



### TARGET CHANGE / ESTIMATE CHANGE COMPANY UPDATE / RATING CHANGE

#### Key Metrics

TRIP - NASDAQ - as of	5/11/17	\$45.63
Price Target		\$65.00
52-Week Range	\$40.45 -	\$71.69
Diluted Shares Outstanding (mm)		145
Market Cap. (\$mm)		\$6,616
1-Mo. Average Daily Volume		2,404,399
Institutional Ownership		94.1%
Debt/Total Capital (net)	Q1'17	0%
ROE		12.7%
Book Value / Share		\$11.11
Price / Book Value		4.1x
Dividend Yield		0.0%
LTM EBITDA Margin		15.8%

#### non GAAP EPS FY 12/31

	Prior	Current		Prior	Current
2016A	2017	2017E	2018E	2018E	
1Q	\$0.32	\$0.25	\$0.24 A	\$0.34	\$0.22
2Q	\$0.38	\$0.28	\$0.33	\$0.38	\$0.48
3Q	\$0.53	\$0.38	\$0.46	\$0.47	\$0.59
4Q	\$0.16	\$0.32	\$0.28	\$0.40	\$0.37
Year	\$1.40	\$1.23	\$1.31	\$1.59	\$1.67
P/E	34.3x		36.6x		28.7x

\*Columns may not equal due to rounding

#### Revenue (\$mil)

	Prior	Current		Prior	Current
2016A	2017	2017E	2018E	2018E	
1Q	\$352	\$367	\$372 A	\$410	\$ 415
2Q	\$391	\$445	\$432	\$490	\$ 490
3Q	\$421	\$467	\$473	\$520	\$ 527
4Q	\$316	\$364	\$368	\$407	\$ 415
Year	\$1,480	\$1,642	\$1,645	\$1,827	\$ 1,847

*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, Numba, 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 Reports Improving Underlying Performance; Upgrading to Long Term Buy; Raising PT to \$65

- Results.** TripAdvisor reported Q1'17 non GAAP EPS of \$0.24 on revenue of \$372 million. Results were mixed vs. our EPS estimate of \$0.25 and revenue of \$367 million. Consensus analyst estimates were for EPS of \$0.26 on revenue of \$377 million. Total revenue increased 6% from the prior year, while EPS declined 27%. Hotel segment revenue increased 4% y/y, as TripAdvisor-branded click-based and transaction revenue increased a strong 12% y/y. Non Hotel segment revenue of \$58 million, increased 18% y/y on an increase in bookable attractions, restaurants and vacation rentals.
- Key Metrics.** TripAdvisor grew traveler destinations to 1.9 million accommodations, 4.3 million restaurants, and 790,000 attractions. Businesses on TripAdvisor increased to 7.01 million from 6.91 million last quarter, reaching monthly average users of 386 million, up 14% y/y, beating our 378 million view. Total average monthly unique hotel shoppers for the quarter grew 9% y/y to 448 million, above our 430 million view, while revenue per hotel shopper increased a better than expected 2% y/y to \$0.47 vs. our view of \$0.45. Our revenue view missed actual results due to lower than expected Other hotel revenue.
- Outlook.** Our outlook increases as we expect double-digit full year revenue growth and a \$70 to \$80 million TV marketing campaign (below our prior \$100 million view) that is not expected to weigh on results to the extent we previously anticipated as management plans to shift resources to pay for the increased spending plan. We lower our Q2'17 revenue outlook to \$432 million from \$445 million, on continued weakness within the Other revenue segment offset by higher revenue per hotel shopper which is in line with our prior view. We expect Q2'17 EPS of \$0.33 vs. our prior view of \$0.28. We forecast FY'17 EPS of \$1.31, above our prior estimate of \$1.23 on revenue of \$1.645 billion. Our FY'18 EPS estimate improves to \$1.67 from \$1.59 on revenue of \$1.847 from \$1.827 billion. We inaugurate a FY'19 EPS view of \$1.86 on revenue of \$2.022 billion.
- Opinion.** We upgrade our opinion on shares of TRIP to a Long-term Buy rating. We increase our price target to \$65 from \$45 as we extend our investment timeframe by 12 months to FYE'19.

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

**ADDITIONAL DISCUSSION**

TripAdvisor began year 3 of its transition to an instant bookings provider with strong underlying performance. The TripAdvisor ecosystem remains strong with 448 million monthly unique hotel shoppers in the quarter, generating a record 500 million user reviews and opinions. TripAdvisor mobile revenue increased 35% y/y and experienced a 25% y/y increase in mobile hotel shopper growth vs. 22% reported last quarter. The company announced a global Instant Booking partnership with Intercontinental Hotels; the Instant Booking platform now encompasses all major U.S. hotel and online travel agency brands. TripAdvisor also recently announced a partnership with GrubHub to integrate GrubHub's restaurant network into TripAdvisor's restaurant listings in the U.S.

Hotel segment revenue increased 4% y/y to \$314 million, representing 84.4% of total revenue. The 4% increase is the fastest growth rate since Q4'15. Many underlying trends in the business have begun to improve including monthly unique hotel shopper growth of 9% y/y; and a 2% increase in revenue per hotel shopper vs. a 7% decline last quarter which also represents a multi-year break from y/y declines; U.S. revenue outperformed other regions increasing 14% y/y to \$210 million after fully lapping the Instant Booking rollout. U.S. revenue represented 57% of total revenue, a multi-year high. Europe revenue declined 4% to \$98 million (26%), while the Rest of World segment revenue declined 3% y/y to \$64 million (17%).

Adjusted EBITDA of \$73 million declined from \$85 million last year. Operating cash flow increased to \$134 million vs. \$124 million last year. Free cash flow was \$116 million vs. \$107 million last year. Net cash totaled \$749 million or \$3.67 per share. During Q1, the company repurchased \$150 million of the \$250 million share repurchase program previously announced. Management reiterated its full year guidance including double-digit revenue growth and for higher costs to weigh on profitability which is expected to be flat to down y/y. We believe, as it has been our view since we initiated coverage, that weak near term performance undervalues TripAdvisor's future long-term growth potential.

**OUTLOOK**

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, and compare prices. 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 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 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 weighing on profitability, holding margins below TripAdvisor's historical margin profile for several years. However, TripAdvisor branded click-based and transaction revenue per hotel shopper has increased for four quarters in a row continuing to trend in a positive direction.

Our outlook increases as we expect 11% FY'17 revenue growth and a \$70 to \$80 million TV marketing campaign (below our prior \$100 million view) that is not expected to weigh on results to the extent we previously anticipated as management plans to shift resources to pay for the increased spending plan. We lower our Q2'17 revenue outlook to \$432 million from \$445 million, on continued weakness within the Other Revenue segment offset by higher revenue per hotel shopper which is in line with our prior view. We expect Q2'17 EPS of \$0.33 vs. our prior view of \$0.28. We forecast FY'17 EPS of \$1.31, above our prior estimate of \$1.23 on revenue of \$1.645 billion. Our FY'18 EPS estimate improves to \$1.67 from \$1.59 on revenue of \$1.847 from \$1.827 billion. We inaugurate FY'19 EPS of \$1.86 on revenue of \$2.022 billion.

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

	2012	2013	2014	2015	2016	Q1'17	Q2'17E	Q3'17E	Q4'17E	2017E	2018E	2019E
<b>Total Revenue</b>	\$ 763	\$ 945	\$ 1,246	\$ 1,492	\$ 1,480	\$ 372	\$ 432	\$ 473	\$ 368	\$ 1,645	\$ 1,847	\$ 2,022
Cost of revenue	12	20	40	57	71	17	22	23	18	80	87	95
Selling and marketing	262	356	489	675	736	202	249	257	204	912	995	1,045
Technology and content	75	110	144	179	203	52	51	52	48	203	238	299
General and administrative	62	81	105	116	118	28	25	29	24	106	130	147
Depreciation	20	30	47	58	69	19	19	20	19	77	80	84
Amortization of intangible assets & other	-	-	-	18	-	-	-	-	-	-	-	-
<b>Non-GAAP Total Costs and Expenses</b>	\$ 430	\$ 597	\$ 825	\$ 1,103	\$ 1,197	\$ 318	\$ 366	\$ 381	\$ 313	\$ 1,378	\$ 1,529	\$ 1,671
<b>Non-GAAP Income from Operations</b>	\$ 333	\$ 348	\$ 421	\$ 389	\$ 283	\$ 54	\$ 66	\$ 92	\$ 55	\$ 267	\$ 317	\$ 351
Interest and Other Income	-31	-10	-18	8	-15	-2	-2	-2	-3	-9	-8	-8
<b>Non-GAAP Income Before Provision for Income Taxes</b>	\$ 301	\$ 338	\$ 403	\$ 397	\$ 268	\$ 52	\$ 64	\$ 90	\$ 52	\$ 258	\$ 309	\$ 343
Provision for income taxes	95	94	119	94	63	17	16	24	13	69	68	75
<b>Non-GAAP Net Income</b>	\$ 206	\$ 244	\$ 284	\$ 303	\$ 205	\$ 35	\$ 48	\$ 67	\$ 40	\$ 189	\$ 241	\$ 268
Diluted Shares Outstanding	141	145	146	147	147	145	145	145	144	145	144	144
<b>Non-GAAP EPS</b>	\$ 1.46	\$ 1.68	\$ 1.94	\$ 2.06	\$ 1.40	\$ 0.24	\$ 0.33	\$ 0.46	\$ 0.28	\$ 1.31	\$ 1.67	\$ 1.86
<b>Y/Y Growth Rate</b>												
Total Revenue	20%	24%	32%	20%	-1%	6%	10%	12%	17%	11%	12%	9%
Cost of Revenue	11%	66%	100%	43%	25%	6%	10%	21%	13%	13%	9%	9%
Total operating expenses	34%	38%	36%	33%	8%	13%	17%	17%	13%	15%	11%	9%
Total costs and expenses	33%	39%	38%	34%	9%	12%	17%	17%	13%	15%	11%	9%
Operating income	6%	5%	21%	-8%	-27%	-22%	-15%	-4%	39%	-5%	19%	11%
Net income	2%	19%	16%	7%	-32%	-26%	-14%	-14%	73%	-8%	27%	11%
Diluted EPS	-3%	15%	16%	6%	-32%	-25%	-13%	-13%	75%	-7%	28%	11%
Diluted share count	6%	3%	1%	1%	0%	-1%	-1%	-2%	-1%	-2%	0%	0%
<b>Percentage of Revenue</b>												
Click-based advertising	77%	74%	70%	64%	15%	0%	0%	0%	0%	0%	0%	0%
Display-based advertising	12%	13%	11%	11%	3%	0%	0%	0%	0%	0%	0%	0%
Subscription, Transaction & other	11%	14%	19%	25%	6%	0%	0%	0%	0%	0%	0%	0%
Cost of Revenue	2%	2%	3%	4%	5%	5%	5%	5%	5%	5%	5%	5%
Gross Margin	98%	98%	97%	96%	95%	95%	95%	95%	95%	95%	95%	95%
Total costs and expenses	56%	63%	66%	74%	81%	86%	85%	80%	85%	84%	83%	83%
Operating income	44%	37%	34%	26%	19%	14%	15%	20%	15%	16%	17%	17%
Non-GAAP Net Income	27%	26%	23%	20%	14%	9%	11%	14%	11%	11%	13%	13%

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

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

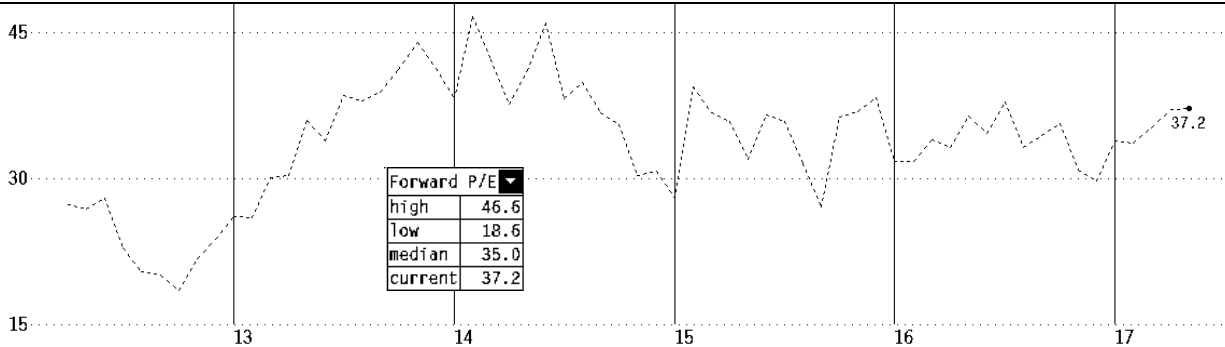
	2010	2011	2012	2013	2014	2015	Q1'16	Q2'16	Q3'16	Q4'16	2016	Q1'17
<b>Assets</b>												
Cash and cash equivalents	\$ 93	\$ 184	\$ 368	\$ 351	\$ 455	\$ 614	\$ 653	\$ 766	\$ 611	\$ 612	\$ 612	\$ 731
Marketable securities	20	-	119	131	108	47	39	87	116	118	118	15
Accounts receivable, net	51	82	105	113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

Source: Company data

**OPINION & VALUATION**

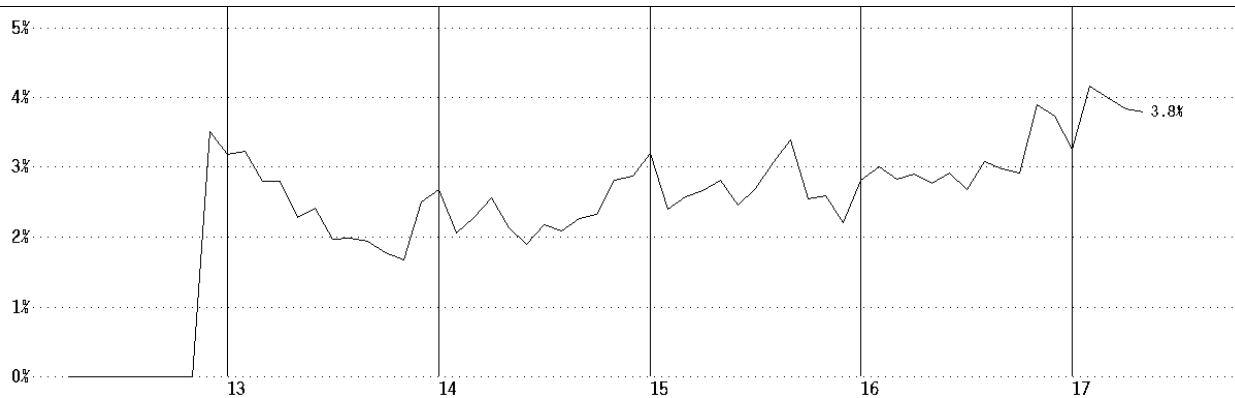
We upgrade our opinion on shares of TRIP to a Long-term Buy rating. We increase our price target to \$65 from \$45 and extend our investment timeframe by 12 months to FYE'19. We increase our view on shares of TRIP as underlying performance of Instant Bookings is beginning to improve and that the TV advertising campaign is not expected to weigh on profitability as much as we previously expected. We see long-term upside potential in shares of TRIP, underscored by an upcoming launch of an improved, and simplified hotel shopping site/app experience. 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. We increase our price target to \$65 from \$45 which is based on our FY'19 EPS estimate of \$1.86 multiplied by a 35x forward P/E multiple which is below the current consensus 37.2x forward P/E multiple; in line with TRIP's historical median forward multiple; but above the P/E multiple of other larger, slower expected growth rate online travel agencies. We believe near-term results fundamentally misrepresent TripAdvisor's long-term potential value.

**TRIP Historical Forward P/E Multiple**



The company's free cash flow increased y/y despite higher near term spending and we expect this trend to continue in coming quarters. We expect higher revenue growth to resume in 2017 with profitability improving gradually throughout our investment timeframe versus the subdued results in FY'16.

**TRIP Historical Free Cash Flow Yield**



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:

- 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-\$1813.56), Expedia (EXPE-\$139.86), InterContinental Hotels (IHG-\$54.98), GrubHub (GRUB-\$45.00) Liberty TripAdvisor Holdings (LTRPA-\$14.35).

**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	32	26%	13%	88%
Hold/Neutral	79	64%	8%	92%
Sell	12	10%	0%	100%

As of 8 May 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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