


**TARGET CHANGE / ESTIMATE CHANGE
COMPANY UPDATE**
Key Metrics

| | | |
|---------------------------------|-----------|-----------|
| TRIP - NASDAQ - as of | 2/16/17 | \$46.92 |
| Price Target | | \$45.00 |
| 52-Week Range | \$45.63 - | \$71.69 |
| Diluted Shares Outstanding (mm) | | 147 |
| Market Cap. (\$mm) | | \$6,897 |
| 1-Mo. Average Daily Volume | | 2,404,399 |
| Institutional Ownership | | 94.1% |
| Debt/Total Capital (net) | Q4'16 | 0% |
| ROE | | 12.7% |
| Book Value / Share | | \$11.11 |
| Price / Book Value | | 4.2x |
| Dividend Yield | | 0.0% |
| LTM EBITDA Margin | | 15.8% |

non GAAP EPS FY 12/31

| | Prior | Current | Prior | Current |
|------|--------|---------|--------|---------|
| | 2015A | 2016 | 2016A | 2017E |
| 1Q | \$0.54 | \$0.32 | \$0.42 | \$0.25 |
| 2Q | \$0.54 | \$0.38 | \$0.45 | \$0.28 |
| 3Q | \$0.53 | \$0.53 | \$0.56 | \$0.38 |
| 4Q | \$0.45 | \$0.16 | \$0.46 | \$0.32 |
| Year | \$2.06 | \$1.40 | \$1.89 | \$1.23 |
| P/E | 22.8x | 33.5x | | 38.1x |

*Columns may not equal due to rounding

Revenue (\$mil)

| | Prior | Current | Prior | Current |
|------|---------|---------|---------|----------|
| | 2015A | 2016 | 2016A | 2017E |
| 1Q | \$363 | \$352 | \$377 | \$ 367 |
| 2Q | \$405 | \$391 | \$432 | \$ 445 |
| 3Q | \$415 | \$421 | \$490 | \$ 467 |
| 4Q | \$309 | \$316 | \$380 | \$ 364 |
| Year | \$1,492 | \$1,480 | \$1,679 | \$ 1,642 |

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 – Neutral - 3

TRIP Reports Weak Q4 Results; Outlook Remains Pressured

- Results.** TripAdvisor reported Q4'16 non GAAP EPS of \$0.16 on revenue of \$316 million. Results compare negatively to our EPS estimate of \$0.39 and revenue of \$328 million. Total revenue increased 2% from the prior year. Hotel segment revenue declined 3% y/y, as the combined shift from a full metasearch provider to consumers on PCs to an instant booking platform to consumers on mobile devices reduced monetization. Non Hotel segment revenue of \$64 million, increased 31% y/y on an increase in bookable attractions, restaurants and vacation rentals. North America revenue increased 11% after lapping the Instant Booking rollout, in what could be a positive sign to topline growth in coming quarters as the IB rollout is lapped globally. Adjusted EBITDA of \$58 million declined from \$87 million last year on lower top line growth and higher costs associated with the instant booking global rollout. Operating cash flow decreased to \$46 million while free cash flow was \$30 million, a decline of over 50% y/y. Net cash totaled \$575 million or \$3.94 per share vs. \$3.40 last year.
- Key Metrics.** TripAdvisor grew traveler destinations to 1.9 million accommodations, 4.3 million restaurants, and 760,000 attractions. In total, businesses on TripAdvisor increased to 6.9 million from 6.8 million last quarter, reaching monthly average users of 326 million, up 11% y/y, but missing our 342 million view. Total average monthly unique hotel shoppers for the quarter grew 8% y/y to 359 million, above our 340 million view, while revenue per hotel shopper declined 7% y/y to \$0.43 vs. our view of \$0.42, due to the shift to mobile device usage and the full global rollout of the Instant Booking initiative.
- Outlook & Opinion.** Our outlook has been reduced substantially. We lower our Q1'17 revenue outlook to \$367 million from \$377 million, based on continued product and user transition monetization headwinds. We expect Q1'17 EPS of \$0.25 vs. our prior view of \$0.42. We forecast FY'17 EPS of \$1.23, below our prior estimate of \$1.89, on revenue of \$1.642 billion. We inaugurate a 2018 EPS estimate of \$1.59 on revenue of \$1.827 billion. We maintain our Neutral rating but note management may pursue a large marketing campaign that could further pressure profitability. We reduce our price target to \$45 from \$52 which is based on our FY'18 EPS estimate of \$1.59 multiplied by 28x which is above the P/E multiple of other online travel agencies as we believe near term results fundamentally misrepresent TripAdvisor's long term potential value.

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

FOURTH QUARTER 2016 RESULTS

Total Q4 revenue of \$316 million increased 2% y/y or 4% on a constant currency basis. Hotel segment revenue declined 3% y/y to \$252 million, representing 80% of total revenue. The 3% decline is an improvement compared to Q3's 6% y/y decline. Many underlining trends in the business have begun to improve including monthly unique hotel shopper growth of 8% y/y vs. 3% last quarter, a 7% decline in revenue per shopper vs. a 12% decline last quarter, and 11% y/y revenue growth in North America vs. 6% last quarter as the Instant Booking rollout was lapped. We expect these topline metrics to continue to improve as the global IB rollout is lapped in coming quarters. During Q4 TripAdvisor had over 560,000 online bookable hotels and announced global Instant Booking partnerships with Expedia and Hilton. TripAdvisor experienced a 22% y/y increase in mobile shopper growth. According to App Annie, the TripAdvisor app was ranked as the #17 most downloaded travel app within the app store and ranked #20 within Google's Play store within the U.S. on February 15th.

Adjusted EBITDA of \$58 million was pressured on a significant increase in costs related to improving the hotel shopping experience. Management guided to double-digit revenue growth in 2017 and for higher costs to weigh on profitability to a larger extent in 2017. Management also noted they may engage in a multi-year brand marketing campaign that could significantly weigh on profitability as well. This substantial increase in marketing is not included within our outlook at this time but could materially impact results should the company move forward with the plan. As such, we rate shares Neutral but note further downside risk could affect results.

The company announced a new \$250 million share repurchase authorization that could benefit long term shareholders as it remains our view that weak near term performance undervalues TripAdvisor's future potential growth. We view the buybacks as also likely to boost debt levels in the near term, deteriorating an already elevated risk level, in our opinion.

OUTLOOK

We maintain our view of TripAdvisor's long term investment thesis despite near term strategic initiatives weighing on growth and profitability. 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. 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 sites 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 and close a revenue generating leak in its business model.

TripAdvisor's valuation has declined as shares react negatively to lower results due to the Instant Booking initiative and shift in consumer device usage that has lowered monetization of each hotel shopper. We believe the transition to instant bookings could continue to result in higher spending and a delay in the recognition of revenue as click-based ad revenue is recognized when executed while bookings revenue is recognized at the time of stay which is typically deferred several months. Also, recent M&A activity within the online travel industry and the hotel & lodging industry could further consolidate industry participants into a few large players which could reduce ad rates and lower bids. We also see several other risks highlighted in our risk section that could have a negative near term impact including muted growth in average revenue per hotel shopper due to the shift to mobile devices and growth from emerging economies. We believe these negative risks are offset by strong global growth of online travel spending.

Our outlook has been reduced substantially. We lower our Q1'17 revenue outlook to \$367 million from \$377 million, based on continued product and user transition monetization headwinds. We expect Q1'17 EPS of \$0.25 vs. our prior view of \$0.42. We forecast FY'17 EPS of \$1.23, below our prior estimate of \$1.89, on revenue of \$1.642 billion. We inaugurate a 2018 EPS estimate of \$1.59 on revenue of \$1.827 billion.

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

| | 2012 | 2013 | 2014 | 2015 | 2016 | Q1'17E | Q2'17E | Q3'17E | Q4'17E | 2017E | 2018E |
|--|---------|---------|----------|----------|----------|---------|---------|---------|---------|----------|----------|
| Total Revenue | \$ 763 | \$ 945 | \$ 1,246 | \$ 1,492 | \$ 1,480 | \$ 367 | \$ 445 | \$ 467 | \$ 364 | \$ 1,642 | \$ 1,827 |
| Cost of revenue | 12 | 20 | 40 | 57 | 71 | 18 | 22 | 23 | 18 | 81 | 86 |
| Selling and marketing | 262 | 356 | 489 | 675 | 736 | 197 | 244 | 242 | 183 | 866 | 944 |
| Technology and content | 75 | 110 | 144 | 179 | 203 | 60 | 72 | 73 | 56 | 261 | 283 |
| General and administrative | 62 | 81 | 105 | 116 | 118 | 29 | 37 | 39 | 27 | 131 | 135 |
| Depreciation | 20 | 30 | 47 | 58 | 69 | 17 | 18 | 19 | 19 | 73 | 76 |
| Amortization of intangible assets & other | - | - | - | 18 | - | - | - | - | - | - | - |
| Non-GAAP Total Costs and Expenses | \$ 430 | \$ 597 | \$ 825 | \$ 1,103 | \$ 1,197 | \$ 320 | \$ 393 | \$ 395 | \$ 304 | \$ 1,412 | \$ 1,523 |
| Non-GAAP Income from Operations | \$ 333 | \$ 348 | \$ 421 | \$ 389 | \$ 283 | \$ 47 | \$ 52 | \$ 72 | \$ 60 | \$ 230 | \$ 304 |
| Interest and Other Income | -31 | -10 | -18 | 8 | -15 | 0 | 0 | 0 | 0 | 0 | 0 |
| Non-GAAP Income Before Provision for Income Taxes | \$ 301 | \$ 338 | \$ 403 | \$ 397 | \$ 268 | \$ 47 | \$ 52 | \$ 72 | \$ 60 | \$ 230 | \$ 304 |
| Provision for income taxes | 95 | 94 | 119 | 94 | 63 | 11 | 12 | 17 | 14 | 53 | 66 |
| Non-GAAP Net Income | \$ 206 | \$ 244 | \$ 284 | \$ 303 | \$ 205 | \$ 36 | \$ 40 | \$ 55 | \$ 46 | \$ 177 | \$ 237 |
| Diluted Shares Outstanding | 141 | 145 | 146 | 147 | 147 | 145 | 144 | 144 | 143 | 144 | 149 |
| Non-GAAP EPS | \$ 1.46 | \$ 1.68 | \$ 1.94 | \$ 2.06 | \$ 1.40 | \$ 0.25 | \$ 0.28 | \$ 0.38 | \$ 0.32 | \$ 1.23 | \$ 1.59 |
| Y/Y Growth Rate | | | | | | | | | | | |
| Total Revenue | 20% | 24% | 32% | 20% | -1% | 4% | 14% | 11% | 15% | 11% | 11% |
| Cost of Revenue | 11% | 66% | 100% | 43% | 25% | 13% | 10% | 21% | 13% | 14% | 6% |
| Total operating expenses | 34% | 38% | 36% | 33% | 8% | 13% | 27% | 22% | 10% | 18% | 8% |
| Total costs and expenses | 33% | 39% | 38% | 34% | 9% | 13% | 26% | 22% | 10% | 18% | 8% |
| Operating income | 6% | 5% | 21% | -8% | -27% | -32% | -33% | -25% | 50% | -19% | 32% |
| Net income | 2% | 19% | 16% | 7% | -32% | -23% | -28% | -30% | 100% | -14% | 34% |
| Diluted EPS | -3% | 15% | 16% | 6% | -32% | -22% | -26% | -28% | 104% | -12% | 30% |
| Diluted share count | 6% | 3% | 1% | 1% | 0% | -1% | -2% | -2% | -2% | -2% | 3% |
| Percentage of Revenue | | | | | | | | | | | |
| Click-based advertising | 77% | 74% | 70% | 64% | 15% | 0% | 0% | 0% | 0% | 0% | 0% |
| Display-based advertising | 12% | 13% | 11% | 11% | 3% | 0% | 0% | 0% | 0% | 0% | 0% |
| Subscription, Transaction & other | 11% | 14% | 19% | 25% | 6% | 0% | 0% | 0% | 0% | 0% | 0% |
| Cost of Revenue | 2% | 2% | 3% | 4% | 5% | 5% | 5% | 5% | 5% | 5% | 5% |
| Gross Margin | 98% | 98% | 97% | 96% | 95% | 95% | 95% | 95% | 95% | 95% | 95% |
| Total costs and expenses | 56% | 63% | 66% | 74% | 81% | 87% | 88% | 85% | 84% | 86% | 83% |
| Operating income | 44% | 37% | 34% | 26% | 19% | 13% | 12% | 15% | 16% | 14% | 17% |
| Non-GAAP Net Income | 27% | 26% | 23% | 20% | 14% | 10% | 9% | 12% | 13% | 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 |
|---|------------|------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Assets | | | | | | | | | | | |
| Cash and cash equivalents | \$ 93 | \$ 184 | \$ 368 | \$ 351 | \$ 455 | \$ 614 | \$ 653 | \$ 766 | \$ 611 | \$ 612 | \$ 612 |
| Marketable securities | 20 | - | 119 | 131 | 108 | 47 | 39 | 87 | 116 | 118 | 118 |
| Accounts receivable, net | 51 | 82 | 105 | 113 | 151 | 180 | 244 | 230 | 221 | 189 | 189 |
| Prepaid expenses and other | 12 | 13 | 41 | 35 | 33 | 24 | 28 | 24 | 18 | 31 | 31 |
| Total current assets | 177 | 278 | 632 | 630 | 747 | 865 | 964 | 1107 | 966 | 950 | 950 |
| Long-term marketable securities | - | - | 99 | 188 | 31 | 37 | 17 | 38 | 29 | 16 | 16 |
| Property and equipment, net | 31 | 35 | 44 | 82 | 195 | 247 | 252 | 256 | 262 | 260 | 260 |
| Goodwill and intangible assets, net | 511 | 511 | 510 | 554 | 948 | 908 | 909 | 902 | 922 | 903 | 903 |
| Other assets | 5 | 12 | 14 | 19 | 37 | 71 | 72 | 82 | 98 | 109 | 109 |
| Total assets | 723 | 836 | 1,299 | 1,473 | 1,958 | 2,128 | 2,214 | 2,385 | 2,277 | 2,238 | 2,238 |
| Liabilities and stockholders' equity | | | | | | | | | | | |
| Accounts payable | 7 | 6 | 13 | 10 | 19 | 10 | 15 | 25 | 11 | 14 | 14 |
| Deferred merchant payables | 19 | - | 1 | 30 | 93 | 105 | 179 | 288 | 152 | 128 | 128 |
| Deferred revenue | 12 | 19 | 32 | 44 | 57 | 64 | 93 | 97 | 69 | 64 | 64 |
| Current portion of debt | 2 | 47 | 72 | 68 | 78 | 1 | 1 | 1 | 76 | 80 | 80 |
| Taxes payable | 65 | 17 | 15 | 5 | 20 | 9 | 10 | 11 | 16 | 10 | 10 |
| Accrued expenses and other current liabilities | 38 | 41 | 63 | 86 | 114 | 123 | 134 | 153 | 126 | 127 | 127 |
| Total current liabilities | 143 | 130 | 196 | 243 | 381 | 312 | 432 | 575 | 450 | 423 | 423 |
| Deferred income taxes, net | 29 | 16 | 11 | 13 | 39 | 15 | 16 | 18 | 20 | 12 | 12 |
| Other long-term liabilities | 12 | 16 | 26 | 52 | 154 | 189 | 192 | 196 | 207 | 210 | 210 |
| Long-term debt | - | 380 | 340 | 300 | 259 | 200 | 110 | 91 | 20 | 91 | 91 |
| Total liabilities | 183 | 542 | 572 | 608 | 833 | 716 | 750 | 880 | 697 | 736 | 736 |
| Stockholders' equity: | | | | | | | | | | | |
| Common stock and additional paid in capital | 542 | 294 | 531 | 608 | 673 | 741 | 758 | 783 | 808 | 831 | 831 |
| Retained earnings | - | 2 | 196 | 402 | 628 | 826 | 853 | 888 | 944 | 945 | 945 |
| Accumulated other comprehensive loss | (2) | (3) | (1) | - | (31) | (63) | (54) | (62) | (59) | (77) | (77) |
| Treasury stock | - | - | - | (145) | (145) | (92) | (93) | (104) | (113) | (197) | (197) |
| Total stockholders' equity | 540 | 294 | 727 | 865 | 1,125 | 1,412 | 1,464 | 1,505 | 1,580 | 1,502 | 1,502 |
| 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 |

Source: Company data

VALUATION

We maintain our Neutral rating but note management may pursue a large marketing campaign that could further pressure profitability. We reduce our price target to \$45 from \$52 which is based on our FY'18 EPS estimate of \$1.59 multiplied by 28x which is above the P/E multiple of other online travel agencies as we believe near term results fundamentally misrepresent TripAdvisor's long term potential value.

The company's free cash flow declined substantially on higher near term spending and we expect this trend to continue in coming quarters. We expect higher revenue growth to resume in 2017 versus the subdued results in FY'16. **We maintain our Neutral rating on shares of TRIP and a suitability rating of 3.** We also believe TripAdvisor could be viewed as a potential acquisition target if shares remain under pressure, due to a manageable market cap of \$6.7 billion and a net cash position. However, due to Liberty TripAdvisor's controlling stake and other factors we do not include this view within our fundamental outlook, price target or investment 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:

- Economic, political, 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-\$1648.88), Expedia (EXPE-\$119.85), Hilton Worldwide Holdings (HLT-\$59.24), Liberty TripAdvisor Holdings (LTRPA-\$15.50), Apple (AAPL-\$135.35-Long-term Buy--\$147 Price Target), and Alphabet (GOOGL-\$842.17-Neutral).

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.



| Hilliard Lyons Recommended Issues | | | Investment Banking Provided in Past 12 Mo. | |
|-----------------------------------|---------------------|---------------------|--|------------|
| Rating | # of Stocks Covered | % of Stocks Covered | Banking | No Banking |
| Buy | 36 | 30% | 17% | 83% |
| Hold/Neutral | 76 | 62% | 7% | 93% |
| Sell | 10 | 8% | 0% | 100% |

As of 6 February 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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