



### RATING CHANGE / ESTIMATE CHANGE COMPANY UPDATE

#### Key Metrics

TRIP - NASDAQ - as of	11/7/17	\$30.35
Price Target		N/A
52-Week Range	\$30.21 -	\$65.56
Diluted Shares Outstanding (mil)		139
Market Cap. (\$mil)		\$4,215
1-Mo. Average Daily Volume		3,610,931
Institutional Ownership		92.3%
Debt/Total Capital (net)	Q3'17	0%
ROE		4.4%
Book Value / Share		\$10.21
Price / Book Value		3.0x
Dividend Yield		0.0%
LTM EBITDA Margin		1606.1%

#### non GAAP EPS FY 12/31

	Prior 2016A	Current 2017	Current 2017E	Prior 2018E	Current 2018E
1Q	\$0.32		\$0.24 A	\$0.26	\$0.14
2Q	\$0.38		\$0.38 A	\$0.45	\$0.44
3Q	\$0.53		\$0.36 A	\$0.44	\$0.46
4Q	\$0.16	\$0.14	\$0.08	\$0.21	\$0.16
Year	\$1.40	\$1.14	\$1.05	\$1.36	\$1.19
P/E	21.7x		28.9x		25.5x

\*Columns may not equal due to rounding

#### Revenue (\$mil)

	Prior 2016A	Current 2017	Current 2017E	Prior 2018E	Current 2018E
1Q	\$352		\$372 A	\$403	\$ 378
2Q	\$391		\$424 A	\$471	\$ 453
3Q	\$421		\$439 A	\$497	\$ 472
4Q	\$316	\$340	\$326	\$378	\$ 358
Year	\$1,480	\$1,583	\$1,560	\$1,750	\$ 1,661

*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 445 million monthly users 570 million reviews on more than 7.2 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

### Disappointing Metrics; Downgrading to Neutral

- Results.** TripAdvisor reported Q3'17 non GAAP EPS of \$0.36 on revenue of \$439 million. Results missed our EPS estimate of \$0.39 and revenue target of \$448 million. Total revenue increased 4% from the prior year, while EPS declined 32%. TripAdvisor had a disappointing quarter as hurricanes and revenue per shopper weighed on top line results while higher y/y ad spending pushed earnings below our view. Hotel segment revenue decreased 3% y/y to \$312 million, as TripAdvisor-branded click-based and transaction revenue declined 5% y/y to \$195 million. However, mobile revenue per hotel shopper improved double-digits and mobile users now represent nearly half of hotel shoppers. This mobile growth converts to lower revenue per hotel shopper, continuing to weigh on near-term results. Becoming a mobile first platform is key to our future outlook; however, we now expect this transition to take longer than previously expected. Non Hotel segment revenue of \$127 million increased significantly better than expected, up 26% y/y on an increase in bookable attractions and restaurants. Non Hotel segment EBITDA margin was a record 35% as the business gains scale. Total adjusted EBITDA of \$95 million decreased from \$114 million last year on softness in Hotel segment profitability. Operating cash flow was -\$135 million while free cash flow was -\$150 million vs. -\$109 million last year on higher ad spending and general seasonality. Net cash totaled \$497 million, a larger than expected decline.
- Key Metrics.** TripAdvisor grew traveler destinations to 1.9 million accommodations, 4.4 million restaurants, and 875,000 attractions. TripAdvisor reached a record monthly average user base of 455 million, up 17% y/y, beating our 445 million view. Total average monthly unique hotel shoppers for the quarter grew 7% y/y to 490 million, slightly above our 487 million view, while revenue per hotel shopper decreased a worse than expected 11% y/y to \$0.40 vs. our view of \$0.44.
- Outlook.** We expect revenue per hotel shopper pricing pressure to continue and the shift to mobile usage to weigh on near-term revenue growth. Top line concerns together with higher brand marketing are expected to negatively impact profitability. As a result, our FY'17, '18, & '19 estimates have been adjusted lower.
- Opinion.** We downgrade shares of TRIP as company specific headwinds mentioned above, along with industry shifts, and a longer than expected transition period weigh on our outlook and valuation model.

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

**ADDITIONAL DISCUSSION**

The TripAdvisor monthly active user base remains healthy growing 17% y/y to 455 million. Half of TripAdvisor's user base now comes from mobile devices. These users generated a record 570 million user reviews and opinions, an increase of 32% y/y. TripAdvisor mobile click-based and transaction revenue increased 45% y/y. TripAdvisor had a 29% increase in mobile hotel shoppers. Mobile monetization continues to improve but remains below that of desktop. The increase in mobile users weighed on click-based and transaction revenue. Click-based and transaction revenue of \$195 million declined 5%. Revenue per hotel shopper declined 11% y/y to \$0.40 as partners including Priceline and Expedia reduced spending with channel partners in the quarter as each focus on their own direct to consumer marketing programs. Total Hotel segment revenue decreased 3% y/y to \$312 million, representing 71% of total revenue a record low. Non Hotel segment revenue increased a better than expected 26% y/y to \$127 million compared to our view of \$122 million. Notably, the segment produced a record Adjusted EBITDA margin of 35% vs. 15% in the year ago quarter as the attractions, restaurant, and vacation rentals businesses scale.

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, in our view. 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. 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. We 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. TripAdvisor's valuation has declined in recent quarters as shares have reacted negatively to lower results due to the Instant Booking initiative, higher spending, lower CPC rates, and the shift in consumer device usage.

As a result of the weaker than expected results and near-term pressures expressed by management we are reducing our outlook. We reduce our FY'17 revenue growth outlook to 5% vs. our prior outlook of 7%. We expect FY'17 revenue of \$1.56 billion down from our prior view of \$1.58 billion. We note this is highly variable as we lack any historical measures by which to model as TripAdvisor transitions its business model. This lack of visibility and weaker fundamentals led us to reduce our long-term views as well. We cut our FY'17 EPS estimate more significantly to \$1.05 from \$1.14 as lower revenue and higher spending are expected to weigh on FY results. We again push out the degree that we expect monetization improvements within our longer term framework. As a result, our FY'18 EPS estimate declines to \$1.19 from \$1.36 on revenue of \$1.66 billion from \$1.75 billion and our FY'19 EPS estimate declines to \$1.47 from \$1.72 on revenue of \$1.80 billion from \$1.95 billion. Our forward looking EPS growth estimates are less affected compared to our revenue growth outlook as we begin to scale in lower tax rates which may or may not take effect.

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

	2012	2013	2014	2015	2016	Q1'17	Q2'17	Q3'17	Q4'17E	2017E	2018E	2019E
<b>Total Revenue</b>	\$ 763	\$ 945	\$ 1,246	\$ 1,492	\$ 1,480	\$ 372	\$ 424	\$ 439	\$ 326	\$ 1,560	\$ 1,661	\$ 1,808
Cost of revenue	12	20	40	57	71	17	20	20	17	74	78	82
Selling and marketing	262	356	489	675	736	202	223	242	194	861	928	990
Technology and content	75	110	144	179	203	52	51	49	48	200	212	227
General and administrative	62	81	105	116	118	28	29	33	27	117	120	132
Depreciation	20	30	47	58	69	19	19	19	19	76	78	84
Amortization of intangible assets & other	-	-	-	18	-	-	-	(2)	-	(2)	-	-
<b>Non-GAAP Total Costs and Expenses</b>	\$ 430	\$ 597	\$ 825	\$ 1,103	\$ 1,197	\$ 318	\$ 342	\$ 361	\$ 305	\$ 1,326	\$ 1,416	\$ 1,515
<b>Non-GAAP Income from Operations</b>	\$ 333	\$ 348	\$ 421	\$ 389	\$ 283	\$ 54	\$ 82	\$ 78	\$ 21	\$ 234	\$ 246	\$ 293
Interest and Other Income	-31	-10	-18	8	-15	-2	-2	-4	-4	-12	-16	-16
<b>Non-GAAP Income Before Provision for Income Taxes</b>	\$ 301	\$ 338	\$ 403	\$ 397	\$ 268	\$ 52	\$ 80	\$ 74	\$ 17	\$ 222	\$ 230	\$ 277
Provision for income taxes	95	94	119	94	63	17	27	24	5	73	62	69
<b>Non-GAAP Net Income</b>	\$ 206	\$ 244	\$ 284	\$ 303	\$ 205	\$ 35	\$ 53	\$ 50	\$ 11	\$ 149	\$ 168	\$ 208
Diluted Shares Outstanding	141	145	146	147	147	145	141	139	139	141	140	142
<b>Non-GAAP EPS</b>	\$ 1.46	\$ 1.68	\$ 1.94	\$ 2.06	\$ 1.40	\$ 0.24	\$ 0.38	\$ 0.36	\$ 0.08	\$ 1.05	\$ 1.19	\$ 1.47
<b>Y/Y Growth Rate</b>												
Total Revenue	20%	24%	32%	20%	-1%	6%	8%	4%	3%	5%	6%	9%
Cost of Revenue	11%	66%	100%	43%	25%	6%	0%	5%	6%	4%	5%	5%
Technology and content	41%	46%	31%	24%	13%	0%	-2%	-4%	0%	-1%	6%	7%
Selling and marketing	27%	36%	37%	38%	9%	20%	13%	18%	16%	17%	8%	7%
General & administrative	78%	32%	30%	10%	2%	-10%	7%	3%	0%	-1%	2%	10%
Total operating expenses	34%	38%	36%	33%	8%	13%	10%	11%	11%	11%	7%	7%
Total costs and expenses	33%	39%	38%	34%	9%	12%	9%	11%	11%	11%	7%	7%
Operating income	6%	5%	21%	-8%	-27%	-22%	5%	-19%	-49%	-17%	5%	19%
Net income	2%	19%	16%	7%	-32%	-26%	-5%	-36%	-52%	-27%	13%	24%
Diluted EPS	-3%	15%	16%	6%	-32%	-25%	-1%	-32%	-50%	-25%	13%	23%
Diluted share count	6%	3%	1%	1%	0%	-1%	-4%	-5%	-5%	-4%	-1%	1%
<b>Percentage of Revenue</b>												
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%	82%	94%	85%	85%	84%
Operating income	44%	37%	34%	26%	19%	14%	19%	18%	6%	15%	15%	16%
Non-GAAP Net Income	27%	26%	23%	20%	14%	9%	13%	11%	3%	10%	10%	11%

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	Q3'17
<b>Assets</b>														
Cash and cash equivalents	\$ 93	\$ 184	\$ 368	\$ 351	\$ 455	\$ 614	\$ 653	\$ 766	\$ 611	\$ 612	\$ 612	\$ 731	\$ 887	\$ 750
Marketable securities	20	-	119	131	108	47	39	87	116	118	118	15	17	13
Accounts receivable, net	51	82	105	113	151	180	244	230	221	189	189	232	252	254
Prepaid expenses and other	12	13	41	35	33	24	28	24	18	31	31	25	24	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>	<b>1,180</b>	<b>1,042</b>
Long-term marketable securities	-	-	99	188	31	37	17	38	29	16	16	3	4	6
Property and equipment, net	31	35	44	82	195	247	252	256	262	260	260	262	266	266
Goodwill and intangible assets, net	511	511	510	554	948	908	909	902	922	903	903	902	906	906
Other assets	5	12	14	19	37	71	72	82	98	109	109	104	116	128
<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>2,472</b>	<b>2,348</b>
<b>Liabilities and stockholders' equity</b>														
Accounts payable	7	6	13	10	19	10	15	25	11	14	14	12	7	15
Deferred merchant payables	19	-	1	30	93	105	179	288	152	128	128	218	344	203
Deferred revenue	12	19	32	44	57	64	93	97	69	64	64	87	90	65
Current portion of debt	2	47	72	68	78	1	1	1	76	80	80	7	7	7
Taxes payable	65	17	15	5	20	9	10	11	16	10	10	6	8	4
Accrued expenses and other current liabilities	38	41	63	86	114	123	134	153	126	127	127	122	165	128
<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>	<b>621</b>	<b>422</b>
Deferred income taxes, net	29	16	11	13	39	15	16	18	20	12	12	13	15	16
Other long-term liabilities	12	16	26	52	154	189	192	196	207	210	210	215	222	228
Long-term debt	-	380	340	300	259	200	110	91	20	91	91	210	260	265
<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>1,118</b>	<b>931</b>
<b>Stockholders' equity:</b>														
Common stock and additional paid in capital	542	294	531	608	673	741	758	783	808	831	831	843	873	901
Retained earnings	-	2	196	402	628	826	853	888	944	945	945	958	985	1,010
Accumulated other comprehensive loss	(2)	(3)	(1)	-	(31)	(63)	(54)	(62)	(59)	(77)	(77)	(70)	(57)	(47)
Treasury stock	-	-	-	(145)	(145)	(92)	(93)	(104)	(113)	(197)	(197)	(347)	(447)	(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	1,417
<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>	<b>2,472</b>	<b>2,348</b>

Source: Company data

**OPINION & VALUATION**

**We downgrade shares of TRIP to Neutral from Long-term Buy as we reduce our outlook.** We continue to see longer-term upside potential in shares of TRIP; however, the combination of near-term company specific headwinds and industry challenges weigh on our outlook, which ultimately pressures our valuation model. We believe spending on advertising to provide consumer awareness of the TripAdvisor brand is a good return on investment, especially in today's environment of lower revenue per hotel shopper, but this weighs on near-term results including free cash flow. We strip TripAdvisor of our prior price target as our investment timeframe lengthens beyond our typical 2-3 year timeframe. TRIP shares trade at 25.5x our FYE'18 EPS estimate of \$1.19, a forward multiple that is below TRIP's historical average. We were previously fine with TRIP's higher P/E ratio in prior periods as cash flows were above average, making TripAdvisor's valuation palatable. However, we now believe as the company spends more heavily in its business, cash flows will be impaired through our 2-3 year outlook.

**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, weather, 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 or deterioration of relationships with Priceline and Expedia which generate a large portion of TripAdvisor's total revenue
- Loss of advertising dollars, as ad revenue represents a significant amount 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
- 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, which generally means higher Q2 and Q3 revenue and lower Q1 and Q4 revenue
- 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-\$1645.72), Expedia (EXPE-\$119.61), Liberty TripAdvisor Holdings (LTRPA-\$8.50).

### **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

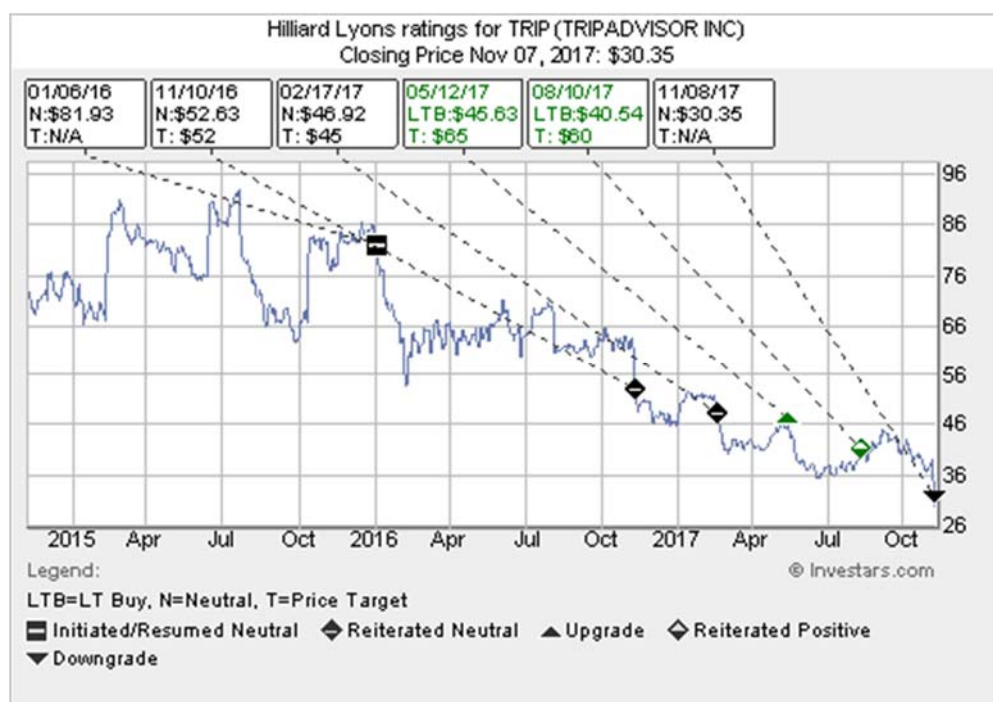
### **Investment Ratings**

**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	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

**Other Disclosures**

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