for 2017. As noted last quarter, we expect the revenue benefits of brand advertising to increase over time, though we are pleased to see leading indicators of success. Television markets are already showing upticks in unaided awareness of TripAdvisor as a place to find the lowest prices, as well as increases in traffic and bookers from high-value branded channels.

During Q3 we expect to invest the majority of this year's $70-80 million television advertising budget, likely resulting in some sales and marketing deleverage in that period. As we move forward, we plan to continue to test and optimize our ad creative to further improve its effectiveness.

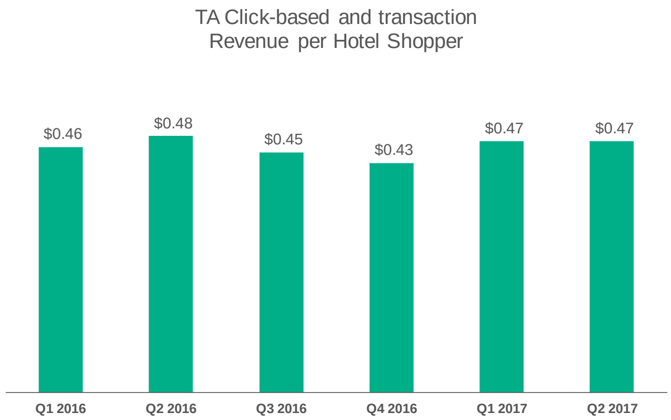
2017 is year-one of what we anticipate will be a multi-year global brand advertising campaign. Optimizing our television investment is a key part of our broader objective, which is to position television advertising to be a more sizeable part of our marketing mix as we grow the campaign in both new and existing markets in the years to come.

Q2 Hotel segment revenue grew 3%. Currency was an approximately 2% headwind to growth. Hotel segment adjusted EBITDA margin was 26%, impacted by $16 million of television advertising investment and increased seasonal online marketing costs during the period.

Q2 TripAdvisor-branded click-based and transaction revenue growth decelerated from Q1 to 6% year-over-year primarily due to greater-than-anticipated hotel shopper shift to lower-monetizing mobile phones, as well as from anticipated re-allocation of online marketing dollars to our television campaign and some slight dilution from product testing in April and May. Currency also was a slight headwind to growth during the period.

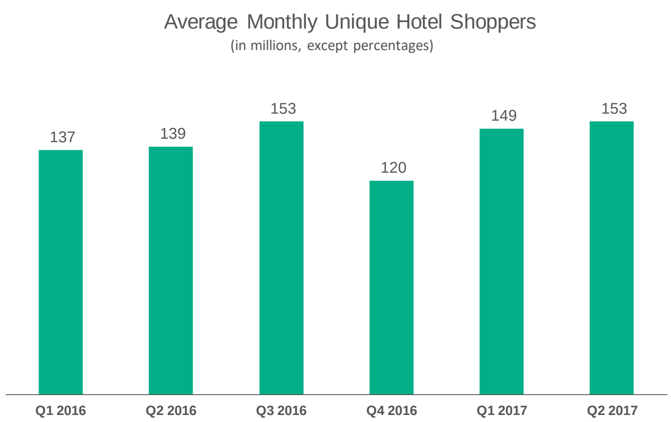
TripAdvisor-branded click-based and transaction revenue on mobile grew by more than 60% year-over-year, driven by accelerated hotel shopper growth of 36%. Mobile accounted for more than 40% of hotel shoppers during Q2. Accelerated mobile hotel shopper growth continues to be a significant duality in our business. On the one hand, it highlights our increasing engagement on this strategic platform, which we believe is a competitive advantage that will play out over time. On the other hand, having hotel shoppers rapidly shifting to mobile exacerbates the near-term revenue growth headwind, given mobile's substantially lower revenue per hotel shopper relative to desktop and tablet. That said, Q2 was our third straight quarter of monetization improvements on mobile, and we see a lot more opportunity ahead as we continue to optimize the new hotel shopping experience.

Total revenue per hotel shopper was $0.47 in Q2, which was flat compared to Q1 2017, and first half 2017 performance was flat compared to the first half of 2016, a positive given the significant hotel shopper growth on mobile over those periods. Looking geographically, growth in U.S. revenue per hotel shopper continued to offset softness in non-U.S. markets. Our non-U.S. click-based business continues to be relatively more impacted by competitive dynamics in the online travel landscape, the ongoing mobile shift, and currency fluctuations. Overall, we are encouraged to see continued absolute revenue per hotel shopper stabilization and our focus remains on leveraging our ongoing product and marketing work to grow this key metric over the long-term.



	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Growth % (y/y)	(21%)	(19%)	(12%)	(7%)	2%	(2%)

On the volume side, average monthly unique hotel shopper growth accelerated to 11% during the second quarter, driven by rapid mobile growth, as well as by growth in non-U.S. markets.



	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Q1 2017	Q2 2017
Growth % (y/y)	10%	3%	3%	8%	9%	11%

Shifting gears, in line with expectations, we saw growth rates improve sequentially in both our TripAdvisor-branded display-based and subscription and Other hotel businesses.

Our click-based and transaction revenue is growing this year, which is encouraging, though overall Hotel segment revenue growth has not yet returned to target levels. Over time, we expect the brand repositioning, our streamlined hotel shopping experience, and our new television ad campaign to coalesce, leading more users to associate the TripAdvisor brand as a great place to find the lowest prices and to book. In doing so, we will be able to drive more revenue, marketing efficiency and profitability in our business.

Q2 Non-Hotel Segment Update

In our Non-Hotel businesses, our ongoing investments to improve the user experience, to add bookable supply, and to build our marketing flywheel are driving bookings, rapid revenue growth and, more recently, increased operating leverage.

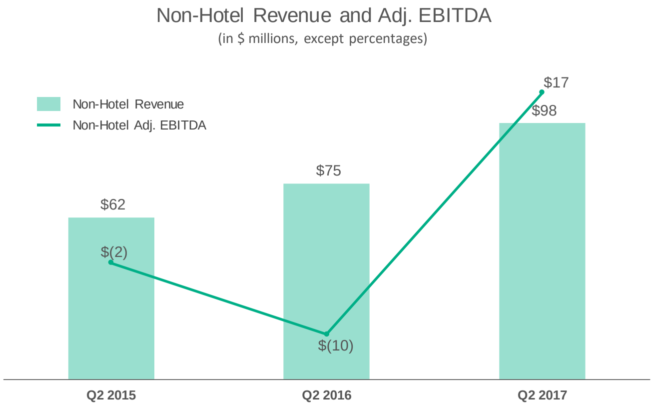
Our attractions business is performing well on both the top and bottom line. On the supply side, bookable products grew 26% year-over-year to 61,000. More importantly, after growing supply roughly 5x since we launched Marketplace in early 2015, we are investing to make those products more efficient and higher quality through our API and automated partner onboarding. Against this backdrop of growing demand and robust supply, we delivered strong bookings growth as we match more users with more great travel experiences in more moments throughout a trip. This formula is working across our platform, as Viator bookings continue growing nicely year-over-year and TripAdvisor-sourced bookings as a percentage of total attractions bookings have nearly doubled in the past year.

We expect attractions will be a key driver of Non-Hotel revenue growth and adjusted EBITDA profitability this year. After several years of building our product and our supply and sales infrastructure to support long-term growth, we are pleased to see operating leverage begin to emerge, demonstrating this segment's attractive margin potential.

The Tours & Activities category is the largest part of a $135 billion travel activities industry that is forecasted to grow to $183 billion by 2020, according to Phocuswright. We plan to continue to invest to extend our lead in order to further capitalize on our supply and demand advantages, building an even bigger and more valuable attractions business.

In restaurants, our other in-destination business, bookable supply increased by 18% year-over-year to 42,000. Conversion rates and repeat booking rates have accelerated, and so has seated diner growth, which grew 50% year-over-year primarily due to the successful implementation of our app-first product and marketing strategy, as well as strong TripAdvisor-sourced bookings growth. Restaurants also displayed strong revenue growth in Q2, and is achieving topline scale that will help it approach adjusted EBITDA breakeven this year.

Second quarter Non-Hotel segment revenue growth accelerated to 31%. Currency was an approximately 4% headwind to growth in the period. Strong revenue growth as well as increased marketing and operational efficiency, particularly in our attractions business, drove material profit inflection in the quarter, with $17 million of adjusted EBITDA leading to a 17% adjusted EBITDA margin, which was substantially better than the second quarter of 2016.



Non-Hotel Adjusted EBITDA Margin	(3%)	(13%)	17%

Nearly three years into our stated five-year investment horizon, our Non-Hotel growth playbook is clearly working. We will continue to move fast, further differentiating our platform to users, helping more of them find and book things to do and places to eat while they are in-destination and driving more loyalty to TripAdvisor in the process.

While we are very pleased with our Non-Hotel segment operating leverage, given our opportunity ahead, we are far from being in profit-taking mode. We are uniquely positioned in this arena, and we plan to continue to make significant investments in building our supply technology lead, enhancing our mobile product capabilities, growing demand and increasing marketing efficiencies.

Financial Outlook

As a reminder, the ongoing traffic mix shifts to lower-monetizing mobile devices and performance-based marketing channels, competitive dynamics within our industry, volatility in our click-based auction and macro-economic events – among a number of other factors outside of our control – can limit our visibility into near-term financial performance. We endeavor to be as accurate as possible with our forward-looking commentary, though the factors listed above can cause actual results to vary materially.

During Q2 and July, we saw greater-than-anticipated hotel shopper shift to lower-monetizing mobile devices. Also during July we saw some softer CPC pricing in our auction. While auction volatility is a matter of normal course, these recent trends make us incrementally cautious about the back half of the year.

As a result, we now expect 2017 click-based and transaction revenue growth of mid-single-digits, and consolidated revenue growth slightly better than click-based and transaction revenue growth. Our ongoing focus is squarely on driving growth through our revamped hotel shopping experience as well as our brand advertising campaign; growth that may partly manifest in 2017 but we believe will have a more significant positive impact on our business in the years to come.

We maintain our expectation of flat-to-down absolute adjusted EBITDA compared to 2016 due to continued profit favorability in our Non-Hotel segment, which is on track to meet our stated revenue growth and adjusted EBITDA targets this year, and as we manage marginal returns from performance-based online marketing channels.

At $1.3 trillion, the online travel market is large and attractive and TripAdvisor's influence on travel commerce is massive. As we have described in the past, our North Star is to delight more users throughout the process of travel planning, shopping, booking and trip-taking. We are pleased with our continued progress on our key initiatives, and believe they are setting our business on a path towards long-term revenue growth, marketing efficiency and profit growth.

* * *

TripAdvisor's second quarter 2017 earnings press release is available on the Investor Relations section of the TripAdvisor website at 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 August 8, 2017, which is available on the Investor Relations section of our website and the SEC's website at www.sec.gov.

Forward-Looking Statements:

These prepared remarks contain "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. The following words, when used, are intended to identify forward-looking statements: "anticipate," "believe," "could," "estimate," "expect," "intend," "may," "might," "plan," "project," "result" "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 include references to non-GAAP measures, such as adjusted EBITDA (including forecasted adjusted EBITDA), free cash flow, and constant currency measurements, such as, non-GAAP revenue before effects of foreign exchange, and adjusted EBITDA before effects of foreign exchange, which are considered non-GAAP financial measures as they are not prepared in conformity with accounting principles generally accepted in the United States ("GAAP"). These non-GAAP financial measures are not prepared under a comprehensive set of accounting rules and, therefore, should only be reviewed alongside results reported under GAAP.

We encourage investors to review our earnings press release as it contains important information about our financial results, including tabular reconciliations to the most directly comparable GAAP financial measure, definitions, limitations and other related information about these non-GAAP financial measures. The earning press release is available on the Investor Relations section of our website at http://ir.tripadvisor.com/. It is also included as Exhibit 99.1 to our Current Report on Form 8-K as furnished to the SEC on August 8, 2017, 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.

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

TRIP - Q2 2017 TripAdvisor Inc Earnings Call

EVENT DATE/TIME: AUGUST 09, 2017 / 12:30PM GMT

CORPORATE PARTICIPANTS

Ernst J. Teunissen *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Stephen Kaufer *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Will Lyons *TripAdvisor, Inc. - Former Senior Director of IR*

CONFERENCE CALL PARTICIPANTS

Brian Patrick Fitzgerald *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

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

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

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

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

Kevin Campbell Kopelman *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

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

Mark Alan May *Citigroup Inc, Research Division - Director and Senior Analyst*

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

Perry Scott Gold *MoffettNathanson LLC - Analyst*

Ross Adam Sandler *Barclays PLC, Research Division - MD of the Americas Equity Research and Senior Internet Analyst*

Vikram Kesavabhotla *Credit Suisse AG, Research Division - Research Analyst*

PRESENTATION

Operator

Good morning, and welcome to TripAdvisor's Second Quarter 2017 Earnings Conference Call. As a reminder, today's conference is being recorded. At this time, I would like to turn the conference over to TripAdvisor's Vice President of Investor Relations, Mr. Will Lyons. Please go ahead.

Will Lyons - *TripAdvisor, Inc. - Former Senior Director of IR*

Thanks, Brian. Good morning, everyone, and welcome to our second quarter earnings conference call. Joining me today are Steve Kaufer, our CEO; and Ernst Teunissen, our CFO.

Last night, after market close, we distributed and filed our Q2 earnings release, we filed our 10-Q and we made available our prepared remarks on our Investor Relations website located at ir.tripadvisor.com.

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

Before we begin, I'd like to remind you that this call may contain estimates and other forward-looking statements that represent the company's view as of today, August 9, 2017.

TripAdvisor disclaims any obligation to update these statements to reflect future events or circumstances.

Please refer to our earnings release and our filings with the SEC for information concerning factors that could cause actual results to differ materially from those expressed or implied by such statements.

And with that, I'll pass the call over to Steve.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Thank you, Will. Good morning, everyone, and thank you for joining our call. I hope you've all had a chance to read our prepared remarks we issued last night. In summary, we made important progress on our 2017 initiatives, laying the foundation for future growth. In Hotels, it's still early days and there is much more work to do, but our new hotel shopping experience and television campaign have delivered some nice early signals of success, conveying the message that TripAdvisor helps users find the lowest hotel prices.

In Non-Hotels, we have continued executing well on our 3- to 5-year growth strategy and are pleased that our recent results have begun to highlight not only our continued market share gains, but also this segment's attractive longer-term margin potential.

Our strong global brand, differentiated end-to-end product offering, growing mobile engagement and solid financial position uniquely position us to gain share in the large and growing travel market opportunity. We are making progress and we like the path we're on.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Thanks, Steve. Good morning, everyone. Q2 consolidated total revenue growth accelerated to 8%, and TripAdvisor click-based and transaction revenue grew 6%, which was squarely in line with our expectations. Currency headwinds were approximately 2% to each of these 2 revenue lines during the period. Non-Hotel segment revenue growth accelerated to 31%, driven primarily by continued strong traction of our Attractions and Restaurant businesses. This segment also demonstrated its strong margin potential, delivering 17% adjusted EBITDA margin amidst continued investment in long-term growth.

Looking ahead, as described in last night's prepared remarks, some recent trends have softened our full year revenue outlook a bit, though our adjusted EBITDA outlook remains intact. This is primarily driven by our outperformance in Non-Hotel. Most importantly, our product and brand marketing initiatives are now in flight and are showing positive early signals. Over time, as more users visit TripAdvisor to find and book their travel experiences, the more transformation it will be to our long-term revenue growth, marketing efficiency and profit.

With that, we'll open the call to your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question will come from the line of Eric Sheridan with UBS.

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

Steve, when you think about the return you're trying to get on the uptick in the brand advertising and the performance marketing spend, maybe leaving aside some of the issues of the auction or mobile mix, how should investors be thinking about the return you get on that spend and what the return on that spend might mean for how you think about arcing marketing spend versus aiming for top line growth in 2018 and beyond?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Sure. I mean, we've certainly seen many folks do well on television now as a way to gain brand direct traffic. We come at it from a -- we have this tremendous brand that's very well known, but we need to shift a bit in what people know us for. So our core metric when we look at the branding we're doing is unaided awareness, so TripAdvisor as a place to [get], as a place to go when you're ready to book your property, and we track that in all of our markets. So the ROI is going to be reflected in branded traffic. It's going to be reflected in the conversion rate of our clicks of the travelers that come to TripAdvisor and then click downstream to our partners and how qualified are those folks and the overall ratios of folks coming to TripAdvisor, what percent of them are down-funnel enough that they're ready to buy. So as we look to pull back a bit on the traditional SEM or direct spend for the visitor and tries to turn it quickly in favor of the more loyal, the more branded, the more high intent-to-book traveler that we expect and do seem to be getting, per our remarks, from our advertising channels.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

And although we think television is going to be a near-term drag on our average ROAS, a near-term drag on our profitability, our expectation for the channel is over the longer term that this is going to be accretive to us, is going to really help us tap into the lifetime value of users, going to help us tap into getting users to consider us more at that time of booking and when they do a price comparison. So it's, compared to performance marketing, a little bit more of a lead time, but we think, ultimately, a more profitable channel than performance marketing has been for us to date.

Operator

Our next question will come from the line of Lloyd Walmsley with Deutsche Bank.

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

Wondering as you start to get it more into TV, do you feel better about your ability to measure the impact this time than when you ran TV a few years ago? And then a follow-up after that.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Yes. Having done it several years back, I think we learned a number of valuable lessons. I think we are better able to ask, we're better able to measure on our site and off our site and we're better able to look at the behavior of our current traffic as well as the external metrics. I mean, we look at stuff like Google Trends, which has shown, certainly from 2015 to '16, you can see the domain direct or the branded searches. And you look now and in our TV markets, we're doing comparatively well. So the astonishing thing from our perspective on that is we've really only been on TV since mid-June and we've always been talking about this as a large multiyear campaign because we do know it takes time to build, yet we're actually seeing some green shoots in the short time as the past 6 weeks.

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

And then a follow-up. If you look at kind of the mobile traffic growing really strongly in terms of hotel shoppers, a little tougher on the desktop. Curious as the TV spend starts to impact things, do you see that impacting growth on both desktop and smartphone? How should we think about that?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

It's a great question that's actually a little harder for us to measure. I think it would be fair to assume that because we're looking at all of Q2 and our TV ads were on for just a tiny part of that time frame, the mobile growth is much more of a shift to mobile. The fact that we have a great mobile experience, our site redesign, the whole brand launch was really quite beneficial on the mobile side. When we now layer on summertime activity and the amount that we're spending on TV, I don't have a data point to share with you yet, but I would expect television to certainly help the mobile traffic as people pull out their phones and think about travel shopping at the exact moment they're looking at our TV ads.

Operator

Our next question will come from the line of Ross Sandler with Barclays.

Ross Adam Sandler - *Barclays PLC, Research Division - MD of the Americas Equity Research and Senior Internet Analyst*

Great. So Stephen, just 2 questions. First is on the smartphone revenue per hotel shopper and then second on the July auction weakness comment in the letter. So first, I guess, given the mix shift to faster-growth, lower-monetizing international markets in the smartphone channel, can you give us more color on what's driving the really strong acceleration in smartphone revenue per hotel shopper? And then the July weakness that you noted in the letter, just any additional color on what's happening kind of in the near term?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

To start with the monetization on mobile, indeed, very pleasing progress that we made in the quarter, and to a large extent, driven by the significant improvements we've made overall on our user experience and our new refreshed user interface. But particularly, we put a lot of emphasis on improving our mobile experience as well, both on the app as well as on mobile web, and we believe that is really bearing fruit. So we saw not only impressive overall growth, but individually impressive shopper growth as well as significant monetization growth on the mobile. And we continue to work on it. We have still a steep hill to climb. We're monetizing at about 1/3 of desktop, but we see opportunity to improve that and we were pretty pleased with what we achieved in that first quarter.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

So as I recap, we do believe we deserve a fair amount of credit -- the product team, the marketing team deserve a lot of credit for delivering a better product, a better experience on mobile and I think you see some of that in the results. And it's just now easier and faster to get to the hotel that you're looking for. The sort is better, the experience is better, the price comparison, and we see that in our user surveys and it's comforting to see it in the results as well. We also do have to give a nod to the overall changes in consumer behavior with consumers becoming more and more comfortable over time booking or buying anything on their phone, and that's including travel. So that's going to be a bit of a tailwind for us, as it has been.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

With regards to the CPCs in July, so we've started with softer pricing in our auction, in our core auction, which we believe is driven by our partners taking some efficiency, and that has created some additional softness in the start of our quarter. And as we project that out into the year, we've taken a cautious approach. Now of course, we always have volatility in our auction. That's a function of running the auction. We have multiple partners and we are, to some extent, impacted by the marketing decisions they make along the line in the year. There's always that volatility, but we thought it was prudent, given where we are and what we can see right now, to incorporate some of that into our projection for the rest of the year.

Operator

Our next question will come from the line of Perry Gold with MoffettNathanson.

Perry Scott Gold - *MoffettNathanson LLC - Analyst*

Can you provide a bit more color on the international softness you're seeing? What do you think's causing it? Is it competitive pressure, auction weakness or something else?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

It is a bit hard for us to tell. Certainly, U.S. has been our strongest market all along and so I think we've done well there and we tend to optimize there first. Some of the competitive pressures are certainly stronger internationally and we have a little bit of currency headwind there as well. We view the overall travel market as reasonably healthy. We look at all of our inventory across all of our platforms and say that that's strong. But we also note that the shift to mobile is perhaps more aggressive in non-U. S. markets. And again, that's fine for us in the long term, arguably helps us in the long term as we have great in-destination products and a strong travel life cycle message, but it does offer some near-term CPC headwinds.

Operator

Our next question will come from the line of Jed Kelly with Oppenheimer.

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

You continue to drive nice non-marketing OpEx leverage. Does the company need to operate as a leaner business in order to compete in some of the higher marketing cost channels? Any color there would be great. And then can you give us an update around some of the initiatives in Vacation Rentals?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes, I'll take the first question. So we are driving, as you say, nice operating leverage. If you look, for instance, in our Non-Hotel business, the margin expansion that we're seeing there is driven by operational scale that we're achieving in that business, where initially in the earlier stages of the development, we were relatively inefficient and now are getting some efficiencies. On our core Hotel business, we are prudent in how we expend OpEx, and we expend OpEx only very modestly in this year in light of the shift to more pay channels that we see. So it's a focus of ours. It's a continuing focus to make sure that we grow our OpEx base responsibly in light of the competitive pressures that we see. You want to take the second?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Yes, on Vacation Rentals, we continue with our playbook of expanding supply, improving the conversion. We feel we have a wonderful opportunity and we continue to experiment with placing rental inventory in line in our CRM efforts, in line in the geographies where a rental may well be better suited to what the traveler needs. I think many would look at the opportunity in that category and say, well, to some degree, it's going to be converging into just a general lodging category, where if we can present the best choice for price, for availability, for location, for amenities to a traveler going to a city to or a vacation rental geo, we're well suited to help that transaction. That's the core purpose of our Vacation Rental offering and we're able to be successful at it due to the sheer amount of traffic that we have on our vacation rental brands and the core TripAdvisor offering.

Operator

Our next question will come from the line of Mark May with Citi.

Mark Alan May - *Citigroup Inc, Research Division - Director and Senior Analyst*

Maybe just another one on the auction pricing comments. Can you share what you think might be driving that? Is that a reflection of adjustments advertisers are making to reflect TripAdvisor-specific factors? Or are they pricing adjustments that are more likely related to macro factors? Kind of what does your analysis suggests? And then, on desktop monetization, have you guys made any changes that are maybe negatively impacting desktop monetization in the near term? And if so, can you discuss what those are and the impact that those might be having?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Sure. So on the CPC, we really don't have great insight into what our clients choose to do. We do believe that we are not disadvantaged by way of TripAdvisor-specific. Our advertisers consistently tell us they look to get the best return they can get through whatever channel and we take that on face value. With regard to desktop monetization, certainly we put a fair amount of effort into the redesign on all devices. We took away a few of the features that had generated some money for us. But by virtue of making the design cleaner and simpler and more efficient for a hotel shopper, we regained that in terms of monetization capabilities. So when we look at it, no, there is no clear desktop monetization headwind that we're talking about or that we're facing that we have done. Clearly desktop traffic, in general, is declining and mobile's growing and we face that issue like every other company. When we look at our opportunities in the second half of the year, because a lot of the heavy lifting in the redesign is now released, we're able to get back on a really nice fast pace for optimizations. So that is something that we know how to do very well. We have done it for years. We have a new foundation that we're really pretty excited about on all devices, and now we how a fairly large team up and running and making regular improvements in our revenue per shopper, in our conversion, which, at the end of the day, certainly helps us economically but really helps our traveler find what they're looking for faster and easier and at the best possible price. You'd see more of that, we would all see more of that dropping to the bottom line were it not for the shift from desktop to mobile causing that kind of monetization headwind, which is, again, why we're pretty excited about the conversion improvements that we've made on the phone and how that rev per shopper has grown. It just still has a ways to go to get closer to desktop.

Operator

Our next question will come from the line of Mike Olson with Piper Jaffray.

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

Just one question for me. The profitability of the Non-Hotel business was strong. Just curious what's causing the margin upside. I didn't get the sense that you're trading off margins for growth there or anything like that. So really what is it that's driven the improving margin profile? And then also when you look forward for the Non-Hotel business, where do you think you'll be focusing the most resources? Is it increasing inventory for tours and attractions or marketing for Viator or LaFourchette inventory and marketing or something else?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

I'll take the first part and then I'll let Steve respond to the second part. In terms of the margin expansion, yes, very pleasing. We've said we were on a roughly 3- to 5-year journey with our Non-Hotel business where we're investing significantly in the early stages in supply expansion, in particular in marketing channels, and we're now getting to a scale where we see some impressive efficiencies. So if you go through the different efficiencies, on the marketing line we see efficiencies. We continue to grow disproportionately fast on our TripAdvisor channel, so making attractions available to TripAdvisor users, which is a great growth channel for us and allows more marketing efficiency compared to before. We have large app penetration and a great ability to offer attractions to our users. So marketing efficiency, but then just operational efficiency as well. So initially, a lot of manpower going into both site development as well as supply expansion and we're now reaping some of the leverage benefits from that going forward. So you are right, we are managing the business not for profitability, we're managing it for growth. There is this tremendous opportunity in terms of the TAM of, particularly, the Attractions market space. We feel we have an early lead and we continue to invest aggressively to capitalize on that advantage. So we're not seeking margin expansion, and going forward, we will continue to emphasize revenue growth. But the way the business has evolved has allowed us to see some margin expansion this year.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

And so when we look at the Non-Hotel segment going forward, I would have to point to Attractions as the one that we believe has the biggest short-, medium- and long-term upside for us. The TAM is phenomenally large. We would certainly argue we are the current leader in the space. We've put the past 3 years into building a more and more impressive supply footprint, getting the things that people want to do in-destination on our platform. You can't have a great conversion rate unless you have the things that people want. And we're by no means done in that category by way of supply, but a lot of the heavy lifting is there. So now we get to focus on conversion and the team has been doing just great work. And conversion makes the traveler happier. They get to find what they want, book what they want. The margins of the business are great. We're not trying to maximize that piece. But if you take conversion as your near term, you take marketing channel growth as your kind of midterm driver, and continued growth in supply as your long-term driver, you've got a set of beautiful characteristics. TripAdvisor already has so much attraction demand for everything, not just bookable items. So we have this big and growing demand funnel that's been happening organically. We have our Viator point-of-sale and our third-party business. And as you grow in scale and as more people get used to booking online, which is a trend we're helping, but I wouldn't say we're driving, all those come back and you're looking at a business that basically has almost all tailwinds to it. And with our ability to invest in it, we love what we see pretty much every way we look at it.

Operator

Our next question will come from the line of Kevin Kopelman with Cowen and Company.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

So just a few questions. So first of all, on the July auction softness and the partners taking efficiency, can you characterize the distribution of that? Do you see it more in the U.S. or international or broadly? And then within the advertisers, would you characterize it as driven by your 1 or 2 major advertisers, or again, more broadly across the wider advertiser base? And then I have a couple others.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

I'd say the only color I'm kind of ready to add on that is we do see it globally. It's not regional in nature. It's not consistent across all of our clients. So that doesn't point to any big macro trend, if you will, and again, could reverse itself, could be changing. We don't get visibility into the efficiency decisions of our clients.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Got it. That's helpful. And then just on the EBITDA guidance of flat to down, can you give us any more color on how you're thinking about the down portion of that guidance range? Or just kind of open ended, just given that you might have a better view on what the full year is looking like now?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes. Obviously, the puts and takes on the EBITDA is, on the one hand, we have a lowered outlook on the revenue side. A lot of that revenue is driven by paid marketing channels and, as a result, doesn't have a direct negative impact on the bottom line. We also continue to make some of the margin trade-offs on efficiency. But importantly, our Non-Hotel business has been doing really well and continues to do really well. So in that mix, despite the fact that we have lowered our outlook on revenue, we have essentially not changed our outlook on EBITDA. We're saying flat to down and continue to say flat to down. I often get asked, can you range that? What is down? I look at the range of sell-side estimates out there and I don't think there's much confusion about what that may imply.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Director and Senior Research Analyst*

Okay, great. That's very helpful. And then just one last quick one is can you give us any update on the phone as a percentage of hotel shoppers?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes, it reached a little over 40%, which is the first time we've crossed that threshold this quarter and was a significant move-up from last quarter.

Operator

Our next question will come from the line of Justin Patterson with Raymond James.

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

Great. Two, if I may. First, just on the Non-Hotel side, the strength at Attractions. Should we think of the growth vectors there still primarily a supply for the moment? Or are you starting to see kind of meaningful conversion rates, attach rates on the core TripAdvisor site? And then, secondly, as we think through just the impact of the new landing page, the new app, are there any positive KPIs you're looking at, whether it's just more time spent on site, more searches done, that can give us more confidence in the trajectory of click-based revenue as we exit 2017?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

I'll take the first one. So we definitely continue to expand supply on Attractions, but very nice growth also coming from the demand side in our conversions. And so overall revenue growth actually now ahead of the supply growth.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

I'd add to that. It's a notion of onsite conversion from interest in a tour or attraction to a booking on either the TripAdvisor Attractions pages or the Viator point-of-sale or the TripAdvisor app. It's less, and I urge you to think less about what's commonly referred to as the attach rate of, someone just booked a hotel with us and now we get them to book an attraction. We have some of that, of course, because we do a lot of hotel business. But truly, most of it is people who are on our site because they are looking for attractions. And this gets into one of the themes that we started several years ago when investing in restaurants and attractions is we have hundreds of millions of folks who are very happy, very loyal, using our site for these other benefits that we were either poorly monetizing or not monetizing at all. And so now you see the attraction shopper on TripAdvisor turning into real revenue, and it's through the Viator acquisition and the great work that, that team has been doing to build up supply and matching that supply with the things that are popular on TripAdvisor.

To your second question, certainly, we've shown the RPS improvements on the phone. We actually have rev-per-shopper improvements on desktop as well. It's just that because of that mix shift, the overall RPS dropped a little bit. When we look at things we've done on the app and mobile web, it's in part better experience; in part, it's faster; in part, the user experience helps you find what you're looking for better and we've increased our rate of testing on, frankly, all devices, but very specifically on mobile web as we've seen that traffic just shoot up. KPIs on just the homepage, no, I don't really have anything new to share there. I can simply point to the entire site redesign and then point to the metrics that say it's clearly worked from our perspective. We've studied it with our focus groups and it's clearly worked from their perspective, reducing clutter, easier to find what you're looking for, a set of other questions. And by giving us a new foundation, we're very optimistic about our velocity of testing for even further improvements.

Operator

Our next question will come from the line of Dan Wasiolek with Morningstar.

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

So just kind of over the long term, where do you think the mobile traffic mix can go? And where do you guys think you could end up monetizing as a percent of desktop?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

It's difficult to say where it will net out. It's now at -- it was now at 40% in the last quarter. Clearly, there is still some upside to that. Where exactly it will net out is as difficult to forecast for us as it is for you, but up from here is what we believe it will be. In terms of the monetization, there's likely to be always a delta between monetization on desktop and on the phone. It is just more plausible that you book a longer trip -- a multi-day, multi-destination trip on your desktop in the comfort, obviously, of your big screen and more detailed photos and skew the more immediate purchases to the phone. But at the same time, we believe that the current 1/3 monetization has significant upside to it. So we expect to narrow the difference over time. And how far we get there over time, again, is a bit of an unknown for us.

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

Okay, that's helpful. And then if I could just quickly ask, I think, in May, you guys commented on the user interface and that at that time the testing of that, that it was approaching pretest levels, I guess, in regards to conversion. Where is the conversion now? Is it back to like the pretest levels?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Yes, so we've recovered any of the revenue headwind that we had faced when we had been testing some of the initial versions. So we look at it and say, yes, to the best of our ability to judge, it's the rev-neutral by the time. It was on that run rate when we launched. And now given the additional performance improvements that we made, I'm sure we're ahead of where we would have been. The exciting part, as I've alluded to before, is that we've got this really nice foundation. So we're queued up with tons of interesting, promising ideas to test in terms of furthering our rev per shopper, furthering our conversion rate growth on all of our devices.

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

And maybe sort of implicit from what we have said before, but I just want to make it explicit, that a lot of the change to the outlook in revenue is really driven by external factors that we see. If we look at what we're controlling internally, for instance, the development of our site, we see our performance as doing quite well. So no reason from site performance or from initial read on TV going into that revised revenue outlook.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

One of the additional things I'll add in, as we are working on our conversion improvements, they're all aligned with matching our advertising campaign and matching our value proposition that -- delivering to travelers of helping them save money on this trip. We're so well known for reviews, which is wonderful, incredible differentiator. It's hard to imagine anyone could ever make a serious inroad to us in terms of being a competitor in that space. But as we move the product, the display, the visibility and the impression of TripAdvisor on the part of our travelers to view us as that review site, that review site that actually saved me a ton of money because it offered me a great-value hotel that I wouldn't have otherwise find with a better price or it helped to me find the best place to actually reserve a room at this hotel that I wanted to go to, and that's kind of a new piece. And so part of the site redesign was clarity. Part of the site redesign was an easier shopping experience. But one of the things that we love the most from our testing that we've achieved in this redesign is that we are educating our users, our travelers, that we're helping to save them money, that we're finding them great prices and we see that come through in our surveys. We see that come through in the anecdotes, in the stories, and that matches, of course, the big message in our brand campaigns.

Operator

Our next question will come from the line of Brian Fitzgerald with Jefferies.

Brian Patrick Fitzgerald - *Jefferies LLC, Research Division - MD and Senior Equity Research Analyst*

A couple of quick ones. In the letter, you called out some dilution from April and May product testing. Was that around the redesign, redesign rollout, layering in Vacation Rental inventory and the search algorithm changes, showing pricing more prevalently? Or was it, hey, we're always mixing up a little bit of everything? So that's the first one. And just really quickly, on the non-Hotels business, it's growing nicely. Do you have a bogey for where you want that to be kind of 3 to 5 years from now? You want it to be half the business, or hey, we're happy growing it, we're happy getting it more profitable and that's the way we're thinking about it?

Ernst J. Teunissen - *TripAdvisor, Inc. - CFO, SVP and Treasurer*

Yes, so we were testing in April and May the changed user experience, the rollout of the focus on an easier hotel shopping experience, easier-to-do price comparison, general increased usability, and so that was what we rolled out by the end of May really ahead of our TV launch. And as we were testing different formats for that, we incurred some losses in April and May, smallish losses but impacting, which, by the end of May, we had neutralized, as Steve just described. So that is what the comment was about. It was not anything broader than that. In terms of Non-Hotel, yes, we see continued opportunity to show impressive growth in Attractions and in Restaurants going forward. So as we look at the TAM ahead of us and the inroads that we're making, we believe that line can continue to grow over the next years. And although as I said before, the path on margin may not be linear because we're focused on revenue growth, but we do believe that margins in this business can be very healthy and can be Hotel-like. And so we look at that business over the next 3 to 5 years and do our projections of revenue growth, market share gains and long-term margin and believe this will be a meaningful contributor to our overall revenue and overall profit pool 3 to 5 years from now.

Operator

Our next question will come from the line of Paul Bieber with Credit Suisse.

Vikram Kesavabhotla - *Credit Suisse AG, Research Division - Research Analyst*

This is Vikram on for Paul. Two questions for you. First, I know it's still early in the brand advertising campaign, but I'm wondering if you can call out any notable trends up to this point as far as the purchasing behavior or research behavior of new users that are joining the platform. And then as a follow-up, given the strength that you're seeing in the Non-Hotel segment, should we expect to see those businesses emphasized more heavily in the brand advertising campaign? And if not, how do you plan to raise awareness of those businesses?

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Sure. Well, as you can imagine, 6 weeks in, it's going to be way too early to really know definitively on TV campaigns. The notion of travel is episodic; being able to measure repeat behavior because of the TV, even harder. We do see early green shoots, because we look at the Google Trends, we look at our domain direct traffic and we look at the behavior of what we believe to be new users coming to us from TV and those all look promising. It's just way too early for us to draw any conclusions. So given a choice, we're obviously thrilled that we're seeing the positive signals, but we are being appropriately cautious given that we haven't been on air for very long. To the second part of the question, look, we've built a brand campaign honing in on the thing that we feel we most need to teach about TripAdvisor, which is we're here to help save you money, to help you find those hotel prices. It's not a stretch to see how our spokesperson can start talking about any of the other things that we currently do on the site along the same vein. It's not giving any comments on whether we will or won't do that short or long term. But we know we have so much more to offer than just hotel bookings and price comparison. But that's clearly, without a doubt, the #1 message we want to get across to consumers right now and we've chosen not to obviously dilute that message with all the other great value that we provide. Note, with Attractions growing the way it is, Restaurants growing even faster, we clearly already have a good sort of growth model in place in those areas, so it's not like they need extra attention at the moment.

Operator

And I'm showing no further questions at this time. So now it's my pleasure to hand the conference back over to Mr. Stephen Kaufer, Chief Executive Officer, for some closing comments or remarks.

Stephen Kaufer - *TripAdvisor, Inc. - Co-Founder, CEO, President and Director*

Okay. Well, thanks, everyone, for joining the call. We still have a lot of work ahead of us, but we are very pleased with our progress along all of our long-term growth initiatives. I want to thank our employees around the globe for their continued hard work, and we look forward to updating everyone next quarter. Thank you.

Operator

Ladies and gentlemen, thank you for your participation on today's conference. This does conclude the program, and you may all disconnect. Everybody, have a wonderful day.
