

SECTOR SPOTLIGHT

INTERNET & MEDIA



DISCLAIMER

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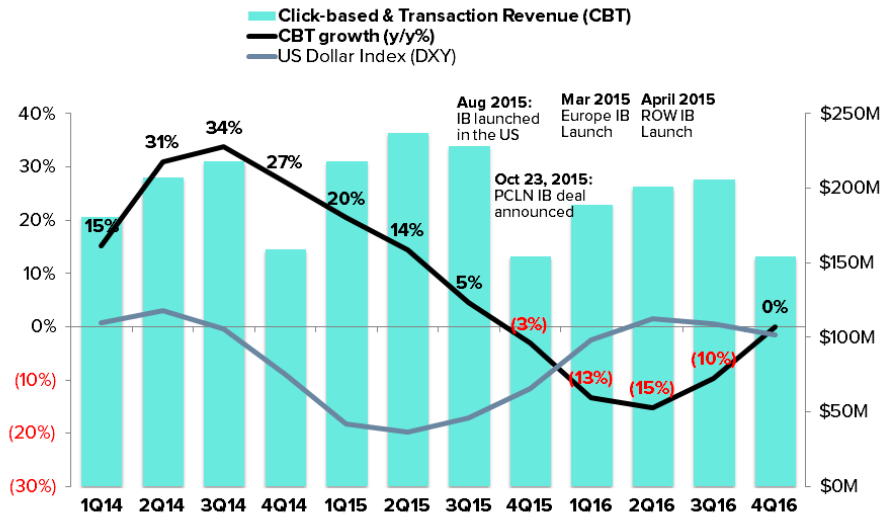
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THEN TRIP STARTED MOONLIGHTING AS AN OTA

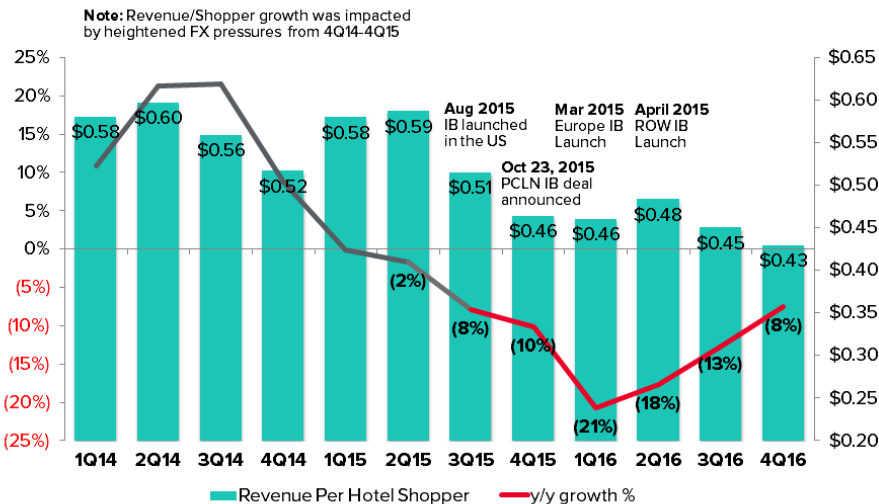
TRIP | Hotel CBT Revenue & Y/Y Growth % & DXY Y/Y Growth % (inverted)



Source: Company Reports, Bloomberg, Hedgeye Estimates

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TRIP | Revenue per Hotel Shopper Before & After Instant Book (IB) Rollout



Source: Company Reports, Hedgeye Estimates

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INSTANT BOOK (IB) ROLL-OUT DIDN'T GO WELL

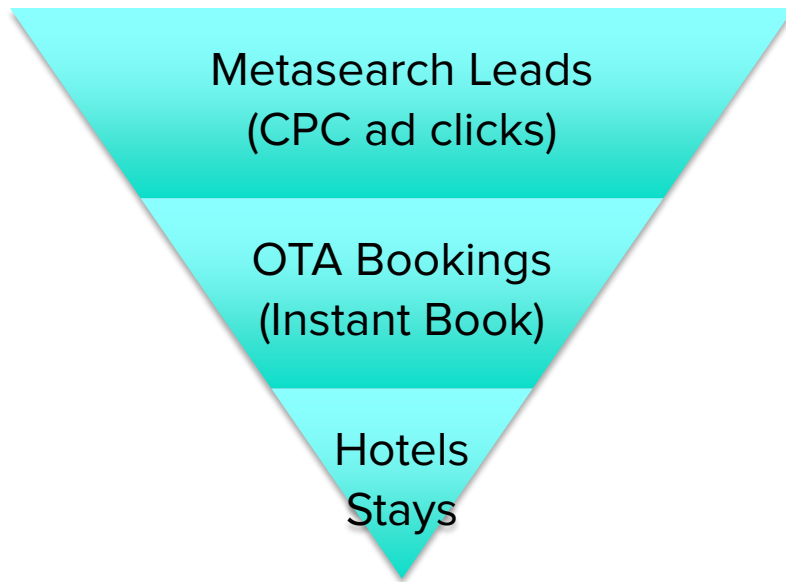
Keep in mind that the trends in both of the above charts were impacted by heightened Fx pressure from 1Q15-4Q15; that pressure largely abated in 1Q16, so on an FX neutral basis the deceleration in CBT revenue & Revenue/Hotel Shopper was much worse. You already knew IB was a disaster; what's more important is **why**

WHY INSTANT BOOK STUMBLER OUT OF THE GATES (2)

The screenshot shows two hotel listings. The top listing is for 'Loews Regency San Francisco' with 359 reviews, a price of \$679* per night, and a 'View Deal' button. The bottom listing is for 'Omni San Francisco Hotel' with 4,804 reviews, a price of \$370* per night, and a 'View Deal' button. Both listings include 'Green Leaders Silver level' badges and various filters like 'Green', 'Luxury', and 'Pets Allowed'.

EXPE 4Q15 Earning Call: *“And then to the extent that TripAdvisor rolls out Instant Booking more broadly...that could be an incremental headwind... **could be 200 basis points to 300 basis points [room nights]. But again, insignificant from the perspective of profitability**”*

Metasearch Conversion Funnel



TRIP WAS ALREADY GETTING THE OTA'S TAKE (VIA CPC)

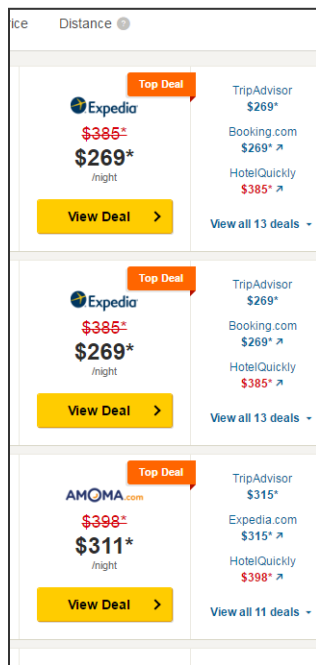
EXPE's comment suggests that TRIP CPC is essentially a zero-margin channel, which means EXPE & PCLN (46% of TRIP's revenue) were effectively bidding away their take to TRIP in the form of CPC leads. Further, TRIP can only get a % of the OTA's take with an OTA-IB relationship, but had to go farther down the funnel to get it. In short, **Lower Take x Lower Conversion = Down Revenues**

BUT TRIP IS NOW ADDRESSING THE FIRST IB ISSUE

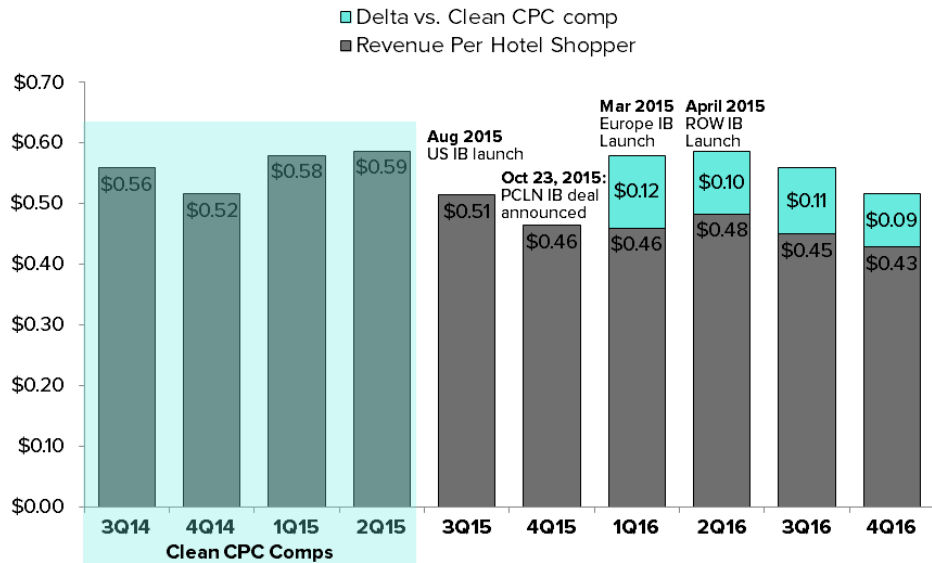
BEFORE



TODAY



TRIP | Revenue per Hotel Shopper
Before & After Instant Book (IB) Rollout



Source: Company Reports, Hedgeye Estimates

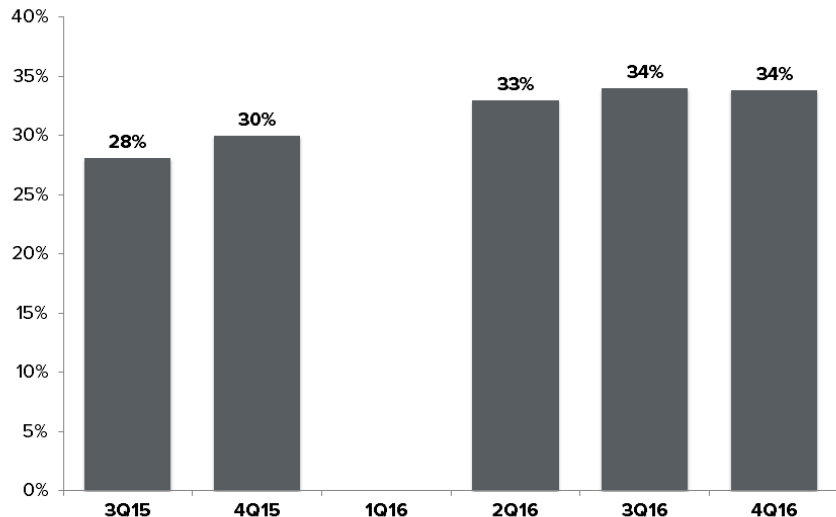
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WHICH SOMEWHAT ADDRESSES THE SECOND PART OF THE PROBLEM

Instant Book is a cannibalistic product on a stand-alone basis since the bulk of TRIP's IB inventory is coming from the OTAs (PCLN & EXPE). TRIP is now deemphasizing IB's prominence within desktop metasearch results, even when it is a comparable option. If IB isn't interfering with TRIP's CPC product, then TRIP can start approaching prior CPC levels (pre IB).

MOBILE MONETIZATION HEADWIND IS DISSIPATING

TRIP | Mobile Hotel Shopper Mix %



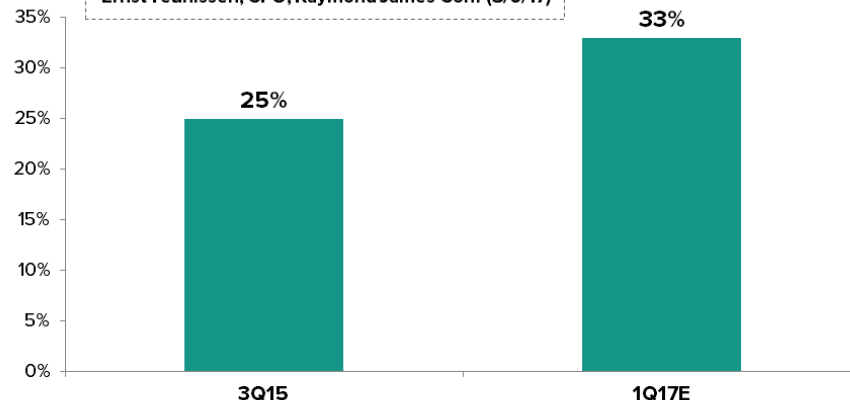
Source: Company Reports, Hedgeye Estimates

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TRIP | Mobile Monetization Rate vs. Desktop

"On the phone we roughly – the phone monetizes roughly a third of our desktop. So if you look at revenue per shopper, roughly a third"

-Ernst Teunissen, CFO, Raymond James Conf (3/6/17)



Source: Company Reports, Hedgeye Estimates

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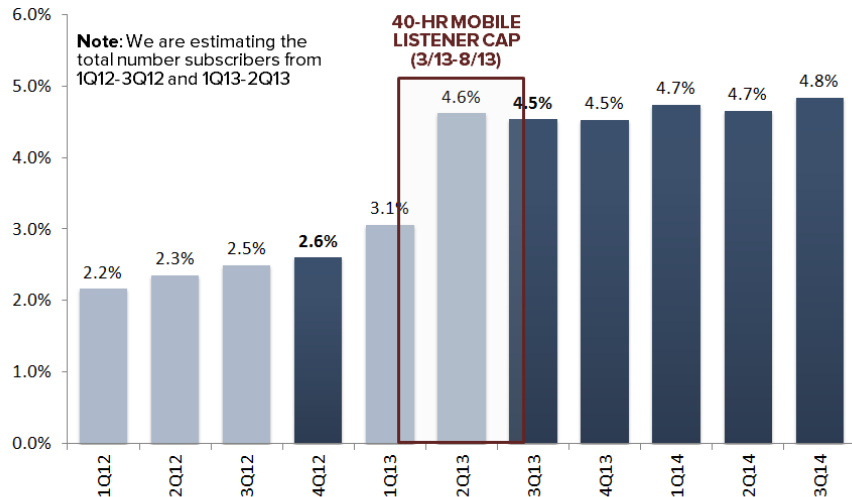
MONETIZATION GAP ONLY MATTERS IF MOBILE MIX IS RISING

TRIP's problems with mobile are not so much the monetization gap, but has been a growing mix of mobile traffic. If mobile mix flattens out, then it's no longer a headwind. In fact, Mobile could eventually become a tailwind if TRIP continues closing the monetization gap on static mobile shopper mix. We're not making that call; just saying that mobile may not matter this year

OPTION #2: CURB THE AD PRODUCT

P | Sub Conversion Rate

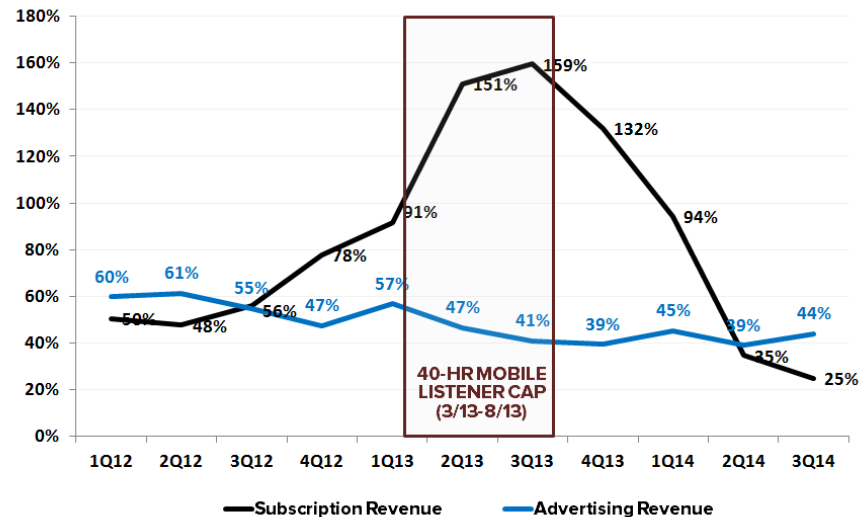
Total Subscribers as a % of Total Active Listeners



Source: Company Reports, Hedgeye Estimates

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P | Revenue Growth Ad-Supported vs. Subscription (y/y %)



Source: Company Reports, Hedgeye Estimates

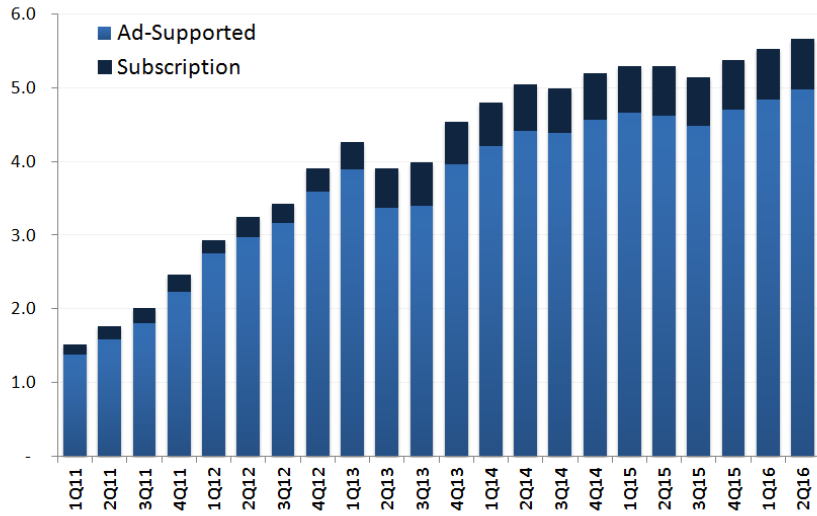
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LISTENER CAP HAS WORKED BEFORE, BUT P MUST WAIT ON SPOTIFY FIRST

The availability of the uncapped free option may be facilitating the user's reluctance to pay. P doesn't have to implement an identical cap to 2013, but could selectively deploy (e.g. heavy users, certain geographies, etc)

P ≈ AD-SUPPORTED MODEL

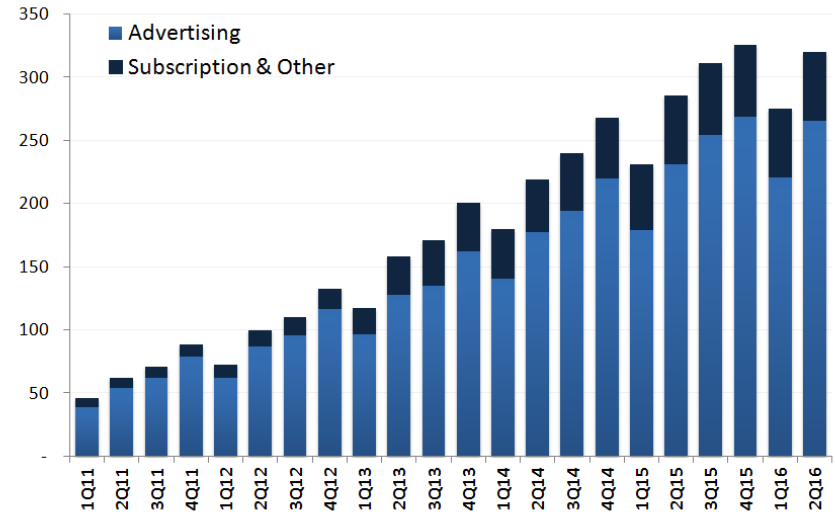
P: Listener Hour Distribution
Ad-Supported vs. Subscription
(Billions)



Source: Company Filings, Hedgeye Estimates

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P: Revenue Mix
Ad-Supported vs. Subscription
(Millions)



Source: Company Filings, Hedgeye Estimates

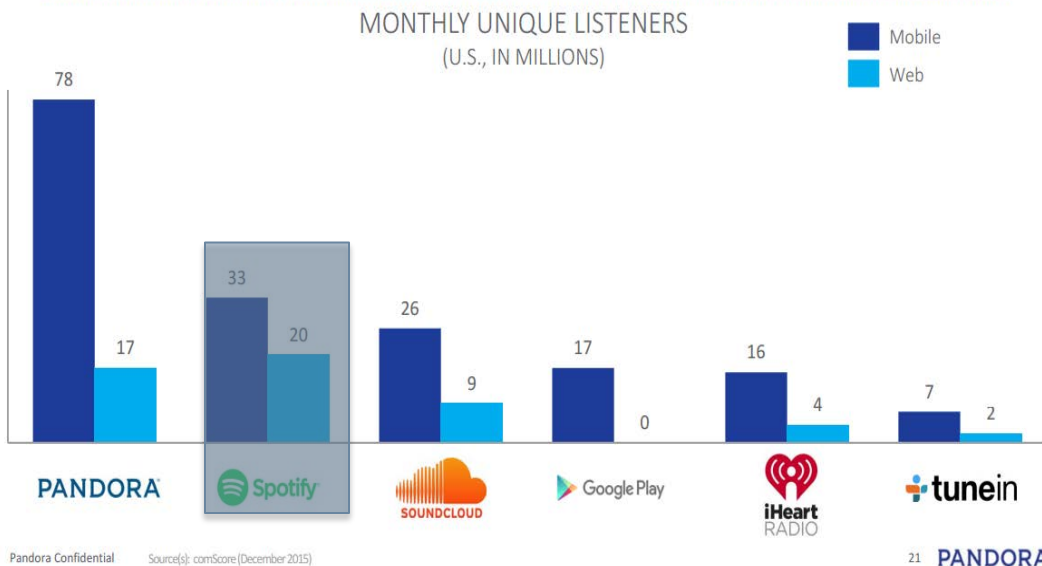
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USERS HAVE FAVORED THE FREE PRODUCT, SO P HAS FAVORED THE AD MODEL

Nearly 90% of P's listener hours favor the free (ad-supported) service. There's nothing wrong with an ad-supported model per se, but it's a challenging model to run within this specific industry.

OPTION #2: CURB THE AD PRODUCT

Unrivaled Audience in Digital Music



Mobile Competitor Notes

1. **Soundcloud:** Catalog consists mostly of music submitted by independent artists. Interactive licenses may not cover non-interactive rights.
2. **iHeart:** already in financial stress (junk rated debt), has to pay per track under both Webcast and Simulcast
3. **tunein:** Simulcaster, likely pays per track
4. **Google Play:** only Interactive, same as Apple Music, Amazon, etc.

IF SPOTIFY IS FORCED TO CAP/CURB ITS FREE TIER, P CAN EASILY FOLLOW SUIT

First, the user doesn't have too many free mobile options anymore. Second, There's an added benefit of putting the few remaining free competitors at a disadvantage since most couldn't afford to absorb the extra traffic.

YELP'S ADDRESSABLE US MARKET...

Criteria for Advertising with YELP

1. **Affordability:** Minimum cost \$3,600 annually
2. **Retail:** vs. B2B

Composition of US Market (27M Total Businesses)

1. **Affordability:** 75% earn < \$100K in annual revenue
2. **Retail:** 47% are primarily B2B companies

YELP Estimate for US Local Business Opportunity



YELP ADVERTISING NOT ALL APPLICABLE TO MOST BUSINESSES

YELP's audience is primarily retail (our survey suggests 70% of visitors use exclusively for restaurants). Further, most companies earn less than 100K, so YELP's smallest ad program would be prohibitive.

TAM MUCH SMALLER THAN IMPLIED

YELP TOTAL ADDRESSABLE MARKET ANALYSIS												
CROSS SECTION OF BUSINESSES WITH AVAILABLE INCOME & APPLICABLE INDUSTRIES												
YELP Market	Industry	Firms with Annual Sales Of..										
		All Firms	+ 100K	< 5K	5K - 10K	10-25K	25-50K	50-99K	100-250K	250-500K	500K-1M	> 1M
	Agriculture, forestry, fishing and hunting	258,779	44,382	59,856	38,316	54,106	34,177	27,942	23,847	9,002	5,908	5,625
	Mining, quarrying, and oil & gas extraction	122,352	37,190	24,813	14,665	19,705	12,491	13,488	14,455	7,567	5,256	9,912
	Utilities	24,050	6,492	6,053	2,983	4,003	2,608	1,911	2,083	1,212	822	2,375
	Construction	3,413,632	1,012,982	502,782	361,705	639,959	490,589	405,615	408,238	223,891	164,691	216,162
	Manufacturing	614,631	296,102	91,254	55,847	72,394	50,854	48,180	68,011	52,599	46,986	128,506
	Wholesale trade	732,222	386,636	86,722	53,873	77,317	62,036	65,638	83,198	60,573	59,053	183,812
YELP	Retail trade	2,671,836	809,107	694,526	348,795	391,792	228,053	199,563	249,560	175,031	142,044	242,472
	Transportation and warehousing	1,253,095	339,817	142,551	125,635	237,192	216,174	191,726	215,068	49,447	31,139	44,163
	Information	380,486	80,157	102,611	56,703	67,731	39,567	33,717	29,909	15,634	12,249	22,365
YELP	Finance and insurance	1,017,680	311,690	181,279	114,716	161,614	125,917	122,464	139,298	76,033	43,967	52,392
YELP	Real estate and rental and leasing	2,615,937	693,396	303,790	290,036	513,537	426,286	388,892	368,463	173,694	101,380	49,859
	Professional, scientific, and technical svcs	3,789,002	869,350	842,257	514,457	665,377	471,532	426,029	424,242	187,785	117,295	140,028
	Admin & support, waste, remediation svcs	2,122,906	296,679	585,822	418,031	484,303	202,914	135,157	121,590	67,146	46,052	61,891
YELP	Educational services	600,778	59,378	274,418	106,412	92,526	41,568	26,476	22,571	12,298	8,720	15,789
YELP	Health care and social assistance	2,368,801	602,506	475,426	389,519	474,650	249,246	177,454	183,107	147,500	131,760	140,139
YELP	Arts, entertainment, and recreation	1,235,766	125,419	482,636	216,969	222,710	114,698	73,334	55,911	27,198	19,225	23,085
YELP	Accommodation and food services	776,722	410,303	79,235	57,711	80,391	64,157	84,925	140,140	106,275	81,793	82,095
YELP	Other services (except public admin)	3,120,566	396,310	641,158	543,124	835,014	437,483	267,477	207,599	94,617	55,698	38,396
	Uncharacterized	7,581	2,189	-	844	1,161	1,245	2,142	1,333	441	258	157
	Totals	27,126,822	6,780,085	5,577,189	3,710,341	5,095,482	3,271,595	2,692,130	2,758,623	1,487,943	1,074,296	1,459,223
YELP Markets (Total Firms)		14,408,086	3,408,109	3,132,468	2,067,282	2,772,234	1,687,408	1,340,585	1,366,649	812,646	584,587	644,227

Data Source: Census.gov

← ? → HEDGEYE

27 MILLION...OR A BEST-CASE 3 MILLION

We pulled the Census data where YELP is getting its TAM estimate, and we filtered it by companies with more than 100K in revenue and those that cater to YELP's retail audience. **3.4 million is still optimistic.**

YP.COM IS A PIPE DREAM

SMALL BUSINESS ADVERTISING COMPANIES

Customers vs. Service Offering Comparison

	YELP	YP	DXM
US CUSTOMERS	94K	575K	580K

ADVERTISING/MARKETING SERVICES

Local Search Ads	X	X	X
Videos	X	X	X
Transactional (Orders/Deals/Reservations)	X		
Website Design/Hosting		X	X
Listings & Reputation Management		X	X
Direct Mailing		X	X
Search Engine Marketing		X	X
Search Engine Optimization			X
Yellow Pages Ads		X	X

Source: YELP reports, company websites

HEDGEYE

YELP

Packages to Fit Your Budget

Yelp Local business advertising packages typically range from \$300 to \$2,200 per month, depending on how aggressively you want to attract customers. Each package includes a dashboard to track your results in the program.

YP.com

Mobile Premier Ad

A Mobile Premier Ad gives you the opportunity to connect with consumers when they are using the highly rated YP® app on a smart phone to look for local businesses like yours.

FROM \$60 Per Month

Request Information 1-800-577-7126

Local Search Ads

Spend your time where you're needed most: operating your business. Let YP do the work of marketing your business online. The YP® Local Search Network includes YP.com, Yahoo Local, City Search, and over 200 local search sites and mobile search apps, receiving more than 2 billion searches annually, and providing information about your small business to 60M+ unique visitors.

FROM \$59 Per Month

Request Information 1-800-577-7126

Search Engine Marketing

Full-service, budget-friendly, performance-based: our search engine marketing solutions ensure your business is seen on all major search engines by consumers searching for what you have to offer.

FROM \$90 Per Month

Request Information 1-800-577-7126

DXM

Priority Placement

Get your ad out in front of your competitors' online directory listings.

- A top-of-page position helps consumers find you faster.
- You could potentially reach thousands more consumers every day with a priority placement spot.
- Priority placement ads promote your business as an industry leader and can increase shoppers' trust in you.

Starting at \$40 per month

Get Started

Websites

Create a powerful online presence.

- Establish credibility and create a professional online appearance for your business that can be viewed on any device.
- Stay open to the world and accessible to your customers 24/7/365.
- Promote your products and services, and provide customers with the information they need.

Starting at \$60-75 per month

Get Started

FEWER PRODUCTS – B2B EXPOSURE + HIGHER PRICE = SMALLER TAM

YELP has implied that YP's account base is the low-hanging fruit. Yet, the breadth of YELP's offering is far more limited, and often more expensive; meaning its TAM is considerably smaller