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TRIP - TripAdvisor Inc at Morgan Stanley Technology, Media & Telecom Conference

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

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Brian Thomas Nowak *Morgan Stanley, Research Division - Research Analyst*

PRESENTATION

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

All right. Good afternoon, everyone. There's still -- we're still coming in, it actually gives me a perfect time to readout the disclosures, so that kind of works out.

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

Yes, go ahead.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Happy lunch. We're thrilled to have Ernst Teunissen with us from TripAdvisor. Before we get started, here are the disclosures. Please note that all important disclosures, including my personal holdings disclosures and Morgan Stanley disclosures, appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures. They are also available at the registration desk. We are thrilled to have Ernst with us, the CFO of TripAdvisor. He joined TripAdvisor in 2015. We're going to talk about what a journey it's been. You have a background both in investment banking and consulting, including working for Morgan Stanley on that.

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

Indeed.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. So welcome home in some way. And we'll have sort of great conversation about sort of the past and what happens next with TripAdvisor. So I actually sort of wanted to start out because this is the fourth -- this is your fourth Morgan Stanley TMT conference.

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

It is.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

So it's been an eventful 4 years.

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

Time you started covering us.



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QUESTIONS AND ANSWERS

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

Where's Alex on my team. Where's the guys who keep building that model? You better not be eating. You know -- yes, it is true, especially with how well the stock has done. It's been a good stock. It is on my radar. It is on my Blueberry screen. And yes, you've executed on a lot of things that you've talked about doing. And so I guess, I wanted to sort of start off with just a question of, what in your mind has been the biggest aspect at TripAdvisor that has changed from a user proposition, both on the hotel side and on the non-hotel side? And sort of how you differentiate to keep people coming back to the platform now?

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

Yes, well, thank you, Brian. Thanks for having me here for the fourth time. Fantastic to be here. Indeed, we had a really good 2018. Very exciting developments across our business. This is a year in which we feel we have very much repositioned our hotel business and very much improved its profitability, it was a very important vector of that. Last quarter, alone, 700 basis points year-over-year improvement of our margin in hotel. So what have we been doing on the hotel side, you were asking about user experience. On the hotel side, we have very much improved, over the last 18 months really, improved the shopping experience, the price shopping experience for our hotel shoppers. We made significant changes to our product. We made significant changes to how we marketed that. We had a TV marketing campaign, focused on getting more of our users, many of them were only engaged with research, getting them engaged with price comparison that has worked really well for us. We have increased the monetization per user, the number of bookings we can create per shopper as a result of that. Very strong result. At the same time, we have significantly improved our marketing efficiency as well, which was an important driver of that margin growth in the same time. And so we feel very good about our hotel business. We feel on a very good track. There are, in 2019, as we go ahead, still some lapping that we need to do, well, that pullback and marketing before we're really going to return it to the growth profile that we think it can be at over the long term. So we feel very good about where we're comfortable with our hotel business.

Interesting additional comment about the products there is that we have sufficiently improved our B2B product on the hotel side. So we've rolled out a product that we call our Sponsored Listing for hoteliers. It's an opportunity for hoteliers to be better found on TripAdvisor, to be have a place, a sponsored place up on the sort, proven very popular with hotels. We've grown that business from technically 0 in the beginning of the year to a very sizable business at the end of the year, and we feel very good about that too. So that's hotel business, very excited. On the non-hotel side, our experiences and the restaurant business has continued to do really well. We saw, between the 2 of them, 40% year-over-year growth in 2018 for those 2 categories. That is on the back of both significant pushes in supply as well as product. And on the experiences side, we have increased our ability to market to non-English-speaking audiences. We were skewing to non-English. We're international -- to make it much more international, we're making investments in the underlying supplier platform, the technology there to make it more scalable. We're investing into new product features as well, such as ticketing, and that's very exciting. On the restaurant side, similar as on the hotel side, we pushed out a sponsored placement product for restaurateurs, that is also proven very successful. And then last, but not least, we introduced what we call our New TripAdvisor user experience in the fall, which included introducing really fresh content -- fresh news feed content feeds into TripAdvisor ability to see travel content from different providers of travel content, but also an ability to better integrate from a social perspective. So integrate for our users with people that they know on Facebook or their Facebook users, the ability to see what your friends have experienced when they were traveling to different destinations. And this is now a much more sort of engaging environment, much more video oriented, much more external content oriented -- fresh content oriented that we think will help us not only grow membership over time, but also just engage -- increase the engagement of our members. So a lot to -- if you put it all together, a lot for us to be very optimistic for our future. We feel we have turned a very important corner in 2018. We feel our business is in very good shape and look forward to an exciting 2019.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

So I'd follow-up on there. Let me -- so areas of investment and sort of areas of real new business opportunities and new revenue opportunities. Let me start with the B2B side on the sponsored listings. Maybe talk to us about what are some of the investments that you still need to make to really



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scale that business? And if it's not investments that holdback, how quickly it's scaled? What sort of are the internal metrics, the internal analysis that you do to determine how fast to pushout the sponsored listings product?

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

Yes, the sponsored listing product, it's not a huge investment for us because we already have a sizable sales force going out to hotels. We have a subscription product that we sell on TripAdvisor. So it was not a huge investment. It was basically how do we position this product towards our hoteliers and how do we optimize it for them along the way, which we've been doing, and we see some nice growth opportunity there. So less of an investment as in -- just a fine-tuning of the product and making sure it gets right. Our internal metrics are, "Hey, how can we help hoteliers to be better found and help demonstrate to them that, that is making an impact on their business," and we see a lot of opportunity there on the hotel side, but on the restaurant side, definitely more opportunity there too.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

And on the restaurant side, you mentioned sort of the restaurant business and the experiences business still growing, very healthy clip. It seems like there is a growing focus, not on outgrowing it, but does some like some of the large online travel players are trying to get into those spaces directly. So what are some areas that you need to kind of invest in on the restaurant side and the experience side to sort of ensure that you still have that leadership versus the other players trying to get in this space?

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

Yes. So if you look at the restaurant business, our -- we have 2 parts of our restaurant business. We have a transactional business around the TheFork, LaFourchette, which is a very strong Continental Europe, in particular. So France, Spain, Italy and other markets in Europe as well as some position in Australia, but very strong in Continental Europe, where it is actually the largest platform. And so if you look at some of our other players like OpenTable, similar much more to the U.S., U.K. And so we are a very, very strong player there. And the European market for online reservations for restaurants is underpenetrated compared to the U.S. And so we see a lot of growth opportunity there, even if we're the leading player, a lot of growth opportunity in getting more supply on board, still a lot of restaurants not on the platform and getting more and more people to use it. So it's been a very healthy and helpfully growing business for us. And the other part of the business, of course, is on TripAdvisor itself, we now offer these advertising products to restaurants on TripAdvisor. That's given us a very interesting additional revenue stream, and was definitely part of that 40% growth that I've talked about last year.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I was -- the last conversation I had with was Expedia, and we talked about how the advertising environment in online travel is always complicated. And I guess, if we would sort of drill down into performance marketing versus branded marketing kind of branded ad spend, I'd be curious to hear about how your -- on the performance side, how have your ROI targets changed? How has your kind of philosophy and thoughts about using performance marketing changed over the last year? And what do you see out of performance going forward?

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

Yes, I'll differentiate between hotel and non-hotel because different environments. So on the hotel side, what we have been doing is invest in 2017 and 2018, more in branded marketing and TV marketing. That was particularly important to us and beneficial to us to bring home this message that TripAdvisor was a great place, not just to do research, but also to do price comparison. And so our TV campaign was squarely focused on hotels and price comparison. That combined with the product changes that we made in that area have made that a very successful campaign. On the marketing side, the direct marketing side on the hotel side, we've looked at how can we make that much more efficient, how can we make sure that we spend the right amount of dollars not only towards the number of clicks we generate, but also what is the downstream booking impact for our partners, how can we optimize that for that as well? And that has caused us to pullback on some spend that that was not as profitable and



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so overall has reduced our marketing -- direct marketing spend in hotel, but created a lot of profitability. And so we're pretty much far along with that development. We did that progressively in 2018. So if you look into 2019, we got a significant amount of benefit from that year-over-year impact from that marketing efficiency operations flow through on our EBITDA, but sometimes underappreciated how much that flow through is in 2019 as well. And it has negatively impacted our shopper growth, the moment we lapped our advisor sort of the end of the year 2019, we lapped that resets, we have an opportunity, again, to grow our overall business, but then also potentially grow our direct marketing spend, again, from a much more profitable platform. So that's where -- how we thought about on the hotel side. On the non-hotel side, yes, we're growing -- are clearly growing our direct marketing, performance marketing spend, specifically for our experience business. Our experience business has a very nice margin profile. There is stickiness in that business, there's nice lifetime value in the users we acquire, and we've been leaning into performance marketing as a very important tool. There also now we are sending out some branded messages as well. This year, in 2019, we're going to keep more or less steady the \$150 million of brand TV we spent on the TripAdvisor brand last year, but we're going to diversify more towards the holistic experience as well as the experiences business that we have.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

I believe, you mentioned the stickiness in the experiences business. So do you see pretty healthy kind of repeat rates and retention in that experiences business even versus some of the other business lines. They feel pretty low when they're on vacation as to where they go to book their duck tour or their tour of the Eiffel Tower?

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

Look, this is a relatively new market. And so there are not as many providers, and the brand names are not well established yet in where do I go to for things to do. We are in a fortunate position that TripAdvisor has always been in a place where people go to when they want to -- where there are on a vacation in a country and they want to figure out where they eat or what things to do. The TripAdvisor app has been a go to place where people go to. Now we put more and more bookable supply in front of them, and we're relatively early in establishing, "Hey, there's TripAdvisor where you go to, if you want to book something to do, or Viator, our other brand that we operate." So some of the stickiness we're able to get because we're relatively early in establishing that brand name for ourselves or, I'd say, in the hotel business, the brand names are much more established.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

Back to the marketing question, you've talked about performance and sort of the direct performance marketing spend. On the branded side, you talked about the TV campaign, but maybe do you still see an opportunity to move more dollars into digital advertising, digital branding to kind of improve the overall digital efficiency? Or is that not something a sort of front burner for '19?

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

As a brand campaign, you mean? Yes, there's definitely opportunity beyond TV in getting the brand name out in digital platforms as well. It's one of the things that we're going to increasingly test into this year. Our focus has been on TV, but there is a much broader set of channels that we can go after.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

Is social effective there, or it's still too soon for social to be an effective branding?



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

It could be and is, and it's definitely also one of the channels that we look into this year.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. You mentioned the shopper growth as sort of the yin and yang relationship between your ad spend and sort of what happens to the shopper growth. We get these external metrics and the market all reacts to, what the year-on-year changes you could obtain in shopper growth. I'd be curious to hear your perspective of what types of analysis do you do to the shoppers to sort of assess how all shoppers might not be created equally?

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

Yes, so, "Hey, you spend less on performance-based marketing, you reset that, you have fewer shoppers come in as a result of that." So that is a clear reason why our shopper number has come down. Importantly, what we look at is not just the number of shoppers, but "Hey, how many leads do we pass on to our partner, how many bookings do we actually generate for our partners?" And so what is the quality of the traffic, how many bookings per shopper do I generate, how many bookings in total do I generate, are very important metrics and those have been moving in the right direction last year. And so we've seen the number of leads, the number of qualified leads, the number of bookings that we pass on to our partners increase even if the number of shoppers come down. So that is ultimately more important because the moment we've lapped that marketing reset and the impact on the shoppers from that, what is going to be important then is the underlying bookings per shopper and that's going to then drive our -- fulfill our growth thereafter. So we look at the whole funnel, and we look -- ultimately, we're optimizing for how many bookings, how many leads can we generate for our partners and qualified leads, that is more important than the -- that overall shopper number. For instance, we've made some changes to our homepage, we've made some changes to our e-mail marketing and both of those have resulted in some net neutral on the revenue, but have resulted in higher quality of the overall shopper, of the overall experience. And that means fewer shoppers, but high revenue per shopper. And so you'll have to -- you say, yin and yang, you have to look at both, but importantly, it's very important for investors that look at our business to understand that the drag on shoppers year-over-year is transitional. I think that is going to end at some point when we lap this marketing pullback at the end of this year.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Bringing essentially a higher quality number of shoppers is...

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

Yes, we're basically left with higher quality, more profitable -- high quality level of users, higher profitable business that we can then start growing from that base, again, at better margin.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

You mentioned -- so that's the marketing apposition that we're going to lap when we get to the second half. I know you mentioned a few factors on the last call about sort of some of the puts and takes in 1Q and the first half, just so everyone is sort of on the same page in the room, talk us through some of the key factors you think about from a modeling perspective even in the first half of the year?

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

Yes. So yes, we have said on our public calls that it's going to be -- our revenue is going to be back-half weighted. Important reasons are: one, we're -- the year-over-year impact of the marketing pullback that we've done is going to be the strongest in the first half of the year, so more of a revenue drag in the first half of the year, we're starting to lap into that in the second half of the year. So that's one reason why the revenue is more back-half



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weighted; the other one is currency. Look at the currency graphs. Euro, pound are important currencies for us, not just in the hotel business, across our entire business, and that is a Q1 and Q2 headwind as well. So that's why we've called out, if you look at our business, some of the reasons why Q2 -- the revenue is more Q2 weighted. And then it's always important to look at sort of like other quarterly impacts like where is Easter this year, et cetera. But the more important, more impactful one is currency and the timing of the marketing pullback.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

And then on the investment front, a couple questions. So one, do you sort of rank order the top 2 or 3 qualitative biggest areas that you're investing in this year? How to think about the timing of that? And then what's the currency impact on the OpEx?

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

So the -- where are we making investments? Experiences business, first and foremost. We're playing to win. Big market, Phocuswright says -- it's today a \$130 billion market. We have an early lead. We have a pretty unique set of assets here, not only have we developed an early in lead in supply, we publish our supply growth. You've seen that bookable supply growth, we've seen very impressive bookable supply growth, early lead in supply, but we also have this natural demand on our TripAdvisor platform. And then thirdly, a very strong brand in Viator. So if you bring that all together, we have a very good starting position in a big potential market, and so we're going to play to win there. And so significant investment, and we're accelerating that investment actually in 2019 to make sure that we maintain, possibly accelerate over time our growth rate, but really position ourselves well competitively to build a scalable platform in that space for 2020, 2021, because, ultimately, we think that the value for you, our investors and us is best served if we make sure that we build the biggest possible platform, the biggest possible market position we could build with this business. So that's clearly the area where most investment is going. Second area is around this unit that we call CoreX, and building better membership, more membership and also stickier membership and more engaged membership. We want to make sure that, that product keeps improving as well. And then particularly our restaurant business. Our restaurant business is a very good growth business as well. Supply -- building supply across our geographies is an important focus there too.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

I think the point on accelerating investment in experiences is -- it's particularly interesting because kind of the point earlier there's a lot of players trying to get into this space, and it's incredibly fragmented and it's really early. So maybe just for people who don't really kind understand operationally, how many people are on the experiences team now? What are the biggest areas of investment? And then just kind of walk us through how long or how difficult it is to kind of build scale of selection in a given market of experiences?

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

Yes. So where investments are going right now is sales, right? And so it's partly a people-driven sales operation, it's partly technology-driven. It's like how do you make it easier and easier for people to auto sign up or with very minimal help sign up to the platform. But supply growth -- supply sales is a big push. Product and tech is a significant push. How do we make our product not only easier to use for users, but how do we make sure it's more international, how it's more localized? As I said before, we typically skew to English-speaking. How can we be better for a French user, for a user in Asia, and so that's a big opportunity for us as well, so customization. Adding new features, ticketing, other features, how do we do that? And so a lot of tech investment goes in there. And then a lot of stuff that is sort of underneath is like, how do we make this platform scalable? How do we make sure we set up the tech in a way that we can facilitate growth for years to come, rather than facilitate it only for the near term and then sit with an inefficient platform. So that's where the investment is going and it goes into marketing as well to make sure that users know where to find us. So it is all of the above where we're investing in. As I said, we're playing to win here.

Brian Thomas Nowak - Morgan Stanley, Research Division - Research Analyst

Looks like scaling well. Have you guys said how many sales people you have across Viator and Core Experience?



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

We've not broken that out yet.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I tried. It makes sense. On the -- I guess, going back to the experiences point, though, of just sort of how the market could play out. Is it important to be the merchant of record? Have you -- you've mentioned that retention is strong. It can be sticky. Do you find sort of removing payments is being an important aspect of it? Or is it sort of an agency model? Is that competitive?

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

So yes, what is different for us about our presence in experience and as well as in restaurants, actually, as well as is in our rental business, which are in our non-hotel business is that we are the merchant of record. We are effectively an OTA, unlike on the hotel side where we operate mostly a meta market. And so that allows us to set up early on as an OTA player with the benefits of getting some deeper information about the booking behavior of the players in that space. It also opens up an opportunity to be better at payments, as you said, payment provision to our suppliers and how deep relationship with those suppliers. So we definitely see that as one of the sources going forward of stickiness of these users and lifetime value of these users that we have.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

And so we sort of step back over the long term, you've talked about the idea of healthy, faster growth that we get through sort of these changes that are going out with the platform, certainly in the first half of this year. Sort of how you think about driving sustained double-digit hotel growth? And the fact that the OTAs will be bidding more, playing more, tell us the puts and takes of how you get double-digit growth on the hotel side?

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

Yes. So if you look at statistics like revenue per shopper that we've been able to create, a big focus point for us has been very consistently over the last 2 years has been we have this great platform. We have so many users coming to our hotel pages. We're so well-known for a really helpful tool in finding the best hotel for you to go to, get all the content, get all the research. And then the journey that we've been on, how can we be able to get more of those folks to actually then go on to this price comparison experience and then click off to our partners, so we can monetize them. That's been the journey we've been on. And there's still a long way to go. There's still, on any given day, a minority of people on our site looking at our hotel pages are engaged with that price comparison, they are looking at valuable research. And so how can we be a more and more relevant for our users to do that? There's product improvements. We have a long list of things that we want to test and implement around making that product even better than it is today as a shopping experience. That's going to come over time as users have experiences in that way reinforced by our marketing. And so we think there is more way to go there in optimizing around that. So that's one important driver. The second one is more on the B2B side. As I talked about, we see other ways of monetizing directly for hotels directly and sponsored placement has been, one successful example of that in the past year, and we see more legs to the sponsored placement product, and also maybe other products in the future to go there. So all that combined, we feel there is growth in the hotel business after we've lapped through all of these things, and we're going to pursue that and get our fair share.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

We're going to open up to audience Q&A after I ask a couple of more, Ernst. So if you have questions, I think, there are probably mic runners running around. We're teed up. Good. Those incremental revenue drivers around more shoppers and advertising dollars, the nice thing about those is they -- it's usually a pretty high incremental margins.



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

Yes.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

And on the past, I know you've talked about kind of mid- to high-20s margins, it was there. So maybe talk to us about sort of how you think about within the hotel side? First, the long-term margin potential and how you're sort of balancing the puts and takes of investing more in hotels as opposed to letting some of these high-incremental levers come through?

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

Yes. So last year, in 2018, we achieved 26% EBITDA margin, very nice, so we're definitely at the low end of the mid- to high-EBITDA margins that we said that we can achieve. And there's great potential there. And so it's like the Hotel -- our Hotel segment had 31% margin. There is over time upside to that, but definitely, on our Non-Hotel, there is a ton of upside on margin over time that we're not going to capture in the near term because we have so much investment opportunity there, and we have so much opportunity to grow that business. But those businesses have attractive potential margin profile, so the takeaways are attractive. We think long term, the cost structure should be comparable to what we have in our hotel business. And so we're looking at those businesses, and say, "hey, over time, when we scale them, they're going to have margins like the hotel business. And the question is, when should we reap that? And we don't think that is in the near term because we want to build the size of the business first before we start capturing that. So that what we have said to as sort of mid- to high-20-ish percentage growth margin for the business. Yes, that's definitely in our sites, as we're demonstrating already, and it's possible for Non-Hotel, but not for a while.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

We made it through, I think, almost the entire conversation without a real discussion around alternative accommodation. That's a lot about in the non-hotel side. So what has been the biggest learning there? And so what do you think you really want to focus on the alternative accommodation side to drive that business?

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

Look, I mean, we are -- we're placing our bets, right. And so -- and the bets we're placing on our non-hotel side are clearly on experiences and restaurants. We think the cards that we hold are there are very strong, and we have a nice leadership positions. On the alternative accommodation side, it will be a little less so. Expect a little bit harder competitive environment for us. There are 2 big players out there that are investing a lot of money behind the product and their marketing. And you have to pick your battles, and that's -- it's a nice business for us. It's a profitable business for us. It's a good compliment for our users to have. But it's not the business where we're going to make the big investment plays. And we reserve that for experiences and restaurants. And so incremental dollars of investments are going there and not in the alternative space.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

There is a one question back in the middle. I'll get you next. You go first. Right there.

Unidentified Analyst

Could you talk about the gap in monetization between desktop and mobile in the hotel business? It seems like you've been narrowing that gap. So how you've been able to accomplish that? And going forward, what do you think will help the company drive that gap closer?



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

Yes. We've had a significant focus on making sure that we improve our monetization on the phone or mobile. And the reason why there's been a significant shifts within our hotel business from desktop to mobile, and so that was important. We've been very successful at that. Last quarter, we had 30% monetization improvement year-over-year on mobile. So that's been very impressive, and we've still been narrowing the gap. We may not completely narrow it. It's where in travel and maybe particularly TripAdvisor in a category, where the order size will always be a little bit higher on desktop. So if you plan your 1-week vacation in Thailand, you're more likely to do that on desktop than in your lunch break on the phone. However, we're narrowing the gap. However, now, more than half of our volume is, on the hotels, is on mobile in terms of shoppers. And so that's -- that headwind that we used to encounter from that shift is starting to lessen quite substantially. There is more room. And as you see, we have nice improvement there. At the same time, last quarter, we improved our desktop monetization quite nicely as well by 20%. So that didn't help close the gap, but that really helped our financials, and we're very happy with that.

Unidentified Analyst

(inaudible)

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

Yes. We've put a big focus over the last year, 18 months, 24 months really in how can we make sure that on the smaller format, the TripAdvisor offering is relevant, how is it easy to find actually the price comparison; on the smaller format, how is it easier to shift between content and price comparison on the smaller format. We made a big investment, particularly on the mobile website, where we had under invested in the product itself over the years in getting that up to speed. So it's been steady improvement there, but really started from the realization that we really have to get some of these product improvements with mobile first in mind rather than introduce desktop and then introduce mobile. And so that increased focus on it has been a key driver of that.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

(inaudible)

Unidentified Analyst

What's the company's appetite to engage in any large-scale M&A? And with regards to that, would that be more focused on alternative accommodations? Would it be more in restaurants? Or would it be in something completely different that the company hasn't done so far yet?

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

Yes. So if you look at the last few years, our investments have more -- focused more on the non-hotel side. So we've made now a few years ago already to very attractive acquisitions, 1 with the TheFork in our restaurant business and 1 in Viator in the experience business, which have been the starting points of like growing those 2 verticals quite significantly. So we've done various other acquisitions and tuck-ins along the way. The most recent acquisition that we've done, it was an Icelandic company called Bokun, which is a SaaS player in experiences. We did that last year. So we have an active scan out there looking for M&A opportunities. We will and have used M&A to make the acquisitions and use M&A to make important compliments to our current organic strategies. And so we'll continue to look at that. We have the capital to do it. We have significant amount of cash on our balance sheet and no debt.



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Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

The guy in the front. [TripAdvisor is very well timed, looking very well with where we'll trade at. And now it looks like they have more experienced. Those are very well timed].

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

[It's a good buy].

Unidentified Analyst

Can you elaborate your strategy in the emerging markets, specifically on the hotel and restaurant side -- hotel and restaurant side, specifically in countries like China and India? And second part is, what are the current disruption risks in your business? Any threats from likes of Google or any other things?

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

Competitive risks?

Unidentified Analyst

Yes.

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

To start with sort of emerging markets, yes, we have a good amount of revenue coming from -- in our hotel business, you asked about hotel and restaurants -- hotel business from non-American, non-European markets between Latin America, between Asia, we are present in most of those markets and have a fast-growing part of our revenue in those markets. If you go to Asia, for instance, our large -- we have a presence in China. We have an office and a presence in Japan. We have a regional office in Singapore. We have an office in India. And so we're present in those markets and operating in those markets and growing our hotel business. On the restaurant side, we've been -- with LaFourchette, TheFork, more European focused, wherein Australia, Asia Pacific, but doesn't really count as an emerging market. I guess, in Asia, we've made a minority investment in a restaurant platform called Eatigo, which is Southeast Asian player. And so we're present in that way. In experiences, we operate in Asia as well. And so we're present in those markets, they're high-growth markets for us and definitely, an area of focus.

Unidentified Analyst

(inaudible) companies like the (inaudible) growing at a very high pace in the markets like India and China. They are specifically in advertisement and food delivery. Do you plan to enter in any of these streams, specifically in India, both delivery and advertisement streams?

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

All right. And so our restaurant footprint -- restaurant strategy has been more focused around with the TheFork, LaFourchette around Europe. And so we may or may not get to Asia and to India into food delivery at some point, but right now, that's not the focus.



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Unidentified Analyst

Okay. And the disruption part? Any disruption risks for the business from Google or any other Internet giant?

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

Google and?

Unidentified Analyst

Google or any other Internet companies or Internet companies, do you have any disruption risks?

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

Disruption risks. So if you look at some of our competitive environment and the influence there, yes, Google is a partner for us. We buy traffic from them, and we partner in that respect and other respect, we're competing with them for -- as an up-funnel player as well. We feel we have -- within the travel category, a pretty strong up-funnel position in being a travel-specific player as you go through for your travel-specific needs. But yes, we monitor what Google does in that field as well, obviously.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

We have one more.

Unidentified Analyst

I had two questions regarding sponsored listings. So the first is, what inning do you think you're in growing the inventory and CPC in sponsored listings? And secondly, will you say that the products had a material impact on 2018 hotel margins?

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

So sponsored, the way -- just to clarify the geography of sponsored listings. Sponsored listings accrues in that second line that we report on revenue in our Hotel segment by our Core, display and subscription revenue, it's part of that line. And it was a meaningful part of the growth we saw in that part of the business. It's a nice business. We grew it from pretty much scratch last year to a sizable size. We see more potential there. We're not like sure in what inning we are, but we are in the early innings there in the potential for that product. And so we keep working on that in 2019.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

What do you think the -- I mean, -- on the macro environment, the macro travel environment, in general, Expedia made some comments, Bookings is going to report this week, so we will see that they have to say. So what are you seeing from a macro travel demand perspective and then just sort of based on previous cycles, how do you think about a lodging downturn or pullback impacting TripAdvisor's business? Good point.

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

Yes, nothing to call out to what we have seen from a macro environment. And it's like the comments that we've made is, it's like if you look at, for instance, in our hotel auction, how do we see our partners behave, what's the bidding behavior, it's been relatively stable. Of course, we keep our



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eye on Europe and there's obviously significant decisions being made in the U.K. in the next month, et cetera. And so it remains an environment to keep your eye at, but there's nothing, at this point, that we're calling out on the macro side.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

The last one is just when we get into the back half of the year and we lapped the marketing optimization, you've talked about sort of a effectively a higher quality lead coming to your customers, drive faster revenue per shopper growth. What do you see as sort of being the biggest execution risk there? Will you say -- year-on-year from now and say, this is where we channel, what's the hardest part to make sure you get it right, that revenue per shopper to really inflect second half in 2020?

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

Well, some of it is math, right. And some of it is we pull back significantly on our marketing spend last year, and we lapped into that. The year-over-year growth, it's just math and how that lapped into it. So part of the math is, 'hey, we're going to show some significant EBITDA upside also in 2019, from the fact that we have done that because we did it progressively throughout 2019. Then there is the continuous improvement that we have in our business of how do I keep making the product just a little bit better. You get more shoppers to engage with price comparison and be high quality for our partners. That's a lot of day-to-day grinding and testing that needs to be get done. There's execution risk around that. But we know how to do that. And so we're focused on that.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

All right. Thank you so much, as always.

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

Thank you.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I will be covering you next year.

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

All right. Thank you.

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