



TRIP | NOW WHAT

**LONG THESIS REFRESH**

JUN 13, 2017

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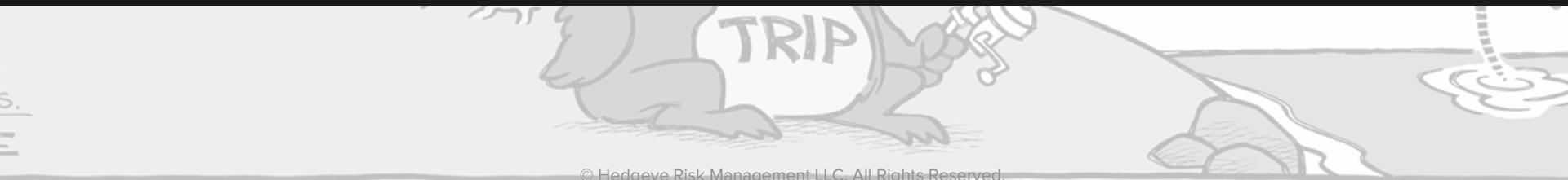
PLEASE SUBMIT QUESTIONS\* TO

**QA@HEDGEYE.COM**

*\*ANSWERED AT THE END OF THE CALL*

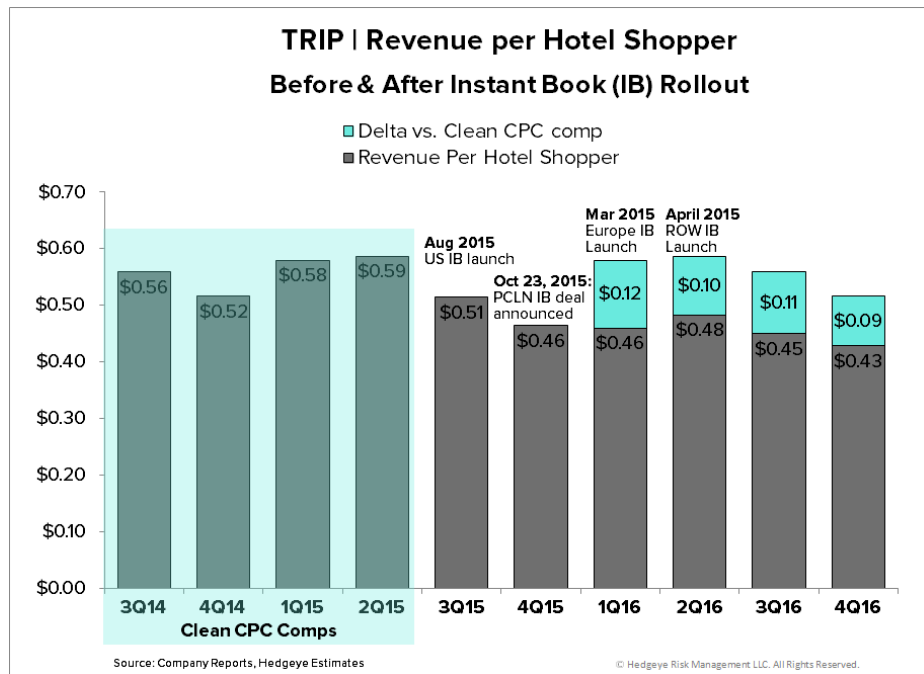


## WHAT WE WERE PLAYING FOR



# TRIP | LONG THESIS SUMMARY (SUMMARY)

1. **Business Model:** Primarily metasearch, sells advertising primarily to OTAs (e.g. PCLN, EXPE). CPC ad format requires user clicks to produce revenue
2. **Analysis:** Started moonlighting as an OTA (Instant Booking), which would have been dilutive even if was deployed correctly (it wasn't). IB cannibalized CPC, letting TRVG come in and take the lead, despite TRIP's competitive advantages.
3. **Outlook:** 1) IB has been relegated to where it can't do as much damage. 2) TRIP is now focused on reviving CPC, and is bringing the fight (ad spend) back to TRVG. 1+2 = N/T upside, 2 = potentially L/T gamechanger as profitability really ramps in 2018
4. **Setup:** Coiled spring. Both the sell-side and buy-side piled into the short after the 4Q16 print. The first +20% rev growth print should squeeze them out.
5. **Duration:** Through at least the 3Q17 print

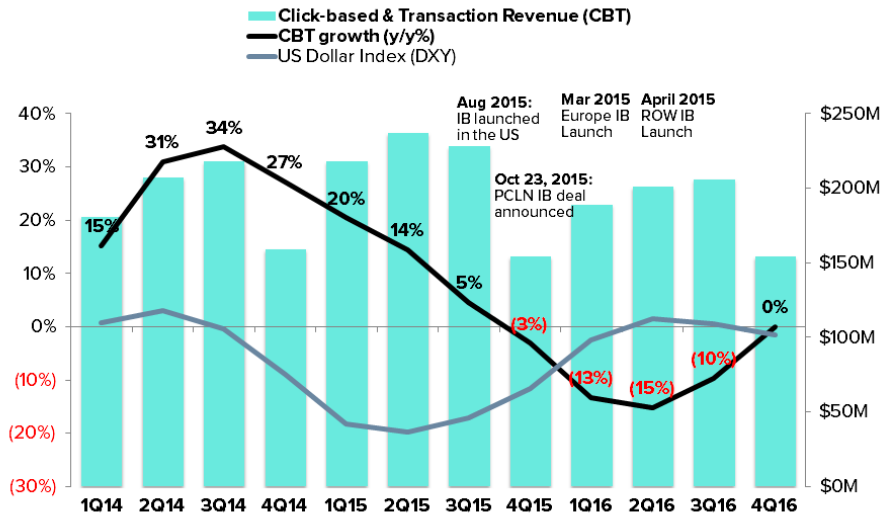


## TRVG POKED THE BEAR

Our original thesis was focused on the near-term inflection. Then we saw TRIP's rebased L/T EBITDA target and realized it may be gearing up for a longer-term fight. The more that TRIP can train the user to stay on the platform, the more leverage it gains over the industry, which has never had to contend with an aggressive TRIP before.

# TRIP STARTED MOONLIGHTING AS AN OTA

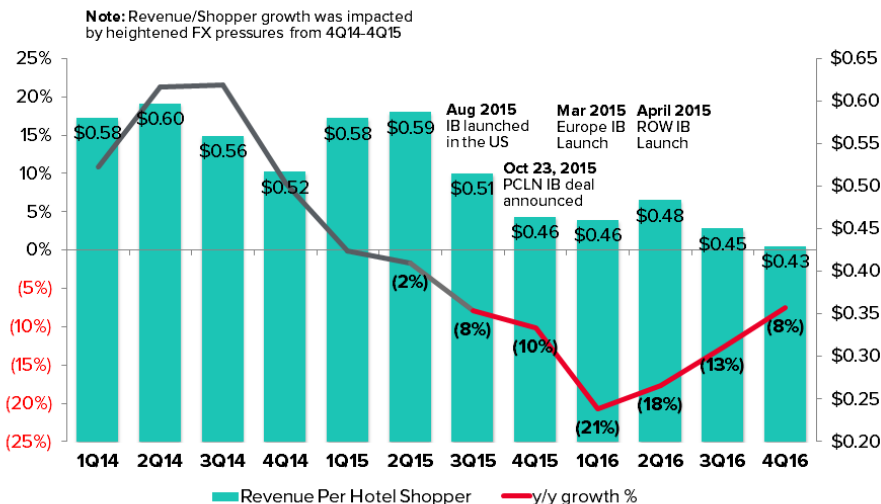
TRIP | Hotel CBT Revenue & Y/Y Growth % & DXY Y/Y Growth % (inverted)



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

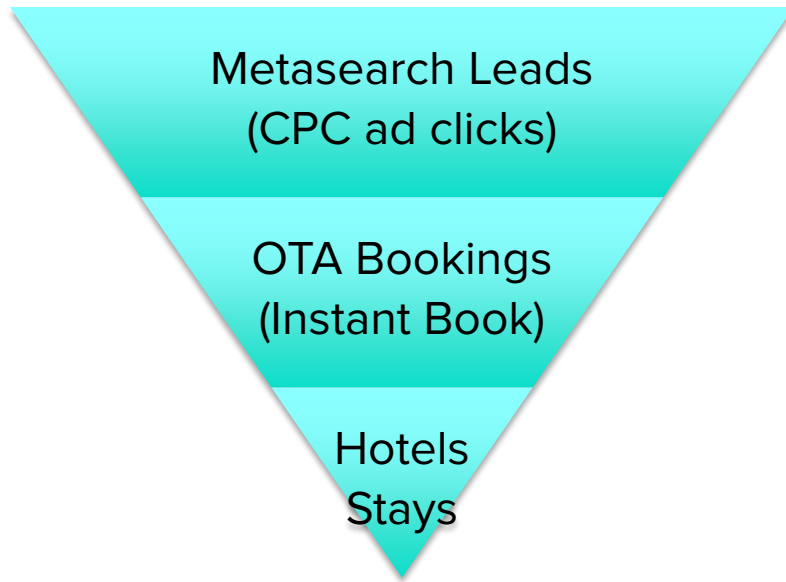
Keep in mind that the trends in both of the above charts were impacted by heightened Fx pressure from 1Q15-4Q15; that pressure largely abated in 1Q16, so on an FX neutral basis the deceleration in CBT revenue & Revenue/Hotel Shopper was much worse. You already knew IB was a disaster; what's more important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

**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)

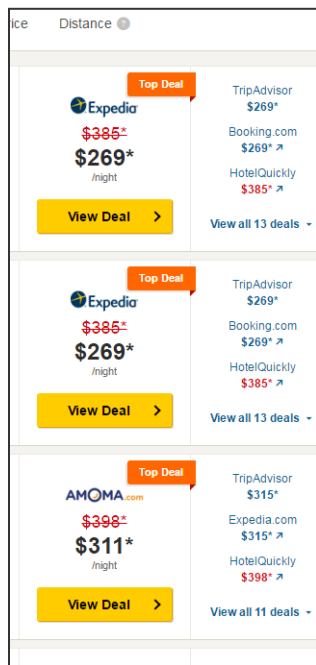
EXPE's comment suggests that TRIP CPC is essentially a zero-margin channel, which means EXPE & PCLN (46% of TRIP's revenue) were effectively bidding away their take to TRIP in the form of CPC leads. Further, TRIP can only get a % of the OTA's take with an OTA-IB relationship, but had to go farther down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

# BUT TRIP IS NOW ADDRESSING THE FIRST IB ISSUE

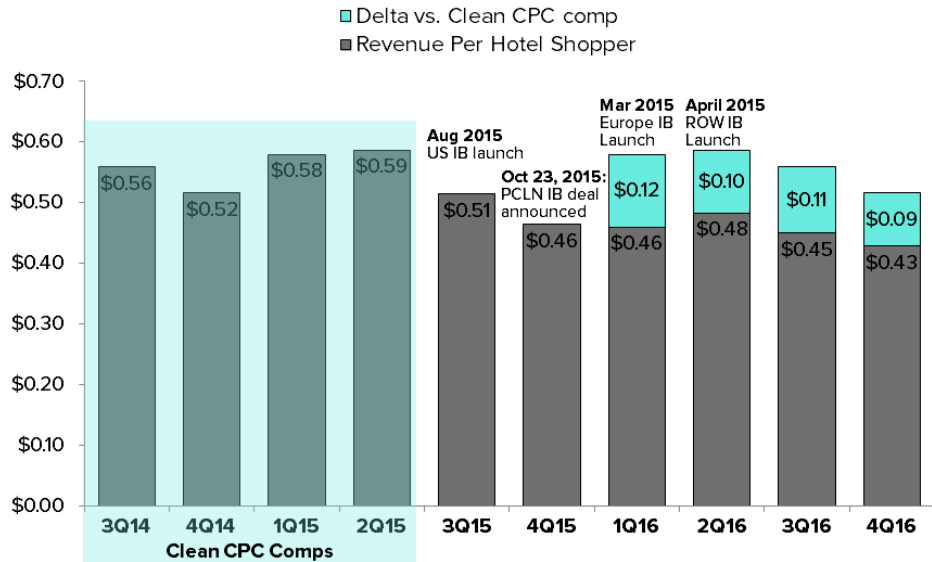
## BEFORE



## TODAY



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



## 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).



# THERE'S A LOT OF GROWTH IN GETTING BACK TO FLAT...

## TRIP | HOTEL CBT REVENUE GROWTH SCENARIO ANALYSIS

Revenue Growth based on Revenue/Hotel Shopper  
Flexed by Recapture % of Pre-Instant Book Revenue/Shopper

		QUARTERLY REVENUE GROWTH (Y/Y%)			
		1Q17	2Q17	3Q17	4Q17
RECAPTURE RATE	10%	3%	2%	2%	2%
	20%	5%	4%	5%	4%
	30%	8%	6%	7%	6%
	40%	10%	9%	10%	8%
	50%	13%	11%	12%	10%
	60%	16%	13%	15%	12%
	70%	18%	15%	17%	14%
	80%	21%	17%	19%	16%
	90%	23%	19%	22%	18%
	100%	26%	21%	24%	20%

Consensus	8%	13%	17%	15%
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### REVENUE PER HOTEL SHOPPER (COMPARABLE PERIODS)

	1Q16	2Q16	3Q16	4Q16
Prior-Year	\$0.46	\$0.48	\$0.45	\$0.43
Pre-IB Comp	\$0.58	\$0.59	\$0.56	\$0.52

#### Notes

1 Pre-IB means the seasonally comparable period before IB was rolled out

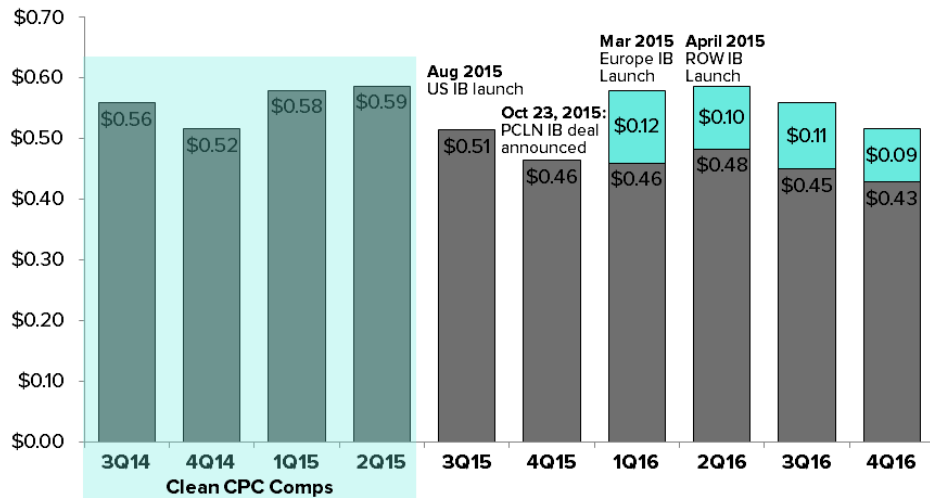
2 Assumes Hotel Shoppers growth of 0% y/y

Source: Company Reports, Factset, Hedgeye Estimates

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

Delta vs. Clean CPC comp  
Revenue Per Hotel Shopper



Source: Company Reports, Hedgeye Estimates

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## EVEN WITHOUT ANY USER GROWTH

The scenario analysis is calculating what TRIP's core Click-based & Transaction revenue growth would be based on how much of its prior CPC monetization rates it can recapture by deemphasizing IB. All things equal, TRIP may not get to full 100% recapture since IB is still around (mostly in the app). However..

# AD BUDGET SHOULD PROPEL REVENUE GROWTH

## TRIP | HOTEL CBT REVENUE GROWTH SCENARIO ANALYSIS

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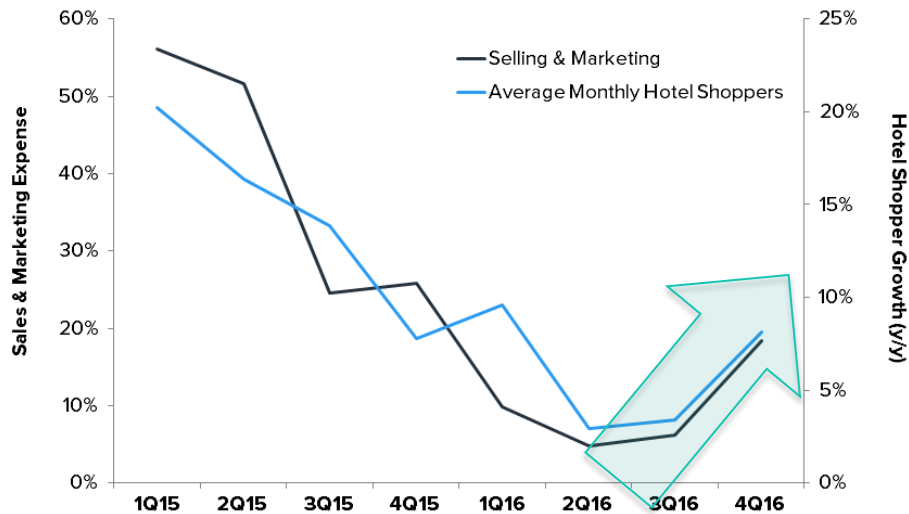
1 Pre-IB means the seasonally comparable period before IB was rolled out

2 Assumes Hotel Shoppers growth of 5% y/y

Source: Company Reports, Factset, Hedgeye Estimates

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## TRIP | Hotel Shoppers vs. Selling & Marketing Expense (y/y growth %)



Source: Company Reports, Hedgeye Estimates

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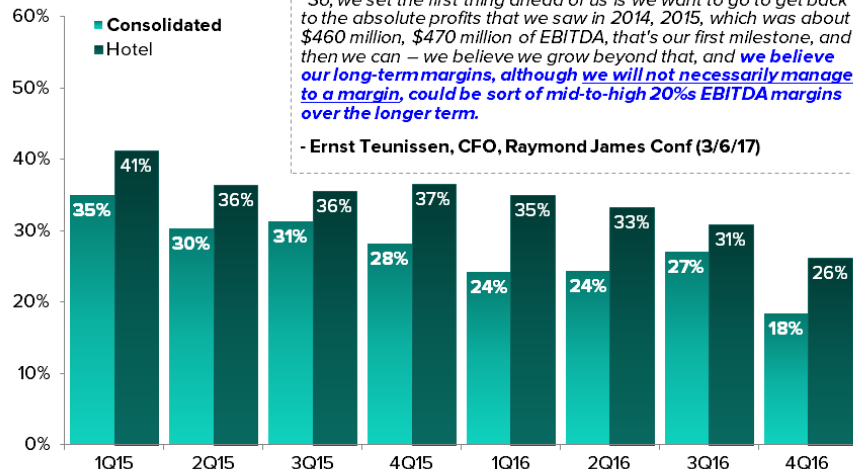
## IN THE FORM OF BOTH VOLUME & MONETIZATION

TRIP has suggested that its marketing expense will grow in excess of its expected 2017 revenue growth (double-digits). We've already seen the benefit of accelerating ad spend on shopper growth. Further, that ad spend will likely skew the mix of TRIP's hotel shoppers toward desktop, which should help improve revenue/hotel shopper given the mobile monetization gap. On that note.....

# EXPE POKED THE BEAR

## TRIP | Adjusted EBITDA Margins Consolidated & Hotel

■ Consolidated  
■ Hotel



"So, we set the first thing ahead of us is we want to go to get back to the absolute profits that we saw in 2014, 2015, which was about \$460 million, \$470 million of EBITDA, that's our first milestone, and then we can – we believe we grow beyond that, and **we believe our long-term margins, although we will not necessarily manage to a margin, could be sort of mid-to-high 20% EBITDA margins over the longer term.**

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

Source: Company Reports, Hedgeye Estimates

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## TRIP | TOTAL EBITDA GROWTH SCENARIO ANALYSIS

EBITDA Growth based on Revenue/Hotel Shopper  
Flexed by Recapture % of Pre-Instant Book Revenue/Shopper

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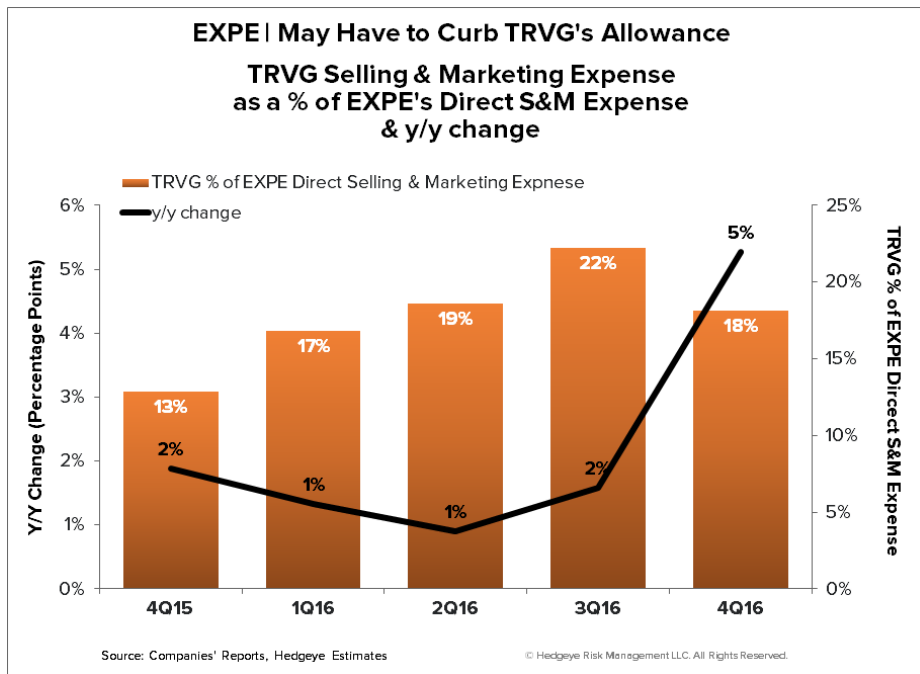
Source: Company Reports, Hedgeye Estimates

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## TRIP IS NOW RESPONDING IN KIND (RAMPING AD SPEND)

As a reminder, the analysis to the right suggests TRIP could get EBITDA margins back to the mid-20s to 30% range overnight if wasn't planning on ramping ad spend (slide 16). Given that TRIP's long-term targets are inline with what it produced in a rough 2016, it appears TRIP is serious about bringing the fight back to TRVG, and it's not taking its foot off the gas this time.

# WHICH COMPOUNDS THE RISK OF AD BUDGET WAR

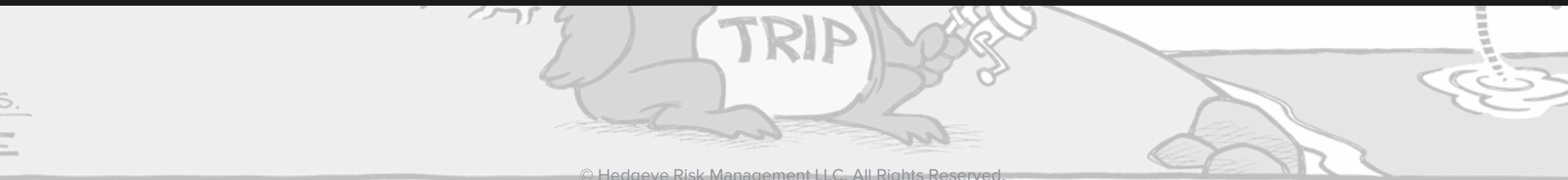


## IF TRVG LOSES, EXPE WILL ALSO HAVE TO BUY TRIP'S AD INVENTORY

Whatever TRVG spends will directly hit EXPE's P/L since TRVG is still under its control. Keep in mind that EXPE has its own EBITDA targets to live up to and other kids to feed with that marketing budget (e.g. AWAY). The more EXPE spends on TRVG, the more lower the yield it will get when TRIP is doing the same. It also means less budget it has for its OTAs to compete with PCLN.



## WHAT HAPPENED



# TRIP INTRODUCED AN OPTICAL HEADWIND IN 4Q16

*“As a result, we are targeting double-digit consolidated revenue growth in 2017, driven by a return to double-digit click-based and transaction revenue growth, **while absolute adjusted EBITDA could be flat to down year-on-year....** We note that our consolidated revenue growth and adjusted EBITDA growth will be more back-half weighted than 2016 due to our increasingly seasonal business and as we make progress along our various growth initiatives. **These insights into our 2017 financial outlook do not include the aforementioned potential for a strategic multi-year brand marketing investment, including TV advertising. Any such brand investment would likely further enhance revenue growth and would likely negatively impact near-term adjusted EBITDA as well as our 2017 outlook outlined above.** We will provide our updated thoughts in due course”*



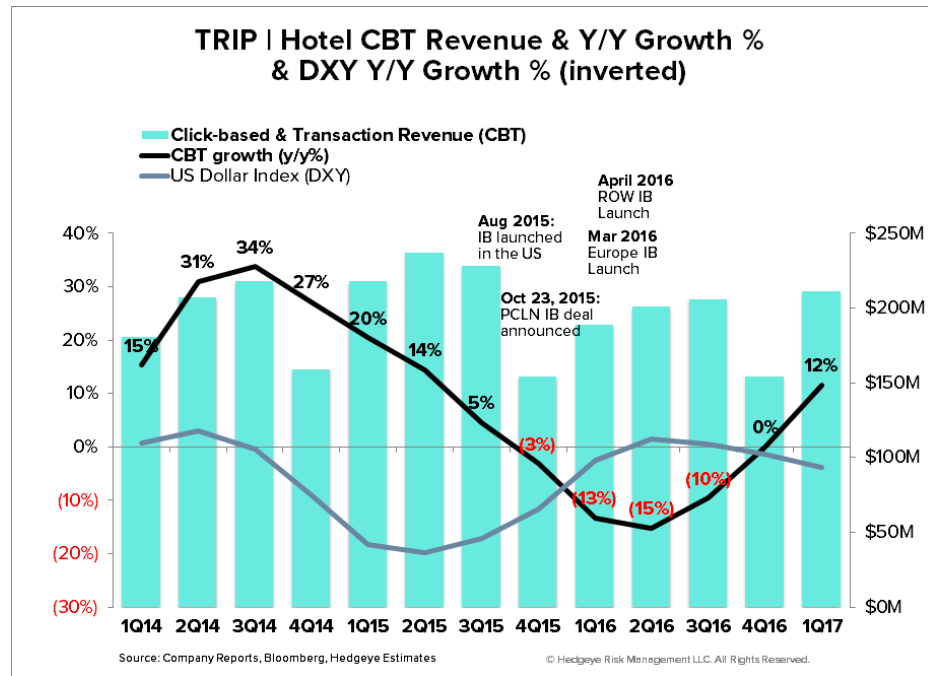
## AND THE SHORTS PILED IN

TRIP told the street that it was considering a TV ad campaign, but wasn't factoring it into its down-to-flat EBITDA guide. The sell-side didn't factor the campaign into their EBITDA; in fact some were using it as a basis for their downgrades since TRIP was going to miss their own EBITDA estimates

# TRIP GOT SCARED OF STREET AND PIVOTED IN 1Q17

*"In terms of our 2017 outlook, we reiterate our expectation for double-digit consolidated revenue growth as well as double-digit click-based and transaction revenue growth.*

***We also reiterate our expectation of flat to down absolute adjusted EBITDA compared to 2016, now inclusive of our brand advertising investment.** We are able to maintain this outlook by reallocating some less efficient online marketing dollars, as well as expected profit favorability in our Non-Hotel segment, towards brand advertising"*



## FROM MAXIMIZING REVENUE GROWTH TO MANAGING TO EBITDA

TRIP had stated that instead of bolting on the TV campaign to its ad budget, it was going to finance it by allocating online ad budget from less efficient channels. The stock turned from after-market gainer to intraday loser after the street assumed there would be a vacuum in demand from pulling budget from online channels to TV, which has a longer payback cycle

# THEN THEY TEMPERED 2Q EXPECTATIONS

“We also announced that we would be pulling back and I mentioned it later, **pulling back on some external marketing to fund some of the TV that we're rolling out and we've started doing some of that in Q2** as well. So, that's going to have an impact as well....So, all in all, we're still reiterating our outlook that we're going to get double-digit growth in our click-based and transaction revenue line for TripAdvisor. **But Q2, we could see some decel actually from the first quarter, and it could be in our expectations sort of mid to high single-digit growth in the second quarter relative to the 12% growth that we saw on the first quarter.** Again, expecting double-digit growth for that line item for the full year, but the second quarter for the reasons I mentioned could see a bit of a decel”



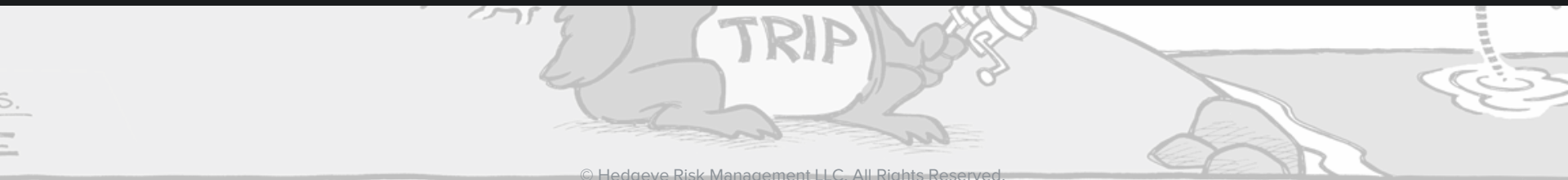
## WHICH VALIDATED THE DEMAND VACUUM THESIS

At least at face value. We suspect much of the headwind was due to recent changes TRIP made to user interface on its site, which we suspect disproportionately impacted the int'l markets, which we were betting on to recover in 2Q now that IB was fully baked into its comps.





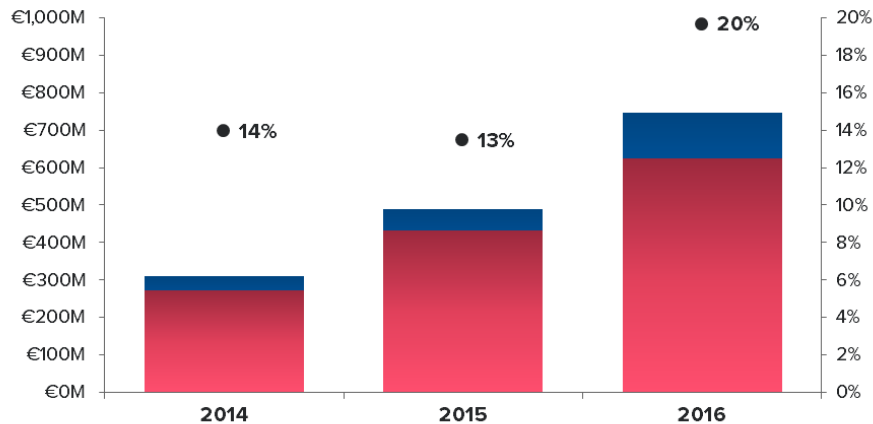
**NOW WHAT**



# TRIP MAY BE SHOOTING ITSELF IN THE FOOT LONG-TERM

TRVG | Referral Revenue vs. Ad Spend  
& Net Return on Ad Spend

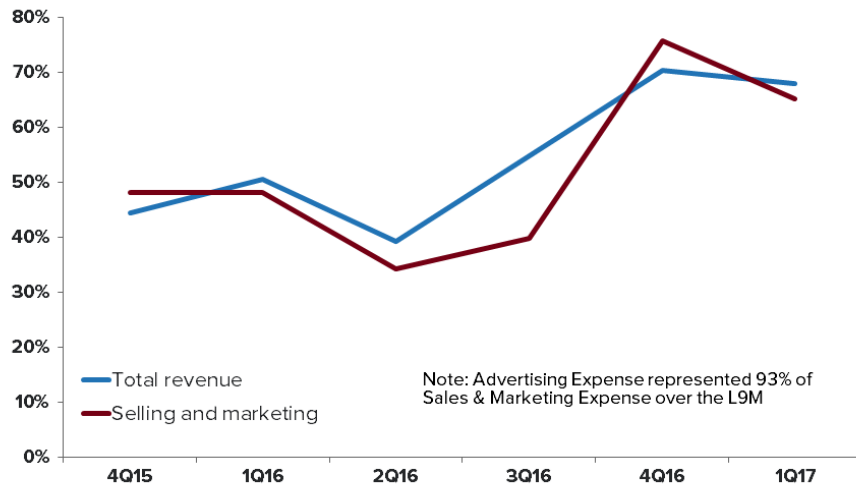
- Total Referral Revenue
- Total Ad Spend
- Net Return on Advertising Spend



Source: Company Reports, Hedgeye Estimates

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TRVG | Total Revenue vs. Sales & Marketing Expense  
(y/y growth rates)



Note: Advertising Expense represented 93% of Sales & Marketing Expense over the L9M

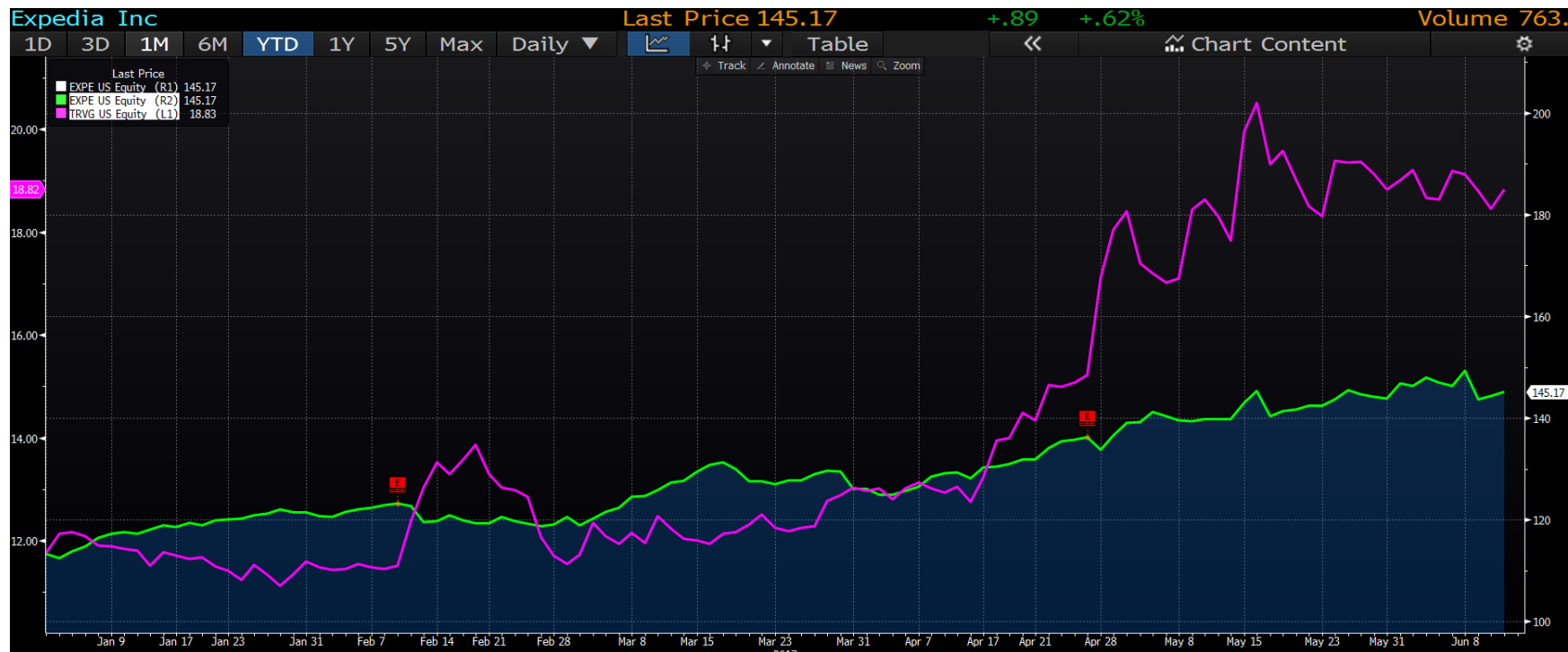
Source: Company Reports, Hedgeye Estimates

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## FOCUSING TOO MUCH ON THE STREET INSTEAD OF THE REAL PROBLEM (TRVG)

TRVG has already lapped TRIP in Referral revenue. TRVG has done so by aggressively ramping ad spend to the point where it historically generates negative to limited EBITDA at best on a quarterly basis.

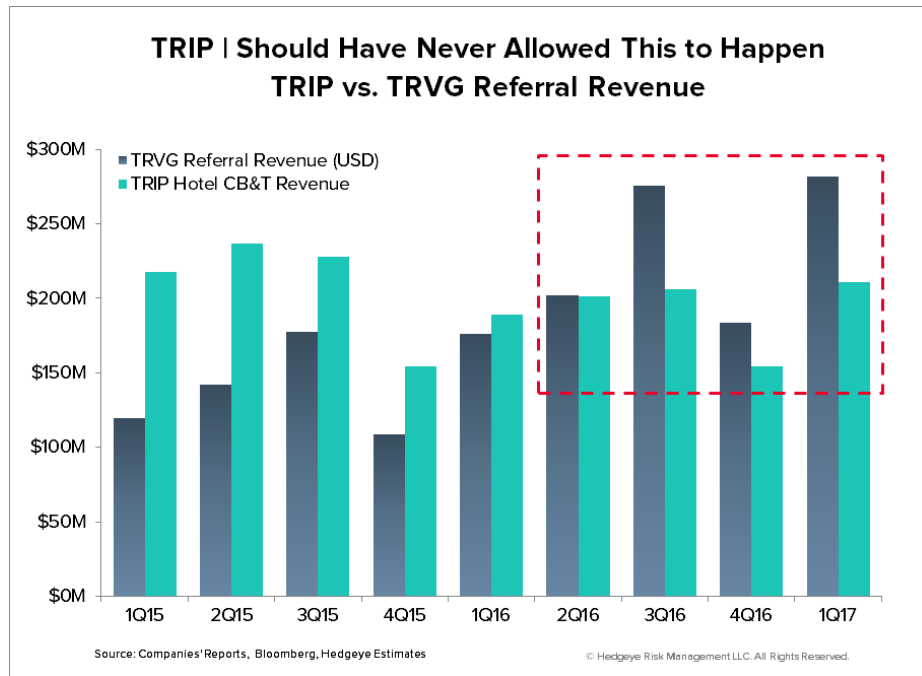
# TRVG HAS NO INCENTIVE TO PARE BACK ON AD SPEND



## STREET HAS BEEN REWARDING TRVG FOR REV GROWTH DESPITE EBITDA

TRVG doesn't have to live up to the same EBITDA expectation as TRIP does since the street only cares about its revenue growth. That said, it has no motivation to pare back on its ad spend unless TRIP attacks TRVG's ad efficiency, in turn attacking its parents EBITDA since TRVG now represents a sizable chunk of EXPE's ad spend.

# WHICH MEANS TRVG WON'T STOP

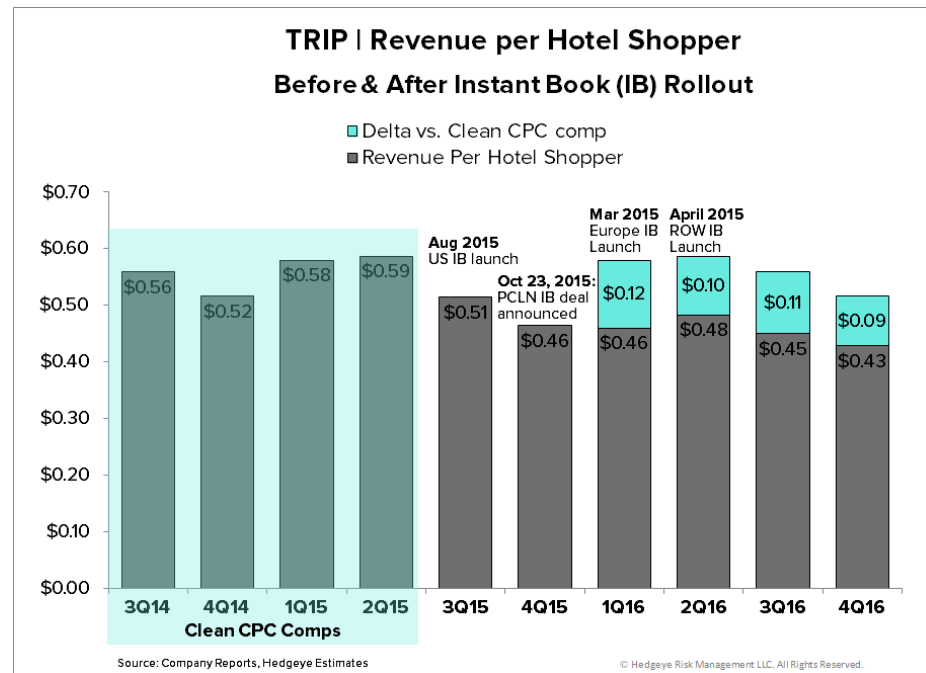


## WHICH COULD PUT TRIP AT A SERIOUS LONG-TERM DISADVANTAGE

Whatever incremental revenue TRVG generates off that spend becomes the incremental increase in its ad budget in the following quarter, and so on and so forth until TRIP can no longer field a competitive ad budget. That would eventually devolve into TRVG eating into TRIP's meta revenue and/or actually building a self-sustaining business (EBITDA).

# WE MAY BOW OUT OF OUR LONG

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4. **Setup:** Coiled spring. Both the sell-side and buy-side piled into the short after the 4Q16 print. The first +20% rev growth print should squeeze them out.
5. **Duration:** Through at least the 3Q17 print



## NONE OF THIS APPLIES IF MGMT FOLLOWS THROUGH ON THE PIVOT

We already ate on the 2Q preannouncement, so we aren't in any rush to exit ahead of 2Q results, although we may wind up doing so if we can confirm the magnitude of the pivot. We're still working through it, but the pivot means TRIP may be heading to our short bench. We're hoping mgmt will stick to its original 2017 gameplan. Other, it's recent pressure will become secular.

FOR MORE INFORMATION, CONTACT US AT:

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