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TripAdvisor (TRIP): Collection of Misunderstood Platform Businesses Hidden in Plain Sight

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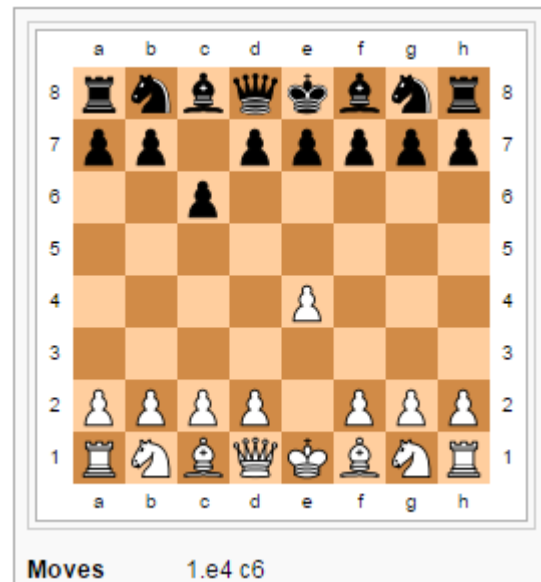
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Caro-Kann Defense

Caro-Kann Defense

- Chess defense against the king's pawn opening.
- The opening is named after the English player Horatio Caro and the Austrian player Marcus Kann who analyzed it in 1886.*
- Caro-Kann Defense is more solid and robust than many alternatives and, thus, Black enjoys a significantly smaller chance of losing.
- However, due to a strong position and pawn structure, Caro-Kann Defense results in a strong likelihood of Black winning later.



* Wikipedia. The graphic display (http://en.wikipedia.org/wiki/Caro%E2%80%93Kann_Defence)

Involvement with Manual of Ideas

- This is the 2nd time I am presenting at Manual of Ideas Conference as an instructor and it is a pleasure to be back.
- On June 15th 2017 I presented CommerceHub (ticker: CHUBK).



CHUBK Since Presented at 2017 Wide Moat Investing Conference



- I presented CommerceHub on June 15, 2017. CHUBK closed at \$16.93 that day.
- On December 15 – 183 days later (exactly half a year!) – CHUBK closed at \$21.80.
- The total return = ~28.8%.
- We continue to hold our position in CommerceHub and in fact increased it shortly after 3Q 2017 results were released.

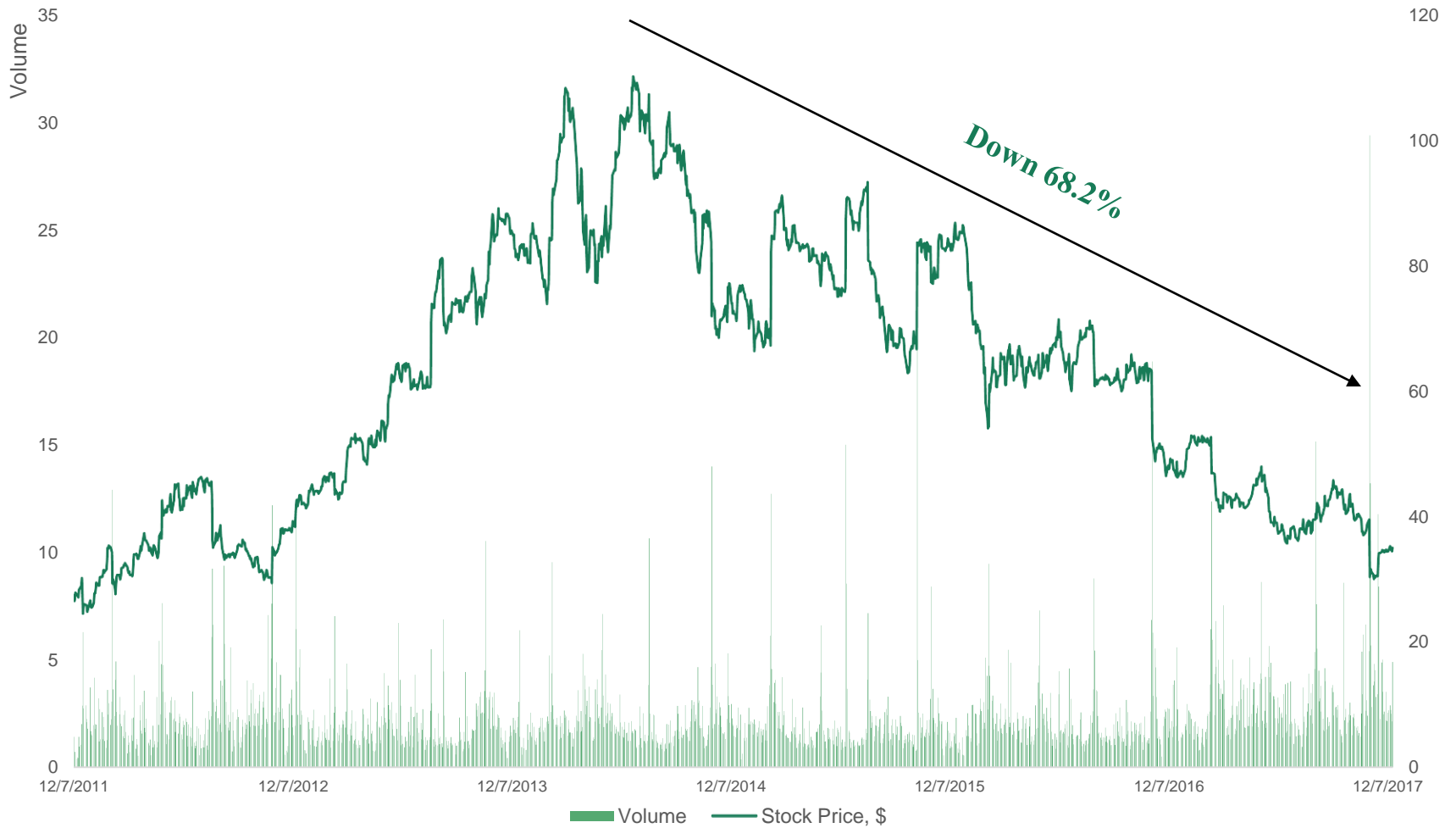
TripAdvisor: Collection of Misunderstood Platform Businesses Hidden in Plain Sight






Recommendation: Long

\$35.03
(December 15, 2017)

TRIP is Down 68.2% Since Its Peak



Why Does This Opportunity Exist? (1)

	Mispricing Factor	Importance	Comments
1	Myopic focus on challenges in Hotel Business		Failed transition to Instant Booking, falling revenue per hotel shopper, and Priceline's reallocation of its marketing budget towards non-performance based channels.
2	Investor fatigue		Difficult to find an investor who made money by going long TRIP over the past few years!
3	Tech is ignored by many traditional value investors		With stock down ~68% and trading close to its 52-week low (in fact close to its multi-year low!), one would expect that value investors will be digging. But TRIP is a tech company, and many value investors traditionally do not fish in the pond called "technology stocks".

Why Does This Opportunity Exist? (2)

	Mispricing Factor	Importance	Comments
4	Limited disclosure about Non-Hotel businesses	●	Limited disclosure does not allow Non-Hotel business to shine. To fully appreciate the strength of Non-Hotel business, an investor needs to look <i>intently</i> and know what to look for <i>in advance</i> !
5	Linear thinking in non-linear context	●	Linear thinking cannot apply to platforms (<i>i.e.</i> , businesses that bring together supply and demand and benefit from the network effect). Yet, we believe that most investors approach TRIP with linear thinking.

Multiple factors contribute to mispricing!

Where Does Our Variant Perception Come From? (1)

- We never invested in TRIP before August 2017 when we established our initial position.
- After 3Q 2017 results were released in November, we substantially increased our position.
- => We came with fresh eyes and were not affected by losing a substantial amount of money on TRIP the way many prior shareholders were.

Where Does Our Variant Perception Come From? (2)

- We have spent lots of time studying **platform businesses** (*i.e.*, businesses that bring together supply and demand and benefit from the network effect) and we know how poorly their financials look *at the beginning* and how lucrative such businesses can become *once they scale*.
- => Our initial hypothesis was that TRIP has a few platform businesses hidden within it. So *we knew what to look for before we started looking!*

Where Does Our Variant Perception Come From? (3)

- We base our investment thesis on Non-Hotel business while both sellside and buy-side are *myopically* focused on Hotel Business and challenges that it has been experiencing.
- => Only after we have combined our knowledge of platform businesses with studying what TRIP has been doing over the past 3 – 4 years, we have realized *what a gem TRIP is!!!*

TripAdvisor Elevator Pitch

- Invest in TripAdvisor's dominant platform businesses hidden in a plain sight.
- Benefit from a multi-year growth runway.
- Get Hotel Business for (almost) free!
- Upside of ~100% in 4 – 5 years and 15%+ IRR with *plenty of upside optionality* for free.

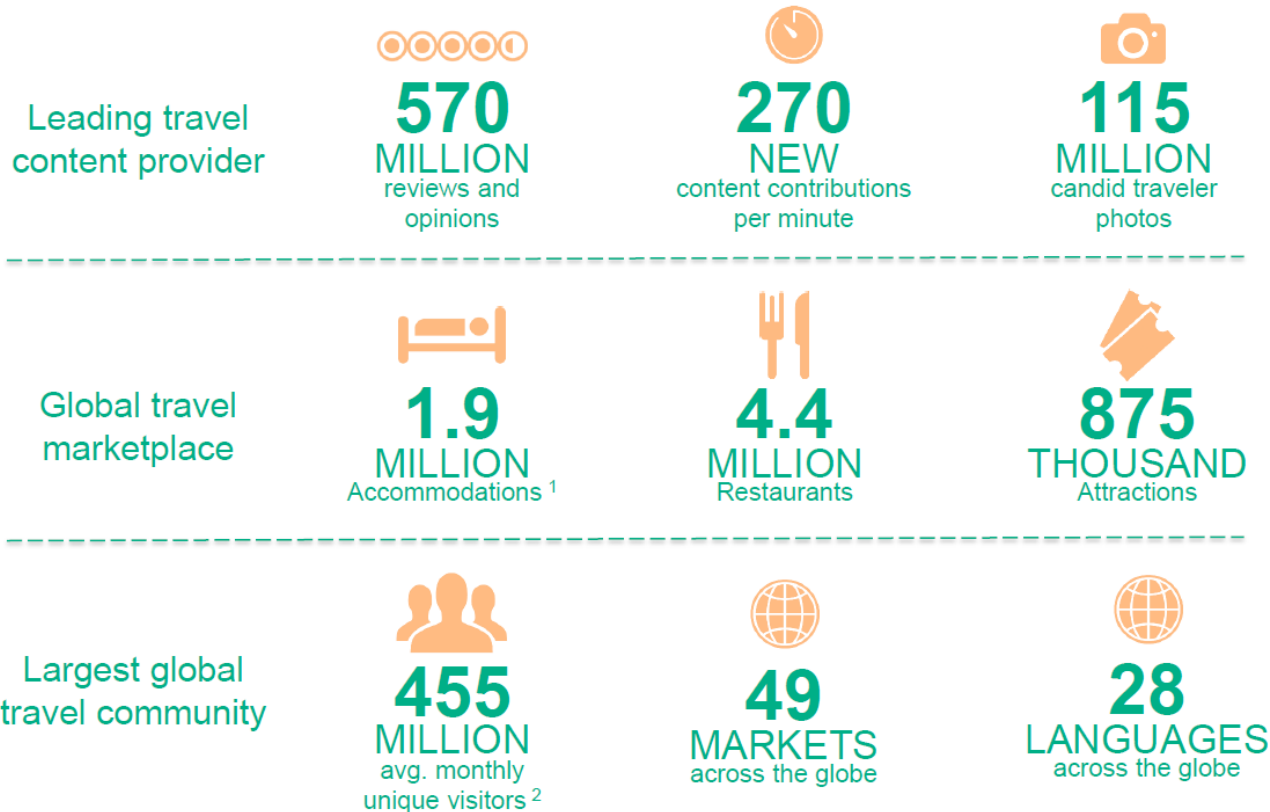
TripAdvisor: Overview and Segments

TripAdvisor Capital Structure at a Glance: Net Cash Position

F/D S/O, mln	139
Share price, \$	\$35.03
Market Cap, mln \$	4,869
Debt, mln \$	272
Cash, mln \$	750
Short-term marketable securities, mln \$	13
Long-term marketable securities, mln \$	6
Cash and Cash Equivalents, mln \$	769
<hr/>	
EV, mln \$	4,372

What Is TripAdvisor?

Leading online platform for travel content & community



(1) Includes 1.15M hotels, inns, and bed & breakfasts, as well as 780K vacation rental listings
(2) TripAdvisor internal log files, average monthly unique visitors during Q3 2017



TripAdvisor Has Two Reporting Segments

- Segment #1: Hotel Business
- Segment #2: Non-Hotel Business that includes
 - Restaurants
 - Attractions
 - Vacation Rentals

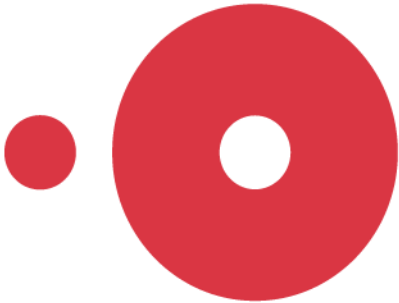
TripAdvisor Non-Hotel Business Has Very Limited Disclosure

- TripAdvisor discloses key financial metrics (revenue and Adjusted EBITDA) for Non-Hotel Segment *in its entirety*.
- However, no financial metrics are disclosed for its subsegments – Restaurants, Attractions, and Vacation Rental on a standalone basis.
- Thus, we need to act as



Historical Case Study: OpenTable

Historical Case Study



OpenTable®

OPEN Stock Price History Since IPO – ~3.5x Return!



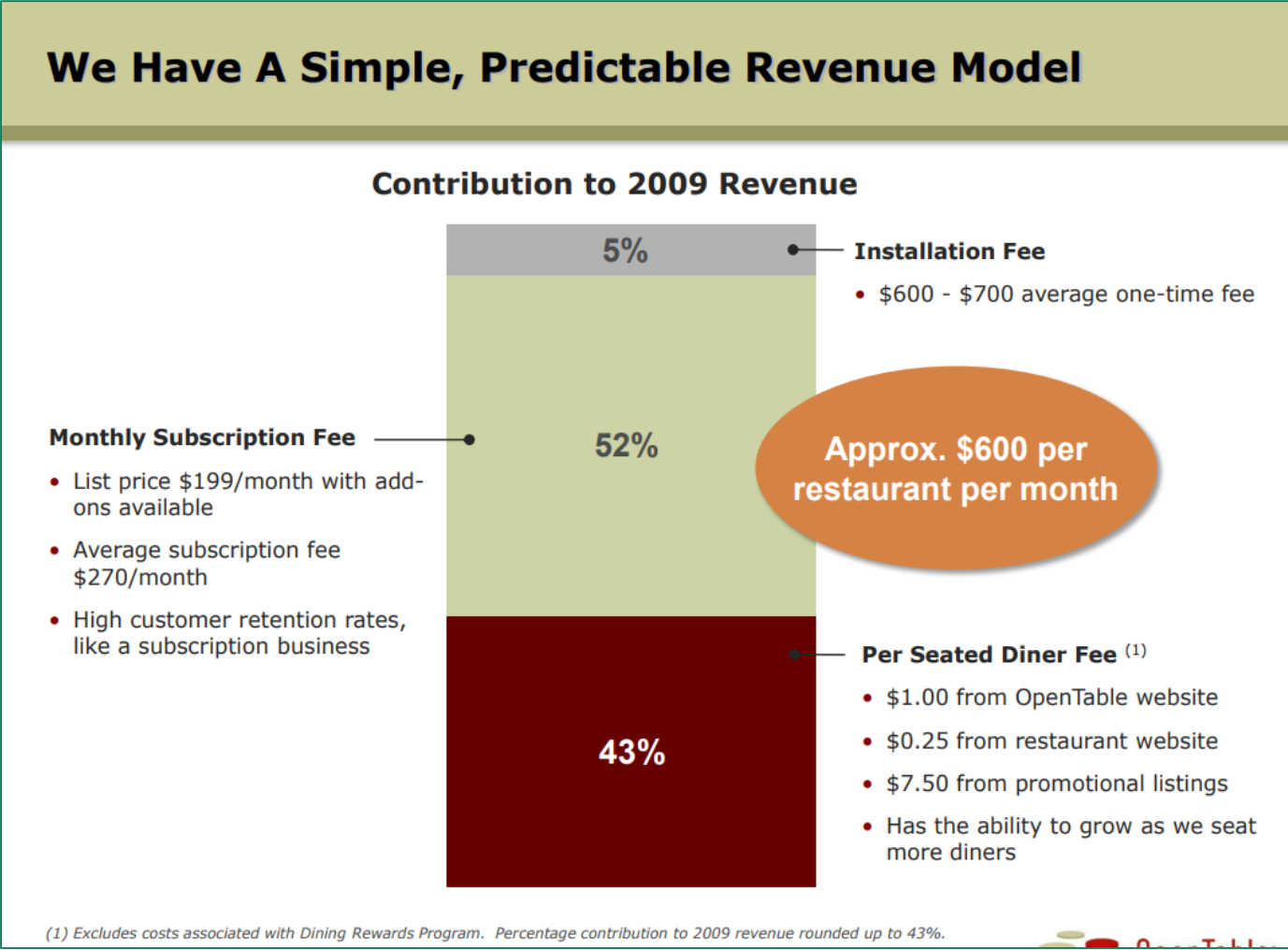
Why Are We Introducing This Historical Case Study?

- We can learn a lot from OpenTable case study about platform businesses and the network effect.
- We will apply these lessons when we analyze TripAdvisor!
- We can apply these lessons to many other platform businesses!

OpenTable: A Few Remarks

- We will be looking at OpenTable's North America only because it has reached scale and provides sufficient data to do a deep dive.
- OpenTable's international business has not reached scale and does not have a sufficiently long history to do an insightful historical analysis.

OpenTable: Let's Go Back to 2009 and Learn How OpenTable Made Money (1)



Source: <http://files.shareholder.com/downloads/ABEA-2TKK09/1013420981x0x393323/874d4f1c-9789-470e-8291-ddd314f29ecb/OpenTable%20Corporate%20Presentation%20August%202010%20FINAL.pdf>

OpenTable: Let's Go Back to 2009 and Learn How OpenTable Made Money (2)

- Three revenue streams.
- #1: Monthly subscription fees (~52% of revenue).
 - 52% of revenue.
 - List price of \$199 / month but ends up ~\$270 / month due to selling extra features.
 - Fixed amount.
 - To grow this revenue stream OpenTable has three options: (1) raise prices, (2) sign up more customers, and (3) come up with more products / features and then cross-sell and upsell them.

OpenTable: Let's Go Back to 2009 and Learn How OpenTable Made Money (3)

- #2: Seated Diner Fees.
 - 43% of revenue.
 - \$1 per person (a dinner reservation for a party of four => \$4 charge to a restaurant).
 - 52% of revenue.
 - This is a variable revenue stream.
 - As adoption of OpenTable grows, OpenTable would grow this revenue stream *without* signing up any more restaurants and without coming up with any new features.
 - It was logical to believe that revenue stream #2 would outgrow revenue stream #1 over the next few years.

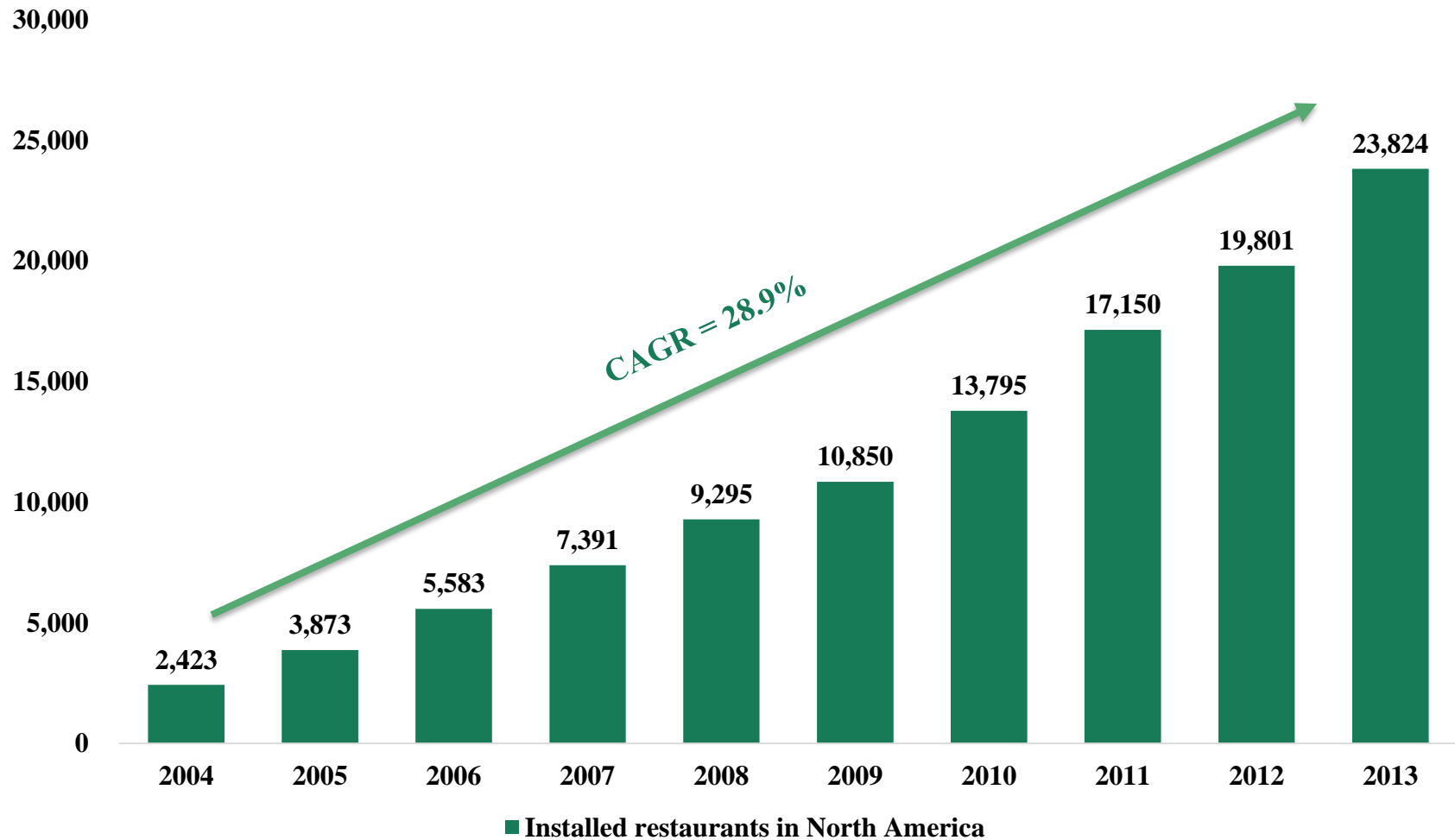
OpenTable: Let's Go Back to 2009 and Learn How OpenTable Made Money (4)

- #2: Seated Diner Fees (continued).
 - Incremental revenue should have *extraordinary* high profit margin because of next to zero incremental expenses (e.g., no additional sales and marketing, R&D, or G&A).

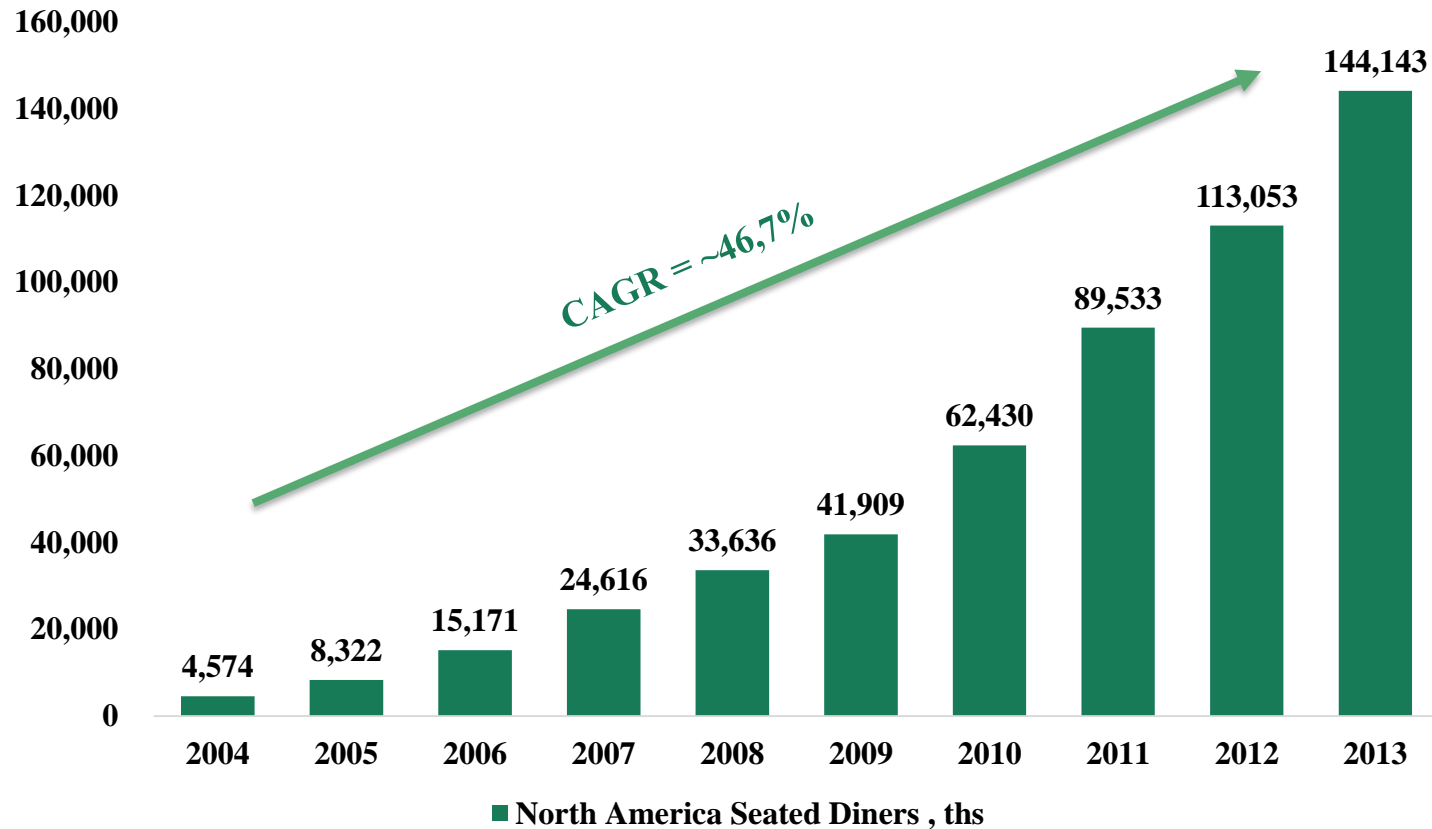
OpenTable: Let's Go Back to 2009 and Learn How OpenTable Made Money (5)

- #3: Installation Fees.
 - 5% of revenue.
 - One-time in nature.
 - Least important for growth prospects.

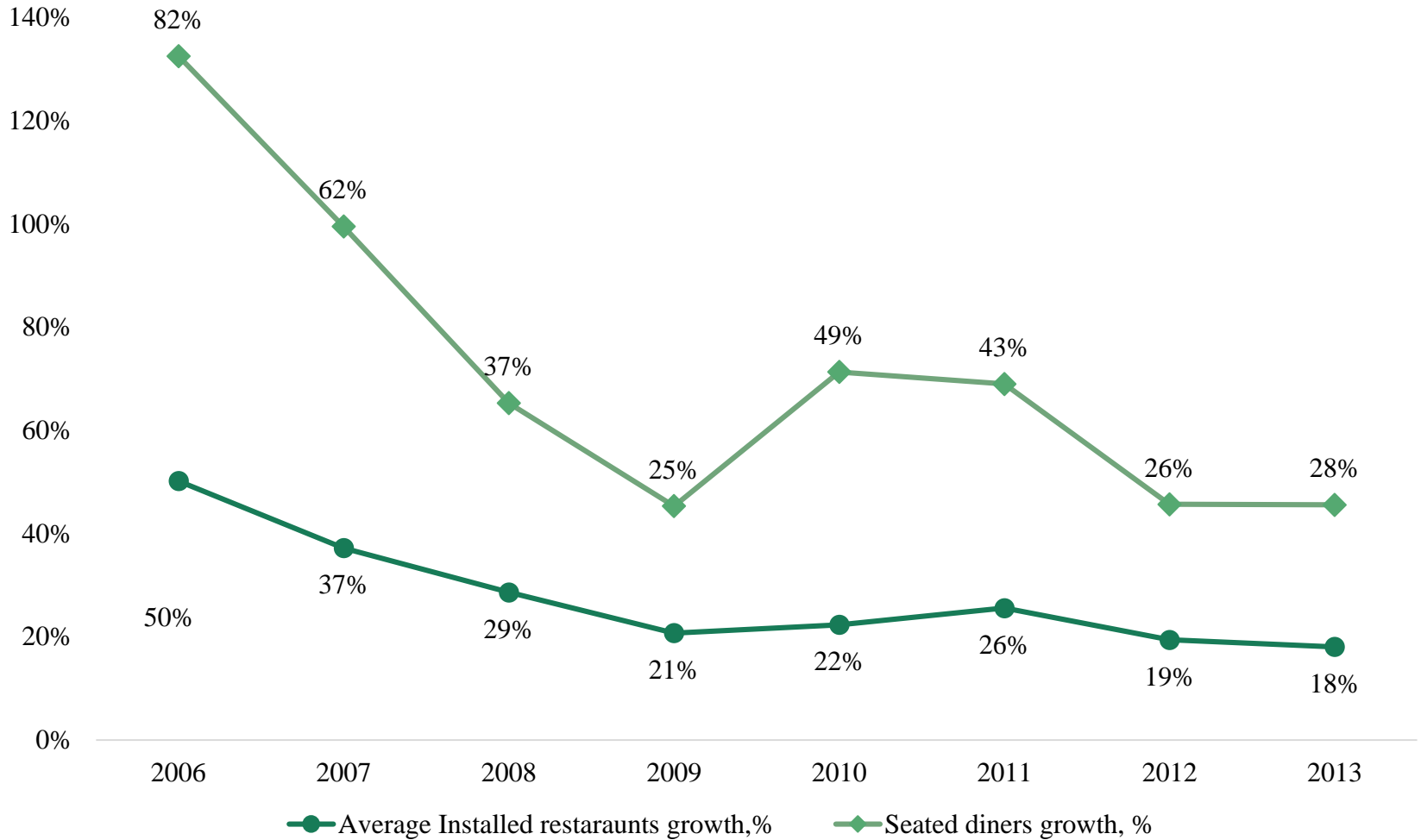
OpenTable North America: Installed Restaurants Grew at ~29% CAGR for 9 Years or almost 10x!



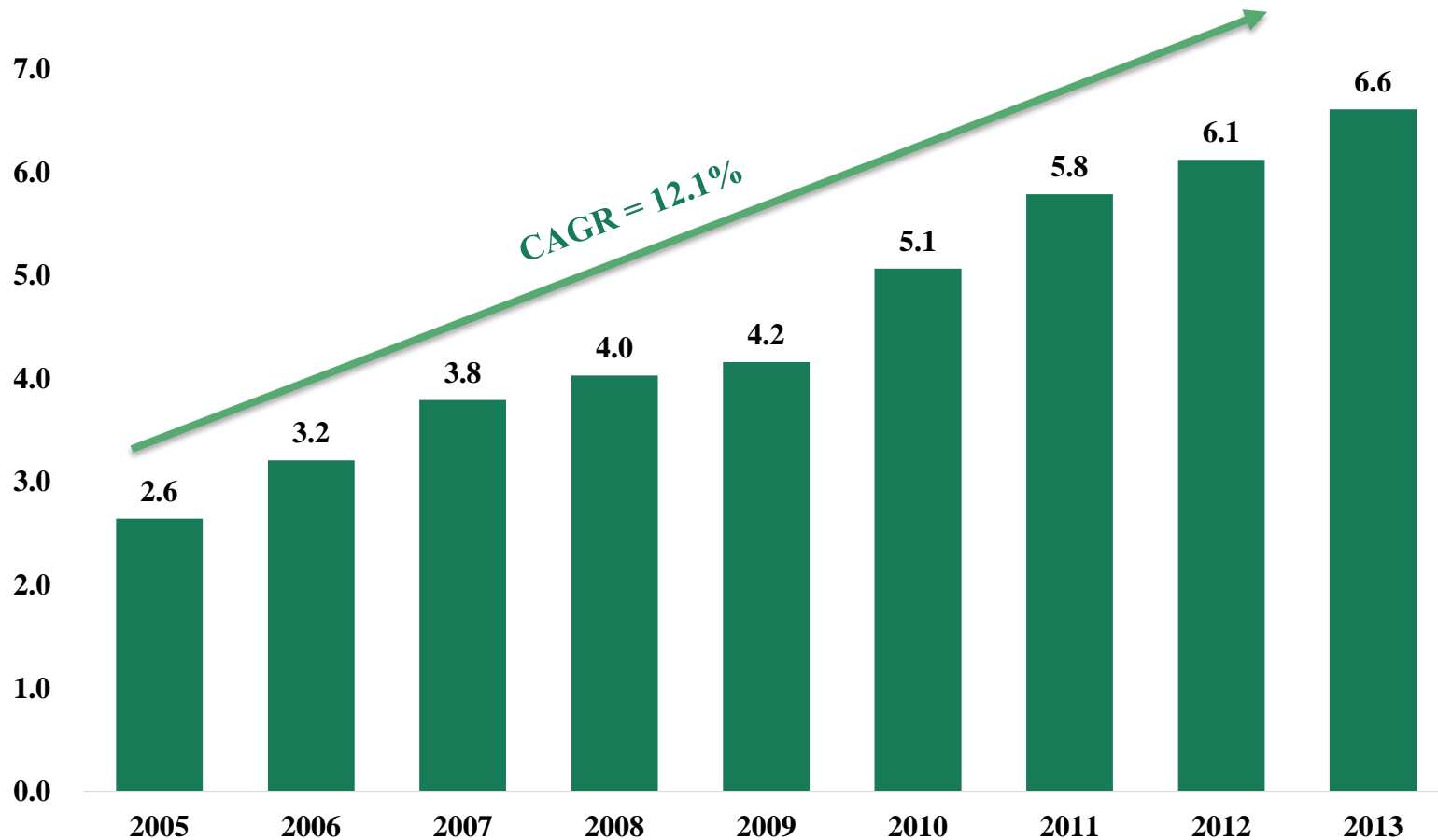
OpenTable North America: Seated Diners Grew Even Faster at ~47% CAGR Over 9 Years or more than 31x!



OpenTable North America: Seated Diners Grew Faster than Average Installed Restaurants Grew in *Every* Single Year

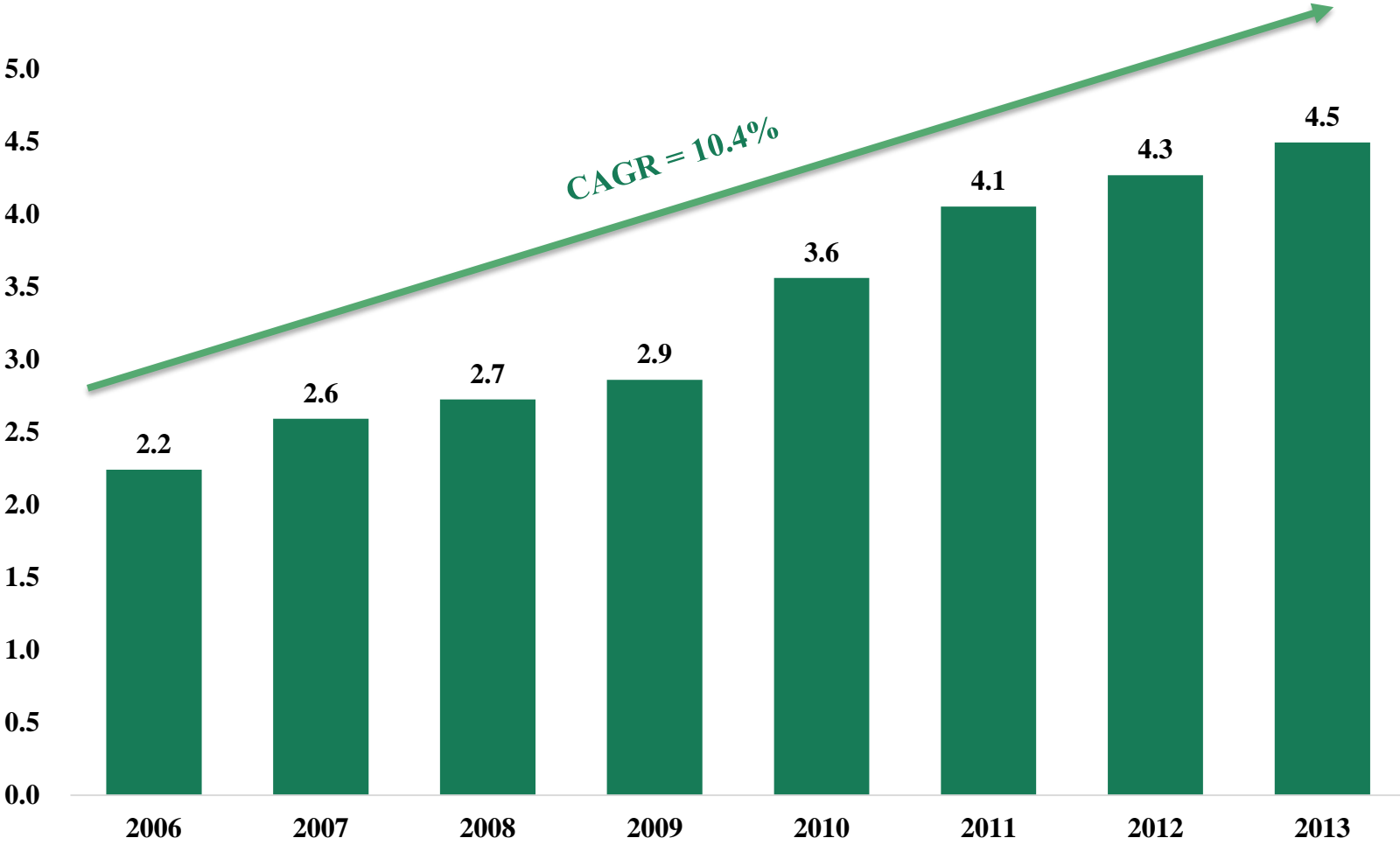


OpenTable North America: Seated Diners per Average Restaurant Grew at ~12% CAGR for 8 years or 2.5x!



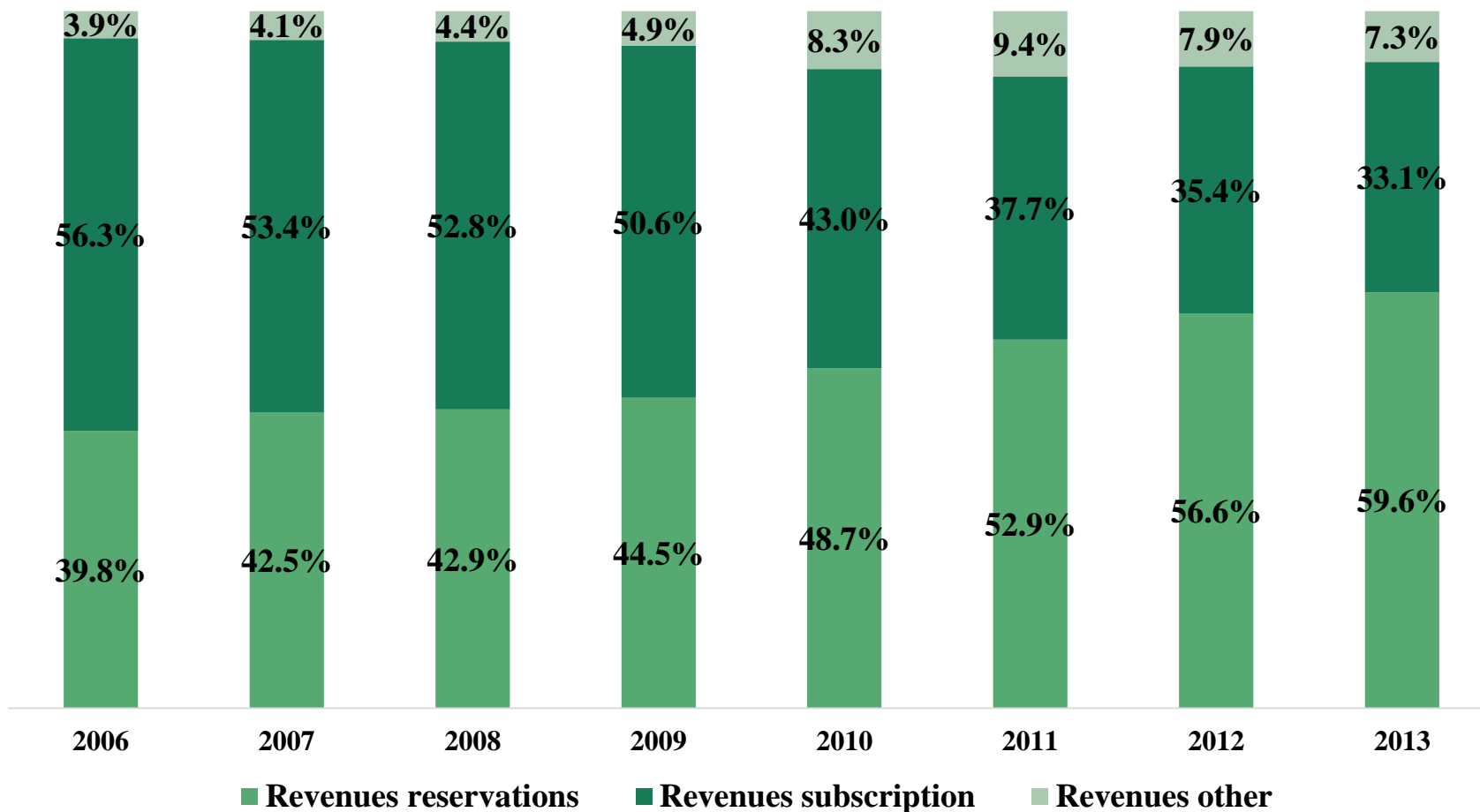
■ Seated diners per average restaurant in North America, this

OpenTable North America: Reservations Revenue per Average Restaurant Grew at ~10.4% CAGR for 7 Years or 2x!

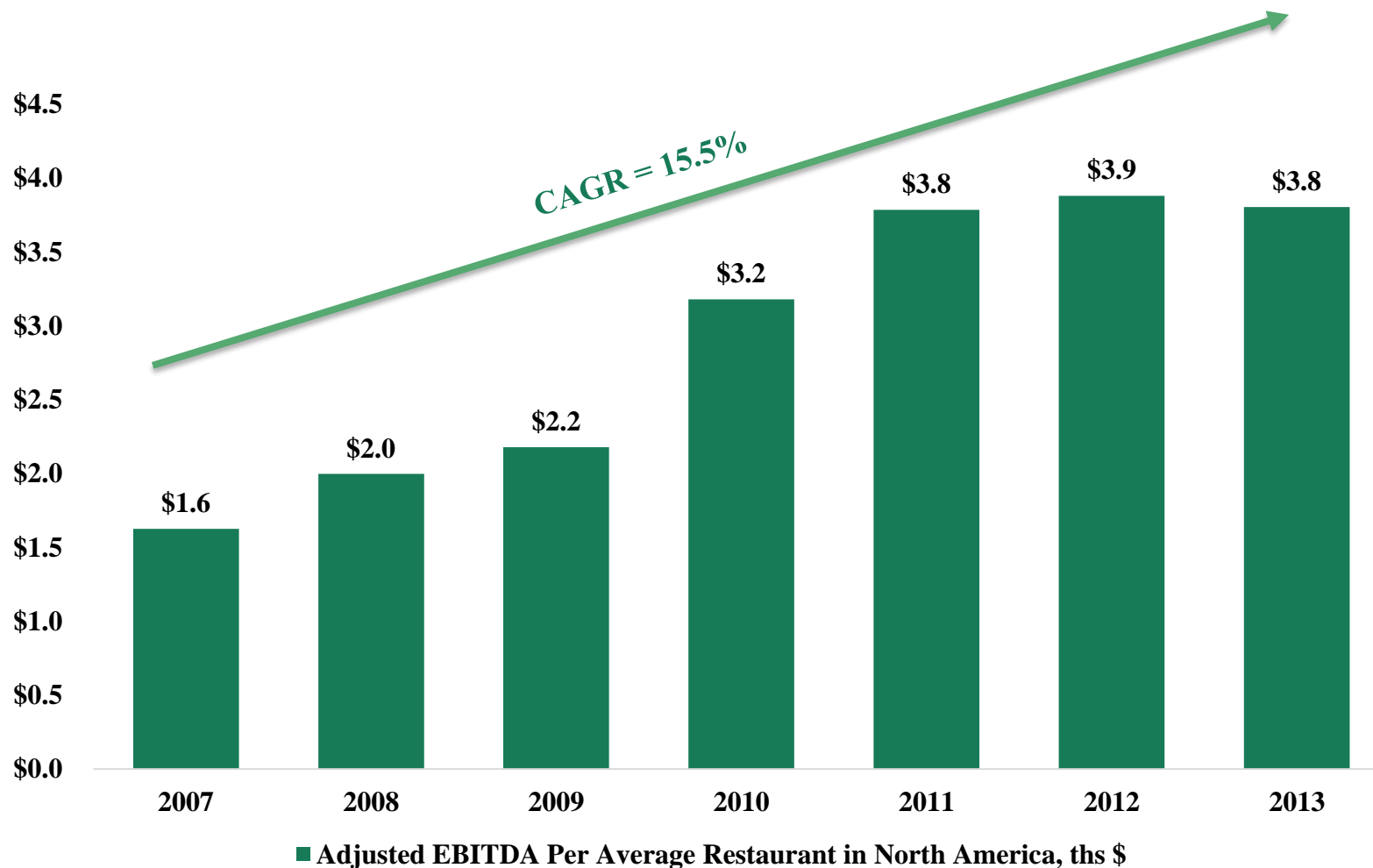


■ Reservations revenue per average restaurant in North America, ths \$

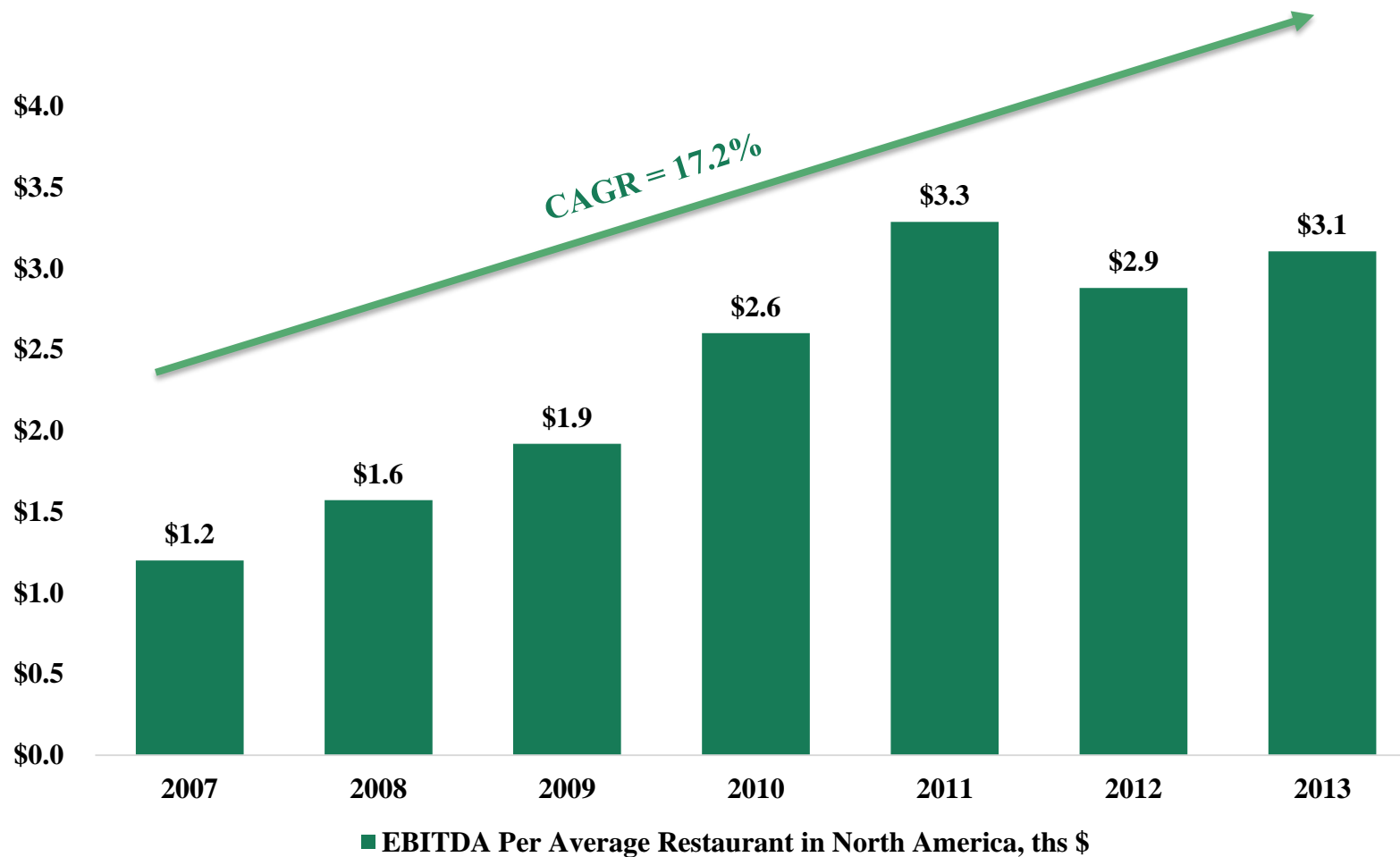
OpenTable North America: Reservations Revenue Grew as % of Total from Less than 40% to Almost 60%



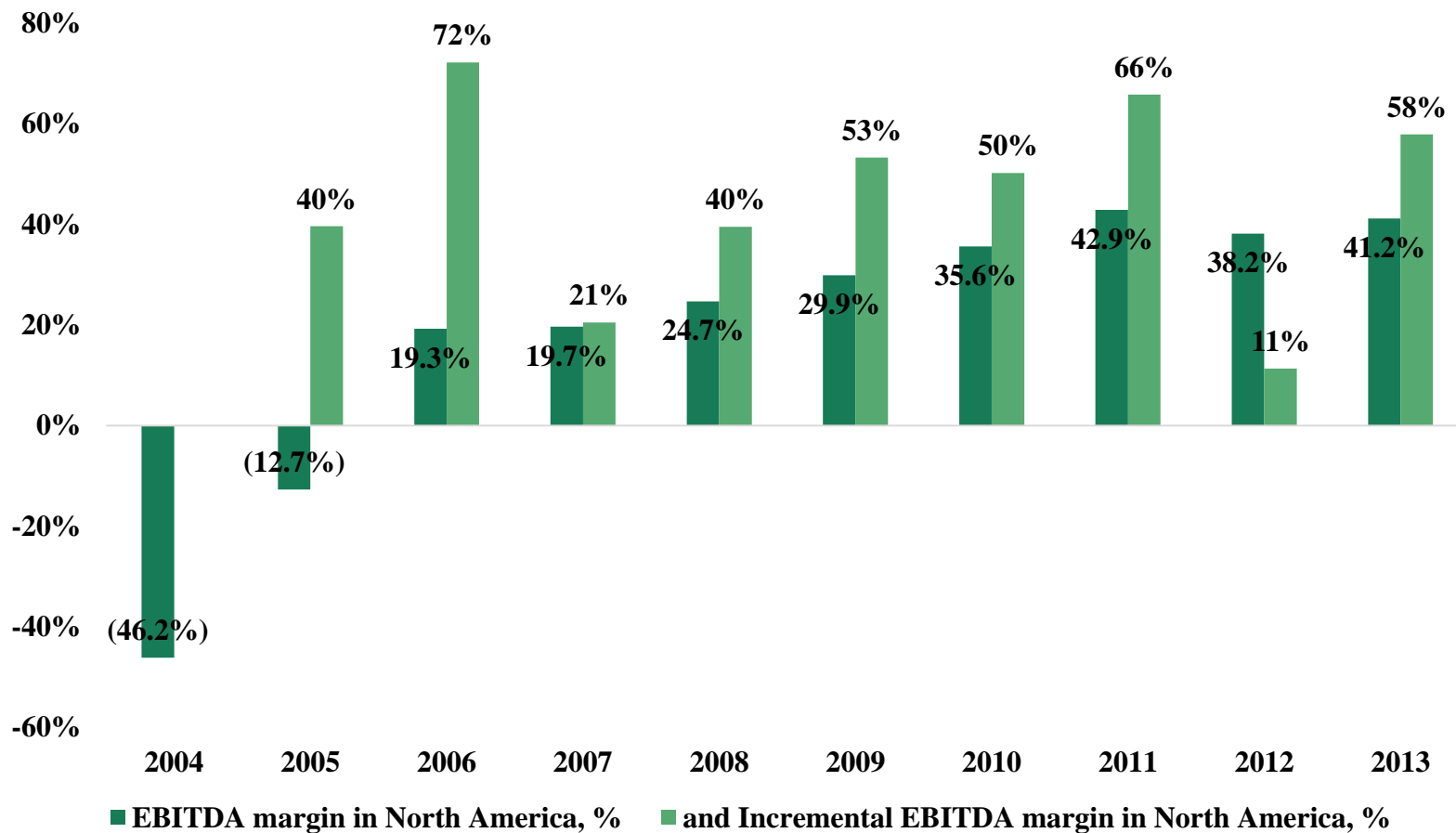
OpenTable North America: Adjusted EBITDA (EBITDA+SBC) Per Average Restaurant Grew at ~15.5% CAGR for 6 Years or by ~2.3x



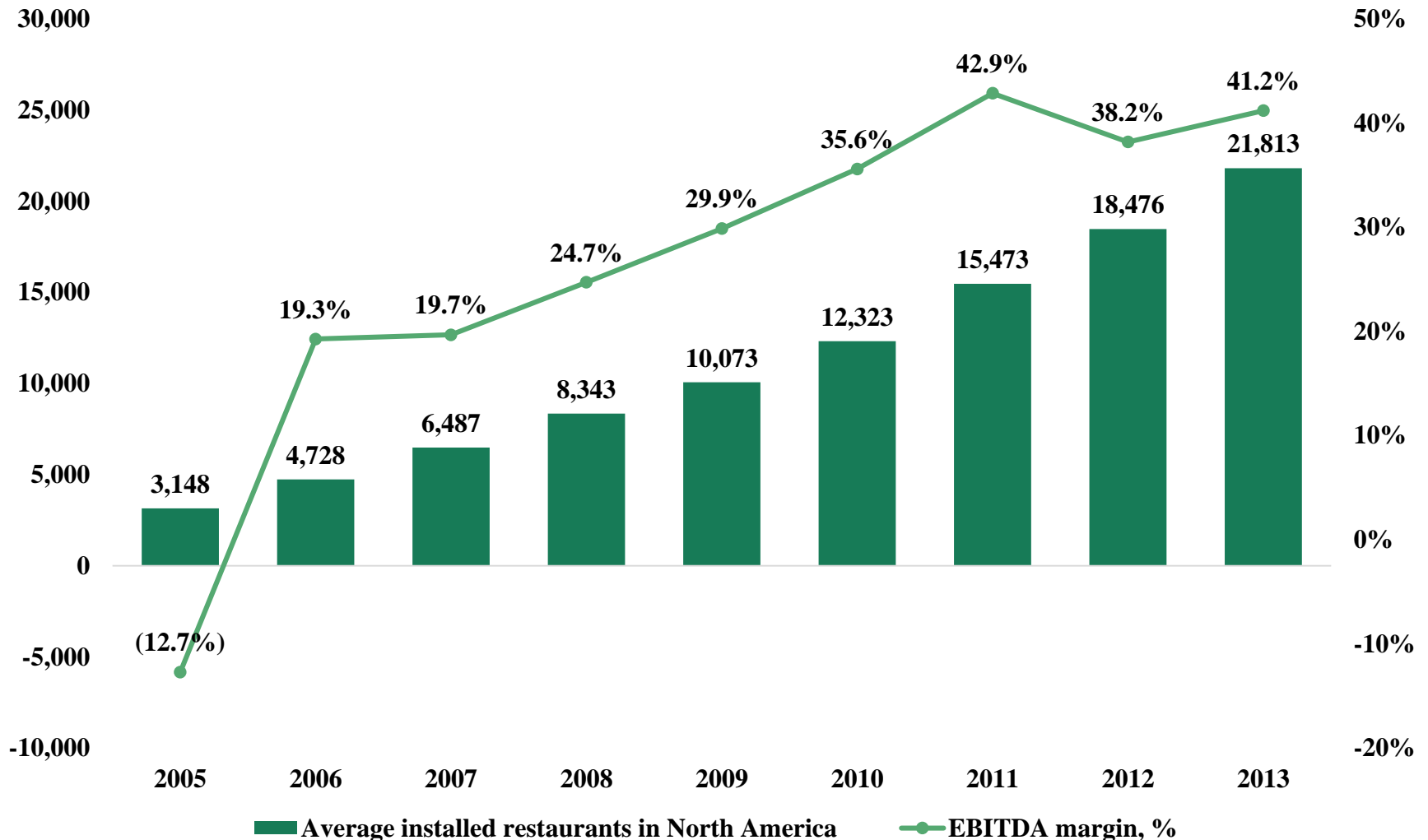
OpenTable North America: EBITDA Per Average Restaurant Grew at ~17.2% CAGR for 6 Years or by ~2.6x



OpenTable North America: EBITDA Margins and Incremental EBITDA Margins – *ALWAYS* Watch for Incremental Margins

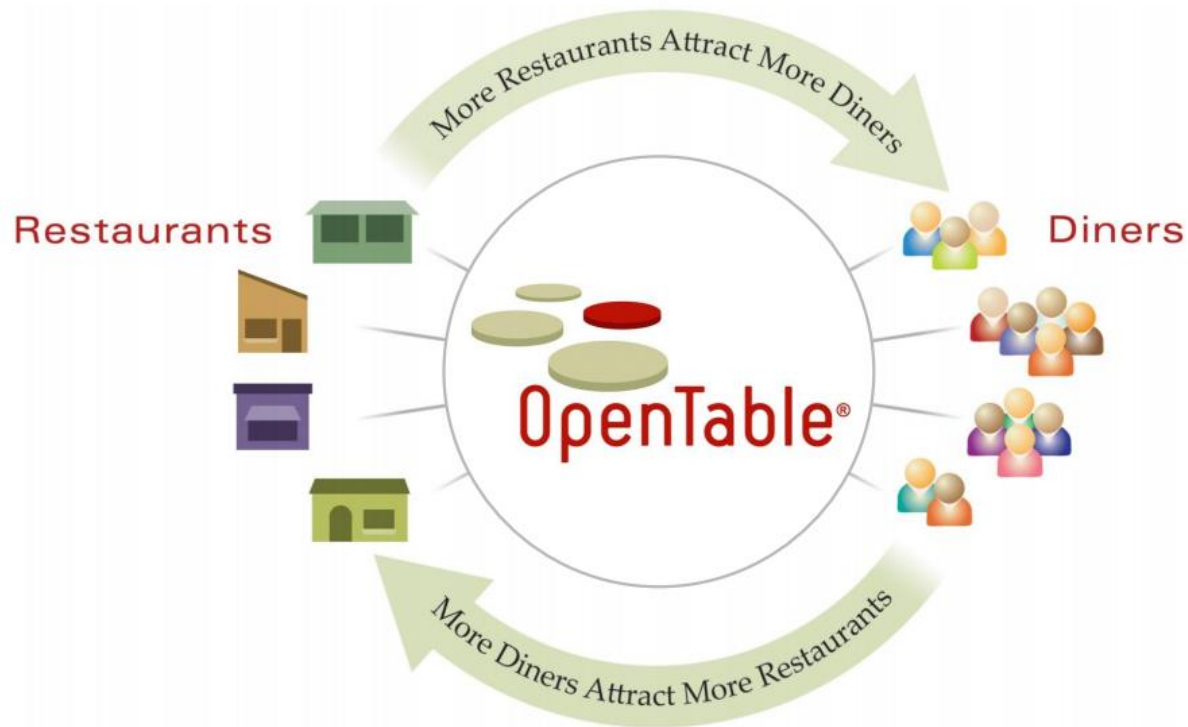


OpenTable North America: As More Restaurants Join the Platform, Margins Skyrocket



OpenTable: What's The Secret?

Our Strategy



Our strategy is simple: We grow the OpenTable network by adding restaurants and attracting more diners. The more restaurant selection we offer to diners, the more diners use the system. The more diners use the system, the more value we offer to restaurants.

Source: <http://files.shareholder.com/downloads/ABEA-2TKK09/1013420981x0x393323/874d4f1c-9789-470e-8291-ddd314f29ecb/OpenTable%20Corporate%20Presentation%20August%202010%20FINAL.pdf>

Why Is OpenTable Such a Great Business? *It Is a Platform!* (1)

- OpenTable brought supply (restaurants with perishable inventory – dinner tables on a particular night) and demand (diners) together.
- Once OpenTable gained initial traction, it has created a virtuous cycle.
- As OpenTable's network grew, user engagement increased substantially.
- With every *new* restaurant added to OpenTable's platform, restaurant goers were making online reservations more often at *existing* restaurants.
- => *More restaurants* on the platform led to *more reservations per restaurant*.

Why Is OpenTable Such a Great Business? *It Is a Platform!* (2)

- Strong network effect.
- Winner-takes-all dynamics.
- Wide moat that is expanding over time as more and more restaurants and consumers join the platform.
- Potential entrants face a chicken-and-egg problem.
- Highly scalable business model.
- Very high incremental margins.

The Priceline Group Inc. (PCLN) Acquires OpenTable for 48.7x EV/LTM EBITDA

“The Priceline Group Inc. (NASDAQ: PCLN) and OpenTable, Inc. (NASDAQ: OPEN) today announced that they have entered into a definitive agreement whereby The Priceline Group will acquire OpenTable for \$103 per share in an all cash transaction valued at \$2.6 billion.”

Source: June 13, 2014 the Priceline Group Inc. Press Release

OpenTable Valuation: Before Acquisition vs. Acquisition Price

	Before Announcement	After Announcement
Share price, \$	70.4	103.0
F/D S/O, ths	23,443	26,121
Market Cap, \$ ths	1,651,090	2,690,460
Cash, \$ ths	\$103,469	\$103,469
Debt & Debt Equivalents, \$ ths	0	0
Enterprise Value, \$ ths	1,547,621	2,586,991
LTM Revenue, \$ ths	198,328	
LTM EBITDA, \$ ths	53,085	
Installed restaurants	31,583	
EV/LTM Revenue	7.8x	13.0x
EV/LTM EBITDA	29.2x	48.7x
EV/Installed restaurant, \$ ths	49.0	81.9

Priceline Writes Down Almost \$1B of the Goodwill Related to OpenTable Acquisition (1)

“For OpenTable, we recognized a non-cash impairment charge for goodwill of \$940.7 million, which is not tax deductible, resulting in an adjusted carrying value of OpenTable goodwill of \$580.1 million as of September 30, 2016.”

Source: 2016 PCLN 10-K

Priceline Writes Down Almost \$1B of the Goodwill Related to OpenTable Acquisition (2)

“The goodwill impairment is primarily the result of a change in OpenTable’s business strategy that occurred during the third quarter of 2016.

...while OpenTable intends to continue to pursue and invest in international expansion and its other growth initiatives, it intends to do so in a more measured and deliberate manner”

Source: 2016 PCLN 10-K

Priceline Writes Down Almost \$1B of the Goodwill Related to OpenTable Acquisition (3)

- Decoding the corporate language of the SEC filings, Priceline declared that OpenTable's international expansion strategy failed.
- The goodwill impairment does not imply that OpenTable in North America was / is a not a great business.

OpenTable Valuation that Priceline Should Have Paid Given Subsequent Massive Goodwill Impairment (1)

	Before Announcement	Actual transaction
Share price, \$	\$70.4	\$103.0
Enterprise Value, \$ ths	1,547,621	2,586,991
LTM Revenue, \$ ths	198,328	
LTM EBITDA, \$ ths	53,085	
Installed restaurants	31,583	
EV/LTM Revenue	7.8x	13.0x
EV/LTM EBITDA	29.2x	48.7x
EV/Installed restaurant, \$ ths	49.0	81.9
		What PCLN <u>should</u> have paid (acquisition price minus goodwill impairment)
Goodwill Impairment in 2016, \$ ths		940,700
EV that PCLN should have paid, \$ ths		1,646,291
EV/LTM Revenue		8.3x
EV/LTM EBITDA		31.0x
EV/Installed restaurant, \$ ths		52.1

OpenTable Valuation that Priceline Should Have Paid Given Subsequent Massive Goodwill Impairment (2)

- As you can see, Priceline should have paid approximately what Mr. Market valued OpenTable at that time.

TripAdvisor: Restaurants

Restaurants: Evolution from Reviews with Next to Zero Revenue to a Major Platform Business

- Prior to 2014: lots of traffic / eyeballs / reviews on restaurant pages but *no real monetization*.
- 2Q 2014: TRIP acquired La Fourchette.
 - That was a *game changer!*
- La Fourchette at the time of the acquisition:
 - Online reservation business (similar to OpenTable in the U.S.)
 - Strong presence in two countries
 - France and Spain
 - ~12,000 bookable restaurants on its platform.



Restaurants: La Fourchette Acquisition

- TripAdvisor never disclosed the acquisition price.
- According to TechCrunch, TripAdvisor paid ~\$140M.
 - Source: <https://techcrunch.com/2014/05/07/lafourchette-gobbled-up-by-tripadvisor/>
- Interestingly enough, TripAdvisor acquired La Fourchette around the same time when Priceline acquired OpenTable.
- Both Priceline and TripAdvisor had ambitions of conquering online restaurant reservations space in Europe.
- We know how it ended for Priceline: almost \$1B goodwill impairment.
- But what's about TripAdvisor's acquisition of La Fourchette?

Restaurants: TRIP Management about La Fourchette at the Time of the Acquisition

“La Fourchette has already achieved scale in these two large markets. They have shown they can operate at a profit while growing at a fast clip, and they are loved by their restaurant partners and diners alike.”
(Source: 1Q 2014 TRIP Earnings Call)

Restaurant: Strategy for La Fourchette after the Acquisition (2Q 2014 – Present) – Invest in Expansion! (1)

“La Fourchette is growing rapidly, and TripAdvisor can help fuel even faster future growth by turning some portion of our incredible amount of global restaurant traffic into seated diners” (Source: 1Q 2014 TRIP Earnings Call)

Restaurants: Strategy for La Fourchette after the Acquisition (2Q 2014 – Present) – Invest in Expansion! (2)

- TripAdvisor provided two critical ingredients to fuel La Fourchette's growth:
 - Traffic to its website
 - Growth capital

Restaurants: TRIP CEO's Vision

“I am thinking about building the restaurant business to be very meaningful for TripAdvisor over a three to five-plus year timeframe and that’s going to take more than a quarter or two of investment dollars” (3Q 2014 TRIP Earnings Call)

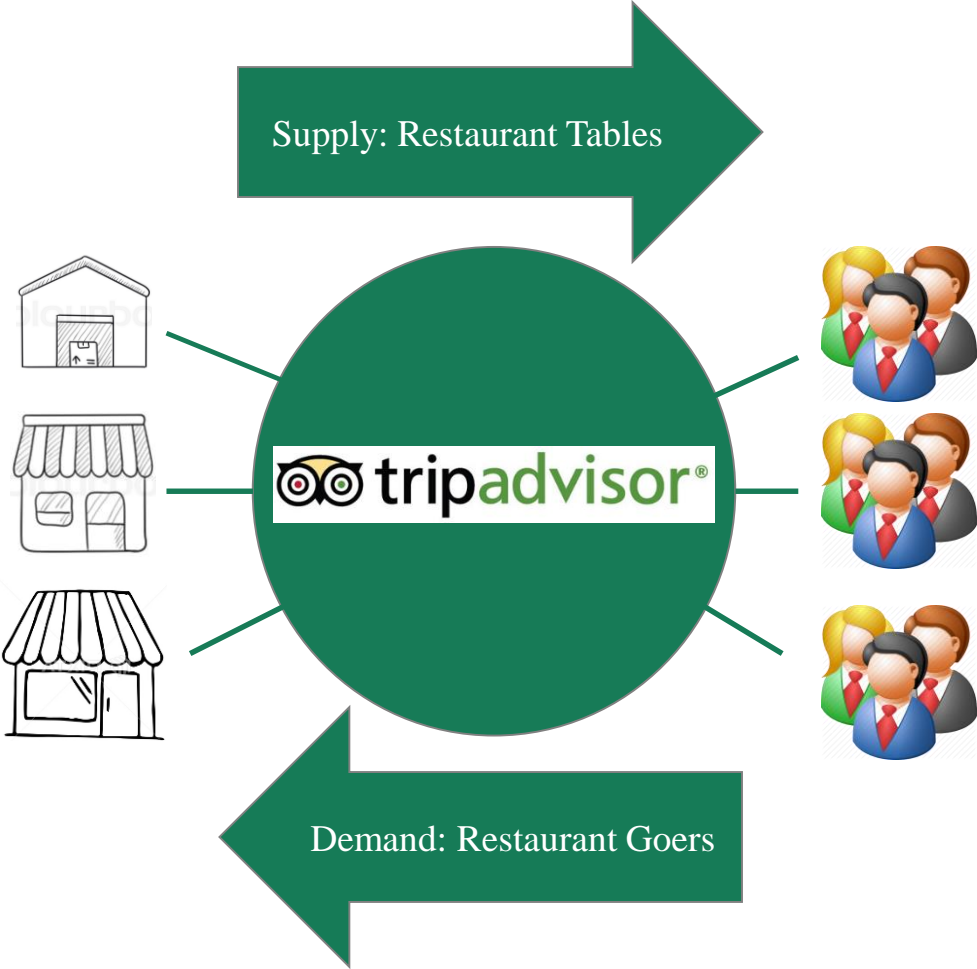
Restaurants: Strategy for La Fourchette after the Acquisition (2Q 2014 – Present) – Invest in Expansion! (3)

- Core strategy was to expand into more international markets.
- And this is exactly what TripAdvisor did both organically *and* through small tuck on M&A transactions used to expedite entry into new countries.
 - Example: TripAdvisor acquired Dimmi in 2Q 2015 to enter Australia.

Why Is TripAdvisor Restaurants Such a Great Business? *It Is a Platform!* (1)

- TripAdvisor already had *lots of traffic* to its restaurant pages.
- La Fourchette brought supply: restaurants with perishable inventory – dinner table on a particular night.
- Once TripAdvisor put supply and demand together, it has created a virtuous cycle.

Why Is TripAdvisor Restaurants Such a Great Business? *It Is a Platform!* (2)



Why Is TripAdvisor Restaurants Such a Great Business? *It Is a Platform!* (3)

- Strong network effect.
- Winner-takes-all dynamics.
- Wide moat that is expanding over time as potential entrants will face a chicken-and-egg problem.
- Highly scalable business model.
- Very high incremental margins.

Restaurants: TRIP Management Understood What a Fantastic Business Restaurants Would Become from the Very Beginning

“restaurants ... it is a very local product ... there tends to be a winner-take-all or close to it in a given city. ... if you get enough restaurants and you have enough user demand and enough app installs, that's very habit-forming. You go back to the app. And, in ... almost all of these businesses, it's a cost-of-customer acquisition that drives the margin. And, when you can get that cost-of-customer acquisition down to be zero because it's a repeat user, the rest of the business just turns out margin.” (1Q 2015 TRIP Earnings Call)

Restaurants: Product and User Experience

- 2Q 2014 – restaurant goers can make reservations on La Fourchette website and via app.
- 3Q 2014 – TripAdvisor launched Instant Reservation features for restaurants which lets users select a restaurant and complete a reservation on www.tripadvisor.com.
- Restaurants Business (through La Fourchette and through www.tripadvisor.com) serves *both* locals and tourists.

Restaurants: How Does Restaurants Business Make Money?

Find out which offer is best for you

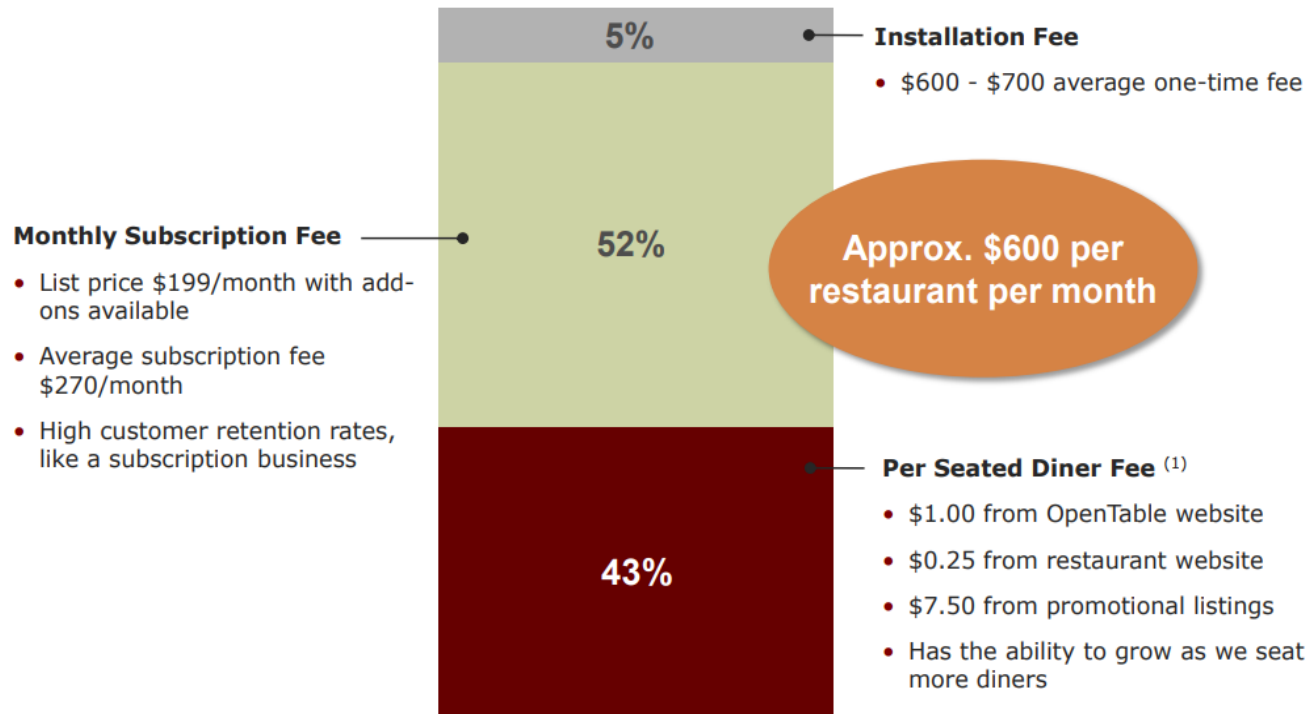
	FREE 0€ per month	PRO 59€ per month	PRO+ 89€ per month
YOUR RESTAURANT PUBLISHED ON THEFORK PUBLICATION ON THEFORK IS FREE ONLY A COMMISSION OF €2 PER COVER RESERVED IS APPLIED. CANCELLATIONS AND NO-SHOWS ARE NOT CHARGED.	✓	✓	✓
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INTELLIGENT RESERVATION MANAGEMENT SOFTWARE - THEFORK MANAGER ▼	STANDARD	ADVANCED	ADVANCED
MANAGEMENT AND CUSTOMER LOYALTY TOOL - THEFORK MANAGER ▼	STANDARD	STANDARD	ADVANCED

Source: <https://www.theforkmanager.com/prices/>

Restaurants: How TripAdvisor Makes Money in Restaurants Business Is *Very* Similar to How OpenTable Makes Money

We Have A Simple, Predictable Revenue Model

Contribution to 2009 Revenue



(1) Excludes costs associated with Dining Rewards Program. Percentage contribution to 2009 revenue rounded up to 43%.

Source: <http://files.shareholder.com/downloads/ABEA-2TKK09/1013420981x0x393323/874d4f1c-9789-470e-8291-ddd314f29ecb/OpenTable%20Corporate%20Presentation%20August%202010%20FINAL.pdf>

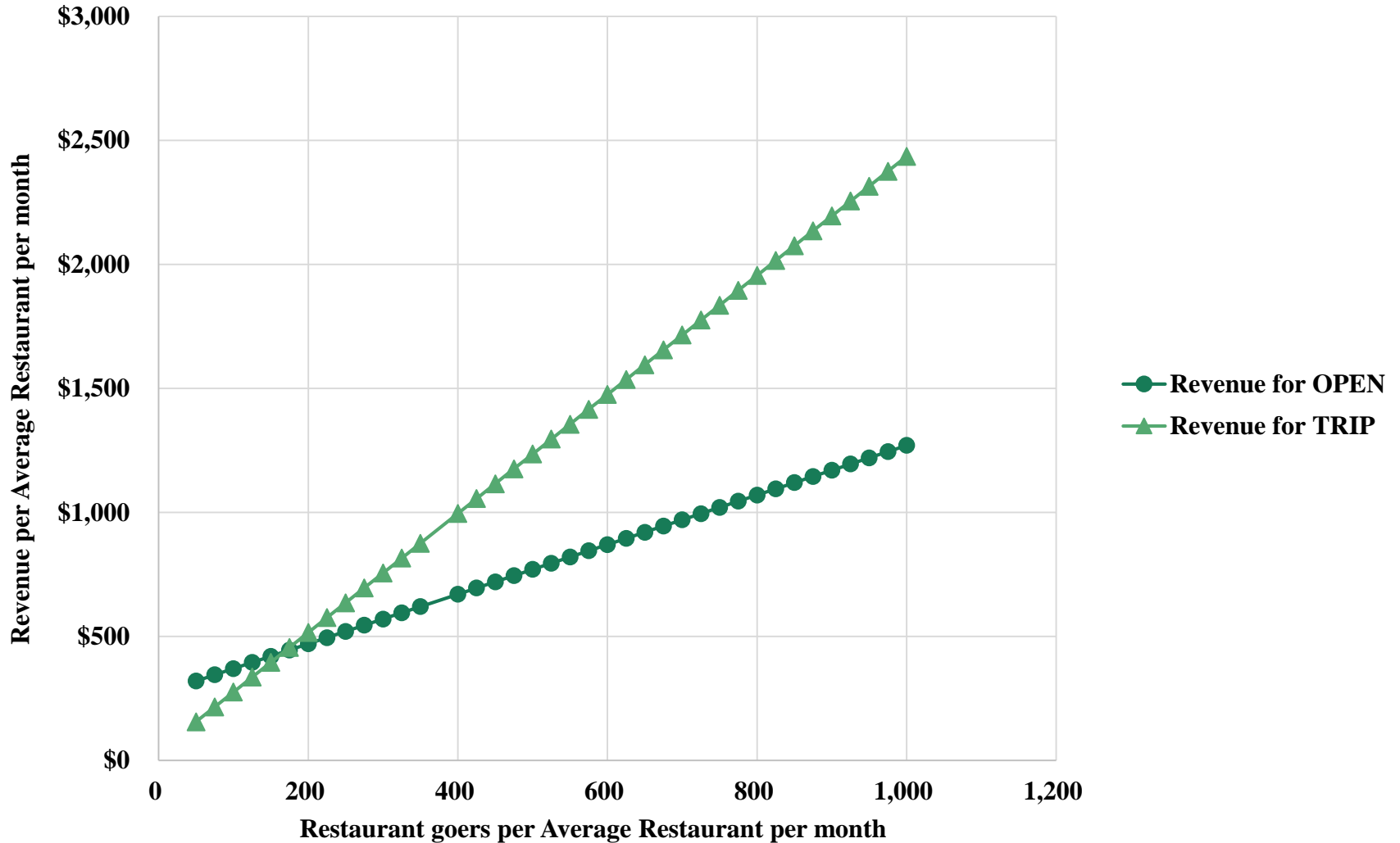
Restaurants: How Does Restaurants Business Make Money – Illustrative Math

- Two important revenue streams:
 - Subscription revenue.
 - Reservations revenue / seated diner fees.
- #1: Subscription revenue
 - \$270 on average for OpenTable back in 2009 vs. €0 to €89 for TripAdvisor / La Fourchette
- #2: Reservations revenue / seated diner fees
 - \$1 per person for OpenTable back in 2009 vs. €2 per person for TripAdvisor / La Fourchette
- TripAdvisor charges *less* in subscription fees than OpenTable did back when it was independent.
- TripAdvisor charges *more* in seated diner fees than OpenTable did back when it was independent.

Restaurants: At High Enough Volume of Restaurant Goers TripAdvisor Should Make More Money Than OpenTable! (1)

- Key Assumptions:
 - EUR : USD FX = 1.20.
 - The weighted average subscription fee for TripAdvisor Restaurants = ~ €30 (assuming the mix of ~55% restaurants paying €0, ~35% restaurants paying €59, and ~15% restaurants paying €89). Please note that TRIP has never disclosed any information about the mix and we are using these numbers as reasonable guesstimates for illustrative purposes.
- Up to 167 seated diners, OpenTable would be making more money (using 2009 numbers) than TripAdvisor Restaurants.
- However, at 168 seated diners, TripAdvisor Restaurants starts making more money than OpenTable (using 2009 numbers) and the gap keeps growing as the number of seated diners increasing.
- Again – these numbers are for illustrative purposes *only* and you can make *your own* assumptions!
- However, the logic is indisputable: at a certain volume of seated diners, TripAdvisor would derive higher revenue per restaurant than OpenTable did (using 2009 numbers).

Restaurants: At High Enough Volume of Restaurant Goers TripAdvisor Should Make More Money Than OpenTable! (2)



Restaurants: Growth Runway and TAM

- At the time of the acquisition of La Fourchette TripAdvisor management compared restaurant online reservations penetration between the U.S. and Europe
 - U.S. – 20%
 - Europe – “single digits” and “in some cases low single-digits” in “nearly every international market” (Source: 1Q 2014 TRIP Earnings Call)
- “it's hard for us to see a path whereby huge numbers of travelers, huge number of locals won't be making their ... restaurant reservations on their smartphone.” (Source: 2Q 2014 TRIP Earnings Call)

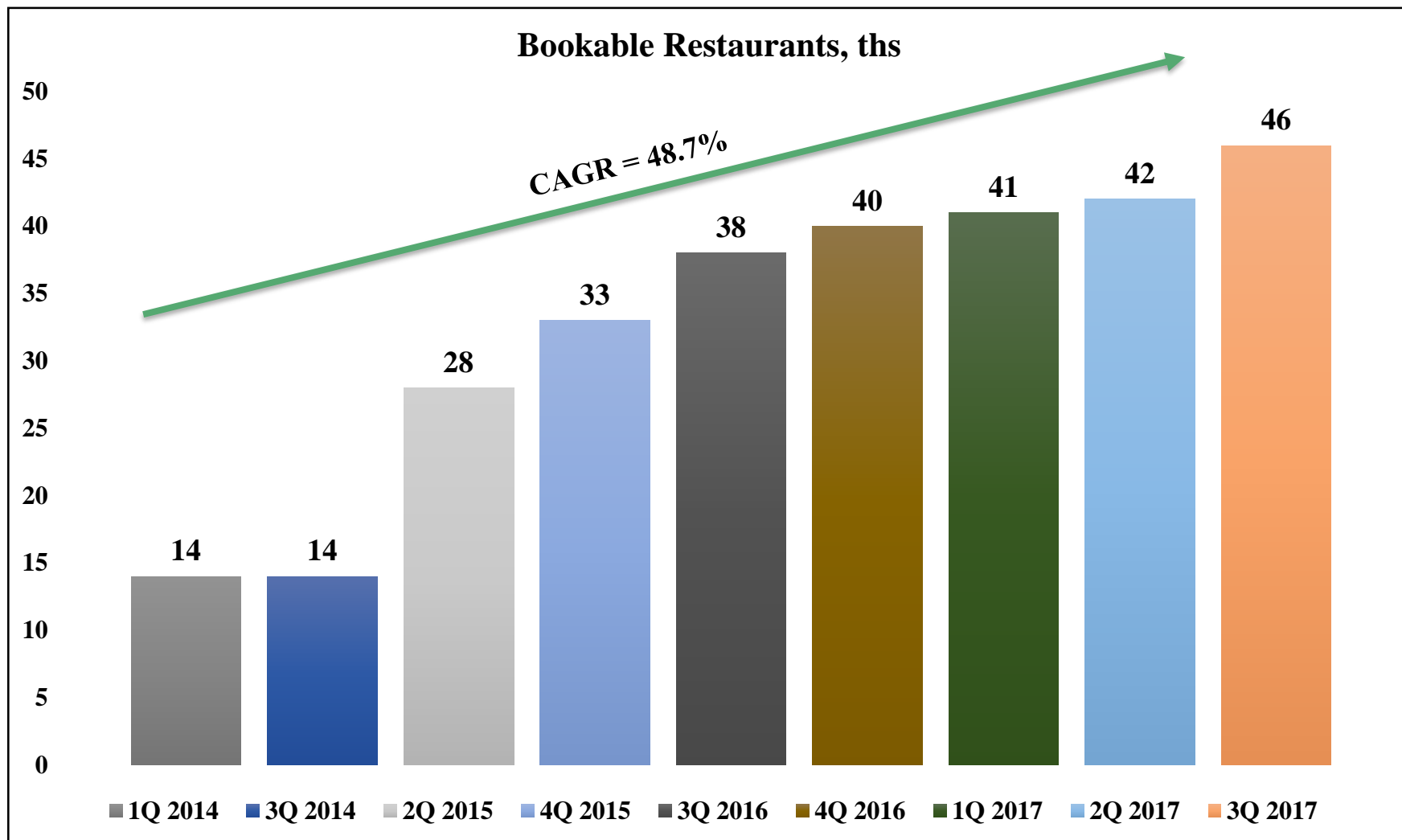
Restaurants: Key Metrics to Monitor and Forecast

- Key metric #1: number of restaurants on the platform
- Key metric #2: number of seated diners

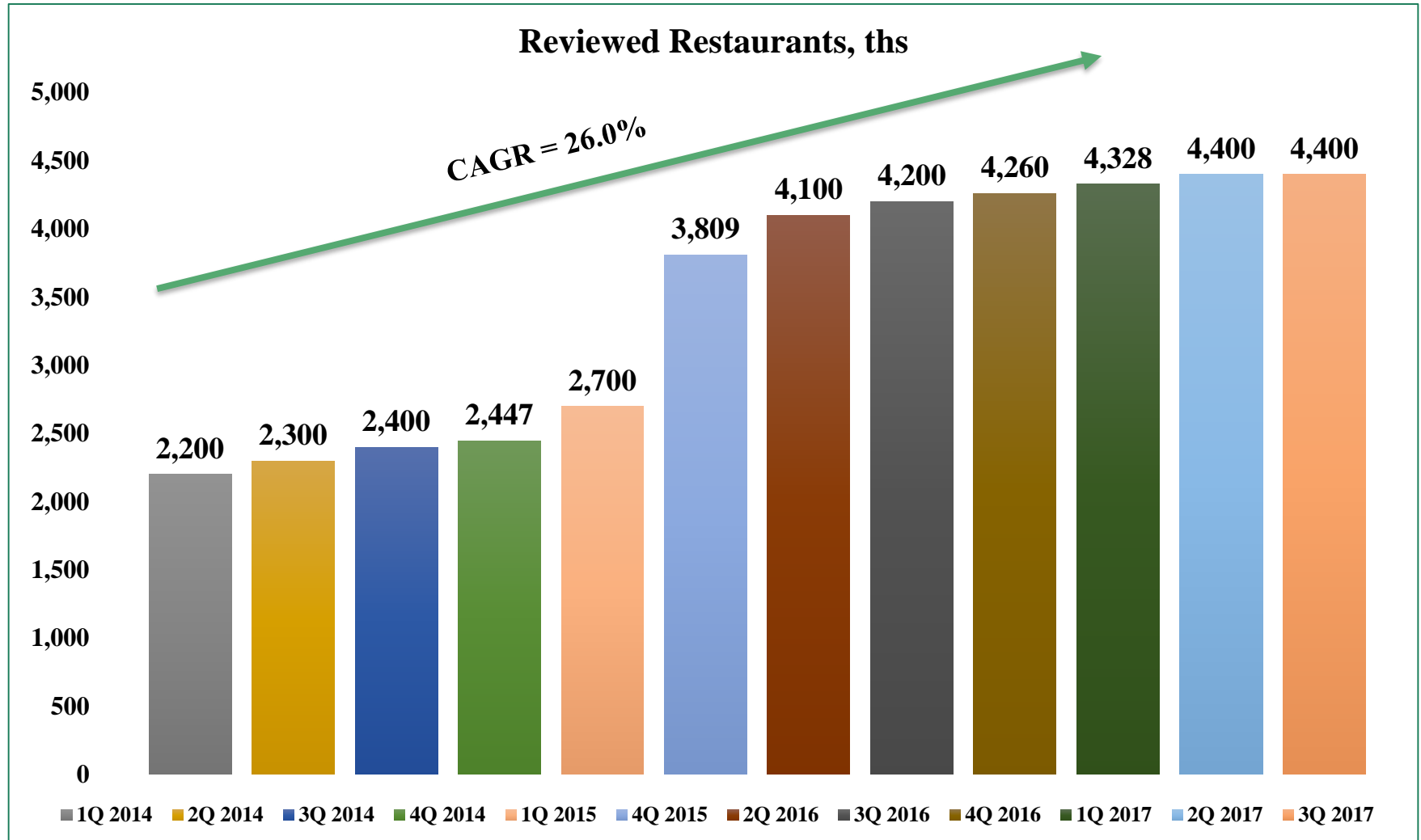
Restaurants: Bookable Restaurants

- TripAdvisor has not been consistently disclosing number of bookable restaurants.
- We put together what we were able to find.

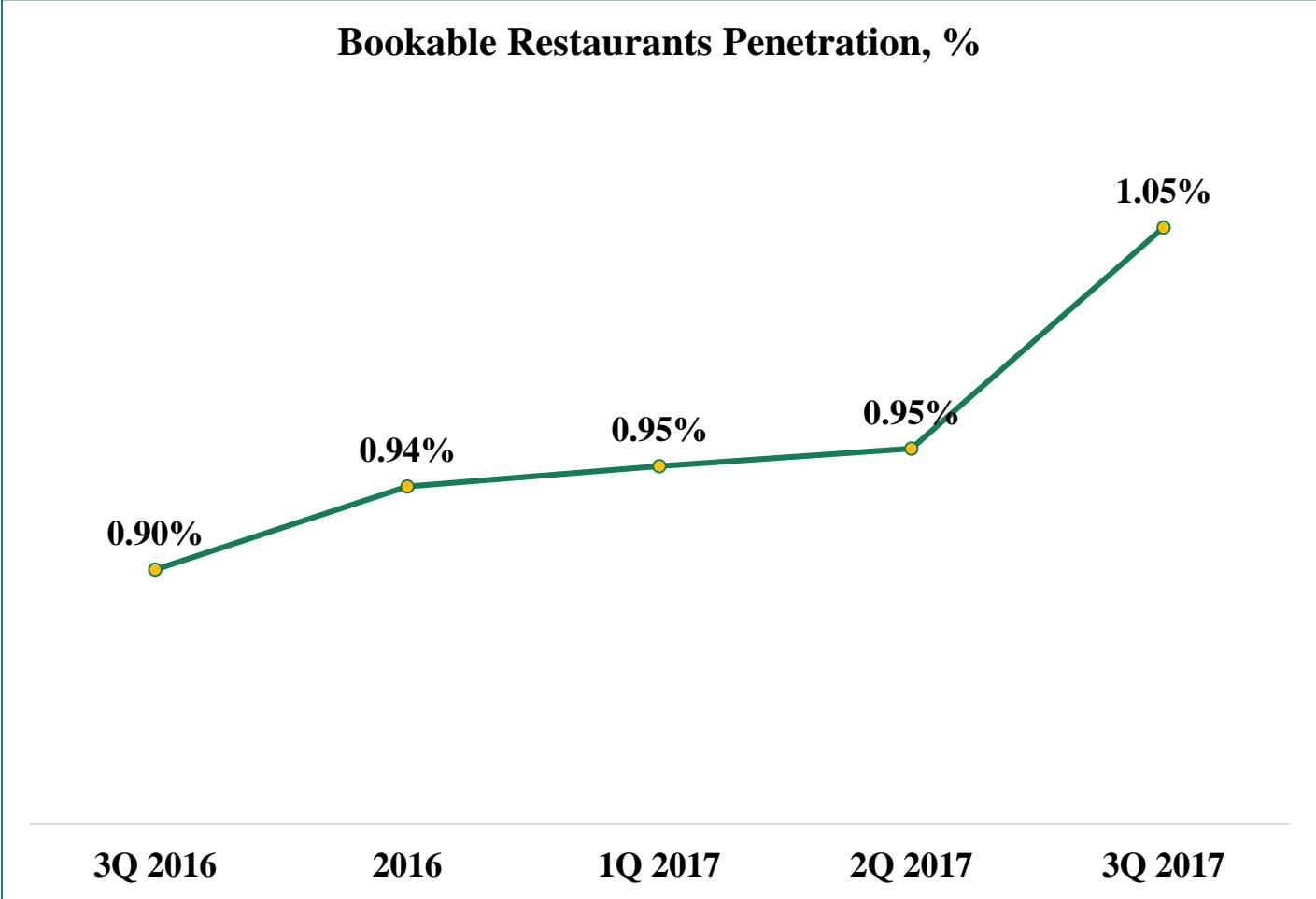
Restaurants: Bookable Restaurants Grew ~3.3x in Less Than 4 Years!



Restaurants: There Are ~100x More Restaurants That Are Reviewed But Cannot Be Booked Now!



Restaurants: Tiny Penetration of Bookable Restaurants as Per Cent of Reviewed Restaurants Means a Long Growth Runway

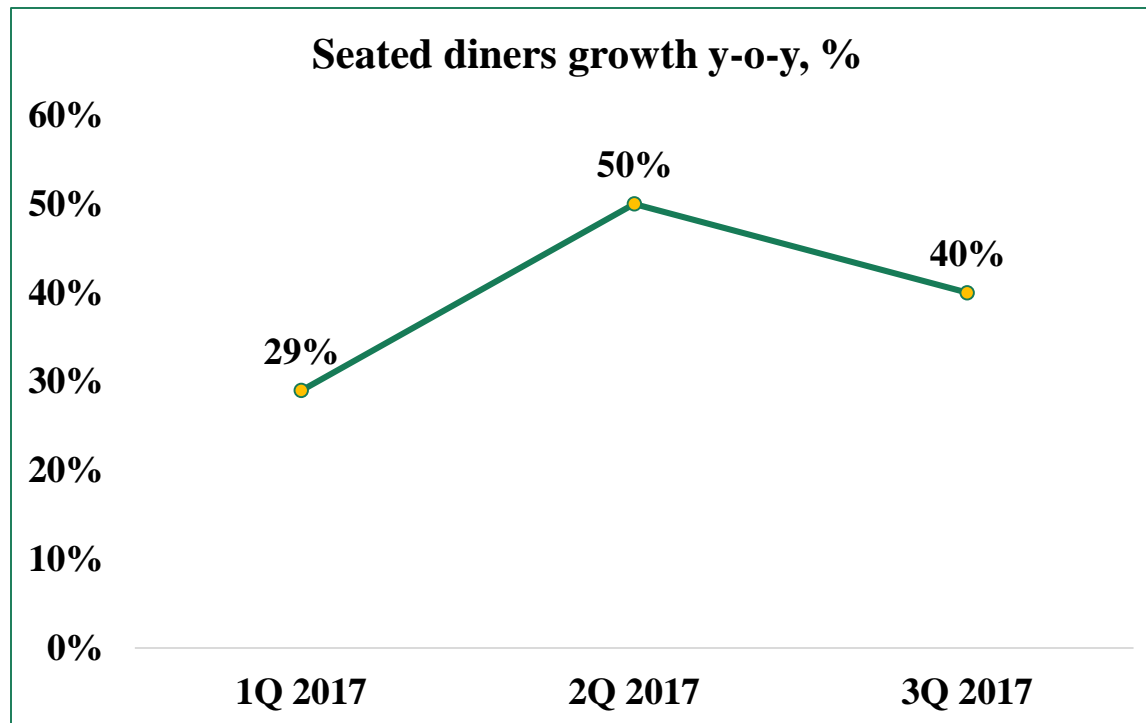


Restaurants: Increasing Penetration of Bookable Restaurants

- So the gap is massive:
 - 46,000 of bookable restaurants vs. 4,400,000 reviewed restaurants.
- We are not forecasting that penetration will go above 10% even long-term.
- However, even if penetration increases to 2% or 3%, TripAdvisor will benefit tremendously.

Restaurants: Key Metrics #2 – Seated Diners

- TripAdvisor has *never* disclosed seated diners.
- But TripAdvisor started disclosing **growth in seated diners** in 1Q 2017.



Restaurants: Drivers Behind Seated Diners Growth (1)

- As we saw with OpenTable, we expect two factors to drive growth in seated diners going forward.
- Driver #1: more restaurants joining the platform and becoming bookable.
- Driver #2: as the network expands, **seated diners per restaurant** should increase as well.
- *We think that seated diners can be growing 20% - 30% per year for many years.*

Restaurants: Drivers Behind Seated Diners Growth (2)

- We also think that most market participants do not think about these drivers much.
- Even if they do, they likely think in *linear* terms and a linear function fails to account for intricacies of the network effect.

Restaurants: Competition

- TripAdvisor Restaurants has a dominant position in most markets where it operates (and possibly in all of them but it is difficult to confirm with 100% certainty).
- Given that TripAdvisor Restaurants operates in winner-take-all markets, it means TripAdvisor Restaurants is the winner.
- The fact that Priceline and OpenTable effectively admitted their defeat in Europe bodes extremely well for TripAdvisor Restaurants and confirms our view that TripAdvisor Restaurants is the winner.

Restaurants: How Big Can It Be? (1)

- 3Q 2017 LTM Non-Hotel Revenue = \$347M
- Restaurants probably account for ~20% to 25% of Non-Hotel Revenue.

Restaurants: How Big Can It Be? (2)

“In terms of relative sizes, I don’t want to be too specific in breaking it out because we haven’t broken it out, but Attractions is the largest of the 3 components, with the other 2 smaller.” (3Q 2017 TRIP Earnings Call)

Restaurants: How Big Can It Be? (3)

- Reasonable range for Restaurants LTM Revenue as of 3Q 2017:
 - \$347M * 20% = ~\$69.5M
 - \$347M * 25% = ~\$87M

Restaurants: How Big Can It Be? (4)

- What we know:
 - Number of bookable restaurants
 - Subscription fee
 - Per seated diner fee
- What we do NOT know:
 - Mix of restaurants in terms of tiered pricing
 - Seated diners number

Restaurants: How Big Can It Be? (5)

- We can make reasonable estimates for these unknowns.
- Mix of restaurants in terms of tiered pricing
 - We can use assumptions that we used before: ~55% restaurants pay €0, ~35% restaurants pay €59, and ~15% restaurants pay €89) => weighted average of €30 per month.
- Seated diners number
 - We can estimate seated diners per restaurant per year based on OpenTable's history.
 - Using those metrics, we can estimate how big TripAdvisor Restaurant business can become.

Restaurants: How Big Can It Be? (6)

# of restaurants, ths	Year for OpenTable Key Metrics	Seated diners per restaurant, ths	Fee per diner, EUR	FX	Reservations revenue, mln \$	Average subscription fee month, EUR	Subscription revenue, mln \$	Total revenue, mln \$
46	2008	4.0	2.00	1.20	445.1	29.55	19.6	464.7
46	2009	4.2	2.00	1.20	459.3	29.55	19.6	478.9
46	2010	5.1	2.00	1.20	559.3	29.55	19.6	578.9
46	2011	5.8	2.00	1.20	638.8	29.55	19.6	658.4
46	2012	6.1	2.00	1.20	675.5	29.55	19.6	695.1
46	2013	6.6	2.00	1.20	729.6	29.55	19.6	749.1

Restaurants: How Big Can It Be? (7)

- We will point out the obvious.
- OpenTable had only 9,295 restaurants in North America at the end of 2008. Yet each restaurant had ~4,000 seated diners per year.
- It was 9 years ago! Penetration of smartphones was extremely low. It was still *iPhone 2 era*! Importantly, shift to mobile usage benefits online reservations.
- There is no reason to believe that TripAdvisor Restaurants will have fewer seated diners per restaurant than OpenTable had in North America in 2008.
- Even using 2008 OpenTable numbers, revenue potential of Restaurants is ~\$465M or 6x of mid-point current estimated revenue!

Restaurants: How Big Can It Be? (8)

- If we use OpenTable 2013 metrics, the revenue potential is even more astonishing – ~\$750M or ~9.6x of mid-point current estimated revenue !
- We should point out that these calculations assume *no single new restaurant* joining the platform!
 - This is obviously an unrealistic assumption as we expect growth in bookable restaurants to continue.
 - If we assume that the number of bookable restaurants doubles to reach ~92K by 2022 and seated diners per restaurant in 2022 reach the level OpenTable had in 2013, then Restaurants could become ~\$1.5B revenue business.

Restaurants: Revenue Can Grow 20% - 30% / Year for Many Years

- Given the massive opportunity ahead, TripAdvisor Restaurants revenue can grow 20% - 30% a year for many years driven by low penetration of bookable restaurants, increasing adoption of online reservations, and increasing customer engagement.

Restaurants: Margins (1)

- Restaurants Adjusted EBITDA or EBITDA margins have *never* been disclosed.
- However, we know a few things:
 - 2Q 2017 TRIP Prepared Remarks: “restaurants ... achieving topline scale that will help it *approach Adjusted EBITDA breakeven this year.*”
 - 3Q 2017: “Restaurants ... *turned Adjusted EBITDA positive in the quarter* amidst continued investment in sales, marketing and product experience.”

Restaurants: Margins (2)

- We believe that Restaurants margins have been negative for a long time purely due to heavy sales and marketing driven by growth initiatives, signing up more restaurants, and expanding into more countries.
- As we saw in a historical case study of OpenTable, ~30% to ~40% EBITDA margins are definitely achievable.
- It is possible that TripAdvisor Restaurants margins would be a bit lower given that it operates in multiple countries which may mean higher operating costs.

Restaurants: In Mature Markets Restaurants Should Be Generating Good Margins

“La Fourchette has already achieved scale in these two large markets. They have shown they can operate at a profit while growing at a fast clip, and they are loved by their restaurant partners and diners alike.” (Source: 1Q 2014 TRIP Earnings Call)

“We are confident that the core markets continue to grow at a good pace and that’s generally we consider a profitable growth, but we expect to continue to reinvest those profits into our newer markets and depending on the speed at which we want to enter new markets, that’s going to take us negative in the restaurant business because it is such a good opportunity” (Source: 2Q 2014 TRIP Earnings Call)

Restaurants: Projecting Margins and Profitability

- For projecting margins at maturity we also rely on OpenTable margins in North America in 2008 – 2013.
- We use revenue that we estimated before based on OpenTable seated diners per restaurant in 2008 – 2013 and we “match” those years.

Year for OpenTable Key Metrics	Total revenue, mln \$	EBITDA margin, %	EBITDA, mln \$
2008	464.7	24.7%	110
2009	478.9	29.9%	137
2010	578.9	35.6%	199
2011	658.4	42.9%	274
2012	695.1	38.2%	258
2013	749.1	41.2%	301

Restaurants: Valuation A Few Years Out

- We will conduct valuation of TripAdvisor Restaurants assuming that it can achieve EBITDA levels that we outlined in 5 and alternatively 10 years. This will create a fairly broad valuation range.
- We will assume share dilution of 2% per year for respective time periods.
- We will use 14x EBITDA multiple as we think it is appropriate for a business of such extraordinary quality and its strong moat.

Restaurants: Valuation in 5 Years

Year for OpenTable Key Metrics	EBITDA, mln \$	Multiple	EV, mln \$	Share count in 5 years	Restaurants Price per Share, \$
2008	110	14.0x	1,540	153.5	\$10.0
2009	137	14.0x	1,921	153.5	\$12.5
2010	199	14.0x	2,787	153.5	\$18.2
2011	274	14.0x	3,834	153.5	\$25.0
2012	258	14.0x	3,611	153.5	\$23.5
2013	301	14.0x	4,207	153.5	\$27.4

Restaurants: Valuation in 10 Years

Year for OpenTable Key Metrics	EBITDA, mln \$	Multiple	EV, mln \$	Share count in 10 years	Restaurants Price per Share, \$
2008	110	14.0x	1,540	169.4	\$9.1
2009	137	14.0x	1,921	169.4	\$11.3
2010	199	14.0x	2,787	169.4	\$16.5
2011	274	14.0x	3,834	169.4	\$22.6
2012	258	14.0x	3,611	169.4	\$21.3
2013	301	14.0x	4,207	169.4	\$24.8

Restaurants: Valuation A Few Years Out Based on Priceline's Acquisition of OpenTable

- We can also value TripAdvisor Restaurants using valuation multiples that Priceline paid for OpenTable.
- As above, we will use a range of revenue and EBITDA as previously calculated.
- As above, we will assume 2% share dilution per year.

TripAdvisor Restaurants EV / LTM Revenue Valuation Using What Priceline *Actually* Paid for OpenTable 5 and 10 Years Out

# of restaurants, ths	Year for OpenTable Key Metrics	Total Revenue, mln \$	EV/ LTM Revenue	EV, mln \$	Share count in 5 years	Restaurants Price per Share in 5Y, \$	Share count in 10 years	Restaurants Price per Share in 10Y, \$
46	2008	464.7	13.0x	6,061.1	153.5	\$39.5	169.4	\$35.8
46	2009	478.9	13.0x	6,247.0	153.5	\$40.7	169.4	\$36.9
46	2010	578.9	13.0x	7,551.1	153.5	\$49.2	169.4	\$44.6
46	2011	658.4	13.0x	8,588.3	153.5	\$56.0	169.4	\$50.7
46	2012	695.1	13.0x	9,067.1	153.5	\$59.1	169.4	\$53.5
46	2013	749.1	13.0x	9,771.6	153.5	\$63.7	169.4	\$57.7

TripAdvisor Restaurants EV / LTM EBITDA Valuation Using What Priceline *Actually* Paid for OpenTable 5 and 10 Years Out

# of restaurants, ths	Year for OpenTable Key Metrics	EBITDA, mln \$	EV/EBITDA	EV, mln \$	Share count in 5 years	Restaurants Price per Share in 5Y, \$	Share count in 10 years	Restaurants Price per Share in 10Y, \$
46	2008	110.0	48.7x	5,360.5	153.5	\$34.9	169.4	\$31.6
46	2009	137.2	48.7x	6,687.1	153.5	\$43.6	169.4	\$39.5
46	2010	199.1	48.7x	9,702.6	153.5	\$63.2	169.4	\$57.3
46	2011	273.8	48.7x	13,344.4	153.5	\$87.0	169.4	\$78.8
46	2012	258.0	48.7x	12,571.0	153.5	\$81.9	169.4	\$74.2
46	2013	300.5	48.7x	14,645.2	153.5	\$95.4	169.4	\$86.4

Restaurants: Valuation A Few Years Out Based on Priceline's Acquisition of OpenTable *After* Goodwill Impairment

- Massive goodwill impairment that Priceline took on its acquisition of OpenTable shows that Priceline overpaid.
- What does this goodwill impairment mean for valuation of TripAdvisor Restaurants and valuation multiples?
- We have adjusted acquisition multiples for the goodwill impairment and applied such adjusted multiples to TripAdvisor Restaurants.

TripAdvisor Restaurants EV / LTM Revenue Valuation Using What Priceline *Should Have* Paid for OpenTable (i.e., After Goodwill Impairment)

# of restaurants, ths	Year for OpenTable Key Metrics	Total revenue, mln \$	EV/Revenue	EV, mln \$	Share count in 5 years	Restaurant Price per Share in 5Y, \$	Share count in 10 years	Restaurant Price per Share in 10Y, \$
46	2008	464.7	8.3x	3,857.1	153.5	\$25.1	169.4	\$22.8
46	2009	478.9	8.3x	3,975.4	153.5	\$25.9	169.4	\$23.5
46	2010	578.9	8.3x	4,805.3	153.5	\$31.3	169.4	\$28.4
46	2011	658.4	8.3x	5,465.4	153.5	\$35.6	169.4	\$32.3
46	2012	695.1	8.3x	5,770.1	153.5	\$37.6	169.4	\$34.1
46	2013	749.1	8.3x	6,218.4	153.5	\$40.5	169.4	\$36.7

TripAdvisor Restaurants EV / LTM EBITDA Valuation Using What Priceline *Should Have* Paid for OpenTable (i.e., After Goodwill Impairment)

# of restaurants, ths	Year for OpenTable Key Metrics	EBITDA, mln \$	EV/EBITDA	EV, mll \$	Share count in 5 years	Restaurant Price per Share, \$	Share count in 10 years	Restaurant Price per Share, \$
46	2008	110.0	31.0x	3,411.2	153.5	\$22.2	169.4	\$20.1
46	2009	137.2	31.0x	4,255.5	153.5	\$27.7	169.4	\$25.1
46	2010	199.1	31.0x	6,174.5	153.5	\$40.2	169.4	\$36.4
46	2011	273.8	31.0x	8,492.0	153.5	\$55.3	169.4	\$50.1
46	2012	258.0	31.0x	7,999.8	153.5	\$52.1	169.4	\$47.2
46	2013	300.5	31.0x	9,319.8	153.5	\$60.7	169.4	\$55.0

Restaurants: EV per Restaurant Valuation Based on Priceline's Acquisition of OpenTable *Before* and *After* Goodwill Impairment

- We can also apply EV per Restaurant multiple that Priceline paid for OpenTable before and after goodwill impairment.
- We have done this valuation at three points in time:
 - Today
 - 5 years out
 - 10 years out.

TripAdvisor Restaurants Valuation Based on EV per Restaurant That Priceline *Actually* Paid for OpenTable

Number of Restaurants, ths	46
OpenTable EV/Restaurant at Acquisition, \$ ths	81.9
TripAdvisor Restaurants Enterprise Value, \$ mln	3,767.9
Share count now	139.0
TripAdvisor Restaurants value per share, \$	\$27.1
Share count in 5 years	153.5
TripAdvisor Restaurants value per share, \$	\$24.6
Share count in 10 years	169.4
TripAdvisor Restaurants value per share, \$	\$22.2

TripAdvisor Restaurants Valuation Based on EV per Restaurant That Priceline *Should Have* Paid for OpenTable – *i.e.*, After Goodwill Impairment

Number of Restaurants, ths	46
OpenTable EV/Restaurant, Adjusted for Goodwill impairment, \$ ths	52.1
TripAdvisor Restaurants Enterprise Value, \$ mln	2,397.8
Share count now	139.0
TripAdvisor Restaurants value per share, \$	\$17.3
Share count in 5 years	153.5
TripAdvisor Restaurants value per share, \$	\$15.6
Share count in 10 years	169.4
TripAdvisor Restaurants value per share, \$	\$14.2

Restaurants Valuation: Concluding Thoughts (1)

- We have demonstrated several valuation approaches that produce a fairly broad range of results.
- What do we think as the most likely range of intrinsic value for TripAdvisor Restaurants business?
- We think that *the range of \$10 to \$30 between now and 5 years out* is the most likely range.

Restaurants Valuation: Concluding Thoughts (2)

- We recognize that it is *still* a broad range.
- However, we *do not need* to make a decision now. As more data points become available, we would be able to fine tune our valuation.
- The most important thing is that Restaurants Business that has negative LTM EBITDA is worth a substantial amount of money even at the bottom of the range (~\$10) compared to the current price of TRIP shares (~\$35).
- The rest is positive open-ended optionality.

TripAdvisor: Attractions

Attractions: From Reviews with Next to Zero Revenue to a Major Platform Business

- History of Attractions is very similar to the history of Restaurants.
- Prior to 2014: lots of traffic / eyeballs / reviews on attractions pages but no real monetization.
- August 8, 2014 – TripAdvisor closed its acquisition of Viator.



- Viator at the time of acquisition:
 - more than 20,000 bookable tours and attractions
 - more than 600,000 user reviews, photos, and videos (Source: 3Q 2014 TRIP Financial Results).

Attractions: Management Clearly Outlined Its Vision of Becoming an OTA for Attractions Shortly After the Viator Acquisition

“if we can hope for our destiny to be that [of] online travel agency for attractions, then TripAdvisor brings the demand, Viator brings the supply, and it's a pretty nice match on a product that is sold online with high margins. Gosh, looks very similar to the hotel space, and we all know a couple of OTAs in the hotel space that are very big and very profitable. So, we like those proof points.” (1Q 2015 TRIP Earnings Call)

Attractions: Product Creates Incredible User Experience!

- Travelers can purchase “attractions” (tours, museum tickets, etc.) on www.viator.com, www.tripadvisor.com and through TripAdvisor app.
- Buying on TripAdvisor is super convenient because one can read reviews and then book an attraction of interest.
- It also allows to skip lines and save lots of time!
- Using Attractions is a no-brainer!

Attractions: Booking on www.Viator.com User Experience

The screenshot displays the Viator website interface for booking a 'Skip-the-Line Versailles Pass'. The top navigation bar includes the Viator logo, 'Travel with an insider' tagline, and a search bar with 'France' and 'Versailles' selected. The main content area features a large image of the Palace of Versailles with a play button overlay. To the right, the price is listed as 'From USD \$41.95'. Below the price, there are dropdown menus for the date (19 Dec 2017) and the number of guests (2 Adults, 0 Children, 0 Infants). A 'Check Availability' button is prominently displayed. The bottom section includes a 'Versailles Tours' sidebar with various tour categories, an 'Overview' and 'Important Info' section with descriptive text, and a 'Highlights' section. An advertisement for Delta is visible at the bottom right.

USD (\$) English Log In / Register Cart Manage My Booking Help

viator | Travel with an insider
A TripAdvisor Company

France Versailles Go Search...

Home > France > Île-de-France > Versailles > Tours & Sightseeing > Skip-the-Line Tours

Skip-the-Line Versailles Pass

★★★★★ 59 Reviews Tour code: 5460P12
Location: Versailles, France Duration: 5 hours (approx.)

Paris - Versailles

From USD
\$41.95
View price calendar ▶

19 Dec 2017

Adult (Age 18+) 2
Child (Age 6 to 17) 0
Infant (Age 0 to 5) 0

LOW PRICE GUARANTEE

Check Availability

Save Like 1 Save

Advertisement

Look for the button when you book:
DELTA

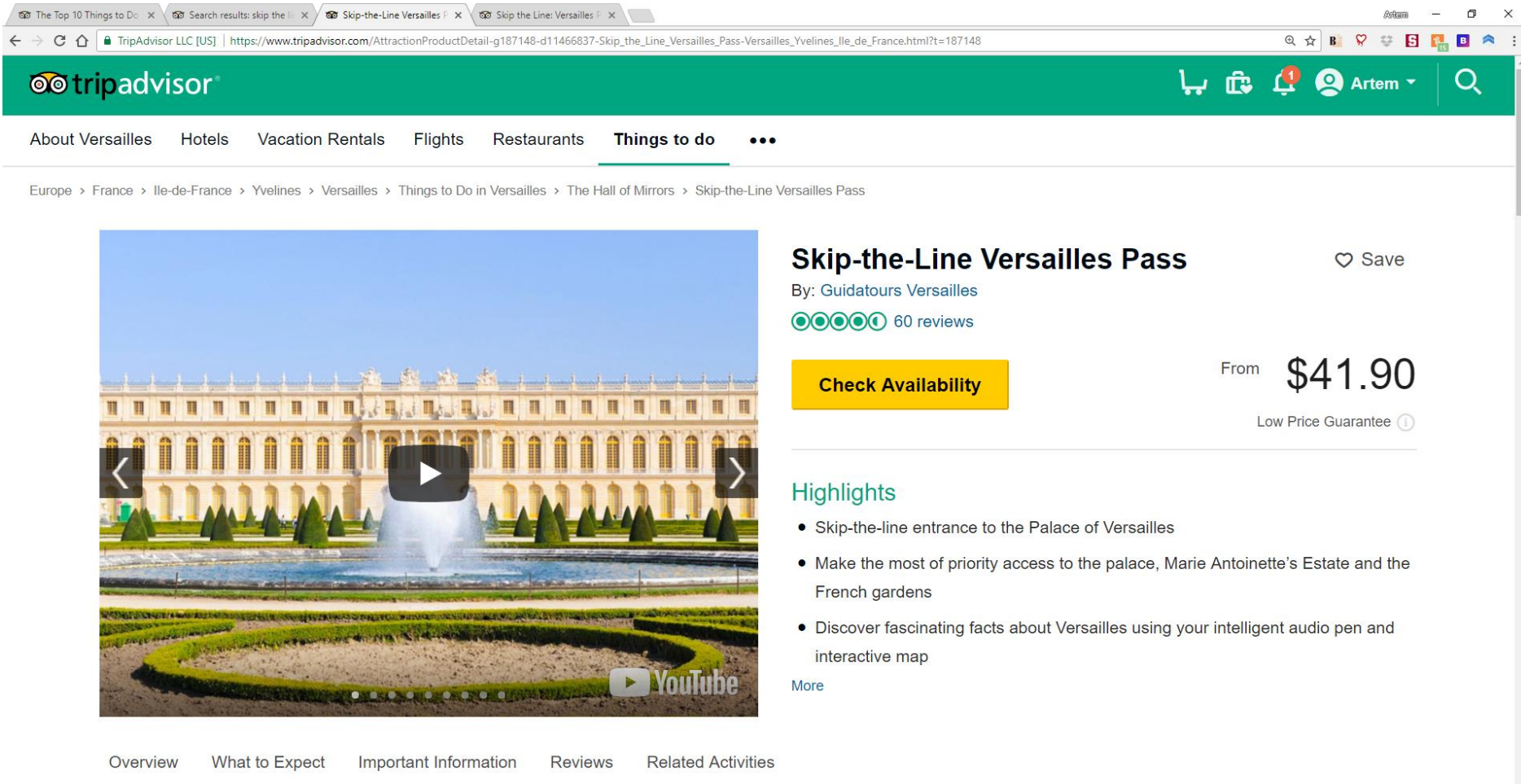
Versailles Tours
All Tours...
Cruises, Sailing & Water Tours
Cultural & Theme Tours
Day Trips & Excursions
Kid Friendly
Multi-day & Extended Tours
Private & Custom Tours
Shows, Concerts & Sports
Sightseeing Tickets & Passes

Overview **Important Info**

Avoid the crowds and explore the Palace of Versailles at your own pace with skip-the-line entry to the awe-inspiring French château, including an intelligent audio pen. Walk in the footsteps of Louis XIV and Marie Antoinette as you explore the opulent interiors, walk through the famous Hall of Mirrors and stroll around the beautiful French Gardens. Finally, pay a visit to Marie Antoinette's Estate and enjoy the dazzling musical gardens or fountains show (depending on the day).

Highlights

Attractions: Booking on www.tripadvisor.com User Experience



The screenshot displays the TripAdvisor website interface for the 'Skip-the-Line Versailles Pass'. The browser's address bar shows the URL: https://www.tripadvisor.com/AttractionProductDetail-g187148-d11466837-Skip_the_Line_Versailles_Pass-Versailles_Yvelines_Ile_de_France.html?t=187148. The TripAdvisor logo is visible in the top left, and the user's name 'Artem' is in the top right. The navigation menu includes 'About Versailles', 'Hotels', 'Vacation Rentals', 'Flights', 'Restaurants', and 'Things to do'. The breadcrumb trail reads: 'Europe > France > Ile-de-France > Yvelines > Versailles > Things to Do in Versailles > The Hall of Mirrors > Skip-the-Line Versailles Pass'. The main content area features a large video player showing the Palace of Versailles. To the right of the video, the product title 'Skip-the-Line Versailles Pass' is displayed, along with 'By: Guidatours Versailles' and '60 reviews'. A yellow 'Check Availability' button is prominent. The price is listed as 'From \$41.90' with a 'Low Price Guarantee' icon. Below this, a 'Highlights' section lists three bullet points: 'Skip-the-line entrance to the Palace of Versailles', 'Make the most of priority access to the palace, Marie Antoinette's Estate and the French gardens', and 'Discover fascinating facts about Versailles using your intelligent audio pen and interactive map'. A 'More' link is also present. At the bottom, a navigation bar offers 'Overview', 'What to Expect', 'Important Information', 'Reviews', and 'Related Activities'.

tripadvisor

About Versailles Hotels Vacation Rentals Flights Restaurants **Things to do** ...

Europe > France > Ile-de-France > Yvelines > Versailles > Things to Do in Versailles > The Hall of Mirrors > Skip-the-Line Versailles Pass

Skip-the-Line Versailles Pass Save

By: Guidatours Versailles

60 reviews

Check Availability

From **\$41.90**

Low Price Guarantee

Highlights

- Skip-the-line entrance to the Palace of Versailles
- Make the most of priority access to the palace, Marie Antoinette's Estate and the French gardens
- Discover fascinating facts about Versailles using your intelligent audio pen and interactive map

[More](#)

Overview What to Expect Important Information Reviews Related Activities

Attractions: Total Addressable Market Is Giant

\$80B

(Source: Phocuswright)

Attractions: How Do Attractions Make Money?

It is just an OTA for Attractions! (1)

- Attractions use commission model similar to OTAs in the hotel space.
- However, Attractions' commissions are even higher!
- OTAs charge hotels 15% to 20%.
- Attractions usually charge attractions vendors 20% to 25%.

Attractions: How Do Attractions Make Money?

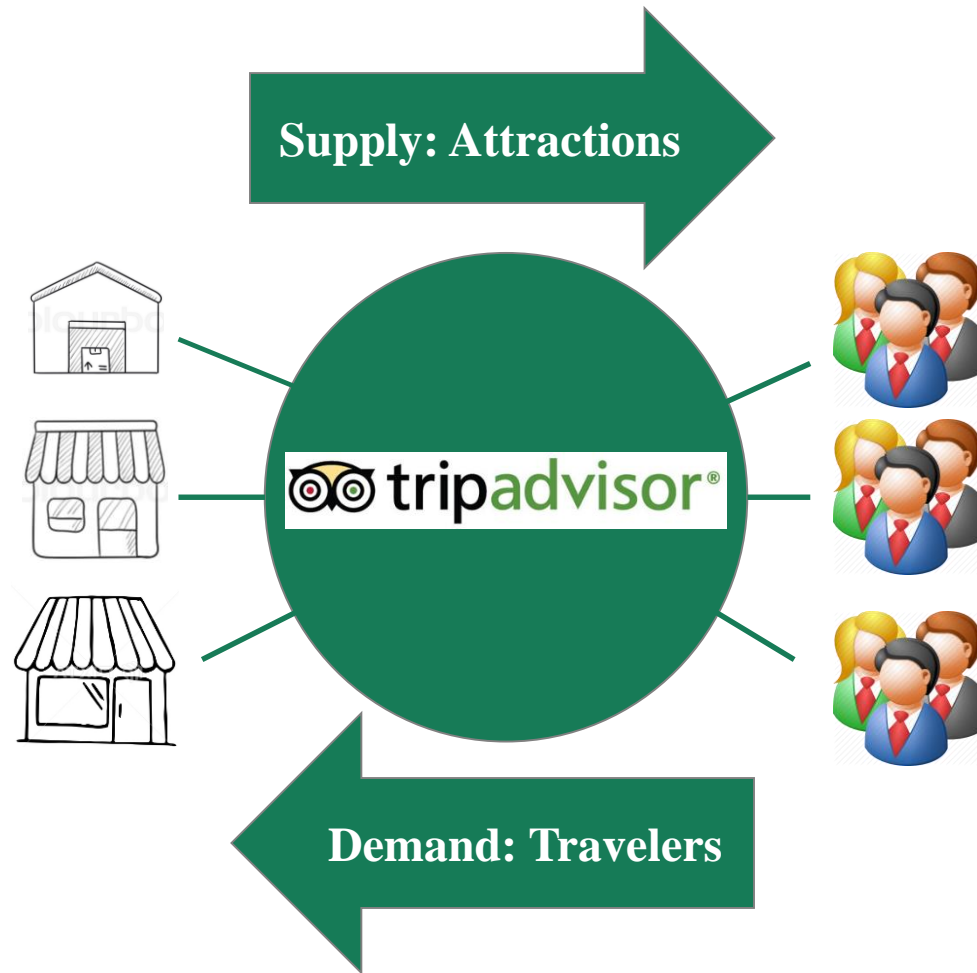
It is just an OTA for Attractions! (2)

- Attractions face extremely fragmented base of vendors that possess little bargaining power and have very little resources to compete with Attractions by acquiring customers directly.
- OTAs face a few giant hotel players who always try to get customer directly to their website.
- **Punchline:** Attractions is a better business than OTAs due to
 - higher commissions *and*
 - lower bargaining power of vendors.

Why Is TripAdvisor Attractions Such a Great Business? *It Is a Platform!* (1)

- The explanation is very similar to why TripAdvisor Restaurants is a great business.
- TripAdvisor already had *lots of traffic* to its attractions pages.
- Viator brought supply: attractions vendors with perishable inventory – e.g., tours, tickets, etc.
- Once TripAdvisor put supply and demand together, it has created a virtuous cycle.

TripAdvisor Attractions: Supply And Demand



Why Is TripAdvisor Attractions Such a Great Business? *It Is a Platform!* (2)

- Strong network effect.
- Winner-takes-all dynamics.
- Wide moat that is expanding over time as potential entrants will face a chicken-and-egg problem.
- Highly scalable business model.
- Very high incremental margins.

Attractions: Competition (1)

- TripAdvisor Attractions is the biggest player in the attractions reservations online space.
- Some other players such as Expedia have attractions offerings as well but they are quite behind.
- We see at least three reasons why this competitive dynamic would continue.

Attractions: Competition (2)

- #1: TripAdvisor gets massive demand traffic driven by reviews while other players in the space do not have this tailwind.
- #2: Expedia's attractions business has been and will likely remain a neglected stepchild.
 - It is just too small to really matter for Expedia.
 - When Expedia's attractions business unit had a chance to compete with Viator and then TripAdvisor, it never got enough resources and managerial attention.
 - It is unlikely to change now when the gap between TripAdvisor Attractions and Expedia is probably ~2x.
- Third, this is a winner-take-all market. TripAdvisor Attractions is the winner now and it will be very difficult for anybody to invade its turf.

Attractions: Long Growth Runway (1)

- 2Q 2017 TRIP EC: “we expect attractions will be a key driver of Non-Hotel revenue growth and adjusted EBITDA profitability this year”
- 2Q 2017 TRIP EC: “Attractions ... we believe has the biggest short-, medium- and long-term upside for us.”



know better ● book better ● go better

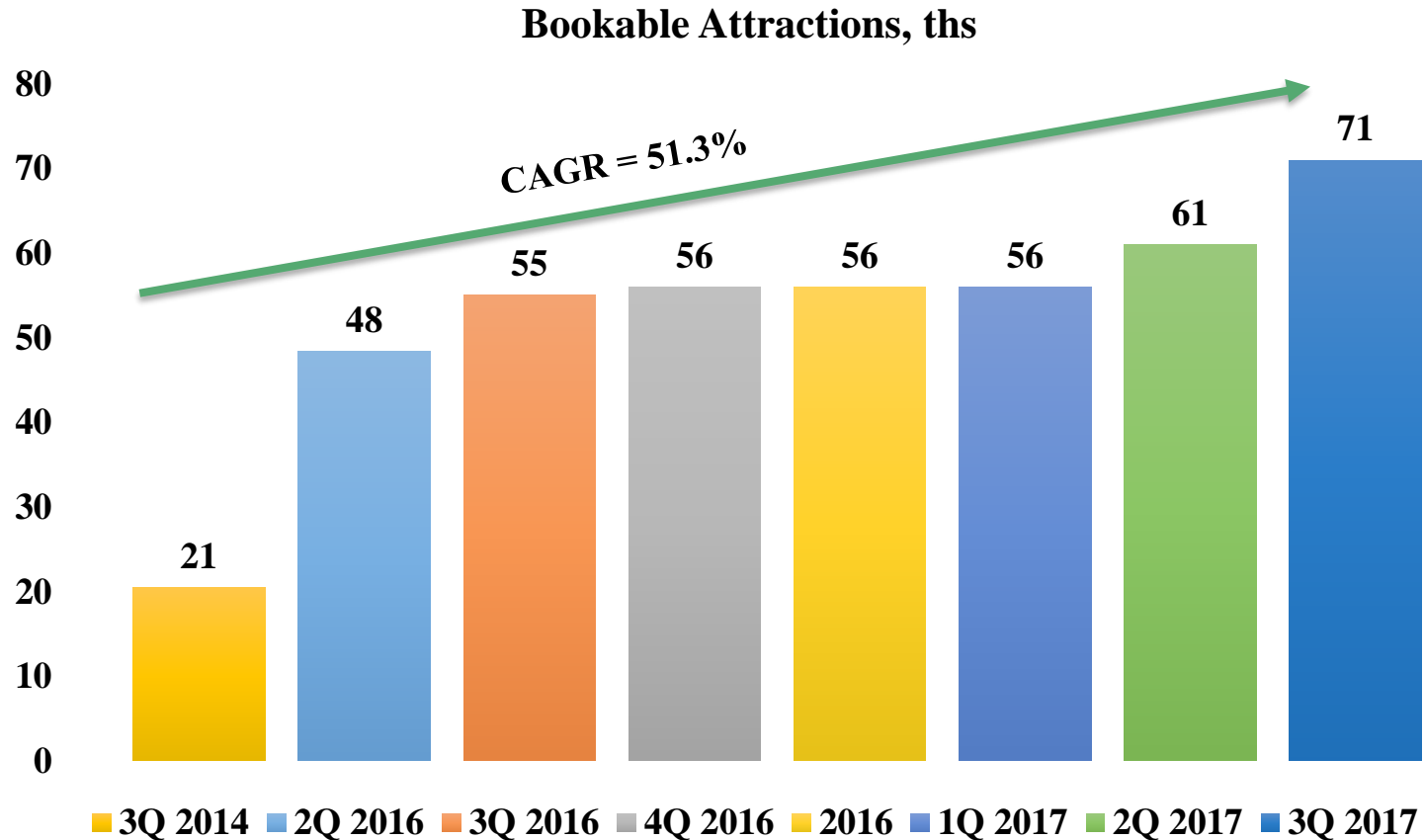
Attractions: Long Growth Runway (2)

- 2Q 2017 TRIP EC: “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.”
- 3Q 2017 TRIP 8-K Prepared Remarks: “Attractions continues to be a key driver of Non-Hotel segment revenue and profit growth, as we continue to drive both partner supply and traveler demand growth in our marketplace”

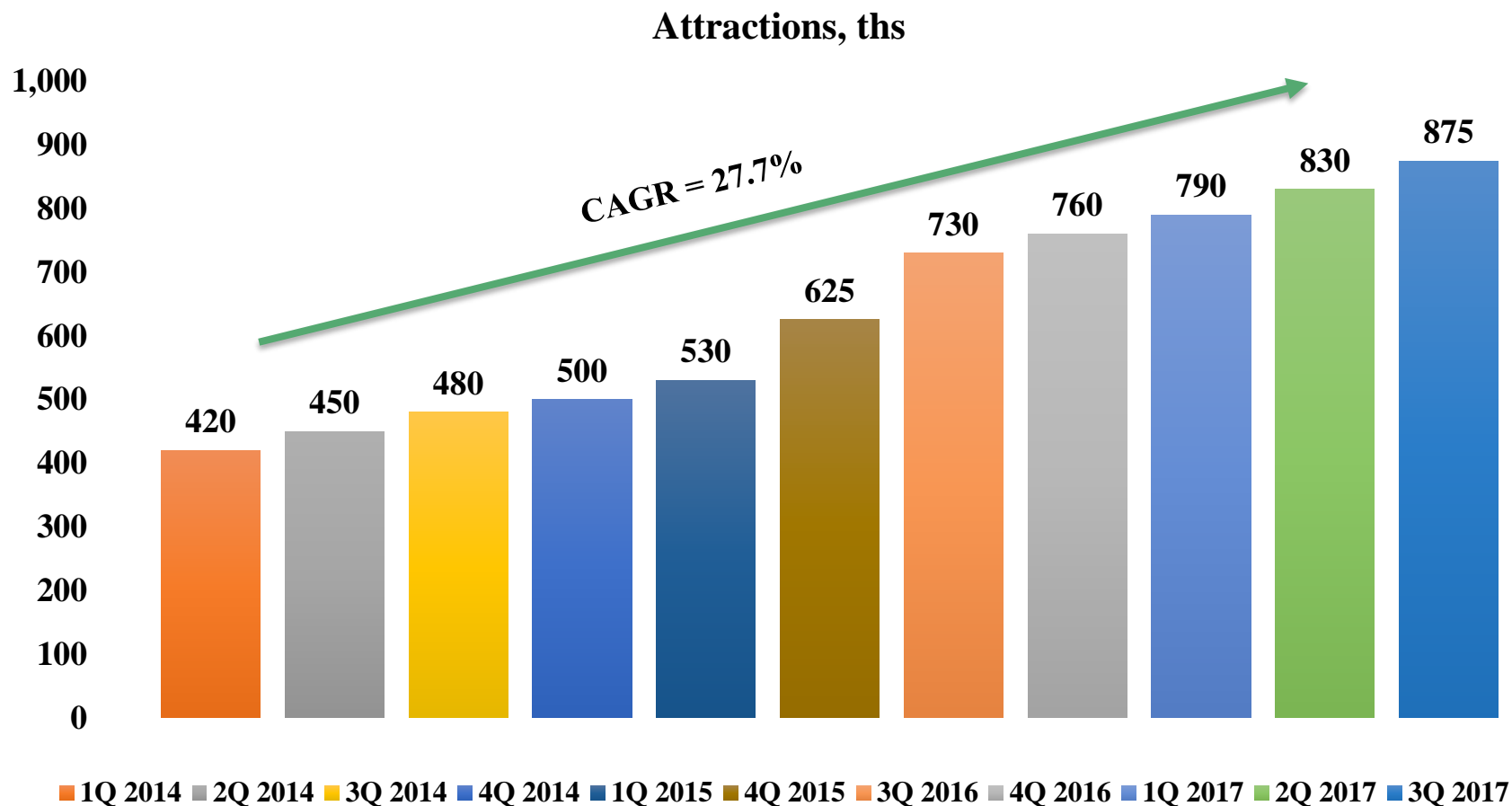


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Attractions: Bookable Attractions Grew ~3.4X in Three Years!

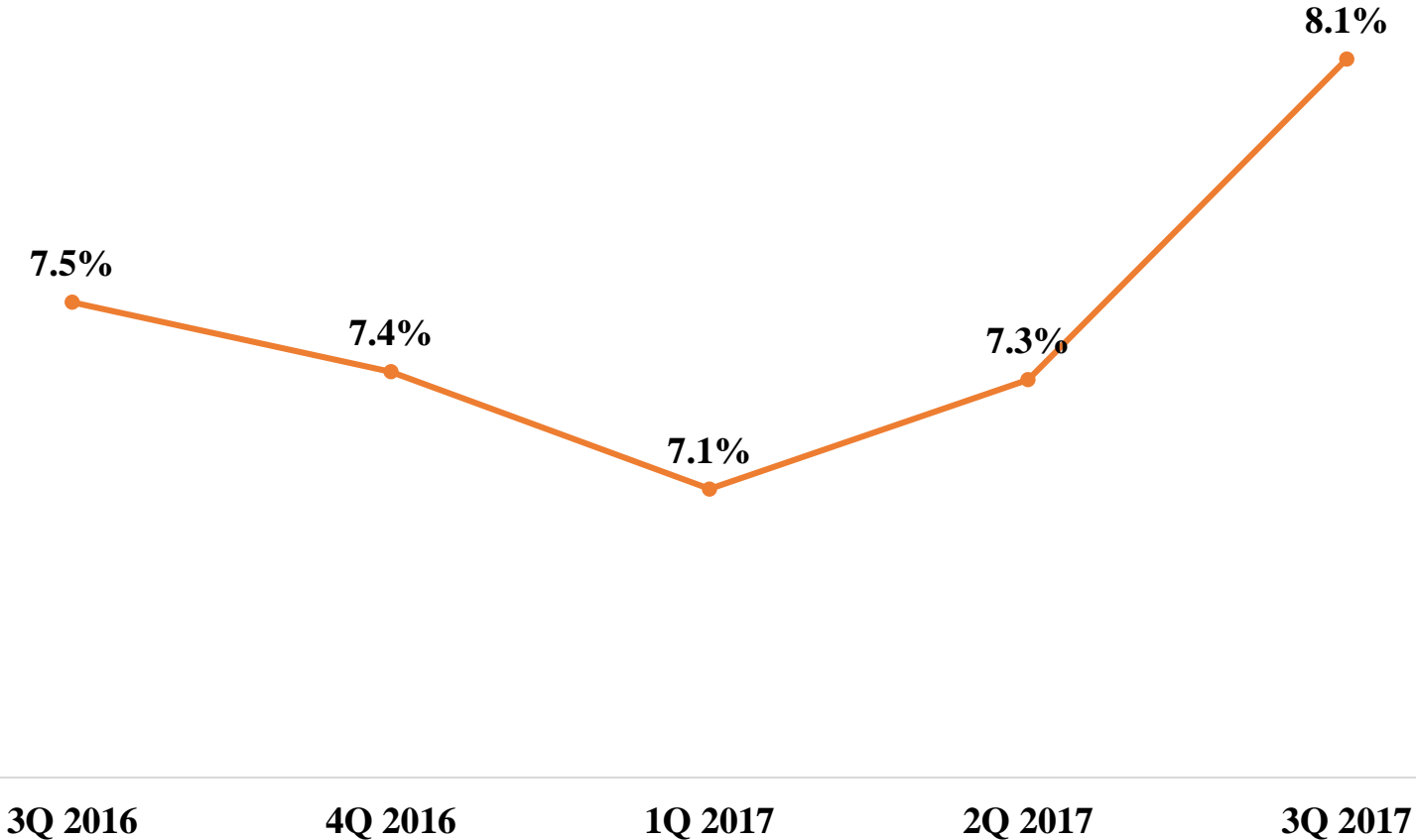


Attractions: Attractions Reviewed Have Been Growing at ~28% CAGR



Attractions: Bookable Attractions Penetration Remains Low!

Bookable Attractions, %



TripAdvisor Attractions: How Big Can It Be?

- Based on 3Q 2017 Earnings Call, we estimate that Attractions revenue is ~50% of Non-Hotel Business revenue
 - => Attractions 3Q 2017 LTM revenue was ~\$173.5M.
- According to Phocuswright, TAM = \$80B.
- Even if TripAdvisor captures ~5% and charges 20% commissions, TripAdvisor's revenue opportunity = $\$80B * 5% * 20% = \sim\$800M$ or ~4.6x bigger than our estimate of 3Q 2017 LTM revenue.



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TripAdvisor Attractions Can Grow Revenue 20% - 30% Per Year for Many Years

- TripAdvisor Attractions revenue can grow 20% - 30% a year for many years driven by increasing penetration of bookable attractions and increasing adoption of online reservations for attractions.



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Attractions: Margins

- 2Q 2017 EC: “The margins of the business are great.”
- As you can see, the management does not tell us much about this critical subject!
- We will come to the subject of margins later.



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Attractions: Valuation (1)

- We do not have as good of a historical comp for Attractions as we had for Restaurants to do detailed valuation work based on user engagement metrics.
- Instead we will do a valuation “sketch”.
- We wrote that we estimate Attractions LTM revenue = ~\$173.5M.
- We also wrote that we can see a path to \$800M in a few years.
- The margins could be 40% or even 50%.
- We put together different combinations of these variables.
- We assume 2% share dilution per year.
- We assume 14x EBITDA multiple given the quality of the business.

Attractions: Valuation (2)

		Scenario 1	Scenario 2	Scenario 3	Scenario 4	Scenario 5	Scenario 6	Scenario 7
Revenue, mln \$		200	300	400	500	600	700	800
EBITDA margin, %:	EBITDA, mln \$:							
<i>Bear:</i>	20%	40	60	80	100	120	140	160
<i>Base:</i>	30%	60	90	120	150	180	210	240
<i>Bull:</i>	40%	80	120	160	200	240	280	320
EV/EBITDA		14.0x	14.0x	14.0x	14.0x	14.0x	14.0x	14.0x
Enterprise value, mln \$								
<i>Bear:</i>		560	840	1,120	1,400	1,680	1,960	2,240
<i>Base:</i>		840	1,260	1,680	2,100	2,520	2,940	3,360
<i>Bull:</i>		1,120	1,680	2,240	2,800	3,360	3,920	4,480
Share count in 5 years		153.5	153.5	153.5	153.5	153.5	153.5	153.5
Value per Share in 5 Years, \$								
<i>Bear:</i>		\$3.65	\$5.47	\$7.30	\$9.12	\$10.95	\$12.77	\$14.60
<i>Base:</i>		\$5.47	\$8.21	\$10.95	\$13.68	\$16.42	\$19.16	\$21.89
<i>Bull:</i>		\$7.30	\$10.95	\$14.60	\$18.24	\$21.89	\$25.54	\$29.19

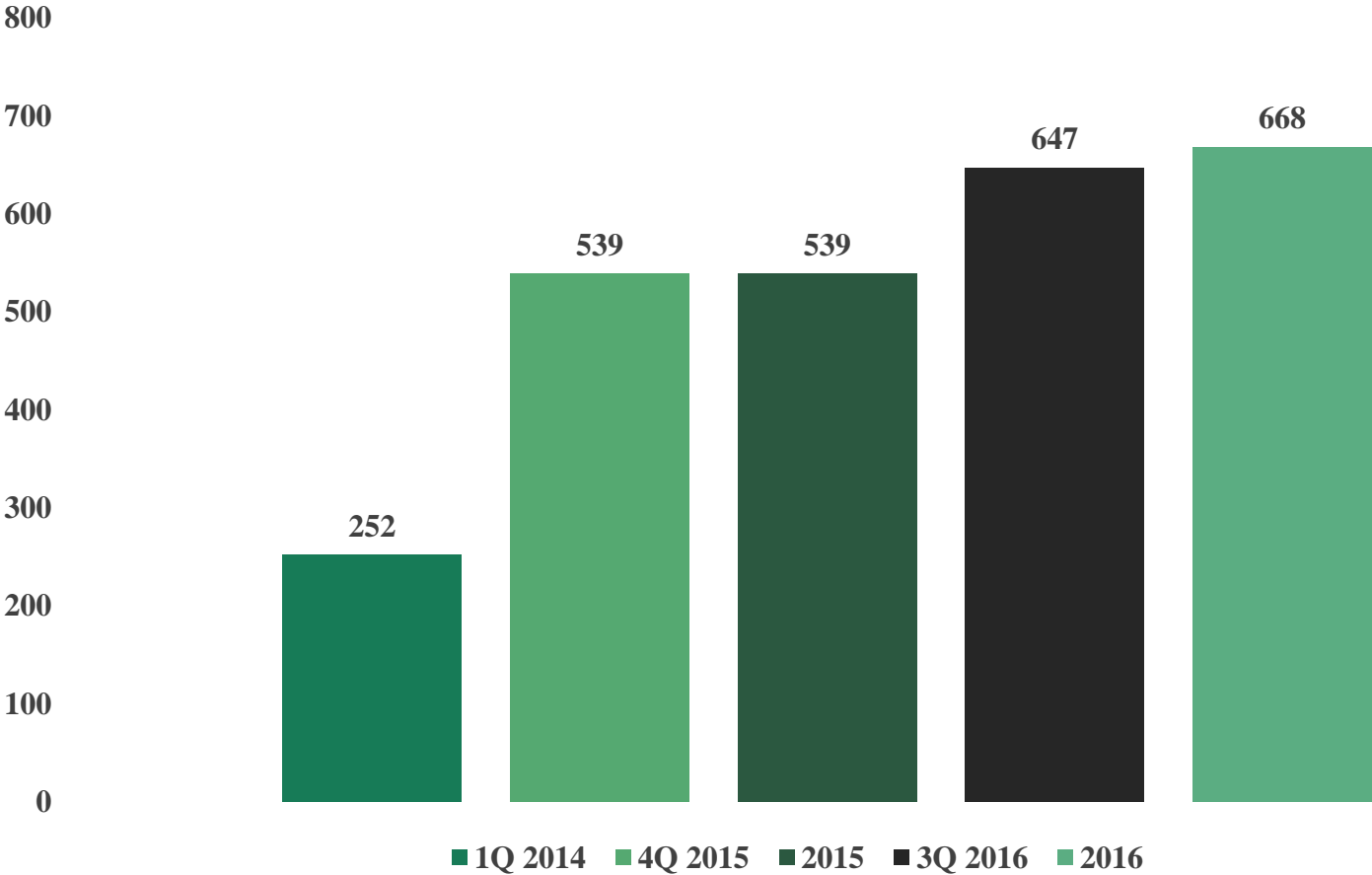
TripAdvisor: Vacation Rentals

Vacation Rentals Is the Least Important Component of Non-Hotel Business

- Vacation Rentals is the least differentiated product within Non-Hotel Business.
- It is a “me too” product and there are several other players offering it (e.g., HomeAway that was acquired by Expedia)
- TripAdvisor offers Vacation Rentals to have the full breadth of accommodation options to travelers on its website.

Bookable Vacation Rentals: 2.65x Growth in 3 Years

Bookable Vacation Rentals, ths



Vacation Rentals: Growth and Margins

- We suspect that Vacation Rentals is the slowest growing sub-segment within Non-Hotel Business.
- We also suspect that Vacation Rentals have been profitable for a long time.
 - For example, HomeAway (which should be a good comp) prior to its acquisition by Expedia was generating mid-teens EBITDA margins while growing very rapidly.

Vacation Rentals: The Future

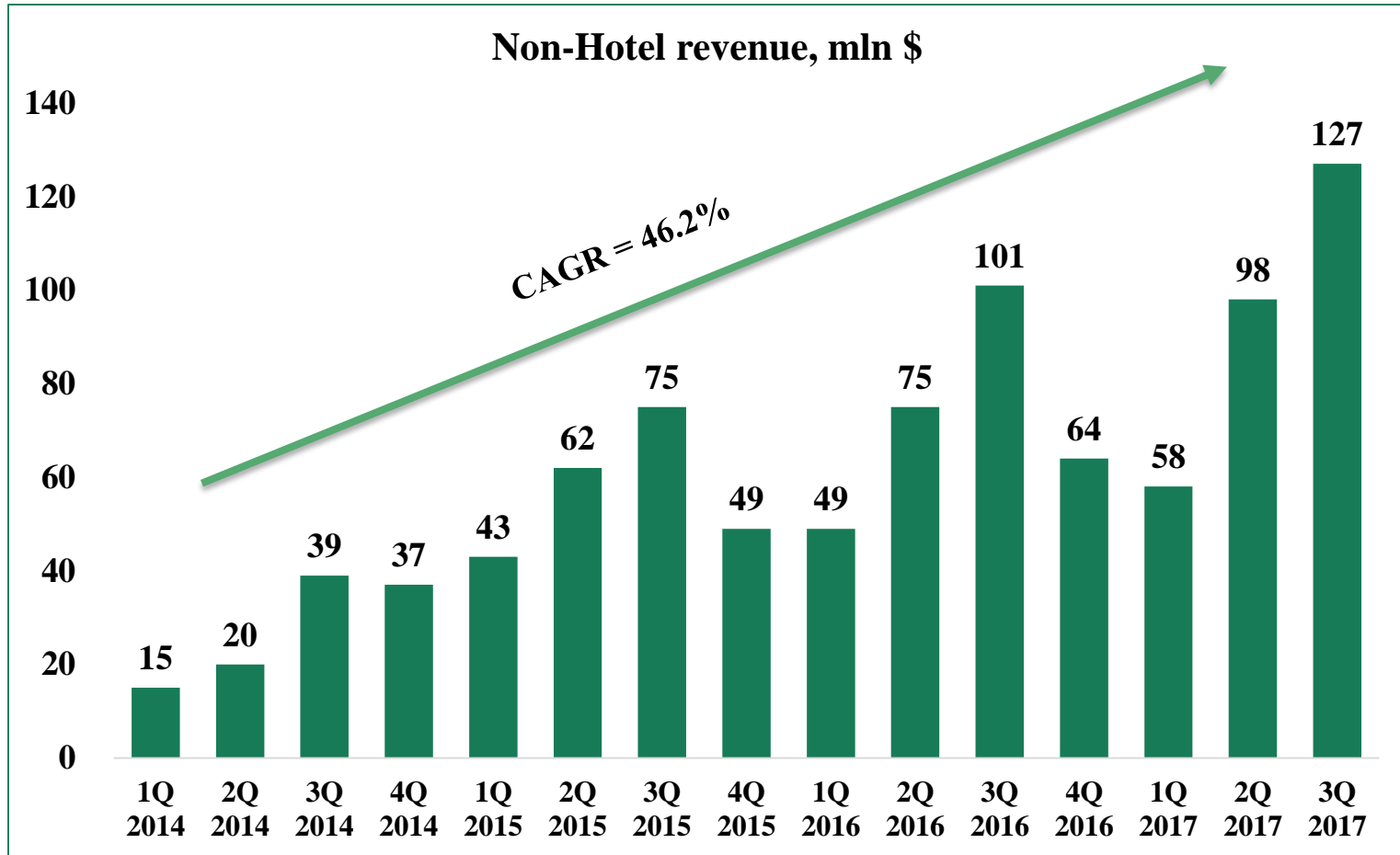
“This [Vacation Rentals] remains a complementary, profitable business for us and it nicely rounds out consumers’ accommodation options on TripAdvisor ” (3Q 2017 TRIP Earnings Call)

Vacation Rentals: Growth and Margin Forecast

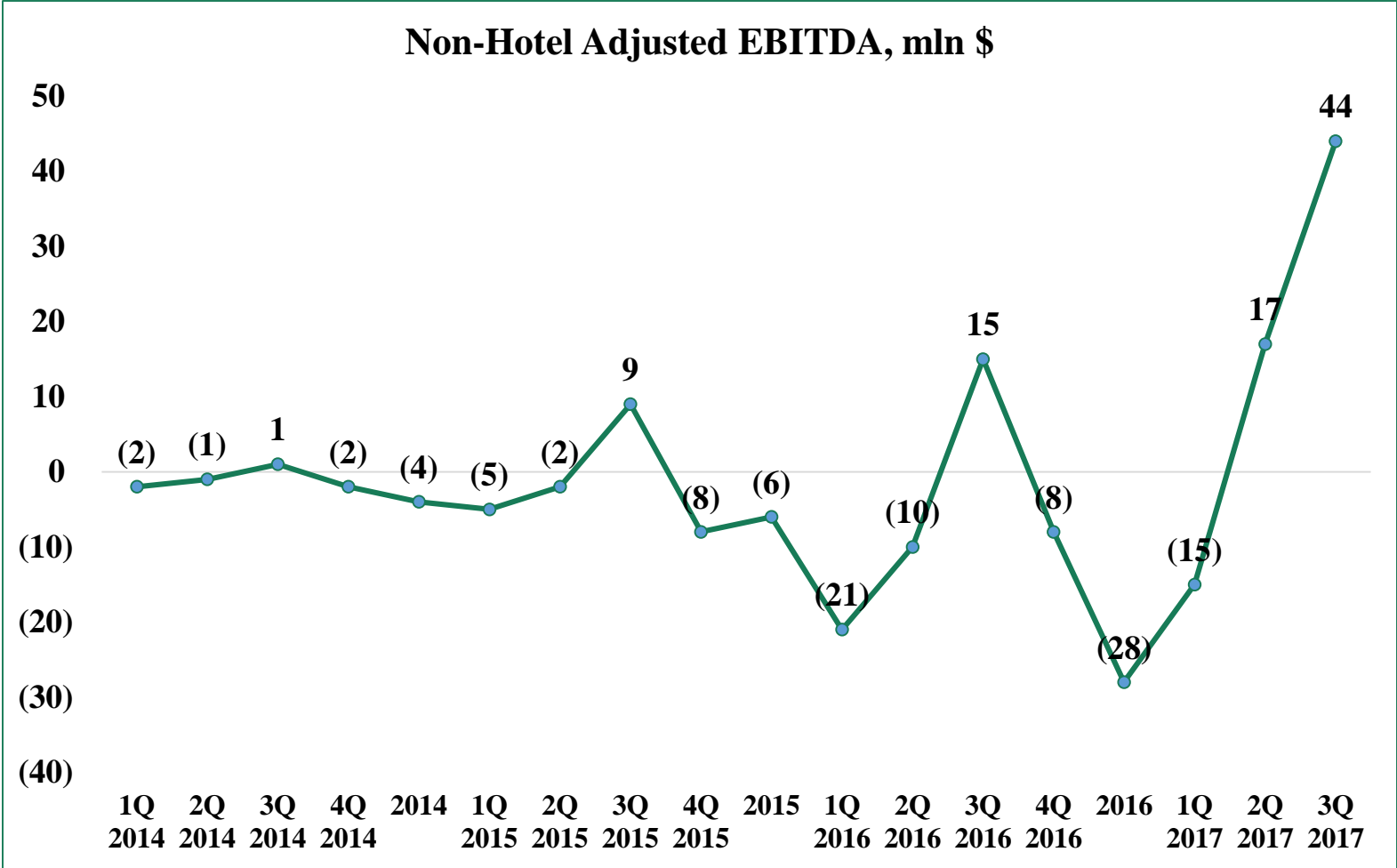
- Vacation Rentals would keep growing 10% - 15% a year.
- Vacation Rentals would remain profitable and be a cash generator for TripAdvisor.

TripAdvisor: Non-Hotel Business Historical Financials, Forecasts, Valuation

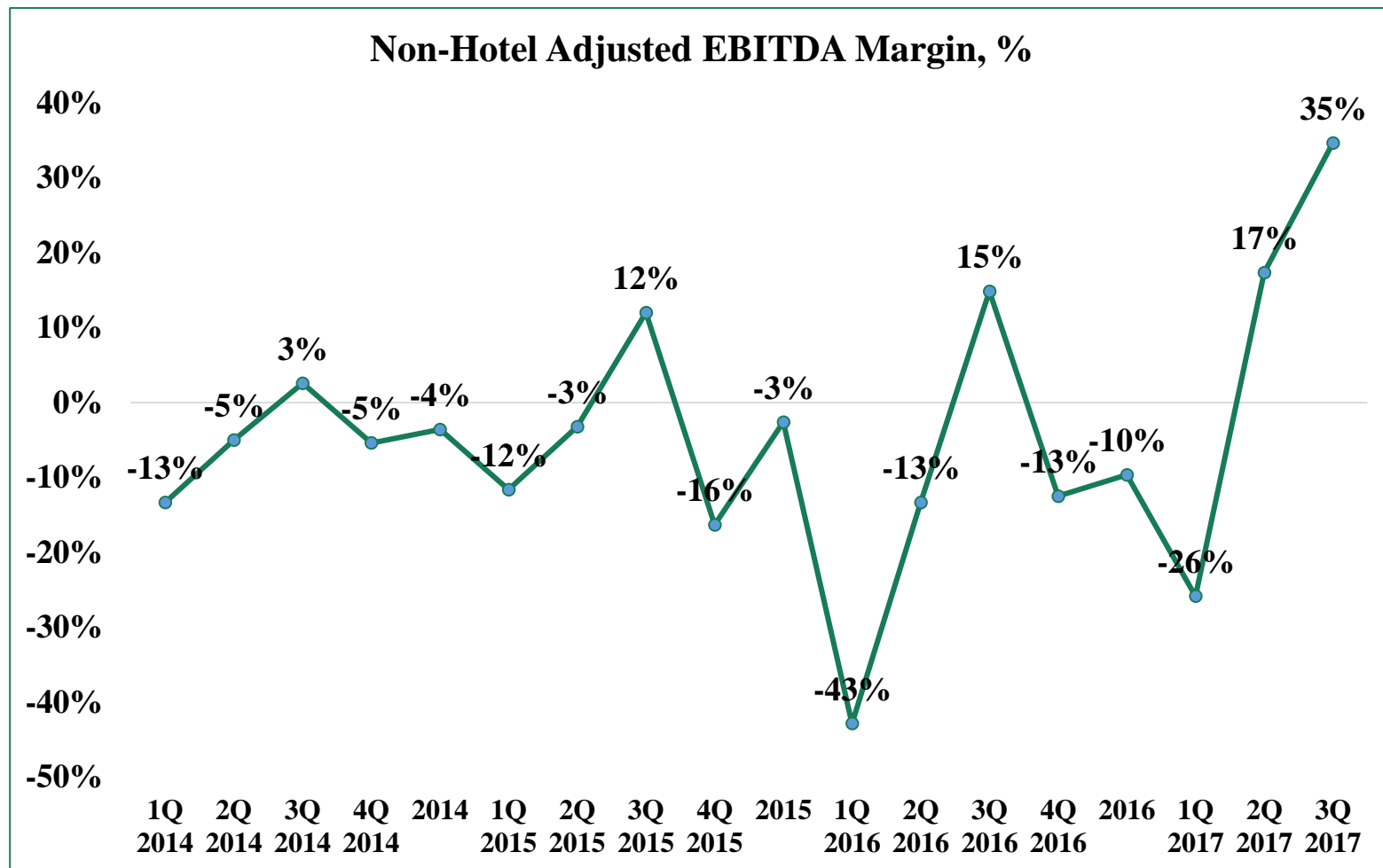
Non-Hotel Business: Revenue Grew at 46% CAGR



Non-Hotel Business: Adjusted EBITDA Improved Dramatically in 2017



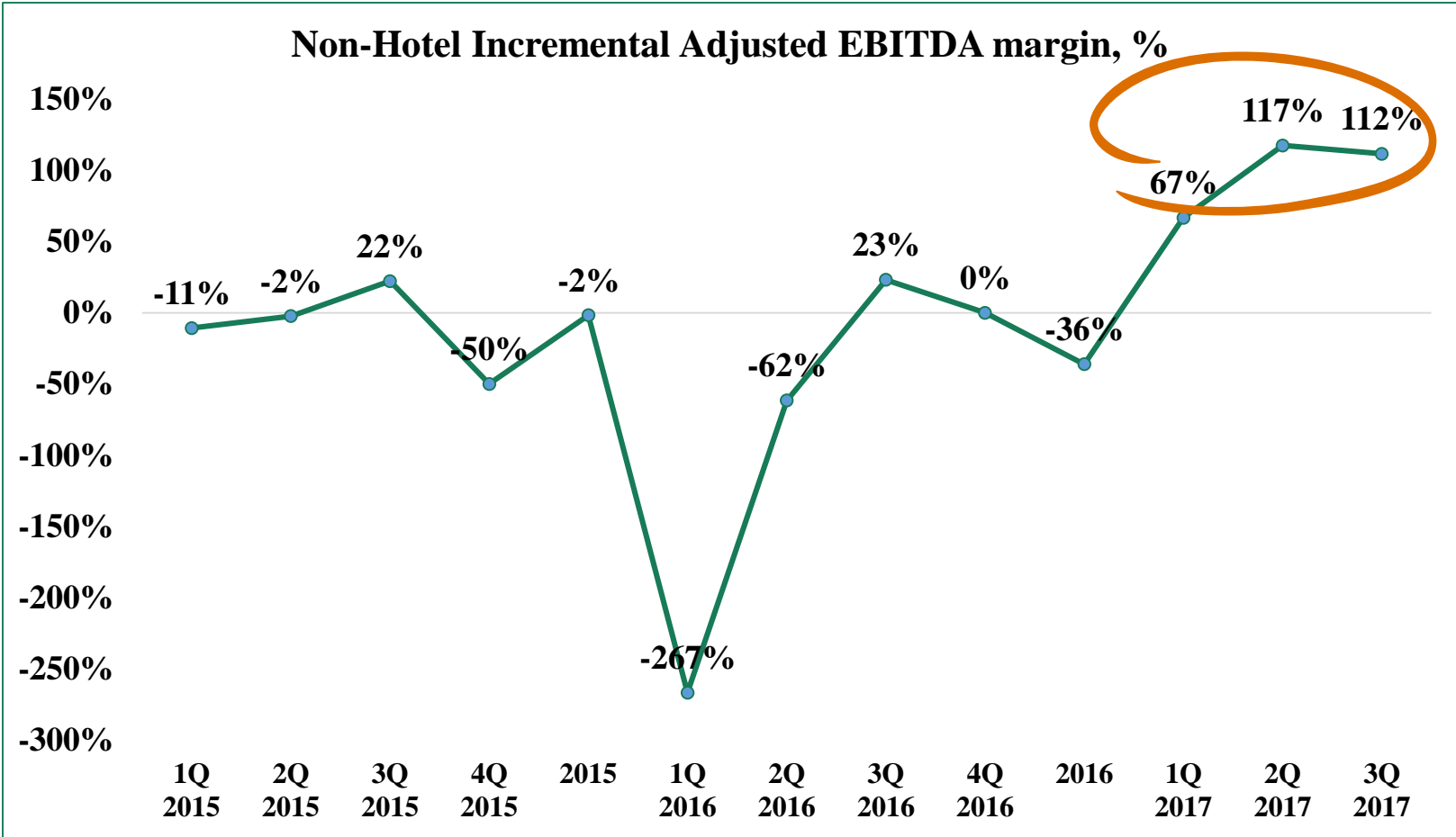
Non-Hotel Business: Adjusted EBITDA Margin Has Experienced Dramatic Improvement in 2Q and 3Q 2017



Non-Hotel Business: What's Behind 35% Adjusted EBITDA Margin in 3Q 2017?

- 3Q benefits from seasonality: it is the best quarter!
- We know that Restaurants just got above Adjusted EBITDA breakeven (let's Restaurants achieved say 2%) and assuming that Restaurants revenue is between 20% - 25% (our educated guess) of total Non-Hotel revenue, then Attractions and Vacation Rentals *together* had Adjusted EBITDA margin of 42% - 45%!

TripAdvisor Non-Hotel *Incremental* Adjusted EBITDA Margins Hit Inflection Point in 1Q 2017

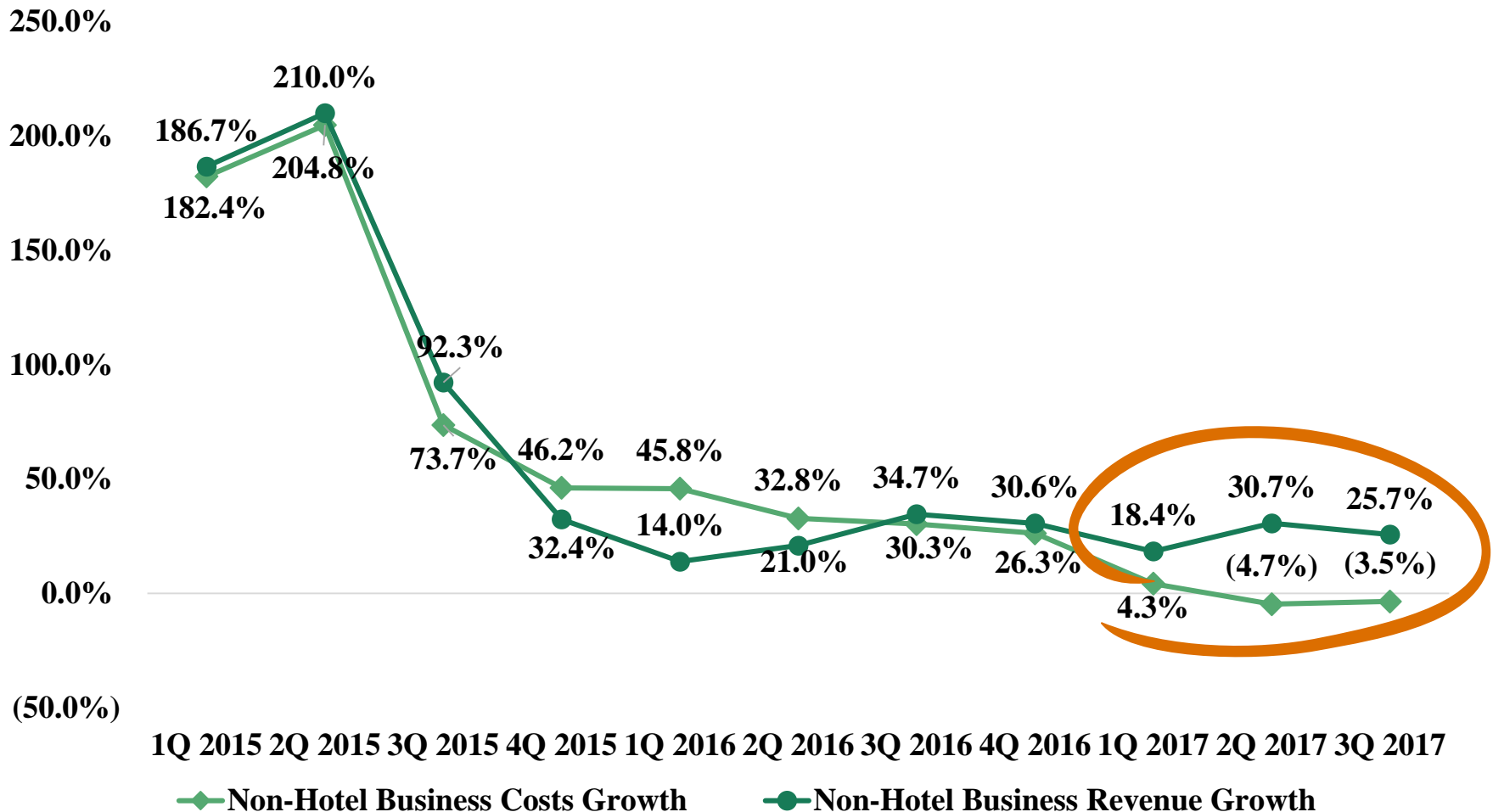


TripAdvisor Non-Hotel *Incremental* Adjusted EBITDA Margins Hit Inflection Point in 1Q 2017 (2)

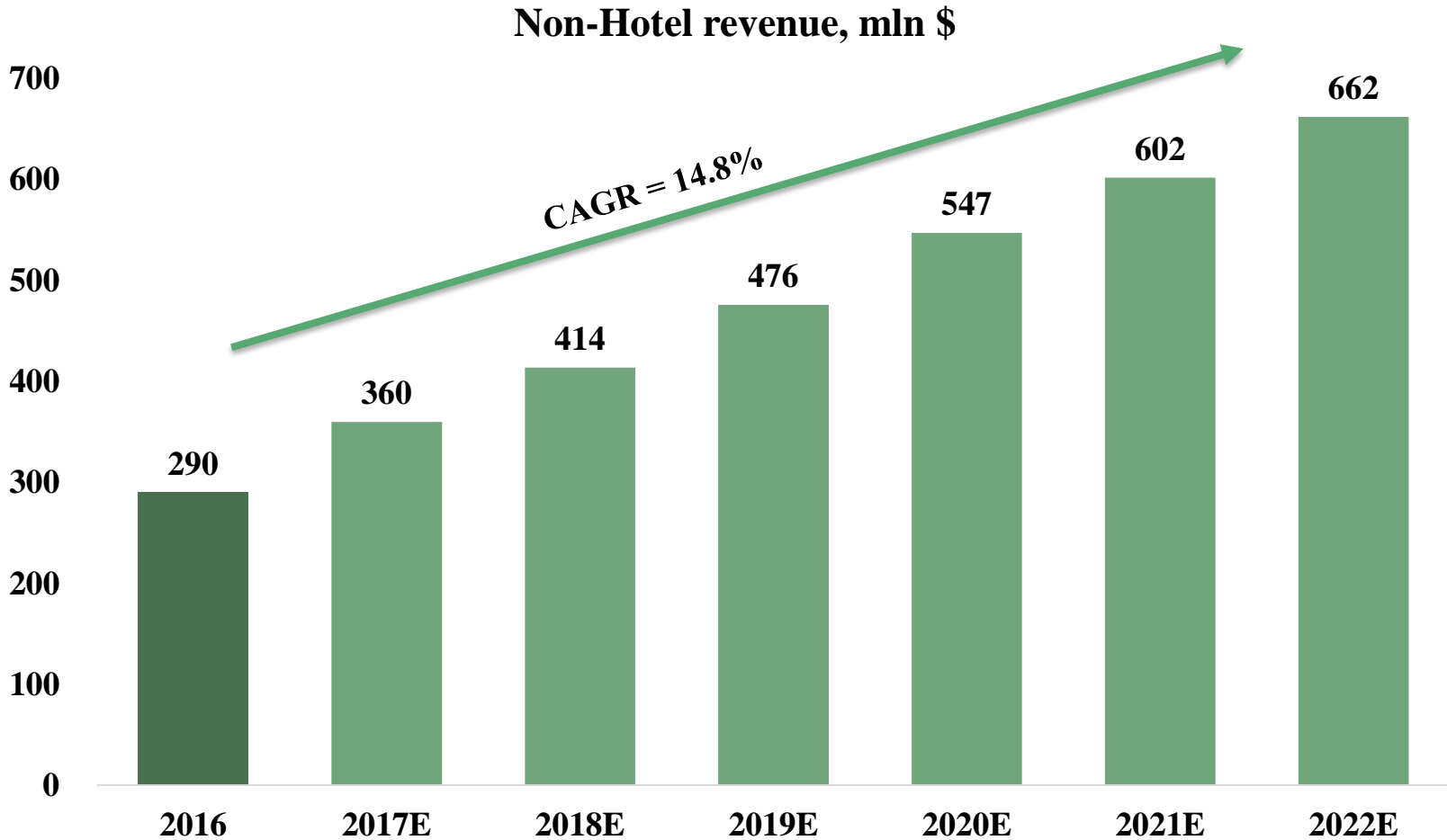
- As we saw in OpenTable case study, incremental EBITDA margin improvement is a strong leading indicator of overall profitably improvement.

TripAdvisor Non-Hotel Business: Costs Have Been Flat for the Past Three Quarters While Revenue Kept Growing

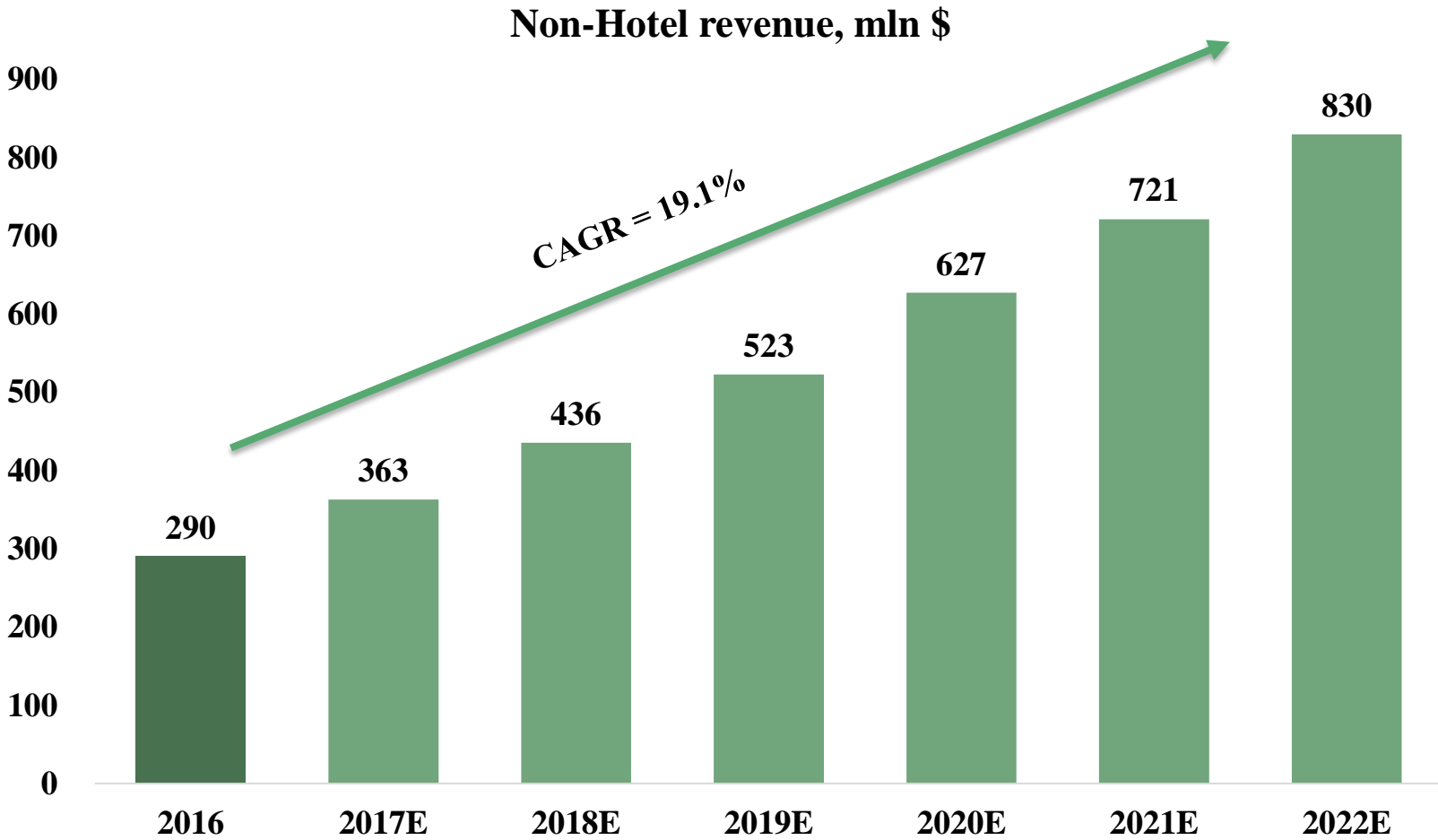
Non-Hotel Business Revenue Growth vs. Costs Growth %



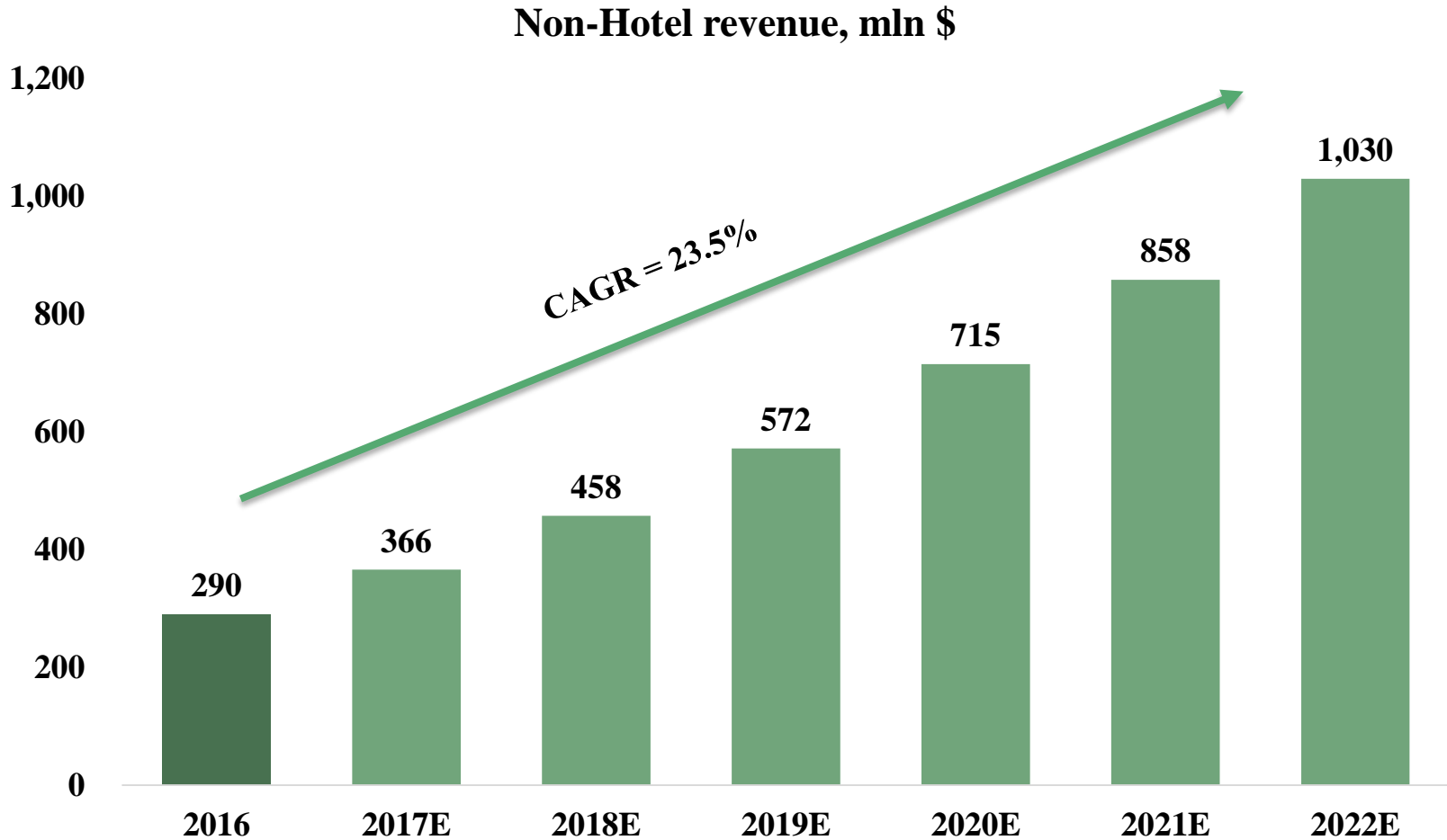
TripAdvisor Non-Hotel Business: Revenue Forecast - Bear Case



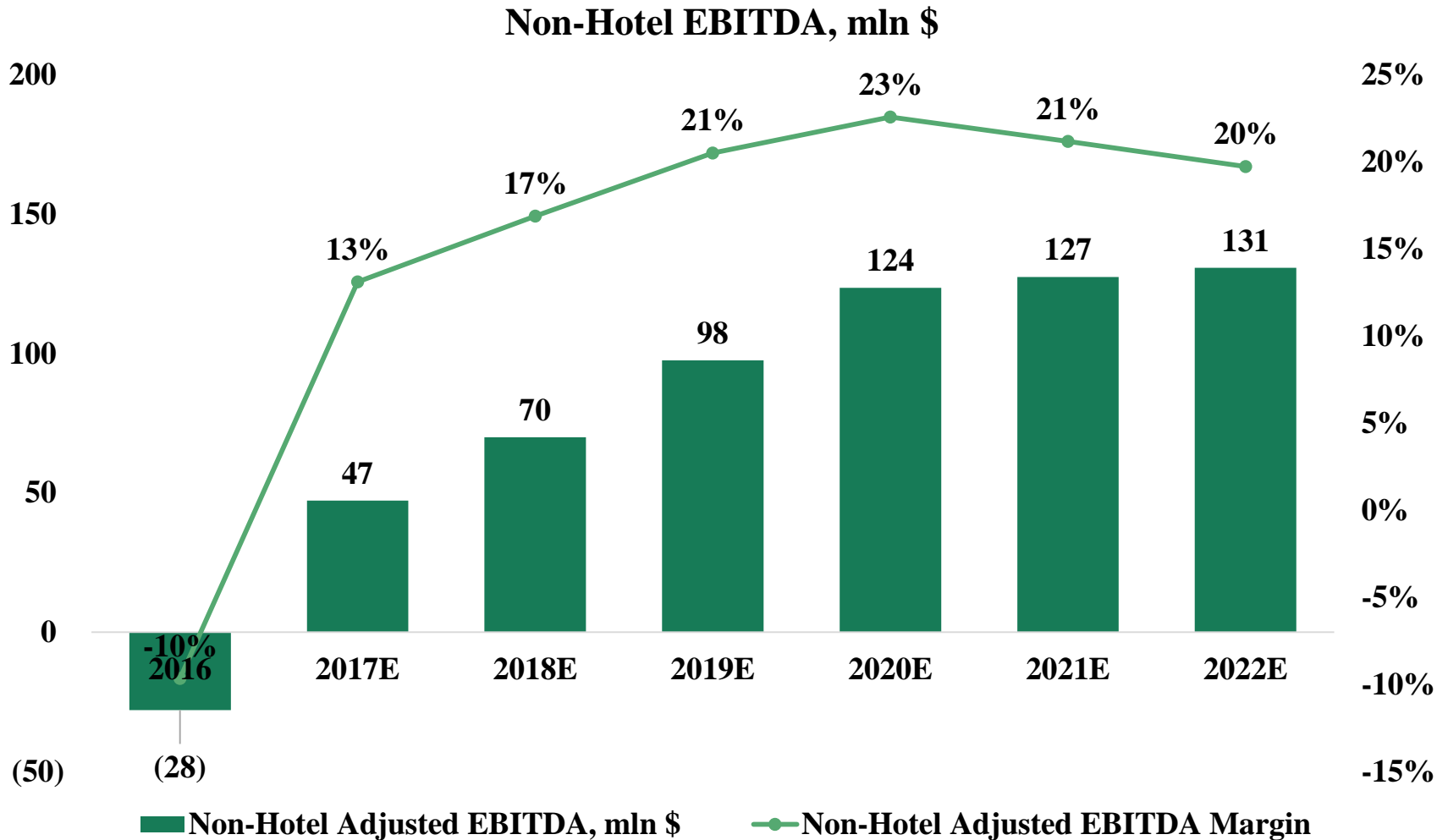
TripAdvisor Non-Hotel Business: Revenue Forecast – Base Case



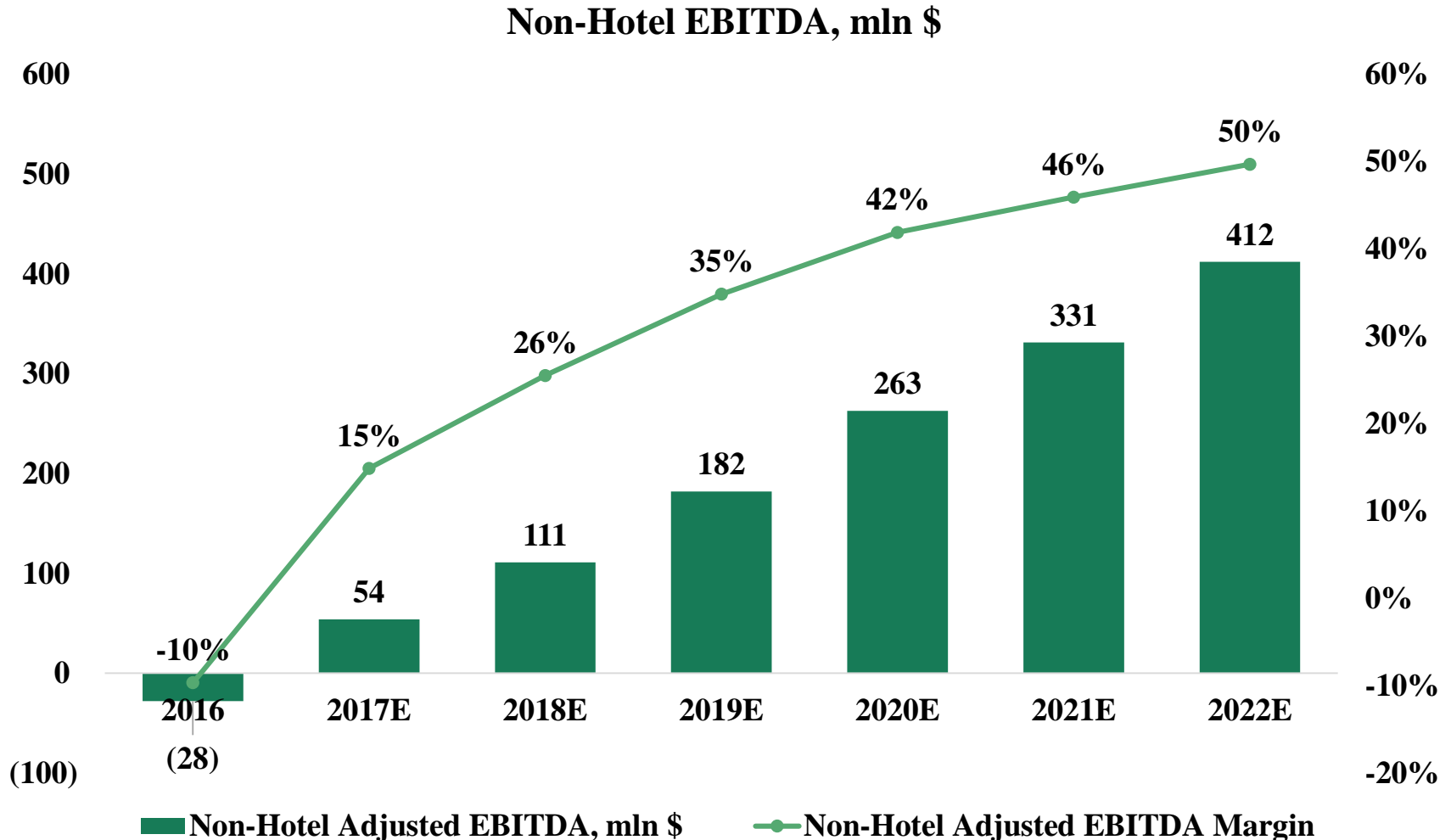
TripAdvisor Non-Hotel Business: Revenue Forecast – Bull Case



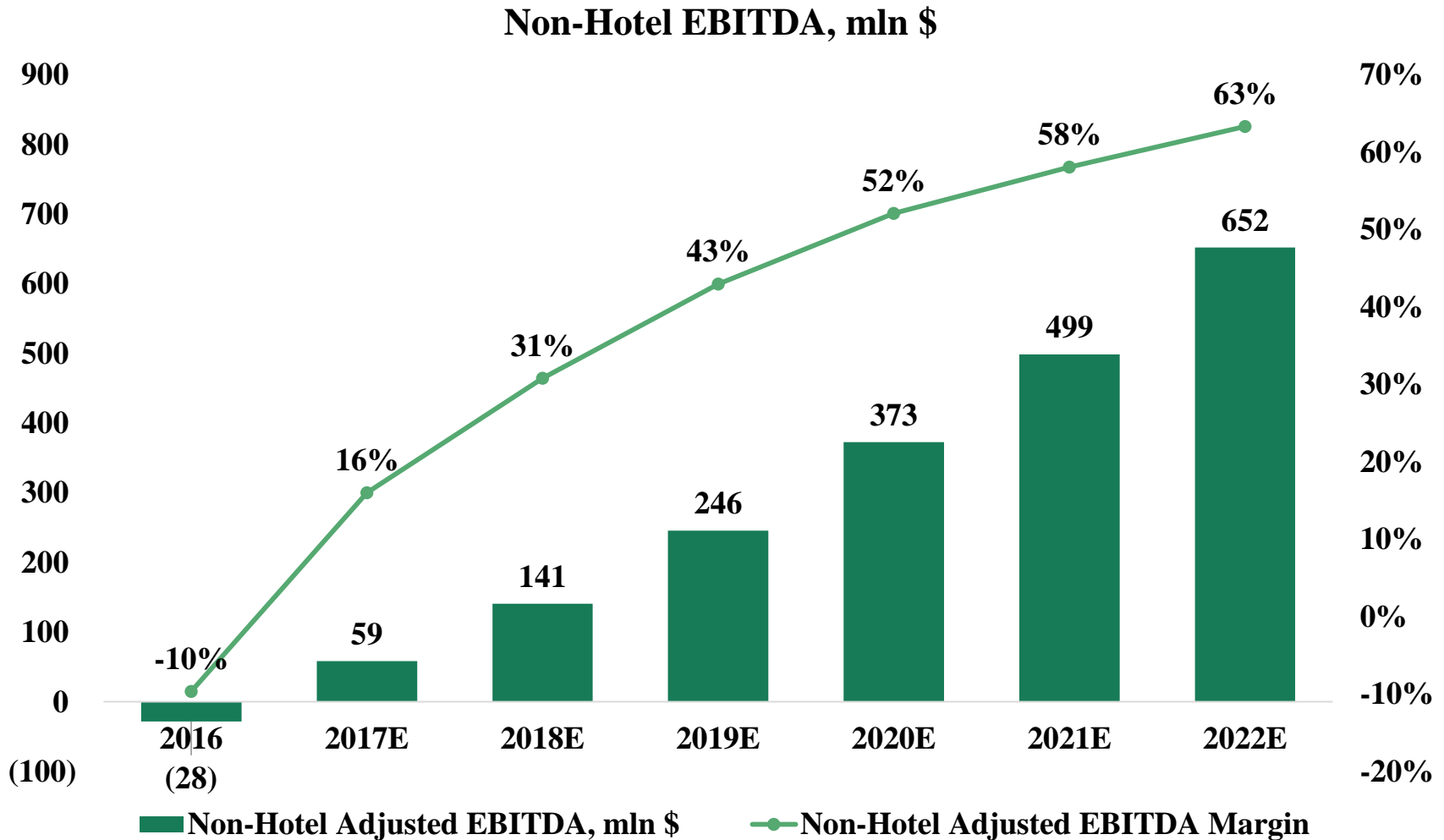
TripAdvisor Non-Hotel Business: Adjusted EBITDA Forecast – Bear Case



TripAdvisor Non-Hotel Business: Adjusted EBITDA Forecast – Base Case



TripAdvisor Non-Hotel Business: Adjusted EBITDA Forecast – Bull Case



TripAdvisor: Valuation of Non-Hotel Business in 2020

2020E Adjusted EBITDA = \$263M (base case)

Assumption: Increasing number of shares 2% per year due to ongoing stock-based compensation

Multiple Scenario	Adjusted EBITDA Multiple	Price per share, \$	Cash build up per share, \$	2020 total value per share, \$
Low	12x	\$21.37	\$2.26	\$23.64
Medium	14x	\$24.94	\$2.26	\$27.20
High	16x	\$28.50	\$2.26	\$30.76

TripAdvisor: Valuation of Non-Hotel Business in 2022

2022E Adjusted EBITDA = \$412M (base case)

Assumption: Increasing number of shares 2% per year due to ongoing stock-based compensation

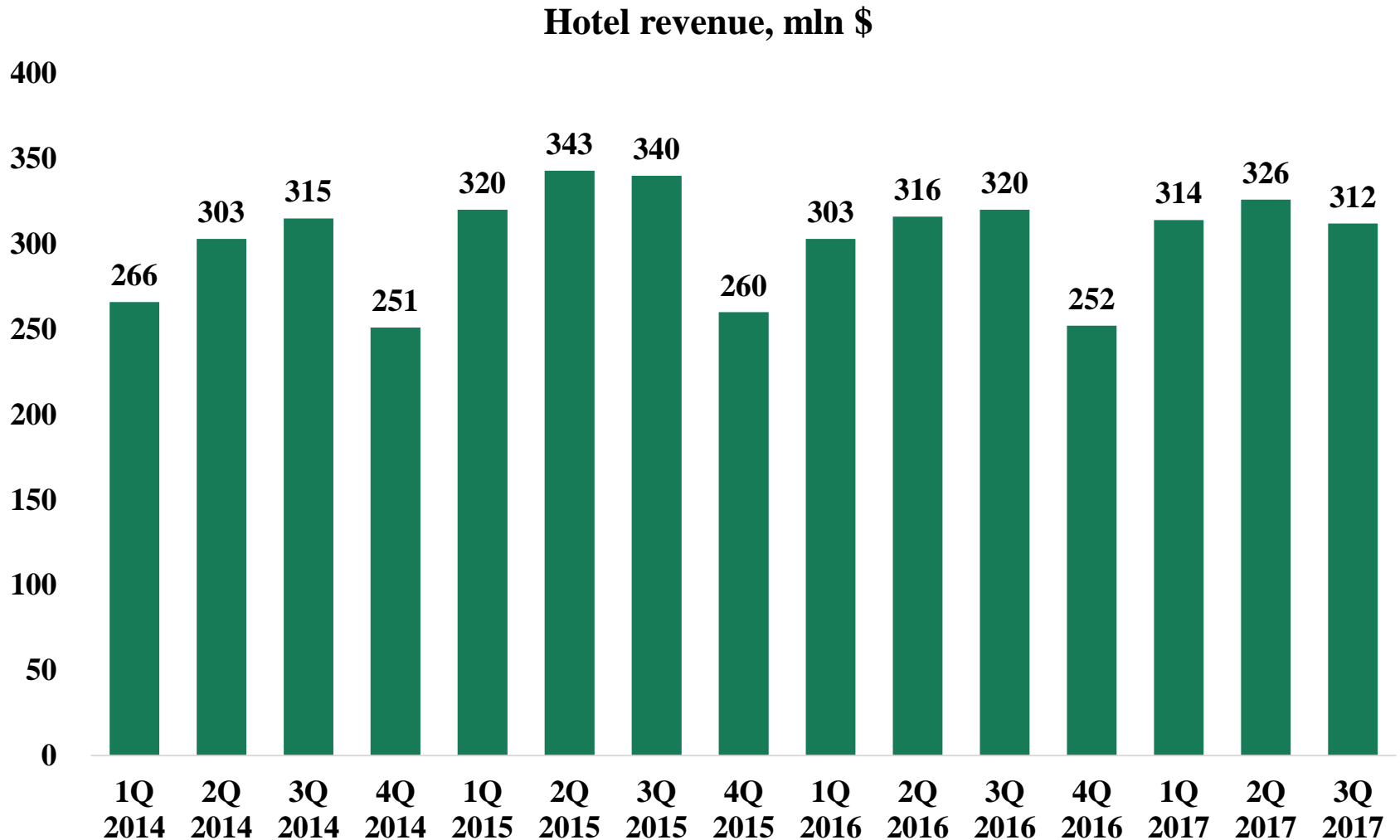
Multiple Scenario	Adjusted EBITDA Multiple	Price per share, \$	Cash build up per share, \$	2022 total value per share, \$
Low	12x	\$32.23	\$5.21	\$37.44
Medium	14x	\$37.60	\$5.21	\$42.82
High	16x	\$42.98	\$5.21	\$48.19

TRIP: Hotel Business Financials and Valuation

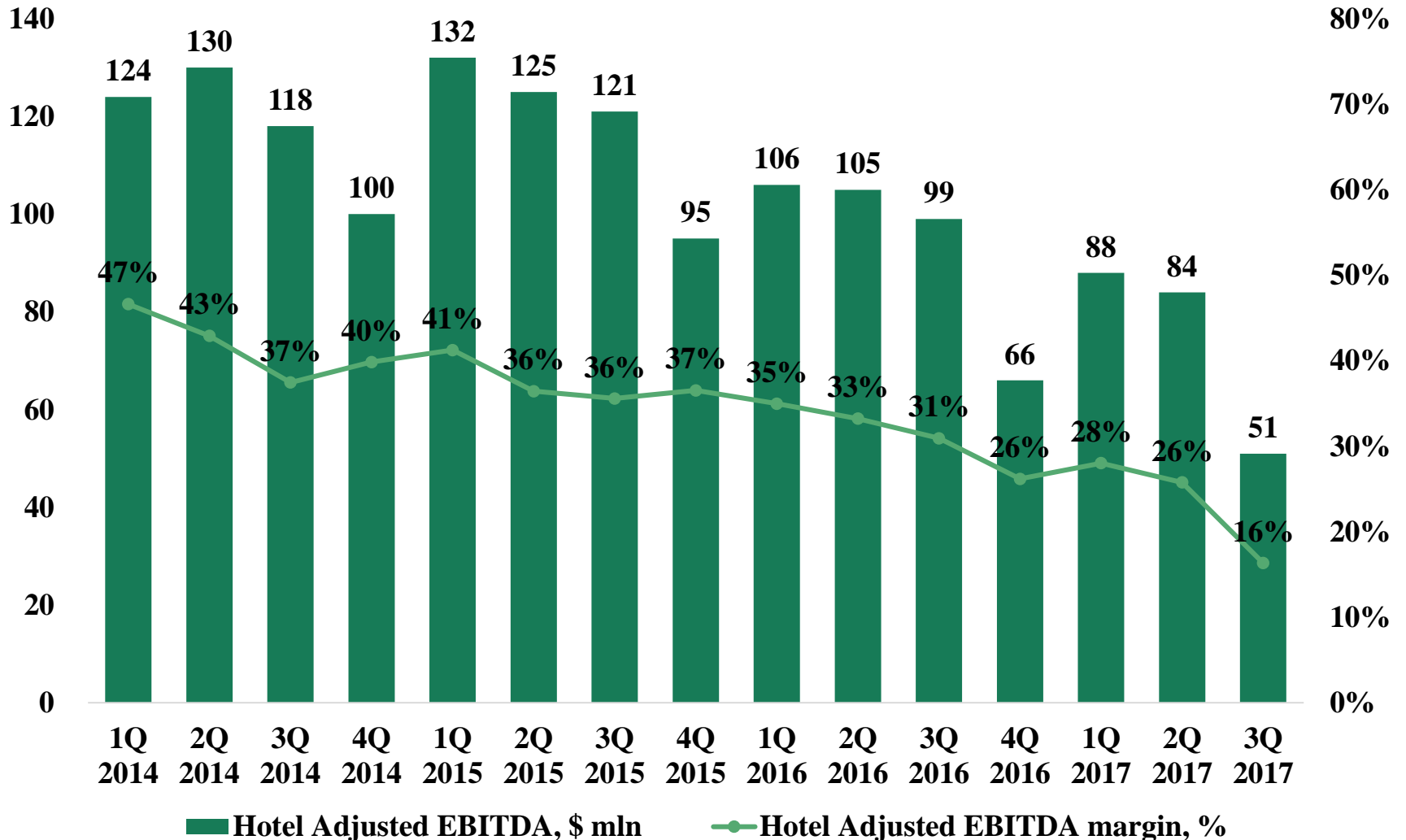
TripAdvisor Hotel Business: A Few Remarks

- As we stated at the very beginning, our thesis is based on our deep analysis and understanding of Non-Hotel Business. *This is our edge.*
- Our views on Hotel Business are less important for our investment case.
- However, we will still share them.
- We will keep them intentionally brief.

TripAdvisor Hotel Business Revenue: Roughly Flat Three Years Later!

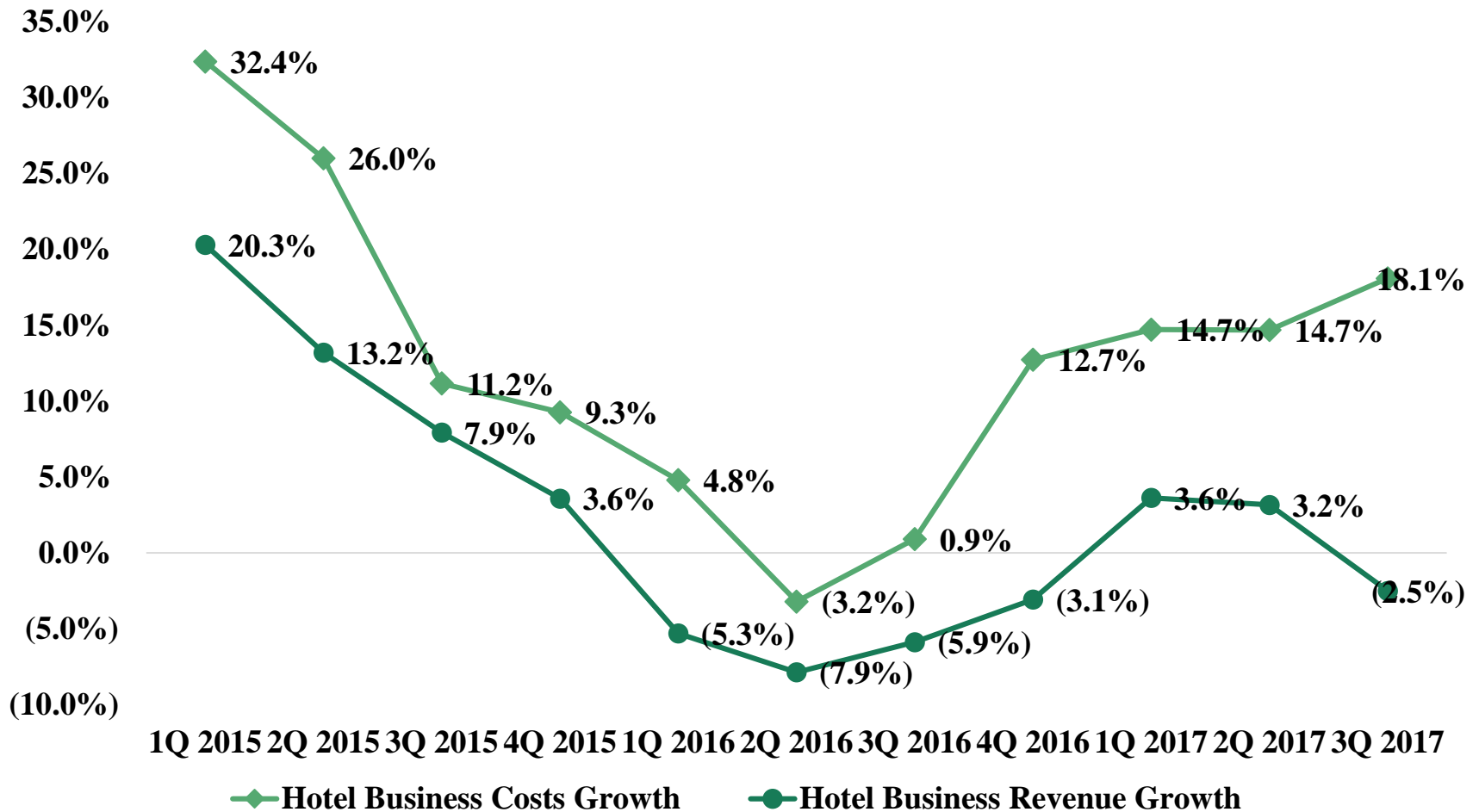


TripAdvisor Hotel Business Adjusted EBITDA: Down ~55% in 3Q 2017 vs. 3Q 2014!



TripAdvisor Hotel Business: Costs Have Been Growing Faster Than Revenue Every Single Quarter Since 1Q 2015

Hotel Business Revenue Growth vs. Costs Growth %



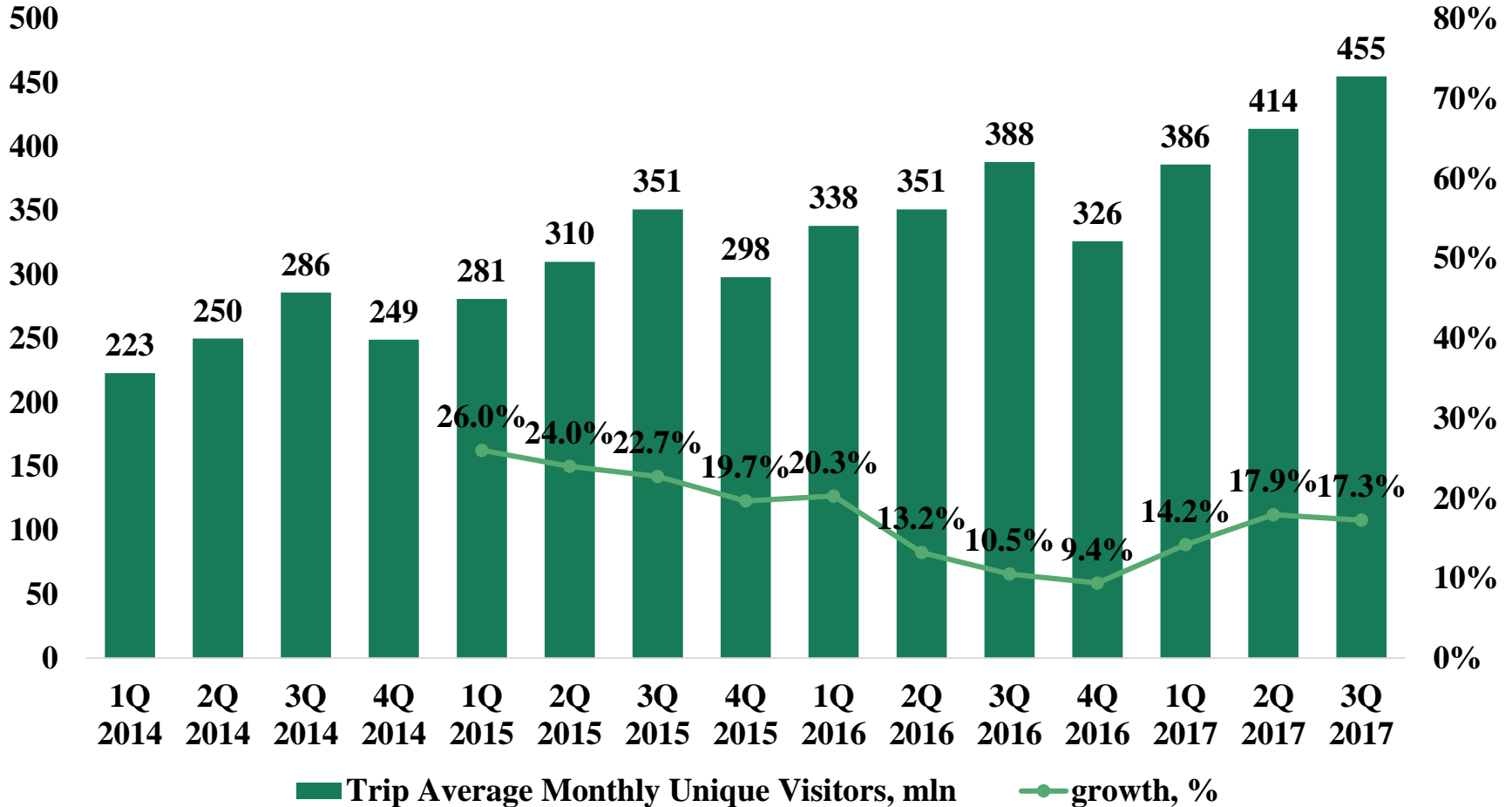
This Looks Horrible ... But...

...as Mark Twain is often misquoted

**The reports of the
TripAdvisor Hotel
Business' death “are
greatly exaggerated”**

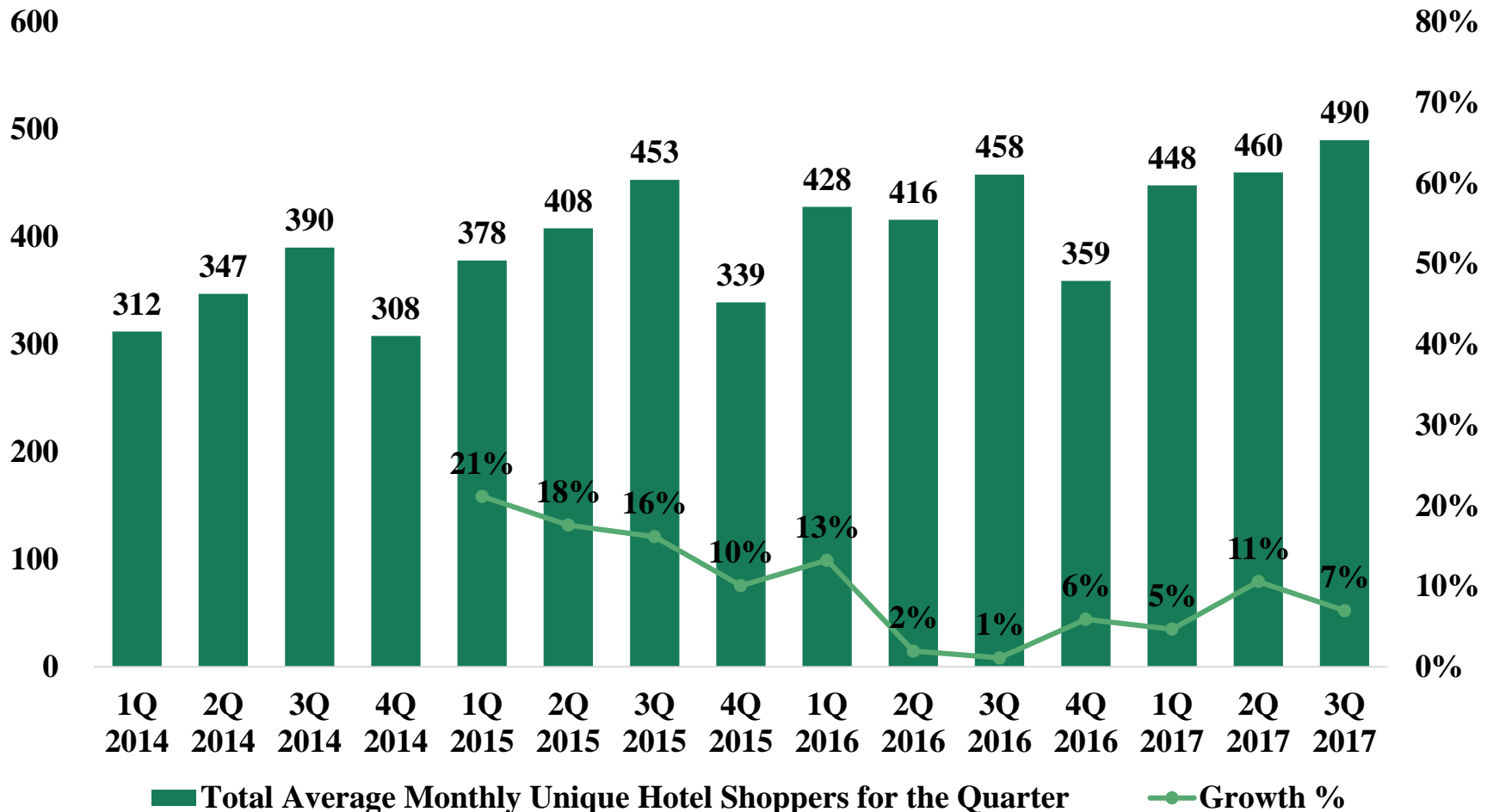
TripAdvisor Average Monthly Unique Visitors (Both Hotel and Non-Hotel) Have Remained Healthy and Have Been Growing

Trip Average Monthly Unique Visitors, mln

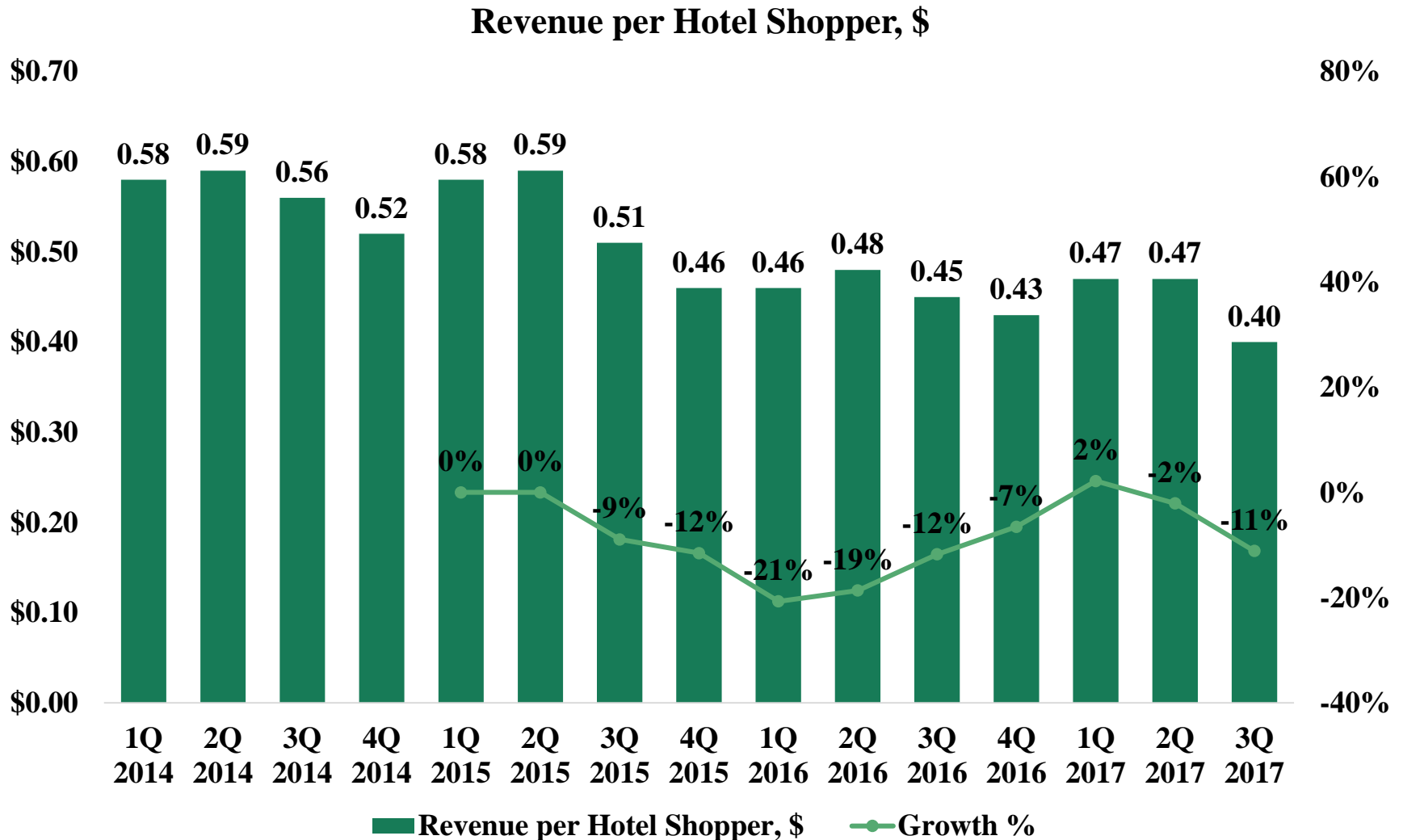


TripAdvisor Total Average Monthly Unique *Hotel* Shoppers for the Quarter Have Been Healthy and Growing!

Total Average Monthly Unique Hotel Shoppers for the Quarter, mln



TripAdvisor Revenue per Hotel Shopper Has Decreased by ~30%



What Is Behind Decreases in Revenue Per Hotel Shopper?

- First, failed Instant Booking initiative that has been significantly curtailed in 2017.
- Second, shift of traffic to mobile which monetizes only at 30% to 35% of desktop monetization.
- Third, cost per click in metasearch side of TripAdvisor Hotel Business has been going down.

What Is Behind Increases in Hotel Business Costs That Have Been Increasing Faster Than Revenue?

- First, pressure from Google led to higher traffic acquisition costs.
- Second, TripAdvisor relaunched its TV advertising campaign in 2017 which generates ROI with a substantial time lag.
 - 2Q 2017 - ~\$16M
 - 3Q 2017 - \$42M
 - If we add back these long-term investments in TripAdvisor brand, then margins in Hotel Business look significantly better.

Why Are We NOT Concerned Long-Term? (1)

- First, user engagement is incredibly healthy.
- Second, TripAdvisor can go (and it appears that it is doing exactly that) back to metasearch model and cut back on Instant Booking.
- Third, TV advertising would either benefit TripAdvisor long-term or be cut down / eliminated.
- Fourth, mobile is the future, and TripAdvisor mobile is doing incredibly well:
 - Mobile is approaching 50% of traffic.
 - Mobile is growing incredibly fast (20%+).
 - App traffic as % of mobile traffic is ~40% and app traffic has zero acquisition costs (no Google involvement!).

Why Are We NOT Concerned Long-Term? (2)

- Fifth, margins in mobile should be better than in desktop.
- Sixth, Priceline cutting on performance-based marketing is not disastrous.
 - If you are a supplier to Walmart and Walmart cuts you out, it will take time and effort to replace that channel. You may not even find a replacement for all that volume.
 - Online metasearch auctions are different: if Priceline does not buy, someone else (Expedia, hotel chains, etc.) will!

TripAdvisor Hotel Business: Valuation (1)

- TripAdvisor Hotel Business remains an important channel partner for OTAs and hotels.
- It is very difficult to value the TripAdvisor Hotel Business because its recent profitability metrics have been depressed.
- 3Q 2017 LTM Adjusted EBITDA is depressed due to TV advertising.
- 2016 Adjusted EBITDA was depressed because of the failed transition to Instant Booking.
- However, going back to 2015 and using 2015 Adjusted EBITDA is unlikely to be appropriate because the world was quite different back then.
- There is no perfect approach here.

TripAdvisor Hotel Business: Valuation (2)

- This is what we have decided to do.
- We are taking an average of 3Q 2017 LTM Adjusted EBITDA and 2016 Adjusted EBITDA.
- 12x multiple is appropriate given that we are taking an average between 2016 Adjusted EBITDA (depressed by Instant Booking rollout) and LTM Adjusted EBITDA as of 3Q 2017 (depressed by Instant Booking and TV Advertising).

TripAdvisor Hotel Business: Valuation (3)

2016 Hotel Adjusted EBITDA, mln \$	380.0
LTM Hotel Adjusted EBITDA, mln \$	289.0
Average, mln \$	334.5
Multiple	12.0x
EV, mln \$	4,014
Value per Share, \$	\$28.88

TripAdvisor Valuation: Putting It All Together

TripAdvisor Valuation: Putting It All Together (1)

- We can look at TripAdvisor valuation from multiple angles.
- We think about it as a compounder that we would likely hold for many years (5 to 10 years) and generate 15%+ IRR.

TripAdvisor Valuation: Putting It All Together (2)

- A bit more mathematical way (but we do want to get caught in a false sense or precision!).
- Non-Hotel Business is worth ~\$43 in 2022 (see prior slides).
- Hotel Business' value will remain stagnant: ~\$29 (see prior slides). We believe it is *incredibly* punitive for Hotel Business.
- Put it together and TripAdvisor stock price = ~\$72 in 5 years vs. spot price of ~\$35.
 - => More than double and ~15%+ IRR.
- Please note that we are ignoring any benefits from share buybacks that would be substantial.
 - Given TripAdvisor history and Liberty involvement buybacks are very likely.

TripAdvisor: Catalysts and Inflection Points

TripAdvisor: Catalysts and Inflection Points

- We see three catalysts and inflection points ahead.
- #1: Continuous increases in profitability of the Non-Hotel Business will become too hard to ignore for both buy-side and sell-side.
- #2: Rapid growth in Non-Hotel EBITDA will lead to entire company Adjusted EBITDA growth.
- #3: Traffic shift to mobile will lead to Hotel revenue and Hotel Adjusted EBITDA growth.

Catalyst and Inflection Point #1: Continuous Increases in Non-Hotel Business Profitability (1)

- Many sellside analysts have historically not modelled the Hotel Business and Non-Hotel Business separately. They have lumped them together and interpolated Hotel Business drivers to Non-Hotel Business.
- This started changing some time ago and now some sellside analysts break down the Hotel Business and Non-Hotel Business in their models.
- However, we have not seen thoughtful models that attempt to do a detailed valuation of the Non-Hotel Business.

Catalyst and Inflection Point #1: Continuous Increases in Non-Hotel Business Profitability (2)

- We expect this to change once Adjusted EBITDA of Non-Hotel Business gets to the point where it is hard or even impossible to ignore.
- We think that this happen late in 2018 or mid-2019.
- Buyside professionals are likely to pick up on this even sooner.

Catalyst and Inflection Point #2: Rapid Growth in Non-Hotel EBITDA Will Lead to *Entire* Company Adjusted EBITDA Growth

- Even if Hotel Business Adjusted EBITDA does not rebound, growth in Non-Hotel Business Adjusted EBITDA will make *entire* company Adjusted EBITDA growth turn positive.
- We think this will most likely happen in 2018. If the Hotel Business rebounds, then this will happen even faster.

Catalyst and Inflection Point #3: Traffic Shift to Mobile Will Lead to Hotel Revenue and Hotel Adjusted EBITDA Growth

- Continuous traffic shift to mobile and growing revenue per hotel shopper in the mobile channel will eventually lead to mobile hotel revenue increasing more than decreases in desktop revenue.
- As a result, the entire Hotel revenue will start to grow.
- This may happen in 2019.
- Similarly, this will also lead to growth in Hotel Adjusted EBITDA.

Questions and Further Inquiry

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