



**TARGET CHANGE / ESTIMATE CHANGE
COMPANY UPDATE**

Key Metrics

TRIP - NASDAQ - as of	8/9/17	\$40.54
Price Target		\$60.00
52-Week Range	\$35.34 -	\$66.13
Diluted Shares Outstanding (mil)		139
Market Cap. (\$mil)		\$5,625
1-Mo. Average Daily Volume		2,894,865
Institutional Ownership		92.3%
Debt/Total Capital (net)	Q2'17	0%
ROE		6.7%
Book Value / Share		\$9.64
Price / Book Value		4.2x
Dividend Yield		0.0%
LTM EBITDA Margin		1714.0%

non GAAP EPS FY 12/31

	2016A	Prior 2017	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.32		\$0.24 A	\$0.22	\$0.26
2Q	\$0.38		\$0.38 A	\$0.48	\$0.45
3Q	\$0.53	\$0.46	\$0.39	\$0.59	\$0.44
4Q	\$0.16	\$0.28	\$0.14	\$0.37	\$0.21
Year	\$1.40	\$1.31	\$1.14	\$1.67	\$1.36
P/E	29.0x		35.6x		29.8x

*Columns may not equal due to rounding

Revenue (\$mil)

	2016A	Prior 2017	Current 2017E	Prior 2018E	Current 2018E
1Q	\$352		\$372 A	\$415	\$ 403
2Q	\$391		\$424 A	\$490	\$ 471
3Q	\$421	\$473	\$448	\$527	\$ 497
4Q	\$316	\$368	\$340	\$415	\$ 378
Year	\$1,480	\$1,645	\$1,583	\$1,847	\$ 1,750

TripAdvisor Inc – enables travelers to research & plan, price & compare, and book hotels, flights, vacation rentals, attractions, restaurants, and resorts. The TripAdvisor mobile app also allows travelers to reserve tables and buy tickets to attractions. TripAdvisor offers its 388 million monthly users 465 million reviews on more than 6.9 million accommodations, restaurants and attractions. TripAdvisor generates revenue through hotel related display advertising & subscription fees (19%), hotel click-based advertising & transactions (54%), other hotel revenue (13%) and non hotel revenue (14%). TripAdvisor currently operates in 47 countries under 25 brands including: Flipkey, TheFork, HolidayLettings, Jetsetter, Niumba, Oyster, Vacation Home Rentals, and Viator. TripAdvisor was founded in 2000 and is headquartered in Needham, MA.

TripAdvisor Inc.

TRIP - NASDAQ – Long-term Buy - 3

TripAdvisor Beats Q2 Expectations; Adjusting Outlook & Price Target

- Results.** TripAdvisor reported Q2'17 non GAAP EPS of \$0.38, flat y/y, on revenue of \$424 million, an 8% increase. Results were mixed vs. our EPS estimate of \$0.33 and revenue of \$432 million, while TripAdvisor beat the consensus EPS view of \$0.30 on revenue of \$421 million. Hotel segment revenue increased 3% y/y, as TripAdvisor-branded click-based and transaction revenue growth decelerated increasing 6% y/y to \$326 million. However, mobile TripAdvisor-branded click-based and transaction revenue grew 60% y/y. This mobile growth converts to lower revenue per hotel shopper weighing on near term revenue growth. Mobile now represents 40% of hotel shoppers. Non Hotel segment revenue of \$98 million, increased a significantly better than expected 31% y/y on an increase in bookable attractions, restaurants and vacation rentals. U.S. revenue outperformed other regions increasing 12% y/y. Adjusted EBITDA of \$101 million increased from \$95 million last year. Operating cash flow declined to \$221 million while free cash flow was \$204 million vs. \$219 million last year. Net cash totaled \$641 million or \$4.55 on a per share basis. The company repurchased \$100 million of TRIP shares during the quarter, completing the \$250 million share repurchase program.
- Key Metrics.** TripAdvisor grew traveler destinations to 1.9 million accommodations, 4.4 million restaurants, and 830,000 attractions. TripAdvisor reached a record monthly average user base of 414 million, up 18% y/y, beating our 400 million view. Total average monthly unique hotel shoppers for the quarter grew 11% y/y to 460 million, above our 450 million view, while revenue per hotel shopper decreased 2% y/y to \$0.47, below our view of \$0.50. Our revenue view missed actual results due to lower revenue per mobile hotel shopper.
- Guidance.** The quickening pace of mobile usage is expected to negatively impact FY'17 revenue growth. FY'17 revenue guidance was reduced to mid-single digit growth, below our prior 11% y/y growth rate estimate. Management also noted the majority of the marketing campaign will take place during Q3'17, while their FY'17 adjusted EBITDA outlook remains unchanged.
- Opinion.** Maintain Long-term Buy rating, adjusting price target to \$60 from our previous \$65 target.

**Note Important Disclosures on Pages 6-7
Note Analyst Certification on Page 6**

ADDITIONAL DISCUSSION

The underlying TripAdvisor ecosystem remains healthy with 460 million monthly unique hotel shoppers in the quarter, up 11% and accelerating from the 9% gain last quarter. These users generated a record 535 million user reviews and opinions, an increase of 39% y/y. TripAdvisor mobile click-based and transaction revenue accelerated during the quarter, increasing 60% y/y vs. 35% y/y last quarter. TripAdvisor experienced a 36% increase in mobile hotel shoppers vs. a 25% y/y increase reported last quarter. Unfortunately, mobile hotel shoppers monetize at roughly a third of desktop/tablet users. This led to lower than expected results in click-based and transaction revenue of \$214 million vs. our view of \$225 million as revenue per hotel shopper declined 2% y/y to \$0.47 vs. our \$0.50 view. In total, Hotel segment revenue increased 3% y/y to \$326 million, representing 77% of total revenue. Mobile shoppers now represent a record 40% of total hotel shoppers, a figure we expect to continue to climb, but with a growth rate that could begin to decline in coming quarters lessening this particular headwind longer term. Mobile monetization, while at a third of desktop, continues to improve and in our view should remain a tailwind for quite some time as management better optimizes TripAdvisor for the app experience. Recent positive signs were noted from the refreshed hotel shopping experience and TV brand campaign which is expected to rollout to a larger degree in the current quarter. Non Hotel segment revenue increased a better than expected 31% y/y to \$98 million compared to our above consensus view of \$87 million. Notably, the segment produced a record Adjusted EBITDA margin of 17% vs. a loss in the year ago quarter as leverage reached an inflection point. U.S. revenue outperformed other regions increasing 12% y/y to \$244 million. U.S. revenue represented 58% of total revenue, a multi-year high. Europe revenue increased 6% to \$110 million (26%), while the Rest of World segment revenue increased 1% y/y to \$70 million (16%).

TripAdvisor's transition from a website designed to find vacation destinations and compare prices, to a mobile-first app streamlined/redesigned to book the lowest price hotel and attractions is key to the long term success of the company. We believe, as it has been our view since we initiated coverage, weak near-term performance undervalues TripAdvisor's future long-term growth potential and cash flow generating ability. Our long-term investment thesis that online travel spending will continue to increase and represent a larger percentage of total travel dollars is expected to continue through our investment timeframe. Online travel spending represents \$567 billion of the expected global \$1.3 trillion total worldwide travel spend in 2017. TripAdvisor revenue of \$1.5 billion equates to a small fraction of this total and has the potential to grow significantly over time as consumers research, plan, compare, and book hotels and attractions. Growth trends favor online travel agencies as online bookings are expected to grow 10.5% in 2017 with higher marketing spend following this shift to online from offline. We also believe TripAdvisor remains one of the first destinations consumers visit when planning a vacation. This pole position and the company's recent shift to an Instant Booking platform may allow it to improve monetization longer-term and close a revenue generating leak in its business model it has suffered vs. other large OTA competitors. We believe the initial steps to our long-term goals have been achieved, yet significant monetization growth can still be achieved. TripAdvisor's valuation has declined in recent quarters as shares have reacted negatively to lower results due to the Instant Booking initiative, higher spending, and shift in consumer device usage that has lowered monetization of each hotel shopper. We believe the transition to mobile instant bookings could continue to result in higher spending weighing on profitability, holding margins below TripAdvisor's historical margin profile for several years.

Management lowered their revenue outlook for the second half of the year as TripAdvisor is experiencing a faster than expected shift to lower monetizing mobile users and in recent weeks the company had some soft CPC auction pricing, which was also expressed by a large competitor. We reduce our FY'17 revenue growth outlook to 7% vs. our prior outlook of 11%. We currently expect FY'17 revenue of \$1.58 billion down from our prior view of \$1.64 billion. Despite better than expected Q2 EPS, we are also reducing our FY'17 EPS estimate to \$1.14 from \$1.31 as lower revenue and a majority of the \$70 to \$80 million TV marketing campaign is expected to weigh on Q3 results. We are further pushing out the degree that we expect monetization improvements longer term. As a result, our FY'18 EPS estimate declines to \$1.36 from \$1.67 on revenue of \$1.75 billion from \$1.84 billion and our FY'19 EPS estimate declines to \$1.72 from \$1.86 on revenue of \$1.95 billion from \$2.02 billion.

TripAdvisor Inc. Consolidated Statement of Income (in millions except per share data)

	2012	2013	2014	2015	2016	Q1'17	Q2'17	Q3'17E	Q4'17E	2017E	2018E	2019E
Total Revenue	\$ 763	\$ 945	\$ 1,246	\$ 1,492	\$ 1,480	\$ 372	\$ 424	\$ 448	\$ 340	\$ 1,583	\$ 1,750	\$ 1,958
Cost of revenue	12	20	40	57	71	17	20	22	17	76	83	89
Selling and marketing	262	356	489	675	736	202	223	244	204	873	969	1,045
Technology and content	75	110	144	179	203	52	51	53	48	204	234	267
General and administrative	62	81	105	116	118	28	29	31	24	112	122	135
Depreciation	20	30	47	58	69	19	19	20	19	77	80	84
Amortization of intangible assets & other	-	-	-	18	-	-	-	-	-	-	-	-
Non-GAAP Total Costs and Expenses	\$ 430	\$ 597	\$ 825	\$ 1,103	\$ 1,197	\$ 318	\$ 342	\$ 370	\$ 312	\$ 1,342	\$ 1,488	\$ 1,620
Non-GAAP Income from Operations	\$ 333	\$ 348	\$ 421	\$ 389	\$ 283	\$ 54	\$ 82	\$ 78	\$ 28	\$ 241	\$ 261	\$ 338
Interest and Other Income	-31	-10	-18	8	-15	-2	-2	-2	-3	-9	-8	-8
Non-GAAP Income Before Provision for Income Taxes	\$ 301	\$ 338	\$ 403	\$ 397	\$ 268	\$ 52	\$ 80	\$ 76	\$ 25	\$ 232	\$ 253	\$ 330
Provision for income taxes	95	94	119	94	63	17	27	22	6	71	60	83
Non-GAAP Net Income	\$ 206	\$ 244	\$ 284	\$ 303	\$ 205	\$ 35	\$ 53	\$ 55	\$ 19	\$ 161	\$ 194	\$ 247
Diluted Shares Outstanding	141	145	146	147	147	145	141	141	141	142	142	143
Non-GAAP EPS	\$ 1.46	\$ 1.68	\$ 1.94	\$ 2.06	\$ 1.40	\$ 0.24	\$ 0.38	\$ 0.39	\$ 0.14	\$ 1.14	\$ 1.36	\$ 1.72
Y/Y Growth Rate												
Total Revenue	20%	24%	32%	20%	-1%	6%	8%	6%	7%	7%	10%	12%
Cost of Revenue	11%	66%	100%	43%	25%	6%	0%	16%	6%	7%	9%	7%
Total operating expenses	34%	38%	36%	33%	8%	13%	10%	14%	13%	12%	11%	9%
Total costs and expenses	33%	39%	38%	34%	9%	12%	9%	14%	13%	12%	11%	9%
Operating income	6%	5%	21%	-8%	-27%	-22%	5%	-18%	-31%	-15%	8%	29%
Net income	2%	19%	16%	7%	-32%	-26%	-5%	-30%	-17%	-21%	20%	28%
Diluted EPS	-3%	15%	16%	6%	-32%	-25%	-1%	-27%	-14%	-19%	20%	27%
Diluted share count	6%	3%	1%	1%	0%	-1%	-4%	-4%	-3%	-3%	0%	1%
Percentage of Revenue												
Gross Margin	98%	98%	97%	96%	95%	95%	95%	95%	95%	95%	95%	95%
Total costs and expenses	56%	63%	66%	74%	81%	86%	81%	83%	92%	85%	85%	83%
Operating income	44%	37%	34%	26%	19%	14%	19%	17%	8%	15%	15%	17%
Non-GAAP Net Income	27%	26%	23%	20%	14%	9%	13%	12%	6%	10%	11%	13%

Source: Company data & Hilliard Lyons estimates, highlighted figures used for valuation methodology.

TripAdvisor Inc. Consolidated Balance Sheets (in millions except per share data)

	2010	2011	2012	2013	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17	Q2'17
Assets													
Cash and cash equivalents	\$ 93	\$ 184	\$ 368	\$ 351	\$ 455	\$ 614	\$ 653	\$ 766	\$ 611	\$ 612	\$ 612	\$ 731	\$ 887
Marketable securities	20	-	119	131	108	47	39	87	116	118	118	15	17
Accounts receivable, net	51	82	105	113	151	180	244	230	221	189	189	232	252
Prepaid expenses and other	12	13	41	35	33	24	28	24	18	31	31	25	24
Total current assets	177	278	632	630	747	865	964	1107	966	950	950	1,003	1,180
Long-term marketable securities	-	-	99	188	31	37	17	38	29	16	16	3	4
Property and equipment, net	31	35	44	82	195	247	252	256	262	260	260	262	266
Goodwill and intangible assets, net	511	511	510	554	948	908	909	902	922	903	903	902	906
Other assets	5	12	14	19	37	71	72	82	98	109	109	104	116
Total assets	723	836	1,299	1,473	1,958	2,128	2,214	2,385	2,277	2,238	2,238	2,274	2,472
Liabilities and stockholders' equity													
Accounts payable	7	6	13	10	19	10	15	25	11	14	14	12	7
Deferred merchant payables	19	-	1	30	93	105	179	288	152	128	128	218	344
Deferred revenue	12	19	32	44	57	64	93	97	69	64	64	87	90
Current portion of debt	2	47	72	68	78	1	1	1	76	80	80	7	7
Taxes payable	65	17	15	5	20	9	10	11	16	10	10	6	8
Accrued expenses and other current liabilities	38	41	63	86	114	123	134	153	126	127	127	122	165
Total current liabilities	143	130	196	243	381	312	432	575	450	423	423	452	621
Deferred income taxes, net	29	16	11	13	39	15	16	18	20	12	12	13	15
Other long-term liabilities	12	16	26	52	154	189	192	196	207	210	210	215	222
Long-term debt	-	380	340	300	259	200	110	91	20	91	91	210	260
Total liabilities	183	542	572	608	833	716	750	880	697	736	736	890	1,118
Stockholders' equity:													
Common stock and additional paid in capital	542	294	531	608	673	741	758	783	808	831	831	843	873
Retained earnings	-	2	196	402	628	826	853	888	944	945	945	958	985
Accumulated other comprehensive loss	(2)	(3)	(1)	-	(31)	(63)	(54)	(62)	(59)	(77)	(77)	(70)	(57)
Treasury stock	-	-	-	(145)	(145)	(92)	(93)	(104)	(113)	(197)	(197)	(347)	(447)
Total stockholders' equity	540	294	727	865	1,125	1,412	1,464	1,505	1,580	1,502	1,502	1,384	1,354
Total liabilities and stockholders' equity	723	836	1,299	1,473	1,958	2,128	2,214	2,385	2,277	2,238	2,238	2,274	2,472

Source: Company data

OPINION & VALUATION

We reiterate our Long Term Buy rating on shares of TRIP and adjust our price target to \$60 from \$65 following estimate revisions that reduced our outlook. Despite continued weak financial performance, underlying performance is improving as headwinds begin to be replaced with long term tailwinds. We see long-term upside potential in shares of TRIP, as the recent launch of a simplified hotel shopping experience, increased mobile adoption, and greater consumer awareness begin to occur. We believe spending on advertising to provide consumer awareness of the TripAdvisor brand (especially to younger consumers) and to provide consumers a reason to visit the new TripAdvisor platform could boost user growth and longer-term profitability if user behavior changes in a way that more consumers book through TripAdvisor. Our price target declines by \$5 to \$60 based on our FY'19 EPS estimate of \$1.72 multiplied by a 35x forward P/E multiple which is in line with the current consensus 35x forward P/E multiple; below TRIP's historical median forward multiple; but well above the P/E multiple of other larger online travel agencies. We believe near-term results fundamentally misrepresent TripAdvisor's long-term potential value. We believe a 35x forward multiple also fairly values TripAdvisor's strong cash flow generating ability.

TRIP Historical Forward P/E Multiple



Source: Thomson Reuters

The company's free cash flow decreased slightly y/y due to higher near term spending. We expect higher revenue growth to resume in 2018 with profitability improving gradually throughout our investment timeframe versus recent subdued results.

TRIP Historical Free Cash Flow Yield



Source: Thomson Reuters

We believe due to TripAdvisor's strong free cash flow generating ability, currently yielding 5.5%, near a record high, TripAdvisor could be viewed as a potential acquisition target, in our view. The current low interest rate environment and a more manageable market cap of \$5.6 billion with a significant net cash position could make it an attractive and accretive acquisition. However, due to Liberty TripAdvisor's controlling stake and other factors we do not include this view within our fundamental framework, price target, investment rating, or suitability rating.

SUITABILITY

We assign shares of TRIP a suitability rating of 3 on our scale of 1-4 (1 = most conservative, 4 = most aggressive). A 3 rating is given based on TripAdvisor's lack of history as a public company, and a majority of revenue derived from Expedia and Priceline, while we also incorporate the company's unique position within the online travel market. We believe the company has a solid balance sheet and generates significant free cash flow. TripAdvisor also relies heavily on search engine traffic and has a large ownership control from a single investor. We believe a suitability rating of 3 incorporates these attributes. Shares of TRIP are suitable for aggressive growth oriented investors seeking long-term capital appreciation, in our view.

RISKS & CONSIDERATIONS

Risks to our valuation include but are not limited to:

- The global economy, politics, terrorism, and health related issues could adversely affect global travel, reducing online travel spending
- The ability to grow and/or retain the TripAdvisor user base and their current level of engagement
- Increased competition and industry consolidation from large well capitalized search engines and other online travel agencies
- Loss of advertising relationships with Priceline Group and Expedia which generate a majority of TripAdvisor total revenue
- Loss of advertising dollars, as advertising revenue generates a majority of TripAdvisor revenue
- Potential loss of display ad revenue due to the growing use of ad blockers and mobile devices
- The inability by TripAdvisor to further monetize mobile products, as users shift usage patterns
- The threat of new technological innovations that could draw traffic away
- The lack of adoption of the Instant Booking platform, and/or the lack of innovation and new products
- The threat of TripAdvisor infrastructure failure, causing site downtime, which could materially affect revenue
- The unlawful distribution of user information, or the hacking of user information by an outside party and other privacy concerns that may drive users away from the site or create an unwillingness of users to share additional information
- Regulations and restrictions imposed on TripAdvisor by U.S. or foreign governments
- The loss of key executives
- Seasonality, generally means higher second and third quarter revenue and lower first and fourth quarters
- The lack of majority voting rights which are largely held by Liberty TripAdvisor Holdings

Additional information is available upon request.

Other stocks mentioned: Priceline Group (PCLN-\$1906.80), Expedia (EXPE-\$147.90), Liberty TripAdvisor Holdings (LTRPA-\$12.10).

Analyst Certification

I, Stephen Turner, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Suitability Ratings

- 1 - A large cap, core holding with a solid history
- 2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks
- 3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage
- 4 - Speculative, due to small size, inconsistent profitability, erratic revenues, volatility, low trading volume or a narrow customer or product base

Investment Ratings

- Buy** - We believe the stock has significant total return potential in the coming 12 months.
- Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.
- Neutral** - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.
- Underperform** - We believe the stock is vulnerable to a price setback in the next 12 months.



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

Other Disclosures

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