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Google's Travel Plans in a Post-Atomic Era

Exploring Assisted Book & Implications on Incumbents

This report serves as follow-up to *Google's Summer Online Travel Plans*, which we published in June, and *Travel Industry's Trip in the Cloud* (March, 2013), but this report provides more detail on the nature of Google's travel intentions, which we increasingly believe stand to undermine the keyword bidding advantage of many of its best customers. Through this new travel initiative, Google would afford suppliers and brands a method in which to make "Limited Offers" (via Suppliers / Wholesalers) and, more importantly, expects to roll out a new "captive demand" platform in partnership with the major brands which stands to integrate loyalty / reward information into a logged-in Hotel Finder travel search experience, likely leveling the Search playing field in travel like we have never seen before. Moreover, through API integrations that tie our booking activity to Maps, Wallet and Now, which are increasingly recommended / required as part of Google's Hotel Ads, linked itineraries, travel directions, and even check-in / check-out are becoming user features as well.

From an industry standpoint, this report does the following:

-Supply-side's role is examined, including brands, suppliers, wholesalers, and emerging point solution providers, to demonstrate the advantage relationships within these players affords the demand-side (e.g., Google, Priceline, TripAdvisor, Expedia).

-We explain the industry drivers that are facilitating Google's recent move, both on the demand and supply side, and how together they are setting up for an online travel experience we have yet to see. We note that assisted bookings paths feature heavily in this discussion, favoring Google and TripAdvisor.

-Finally, we compare demand channel efficiency to show how changes Google is making leave certain travel industry players more exposed, even quantifying the potential arbitrage spreads we possibly can expect. A risk for PCLN & EXPE.

From a ratings standpoint, we are making the following changes:

-Google Added to Conviction Buy List. As its travel actions mirror advances in Retail and Local, we see strong momentum on reasonable valuation. Further, we see the long-term strategic rationale in travel as far outweighing the potential traffic subsidy it involves. Hence, we are increasing our conviction and target to $750 from $725, placing us at 14x and 23x our '15 EBITDA and EPS estimate, or roughly 1x PEG.

-TripAdvisor Upgraded to Equal-Weight. While Google's actions do stand to be competitive to TripAdvisor too, TRIP's ability to integrate an assisted bookings path on behalf of suppliers and brands in similar fashion to Google leaves us more favorable. Our recent data also shows improving channel efficiency relative to OTAs, which the report details. Therefore, we are upgrading TripAdvisor and increasing our target to $110 from $85, a little ahead of where shares trade. However, we see Google as having an edge on TripAdvisor, given our bias towards personalization (particularly around price) over reviews, especially in the context of this newer initiative.

-Priceline Downgraded to Equal-Weight. Our PCLN target drops to $1,350 (from $1,450) and our rev/EBITDA ests now stand 5% below Street on '16. Our rating and target on Expedia of Equal-Weight and $80 (~10% downside) remains unchanged as we have previously contemplated and published the potential competitive pressures on it from the trends we discuss. Of note, on the PCLN d/g, we struggled with the call, and hence the report, for one reason: PCLN made what we consider to be a very savvy move towards Enterprise recently (i.e., buying Buuteeq, Hotel Ninjas, OpenTable). However, while this insures a front-row seat for PCLN, the initiative is nascent and doesn't address head-on some of the newer "captive demand" channels we believe Google to be integrating. See report for detail.

Company Changes

				Rating			Target Price			Estimates: Current Year			Estimates: Next Year	
Symbol	Company	Price		Curr	Prev		Curr	Prev		Curr	Prev		Curr	Prev
GOOGL	Google Inc.	$593.14	-	OW		▲	$750.00	$725.00	-	$26.02		-	$33.55	
PCLN	priceline.com Incorporated	$1,220.76	▼	EW	OW	▼	$1,350.00	$1,450.00	▲	$51.82	$51.29	▼	$62.04	$63.09
TRIP	TripAdvisor, Inc.	$98.29	▲	EW	UW	▲	$110.00	$85.00	▲	$2.15	$2.11	▲	$2.96	$2.89

Source: Company data, Evercore Group L.L.C. Research

A Tour Through the Supply-Side

Brands, such as Marriott, Hilton, etc. and their hotel suppliers are increasingly looking to integrate captive demand (Marriott Rewards, Hilton Honors, etc.) into paid channels, a process being facilitated by log-in profiles and social. Further, the ability to layer data sets on the infrastructure side through integration of first and third party data, such as what is occurring at Facebook through Customizable Audiences or at Google through PLAs (Product Listing Ads) is showing higher efficiencies for marketers across travel's sister verticals. Nevertheless, in recent years, much of this efficiency improvement has flowed to the major OTA bidders, who thus are allowed to justify bidding at higher and higher levels for keywords. The result is a continuation of the so-called "*atomic"* booking.

Defining the Atomic Transaction

The notion of "atomic" stems from the OTA merchant model (vs. agency) in which the OTA underwrites a transaction.

Today's online travel market has seen a handful of dominant players with deep budgets establish themselves on their ability to outbid search keyword terms for traffic. They appeal to consumers who are looking to commence trip planning and search activities online, mostly for price comparison or reviews. The notion of "atomic" stems from the OTA merchant model (vs. agency) in which the OTA underwrites a transaction, providing the supplier with occupancy and the traveler with a room. The fact that the supplier / brand knows little about the traveler creates a certain disconnectedness under the merchant model. Hence, this buyer-seller decoupling is often referenced to in the industry as *atomic*, as the apparent lack of "combined elements" or "internal structure" falls under the term's definition.

Under the atomic transaction model, most of the analysis and data is owned by the marketing channel (i.e., OTA / Meta), which uses its learnings to bid ever more efficiently on keywords. The atomic transaction is the leading criticism that hoteliers have with the OTA model and why many favor spending more money on TripAdvisor, Google's Hotel Finder, or other channels in which the transaction can occur through the hotelier's direct bookings path, giving them more control over the customer and their inventory.

Move from "Merchant" to "Agency" Model only Highlight's *the Rub*

The move by OTA's from a merchant to an agency model in which the traveler can pay on check-out is preferred by the hoteliers and often the traveler in that the hotelier becomes counter-party to the traveler and the traveler can deal with the hotelier directly on any last minute changes. The issue hoteliers often have with this approach however is that the hotelier only learns of the traveler's identity after a 15-25% commission has been paid to the OTA when in fact the traveler may have already earned loyalty with the particular brand. The fact that the brand only learns of the traveler's status upon check-in means that the preferential rate status or room upgrades are forgone, creating known inefficiency for the hoteliers and possibly even their guests.

Uber & Sabre Offer Important Lessons

Uber is a good example of solving supply-side challenges in a manner that benefits demand, something that can be said about Sabre's defining role in air travel

When considering the role of the atomic transaction, we need to ask ourselves how it benefits both supply and demand. Uber is a good example of solving supply-side challenges in a manner that benefits demand, something that can be said about Sabre's defining role in air travel. Uber, with its geo-sensor capabilities and dynamic pricing, has addressed challenging supplier issues, in terms of setting correct rates, that have translated into greater car availability and better average pricing for the traveler. The result is a deeper marketplace, in which both buyer and seller achieve something that they could not achieve before or even elsewhere today. This same potential for service divide (or disruption) is ripe in travel, but it will require a type of supplier optimization that is facilitated through a data or transaction layer. This layer could come from a demand / marketplace player, such as in the case of Uber, or through an interconnection of enterprise point solutions such as what we see in the world of ad tech.

And while we don't expect the hotels themselves, led by the powerful hotel management brands, to follow in the footsteps of the airline industry with the likes of a single platform, like Sabre, it is important to recognize that at the heart of Sabre's dominance was a deep supply-side optimization strategy that created value for the consumer through the redistribution of supply. In other words, efficient optimization of supply led to better airfare rates for demand. The difference today, and particularly where rooms are concerned, is that consumers increasingly and overwhelmingly begin the process with search and advertising-oriented players where the atomic transaction has reigned supreme.

Industry Factors That Threaten the *Atomic's* Demise

Travel reviews are an increasingly important component of the travel process, becoming an extension of the brand or an alternative to it in the case of independent suppliers

We are seeing two important changes, one demand and one supply, that open up the potential for a very different online travel experience, likely in 2015 if not before. On the demand side, travel reviews are an increasingly important component of the travel process, becoming an extension of the brand or an alternative to it in the case of independent suppliers. They are also leading to traveler profiles which stand to feed into the captive demand (i..e, promotional programs) of the major brands / suppliers. In addition, we are seeing tremendous growth in the number of independent point solutions providers that an independent (or even a brand) can choose from. These point solution providers are offering off-premises solutions for everything from rate setting on the room to optimizing marketing channels (for Search, OTAs, and Meta) while tying such activities into the hotelier's property management system, CRS (Central Reservation System), and captive demand sources.

Figure 1. Alternative Marketplaces Help Hoteliers Attract Demand of Their Own

Source: Company data, Evercore Group L.L.C. Research

Still, as we all can appreciate, as travelers we want to keep things simple, so many of us still begin our travel search through traditional methods (i.e., Search / OTA, Meta) leaving money on the table from the standpoing of earned loyalty where a more favorable room rate or upgrade may have been in store.

Two Industry Drivers of The Atomic Shift

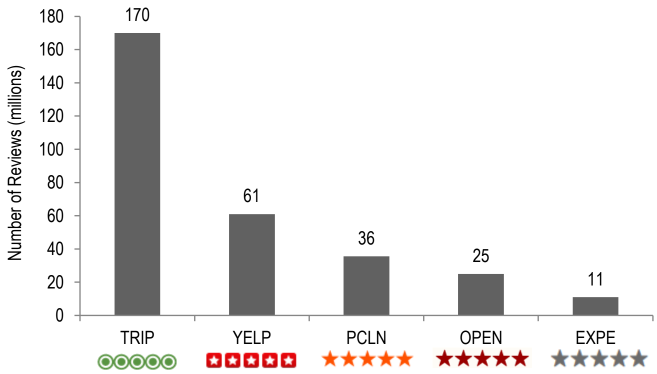
What stands to shift traveler behavior towards the Brand / Supplier and in favor of these captive demand sources is really twofold: 1.) we are seeing a clear growth trend in social, review sites, and traveler profiles and 2.) suppliers are placing pressure on brands to be more aggressive in delivering occupancy as the number of independent point solutions grow.

Review Sites Have Replaced Conrad Hilton's "Be My Guest"

There are a couple of primary motivators for travelers when choosing a hotel and ultimately booking: we all want assurance that the room is nice, definitely clean, and maybe even unique; and we all want to pay the lowest possible price for the experience. This behavior goes back to the beginning of the industry, fueling the major hotel chains, even before Conrad Hilton wrote his 1957 autobiography, *Be My Guest*. It was the rise of the brand's importance that followed which made it attractive for the suppliers to partner. And as technology evolved for the industry, the brands kept up, increasing supplier reliance, all in exchange for the 5-10% of the room night that the supplier pays to the brand.

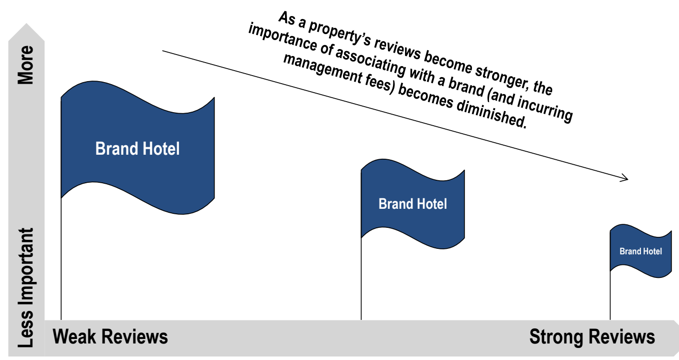
But fast-forward to the present; one could argue that review sites, such as TripAdvisor, provide a decent alternative to the brand model, at least among millenials. About 60mm of TripAdvisor's 280mm unique visitors are emailable, suggesting that many of those 60mm have taken the time to populate profiles within the TripAdvisor experience. Similarly, for PCLN and EXPE, while they have fewer reviews, they are verified as to the reviewer's authenticity and provide another touch point for the traveler in terms of the experience tht can be expected. In any event, these reviews now serve as extension to the brands at a minimum or as substitues in the case of independent hotelier reviews. Just as a hypothetical example, a single Marriott supplier with chart-topping reviews may be tempted to take its chances as an independent and fly under a private name as opposed to the Marriott flag.

Figure 2. Comparison of Reviews by Marketing Channel



Source: Company sites, SEC Filings, Evercore Group L.L.C. Research

Figure 3. Reviews Can Offer Brand Alternative to Some



Source: Company data, Evercore Group L.L.C. Research

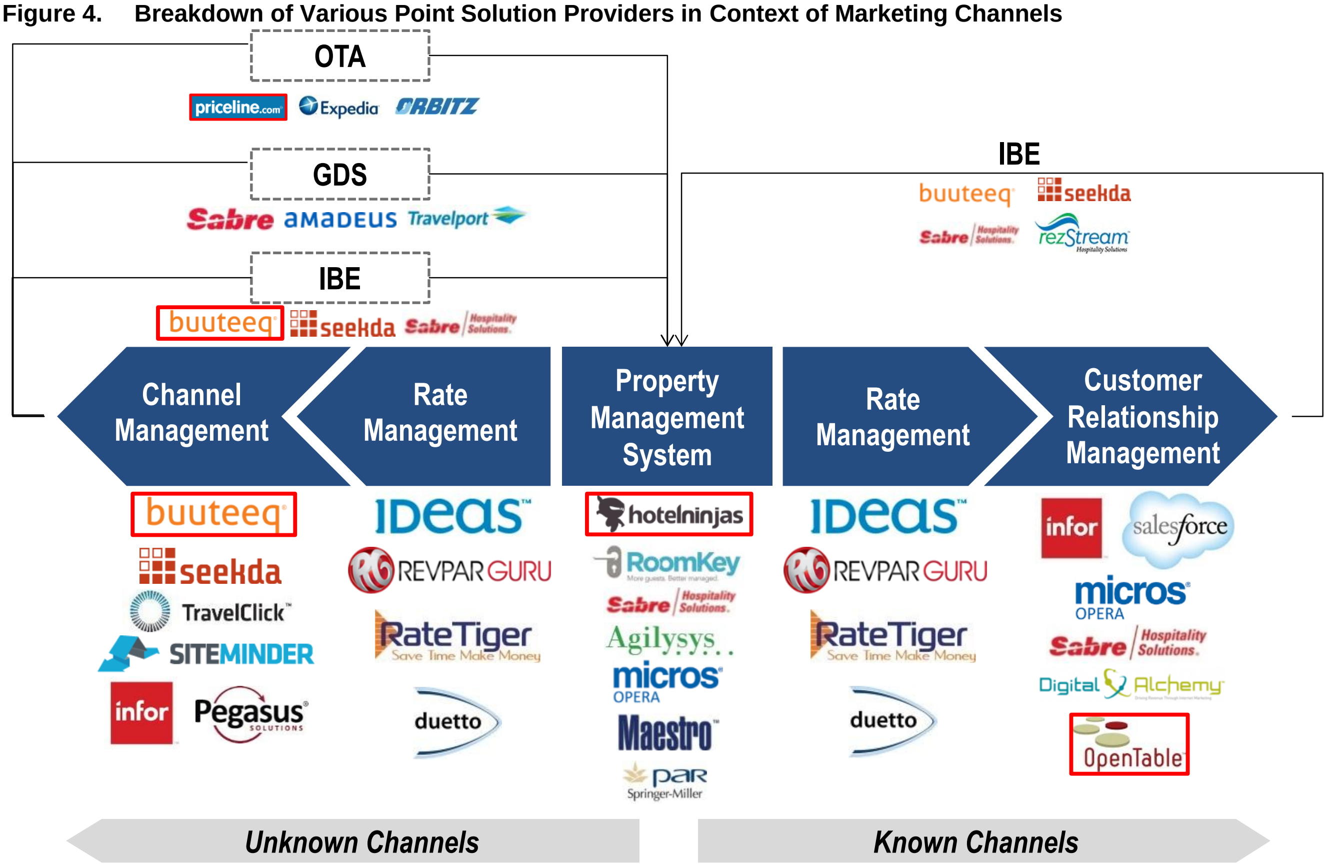
The "Green Screen" Has Given Way to Cloud

There are a growing number of off-premises / cloud alternatives now available, many of which are even being white-labeled into the brands

Similarly, from the standpoint of a single hotel supplier, while the brands have historically offered the cutting edge technology in hospitality point solutions, there are a growing number of off-premises / cloud alternatives now available, many of which are even being white-labeled into the brands. As we mentioned, these software point solution providers set room rates, manage marketing channels, and tie the systems and data together into the property management system for seamless check-in / check-out, room cleaning, vendor payment, and so on.

A selection of software point solution service providers are below, including three recent acquisitions by Priceline, highlighted in red. The exhibit, while busy, aims to simplify services rendered to the independent hotel supplier by major solutions provider. From a process standpoint, it often starts with the property management system, including check-in / check-out, folio creation, making sure the room is prepared for the next guest, ability to transfer the bar tab to the room, and so forth. From there, the hotelier needs to think about attracting more guests, but at what room rate and where should the hotelier advertise? Here is where rate managers step in to provide analysis on occupancy trends, macro factors including local conference details and other traffic demand patterns, such as weather, to help the supplier optimize the rates to maximize revenues. The rate manager can also tap CRM information to provide prioritized rates where captive demand has been created. In doing so, these partners can help a brand or supplier manage their marketing efforts across known and unknown channels.

Figure 4. Breakdown of Various Point Solution Providers in Context of Marketing Channels



KEY

PMS - Property Management System | **CRM –** Customer Relationship Management
GDS - Global Distribution System | **IBE -** Internet Booking Engine | **OTA –** Online Travel Agency

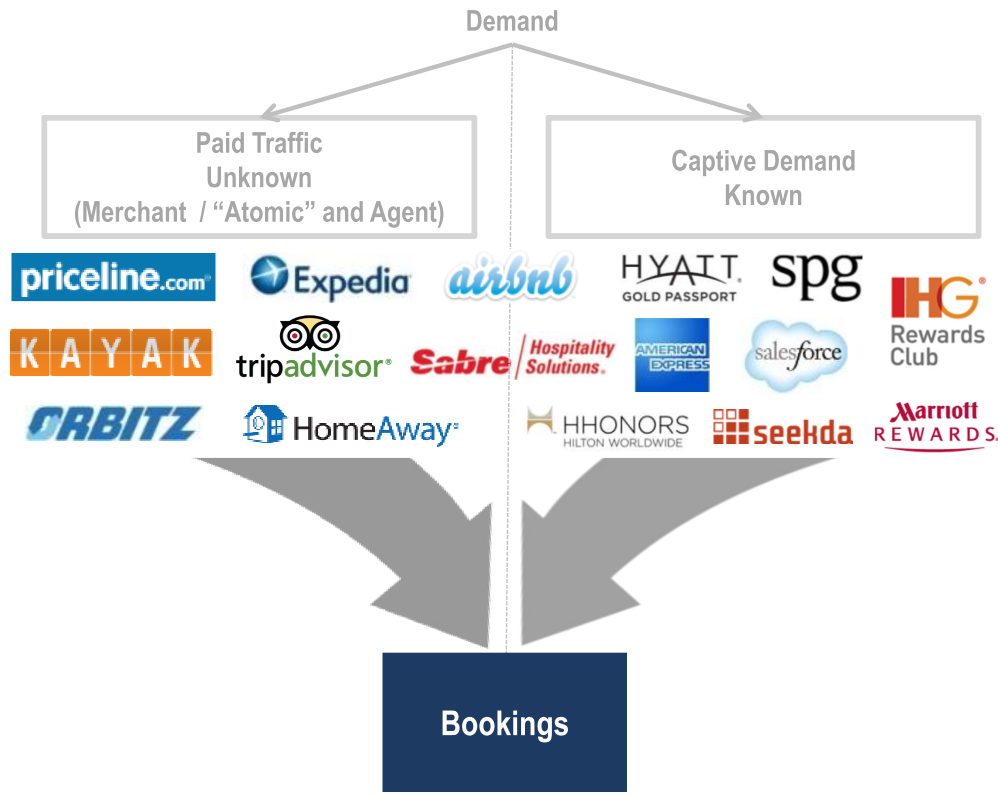
Source: Company data, Evercore Group L.L.C. Research

Result: Brands Leveraging "Captive Demand" Like Never Before

Beginning to see a natural evolution for the travel brands / suppliers as an industry to integrate the captive demand channels into a broader array of Search, Social and other emerging demand channels

The result of the drivers described is that Brands are increasingly embracing direct-booking path channels that offer them the ability to leverage their captive demand on behalf of their suppliers, and logged-in channels like Google, TripAdvisor and social serve them well in this regard. This is an offensive maneuver by the brands, but it has defensive elements too in protecting the brand's role in the ecosystem. In fact, we are beginning to see a natural evolution for the travel brands / suppliers as an industry (which granted has been slower than other channels) to integrate the captive demand channels into a broader array of Search, Social and other emerging demand channels.

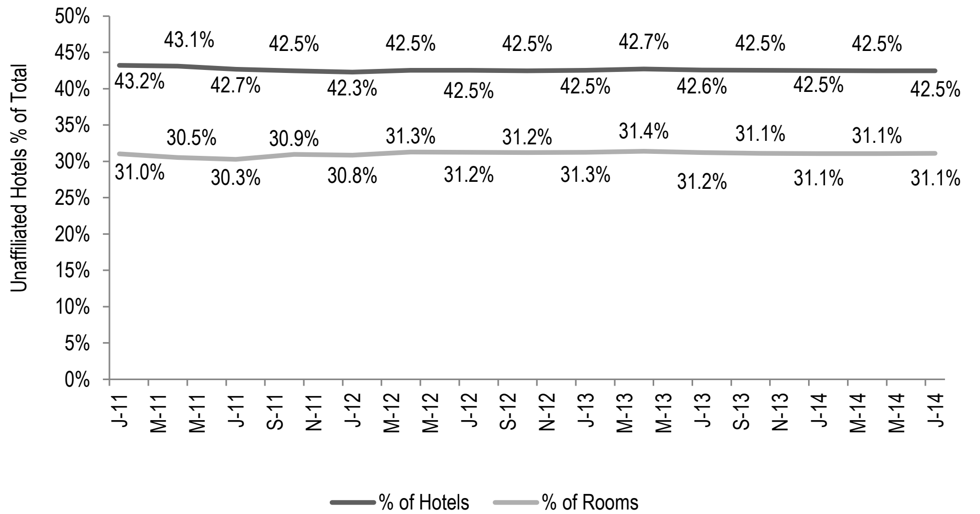
Figure 5. Suppliers Are Looking For Support with Two Demand Sources (Paid Traffic and Captive Demand)



Source: Company data, Evercore Group L.L.C. Research

The result is that brands are holding their ground relative to the two trends we highlighted as favoring independents. For instance, according to Smith Travel Research, 42% of hotels and 31% of rooms remain unaffiliated, roughly the same figures from three years ago, as brands continue to reinvent ways to add value to the customer and suppliers, such as many of the captive demand programs highlighted.

Figure 6. Percentage of US Brand Unaffiliated Hotels and Rooms Constant Overtime



Source: Smith Travel Research, Evercore Group L.L.C. Research

Assisted Booking Partners / Point Solutions Helping Facilitate

In the middle of these two major demand pools (i.e., known vs. unknown or captive vs. atomic) are the suppliers who are seeking to manage both sources of demand. One emerging player in this space that optimizes across both demand pools is seekda Gmbh, headquartered in Austria. We spoke to seekda as just one of many partners working with Google to get a sense of how they are bringing supplier data to the forefront as way of offering better deals and driving higher demand. With Hotel Place Ads (HPA) seekda enables 30K boutique hotels to target rates logged in Google+ and Gmail users with deeply discounted rates off of BAR (best available rate). Since the user is logged in, these rates uphold parity agreements and are targeted to specific user segments. In addition, since the booking is direct, the hotel can arbitrage the OTA rate to incent travelers to book directly with the hotel. CEO Peter Schwartz also claims that its growing network of boutique hotels and portfolio of curated villas are able to offer similar discounts to unique demand (about 1K properties on Hotel Finder) through their recently launched metamarketplace.com.

Google's *End-to-End* Approach to Travel

We view the rollout of Google's captive demand platform, in partnership with the major brands, as the most disruptive travel initiative by Google to date

Google is beginning to service all major segments of the travel ecosystem, serving the supplier / wholesaler through *Limited Offers*, which it rolled out over the course of the summer, and through a yet-to-be-named captive demand platform whose launch we exoect is imminent. Based on several industry conversations, we view the rollout of the captive demand platform, which Google is rolling out in partnership with the major brands as potentially the most disruptive travel initiative by Google to date. Further, through API integrations that tie our booking activity to Google Wallet, Google Maps and Now, which are increasingly being recommended / required as part of its Hotel Price Ads, travelers stand to benefit from linked itineraries, directions, and even check-in / check-out, in addition to personalized (i.e., closed environment) pricing.

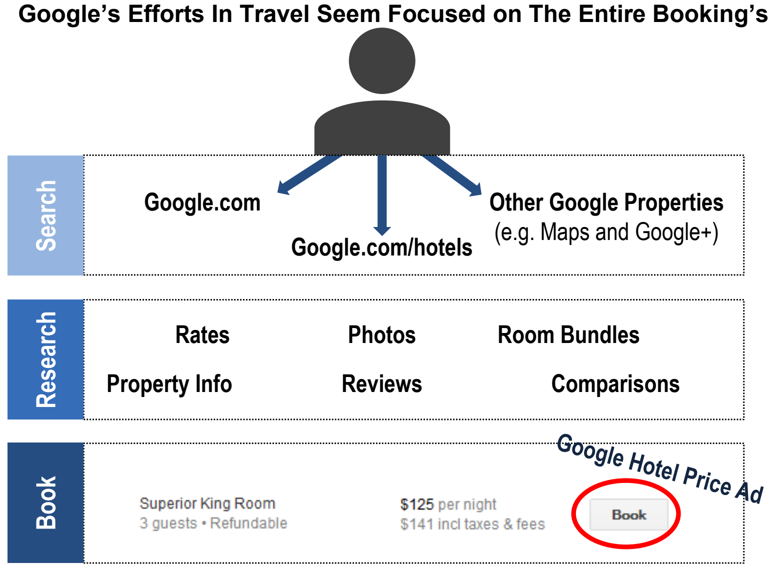
The reason we believe Google to be stepping up its travel efforts now, after many years of trying with mixed success, is that the stakes are so much higher. In the past, an effort by Google in travel would undermine some of its best advertisers, making the commitment to the space possibly half-hearted, in our estimation. However, what's changed is mobile. As mobile transactions threaten to make "marketplace" experiences the first destination in travel search, such as those provided by the OTAs or TripAdvisor, we would argue that Google's need to act has gone up by orders of magnitude. The point being that the services to the traveler around his or her profile are increasingly being shaped by the ability of a platform to bring more supplier information to one's fingertips. Reviews, discounts / points travel, check-in conveniences, and itinerary all require deeper supplier integration, which we see Google increasingly doing.

Why Google Views the Online Travel Space As Inefficient

Travelers spend an average 55 minutes to book a hotel and flight, visit 17 websites, and click 4 different search ads per travel search

In a recent Google Travel Study presented to its Hotel Finder partners, Google cited that travelers spend an average 55 minutes to book a hotel and flight, visit 17 websites, and click 4 different search ads per travel search, with 90% of those travelers conducting the booking process over multiple screens. The point of its presentation seemed to be a need for a streamlined bookings path, one where Google can retain the traveler from Search to Research to Book.

Figure 7. Google's Efforts In Travel Seem Focused on The Entire Booking's Path



Source: Ipsos MediaCT/Google Travel Study (Adapated), Evercore Group L.L.C. Research

So How Is Google Planning Its "Atomic" Atack?

More than half of all travel searches begin with Google

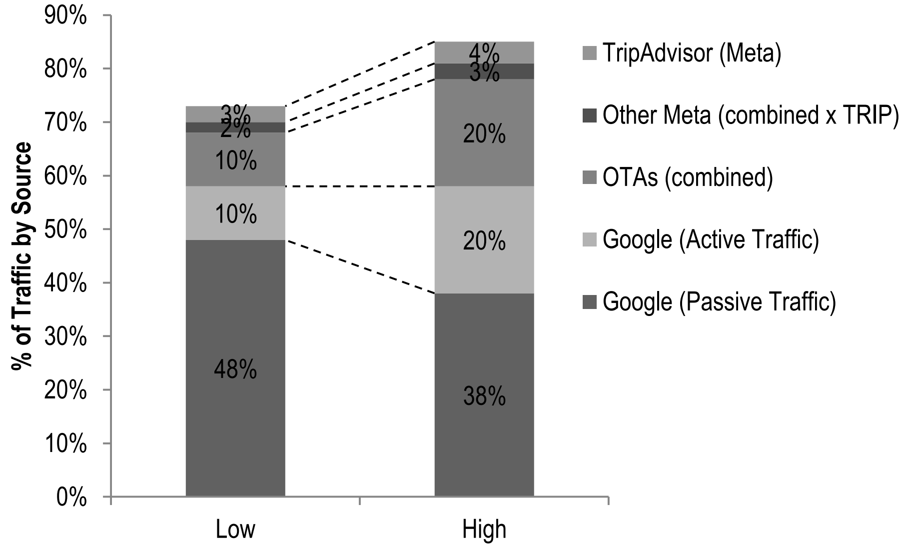
There are four elements we would highlight to characterize the thrust by Google into the travel space. First, it is Google's presence at the top of the funnel and the fact that more than half of all travel searches begin with Google. Second, is Google's ability to serve suppliers and brands through Limited Offers (already launched) and its captive demand initiative (soon-to-be launched), which allows suppliers and brands to arbitrage the rates charged by the OTAs provided that the person searching on Google is logged in through Gmail / Google+. Third, we see the integration of HPAs to Google Wallet, Maps and Now as creating a seamless travel experience for the user (from search, to research, to book -- *to travel and return*) that has yet to be demonstrated by any of its major OTA / Meta customer / competitors.

Leverage Search Presence

Google "directed bookings" roughly equals all OTAs combined, according to Koddi (ad technology platform)

22bn hotel searches are performed on Google per month with 58% of travelers (64% of business travelers) beginning their travel experience on Google, according to Ipsos MediaCT/Google Travel Study. However, there is some question as to how many of those that start their search on Google were actually led to a booking decision by Google. Fortunately, there is an ad technology platform, Koddi that measures that. According to Koddi, ~10-20% of all online-booked occupancy is driven by Google properties, including Search and Hotel Ads (aka Hotel Price Ads). Moreover, this measure roughly equals all OTAs combined. Meanwhile, Meta reaches about 5%-7% with TripAdvisor making up about half of those Meta transactions.

Figure 8. Comparison of Bookings Traffic by Source



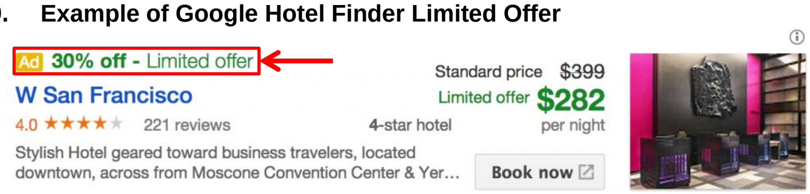
Source: Ipsos MediaCT/Google Travel Study; Koddi, Evercore Group L.L.C. Research

Provide More Booking Control to Suppliers / Wholesalers

Searching through Google's Hotel Finder experience could result in a 30% price reduction for users versus what they could expect to pay at the same hotel through available OTA / Meta sources, based on one example

Among several inititives we will be discussing is *Limited Offers.* Google has quietly been rolling out *Limited Offers* (shown below) over the last several months, which allow suppliers / wholesalers to promote a discounted rate through Google Search / Hotel Ads. As an example below, a search for SF Hotels revealed a 30% discount in Hotel Finder compared to OTA and Meta sites where BAR (Best Available Rate) is observed, meaning that searching through Google's Hotel Finder experience could result in a 30% price reduction for users versus what they could expect to pay at the same hotel through available OTA / Meta sources.

Figure 9. Example of Google Hotel Finder Limited Offer



Source: Ipsos MediaCT/Google Travel Study

How this works requires some detailed explanation, unfortunately, because it is typically *NOT* the brand (i.e., W Hotel Chain) that is placing this offer. And in this particular instance, there may or may not be even a logged-in component, since this type of discounting is technically considered grey market activity and done as part of a "closed group rate" with a wholesaler. What we mean by that is a wholesaler (e.g., Lmtclub.com, Amoma.com, GTA Travel or MetGlobal) is hired by the supplier (W Hotel SF) to boost occupancy through a promotions-based approach. In this specific example, our research discovered that the agreement occurred between W Hotel SF and Lmtclub.com (the wholesaler).

Lower Cost of Traffic Through *Limited Offers*

Due to higher post-click conversion, as result of the limited offer, the cost of traffic to the supplier / wholesaler is effectively reduced

Rather than use the OTA's opaque pricing channels (e.g., PCLN's *Name Your Own Price* or *Express Deals*; or EXPE's *Hotwire* or *Unpublished Rates*), the wholesaler plugged into Hotel Finder, making the rate available to searchers while obtaining more control over the user and the inventory, given the assisted booking path capability. In addition, from the standpoint of ROI, the efficiency is believed to be quite high given the likelihood for a higher post-click conversion as result of the limited offer, thereby effectively reducing the cost of traffic to the supplier / wholesaler.

Type of "Grey Market" Activity

Now, for those who begin searching on Google to find discount rates to BAR, there are only a few currently. The reason is that the type of behavior I just described is shunned by the industry with brands typically slapping the wrists of suppliers / wholesalers who do it. Nevertheless, the brands know that they have a responsibility to deliver occupancy to their suppliers, and when the occupancy softens the suppliers use what means are available to them, including cutting wholesale agreements. So while a mild slap on the wrist, it does set a few things in motion. First, when the discount to BAR is observed, OTA's almost instantly catch it, crying foul, or discounting to BAR themselves, essentially electing to violate their rate parity agreement with the brand. Travelers then see the discounted rate on the OTA site, which is now lower than can be found on the brand site, asking the brand to match. The brand apologizes to the OTA or asks the OTA to continue to respect BAR, and yells at the wholesaler, who in response claims to have legitimately received the offer from the supplier. Yet, there is only so much the brand can say to the supplier as the supplier's response will be that it needs more occupancy. Also, on terminology: we learned that an OTA *can't* do Limited Offers due to rate parity agreements, but they can do Opaque, which will likely just require a slightly different format by Google to accommodate them. Moreover, a supplier / brand can't do Opaque, but they can do Limited Offers, which are essentially closed user group rates and technically allowed under the fine print of the OTA-Brand rate parity agreements (note: again, brands discourage such closed-group agreements to originate from the suppliers directly).

Leverage Captive Demand Platform **Soon to Be Launched**

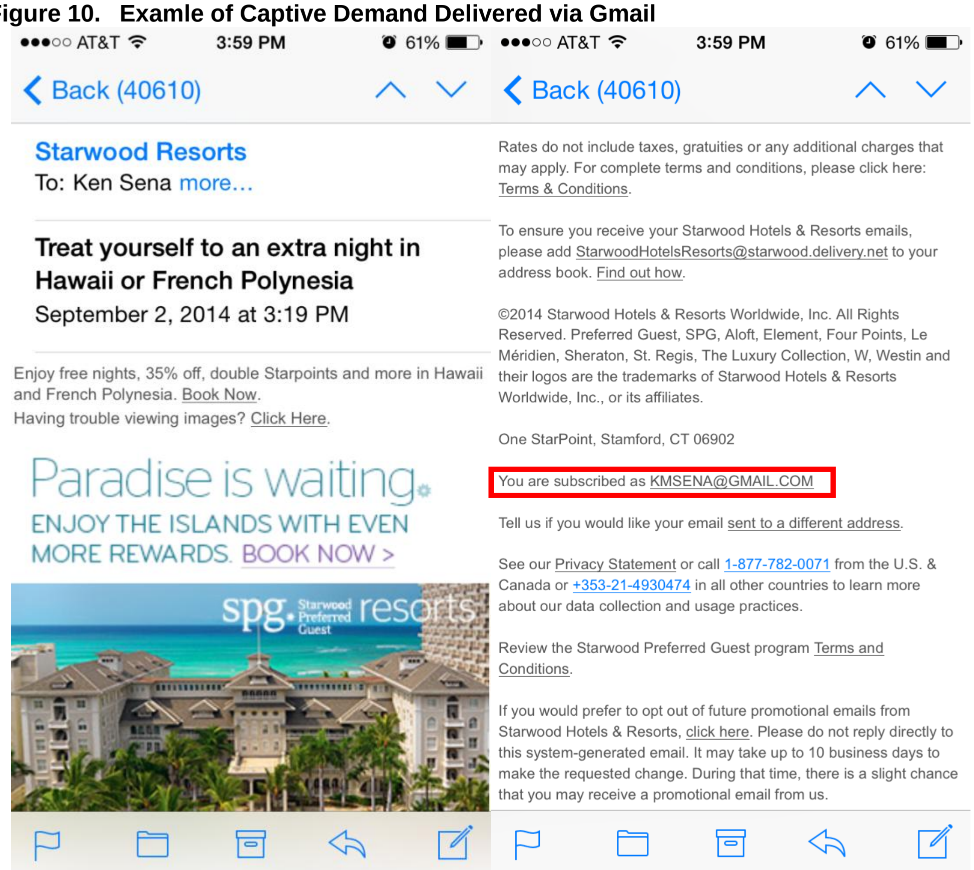
For reasons we have mentioned throughout this report, the brands are eager to work with Google and other direct booking path partners as way of growing captive demand and leveraging such demand into their paid marketing channels. For brands, this program also mitigates the temptation by their supplier partners to cut "grey market" deals with wholesalers. Separately, for the independent hoteliers, those that have no brand affiliation but who leverage off-premises point solutions (e.g., booking engines, channel optimizers, etc.), they too can plug into the new captive demand platform that Google is about to unveil.

New Captive Demand Platform Is ***Not*** Grey Market – It's In Partnership with the Brands

Google will leverage Gmail and other touch points on its users to integrate offers directly received, such as memberships and loyalty programs, into its logged-intravel search experience

So what is the captive demand platform and how does it work? Well, under the captive demand initiative (its name is yet to be publicly disclosed), Google would leverage Gmail and other touch points on its users to integrate offers directly received, such as memberships and loyalty programs, into its logged-intravel search experience. In other words, just a quick look at my own Gmail account reveals a number of rewards by Starwood, Marriott, and all their adjacent brands. I have mileage program offers from American Airlines and even partnership mileage offers between air and hotel. Again, all of this comes to me through Gmail, which Google sees. Further, when reading the fine print of these offers, I can see that the hotelier often lists my registered account as my email address. Therefore, what we can expect from Google's Hotel Finder product as the next iteration is a search experience that leverages the captive demand of the suppliers.

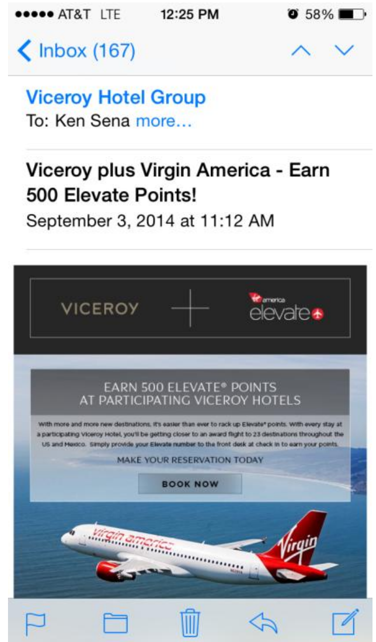
Figure 10. Examle of Captive Demand Delivered via Gmail



Source: Company data, Evercore Group L.L.C. Research

This also applies to point promotions, such as the co-promotion between Viceroy Hotel Group and Virgin America.

Figure 11. Hotel / Air Co-Promotion for Elevated Point Travel through Gmail



Source: Company data, Evercore Group L.L.C. Research

Our understanding of the timing of this rollout could be as soon as fourth quarter

Essentially, it would take the types of offers that we receive on a push basis through Gmail and make them pull through Hotel Finder when we are logged-in, and this would just be one of the sources of captive demand available to Google. Through API integration to the major brands, marketplace players / point solutions (e.g., Seekda, Duetto, etc.), travel offers stand to be increasingly personalized when we are ready to search for travel. A final point here is that Google's facilitation of captive demand by the brands into Hotel Finder is not "grey market" activity, such that the Limited Offers fall into, but a closed logged-in experience between the supplier / brand and the individual traveler, as Google is granting the brands the ability to manage demand on behalf of their supplier partners with greater ability. Our understanding of the timing of this rollout could be as soon as fourth quarter.

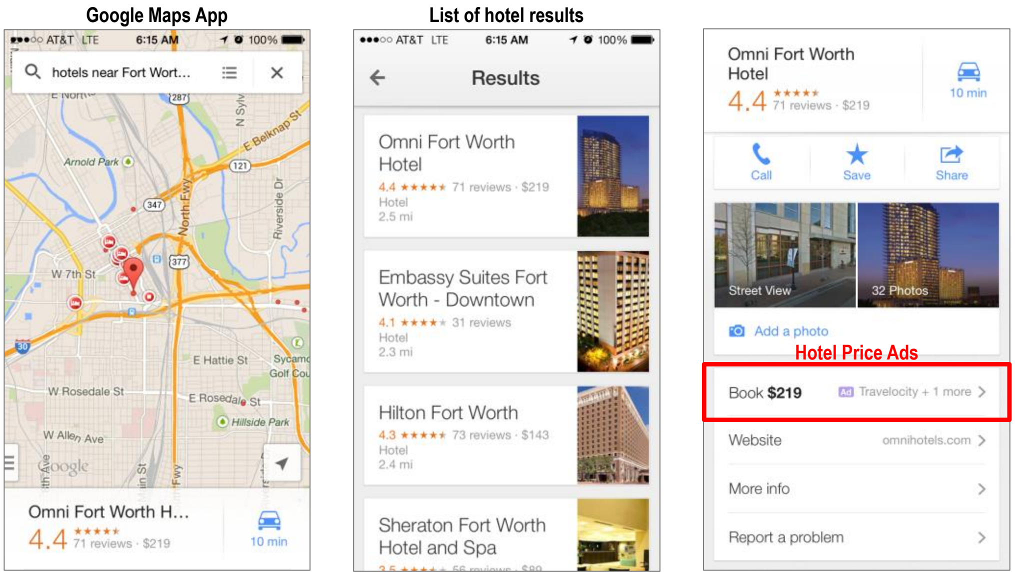
Personalized Pricing and Conveniences for Consumer

In addition to thinking through pricing options for suppliers / wholesalers and brands, the Hotel Price Ad formats that are used to buy traffic through Google are increasingly requesting / requiring API integrations into Google Wallet, Maps, and Now. This has the benefit to Google Hotel Finder users of allowing them to experience better hotel search, easier payment, and linked itineraries, which can be called based on voice or automatically based on itinerary timing and location.

Better Search (Location Based)

From the standpoint of Search, we can see below that a search for hotels in the Fort Worth area can help me zero in on hotel locations close to my meetings. Photos of the hotel, street view, reviews (about 50 per hotel), and at least two booking options are provided with Travelocity paying for the top booking spot. And soon I would expect to see personalized rates appear from the standpoint of captive demand channels being integrated.

Figure 12. Hotel Finder and HPAs in Google Maps App

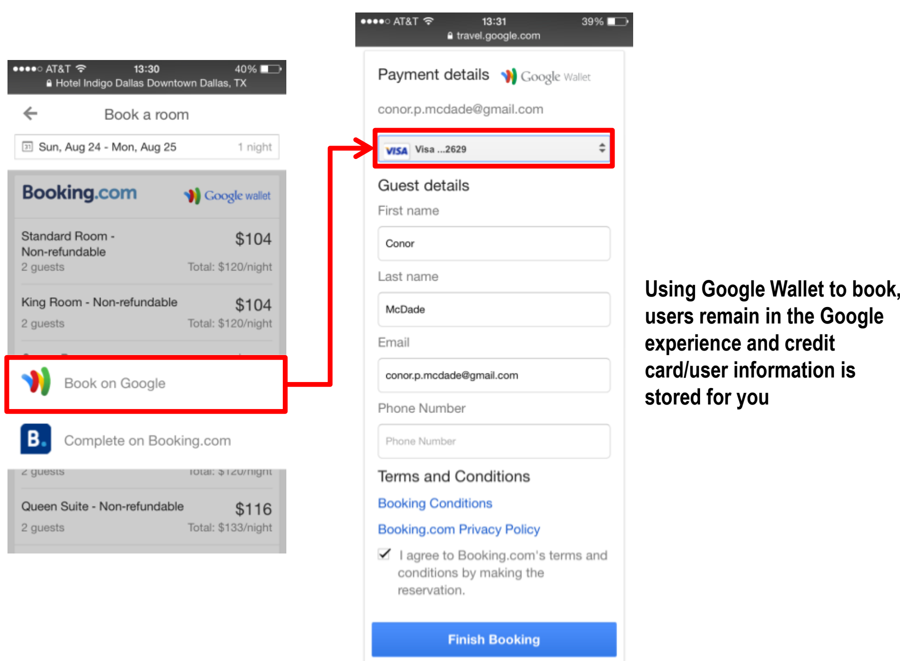


Source: Koddi, Evercore Group L.L.C. Research

Increasingly Connected to Google Wallet

In terms of the booking, Google's new Hotel Finder experience gives a couple of booking path options, through the advertiser's site and through Google Wallet. If the user checks out through Google Wallet, the user never leaves the Google experience and the payment is processed by Google using the credit card information stored in Google Wallet. Meanwhile, the booking is still serviced by the advertiser directly (hence the assisted book).

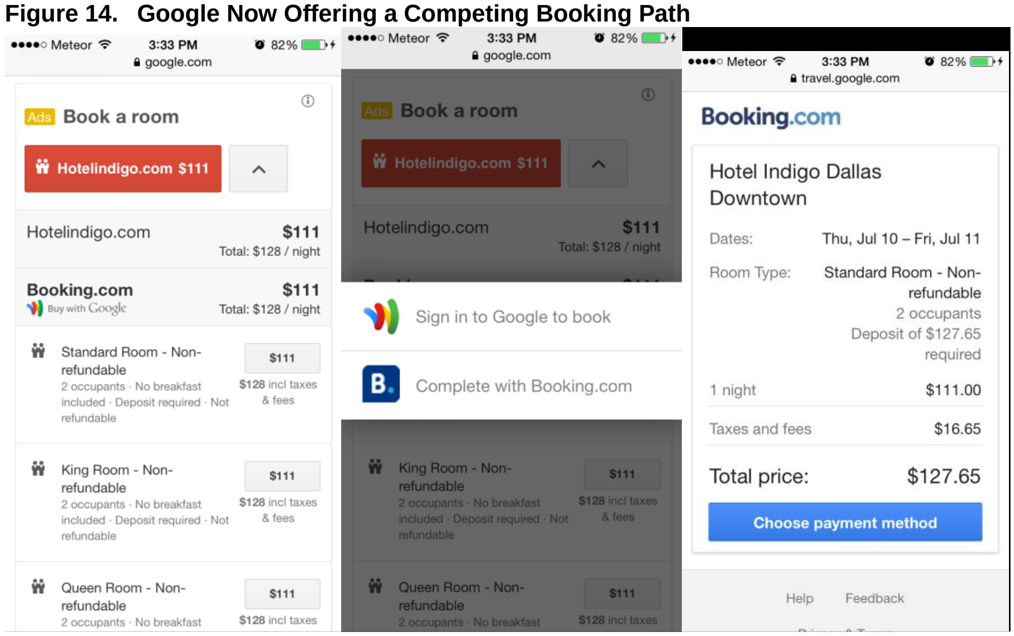
Figure 13. Google's Assisted Booking on Mobile



Source: Company data, Evercore Group L.L.C. Research

If the traveler selects the advertising partner to book, in this case Priceline, it is still a simple check-out, but the check-out is done on Priceline's booking path, which would give the supplier / brand less control over the user / inventory and potentially come at a higher price. This path would also be unavailable to the captive demand integration that we can expect to see from being logged into Gmail / Google+.

Figure 14. Google Now Offering a Competing Booking Path

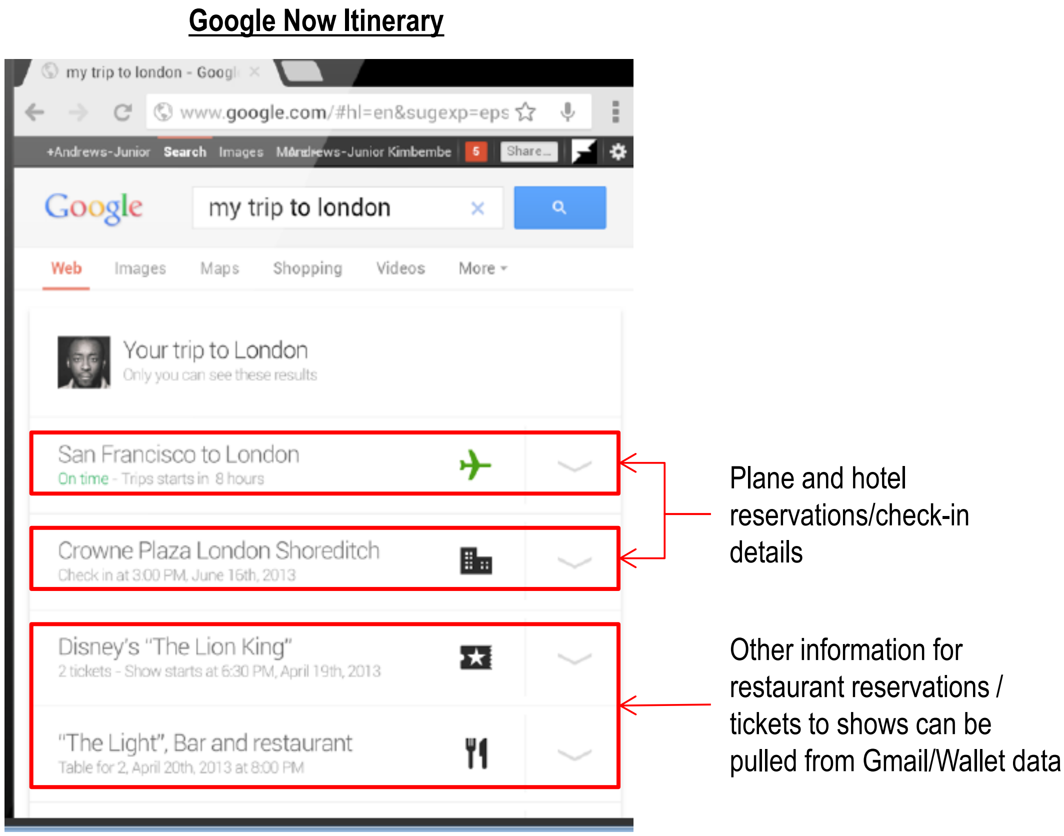


Source: Company data, Evercore Group L.L.C. Research

Linked Itinerary

Next, a traveler's profile registration is increasingly becoming connected to the traveler's wallet thanks to mobile. We see this with Google Hotel Finder (below), Marriott, and others. For instance, Marriott now offers mobile check-in / check-out at 1,200 properties, and we expect a similar offering to more rapidly be rolled out by Priceline / OpenTable. In doing so, travel itinerary information can be revealed to the traveler over the course of his or her itinerary based on timing and traveler location. For instance, reminders of departure, updates on flight status, and boarding pass details can be notified or easily searchable prior to departure. Upon arrival, a traveler can similarly locate hotel check-in details, entertainment / ticket details for entertainment and even restaurant reservations.

Figure 15. Example of Hotel Finder Shaping a Traveler Itinerary on Mobile



Source: Company data, Evercore Group L.L.C. Research

Priceline's Stealth Response

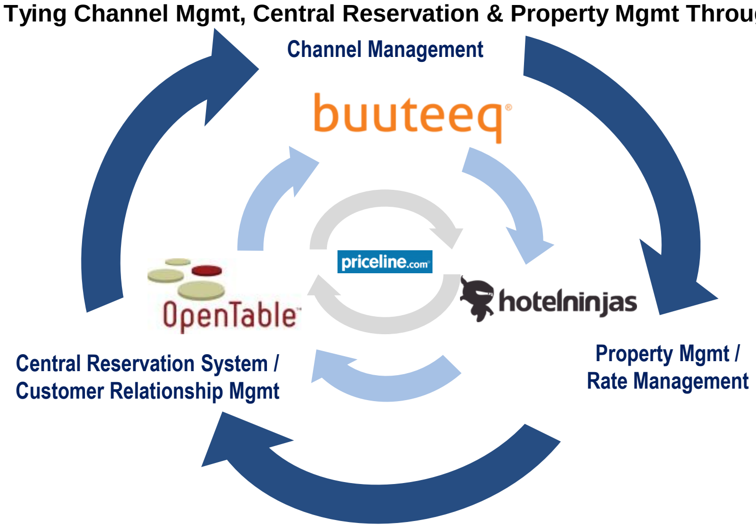
With Priceline's acquisition of Hotel Ninjas, Buuteeq, and OpenTable, it has the ability to handle property management, channel and rate management, and CRM, all of key consideration to hoteliers

While Priceline has always offered a low-end white labeled booking engine to its independent supplier customers, it has more recently stepped-up the offering with its acquisitions of Buuteeq and Hotel Ninjas, a conversion-optimized website product and hotel property management service, respectively. These services are not on-premises but are delivered via cloud and promise a deeper role for Priceline within its supplier base, an action which may help provide defensibility to Google's recent moves. And while we walk through this strategy in some detail, including how OpenTable stands to fit into this Enterprise Effort, it's worth noting that this initiative is fairly nascent as Priceline paid just ~$190mm cumulatively for Buuteeq and Hotel Ninjas, with about half of this being paid out in the form of performance-based incentives. Nevertheless, we still support the strategy quite strongly.

A New Journey Through Supply-Side Enterprise

To start, Priceline has created a data wall between its enterprise business and its traffic channel. This is a key point for hoteliers who may be loath to share customer data and intelligence with a traffic partner. Specifically, with Priceline's acquisition of Hotel Ninjas, Buuteeq, and OpenTable, it has the ability to handle property management, channel and rate management, and CRM, all of key consideration to hoteliers. In return, Priceline receives subscription revenues on some of the services provided in addition to keeping these hoteliers's semi-tethered to its Priceline traffic channel from the standpoint of ease and efficiency, given Priceline's leading scale as an OTA.

Figure 16. Tying Channel Mgmt, Central Reservation & Property Mgmt Through Cloud



Source: Company data, Evercore Group L.L.C. Research

Buuteeq Acquisition Provides Conversion-Optimized Website

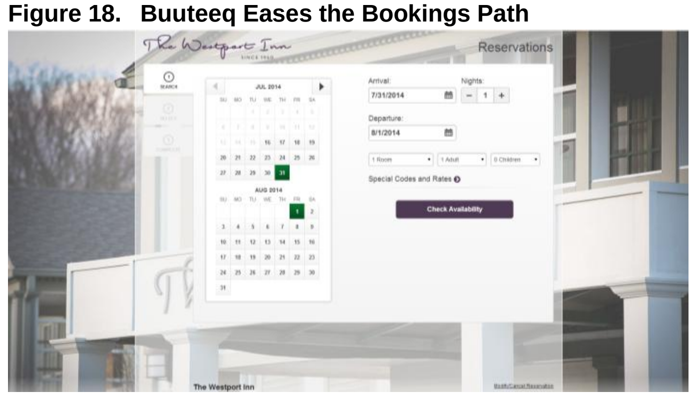
We learned from the Westport Inn that its switch to Buuteeq resulted in a 5x improvement to conversions

One very attractive element of the OTAs relative to their independent supplier partners (and even most if not all brands) is that the OTAs know how to convert traffic to bookings better than just about anyone else (even Google possibly). For instance, OTAs know just the right colors, buttons, and selection to get us to make that booking purchase. A lot of this knowledge stands to be of benefit to hoteliers in terms of how their sites are designed and traffic is analyzed across the various OTA channels and assisted bookings paths, such as what Priceline can now provide through Buuteeq, a cloud-based website platform that is conversion optimized with an analytics package. As example, we recently learned from the Westport Inn that its switch to Buuteeq resulted in a 5x improvement to conversions.

Figure 17. Buuteeq Offers Cleaner Landing Page

Source: Company data, Evercore Group L.L.C. Research

Figure 18. Buuteeq Eases the Bookings Path



Source: Company data, Evercore Group L.L.C. Research

While Buuteeq assists the hotelier with higher conversions through a simple site design, it also provides data sets and channel comparison so that a hotelier can learn which sources of traffic and marketing is proving most effective. As a standalone product, Buuteeq provides comparison of a website's source mix and performance across direct or assisted book channels, such as those channels that feed directly into the website's booking engine, including TripAdvisor, Google Hotel Finder, and other Meta sources.

Optimizing OTA and Assisted Book Channels In Real-Time

Has an important component in that just as a MediaMath, RocketFuel, Google Bid Manager can optimize across a number of Display sources on behalf of clients, so too can Priceline now but for hotel occupancy

In addition, through a relationship that Buuteeq has with SiteMinder, Buuteeq can optimize not only the direct channels (those that get booked through its internet booking engine, or IBE) but OTA channels as well. This has an important DSP (Demand-Side Platform) component to it in that just as a MediaMath, RocketFuel, Google Bid Manager can optimize across a number of supply / publisher sources in Display to find inventory that is most efficient, so too can Priceline now, but for hotel occupancy.

Helping Suppliers Rank Better in Search

Specificially, SiteMinder's tie-in with Buuteeq provides the channel connectors to Buuteeq that allow it to increase a hotelier visibility on the web across hundreds of traffic channels, including all of the OTAs. And for hoteliers looking to optimize their placement within SEO, being connected to as many publisher traffic sources is key. Therefore, through Buuteeq, Priceline is essentially offering hoteliers an optimized website to drive conversions, including through TripAdvisor and Google, in addition to an analytics dashboard to compare this traffic against that of competing OTAs and assisted booking partners.

Figure 19. Buuteeq Dashboard Showing Visits/Bookings by Channel

Source: Buuteeq, Evercore Group L.L.C. Research

The Cost of the Buuteeq Solution Ranges from $2.4K to $12K per Year

The cost for this service, depending on the package level, is between $2,400 to $12,000 per year per property according to our industry conversations. As a client goes up in tier, more is provided in the way of language capabilities, CRS integration, and marketing analytics. Specifically, at the most premium tier, a property can participate within TripAdvisor's Meta & Instant Book products and receive SEO auditing and keyword buying.

Figure 20. Buuteeq Pricing

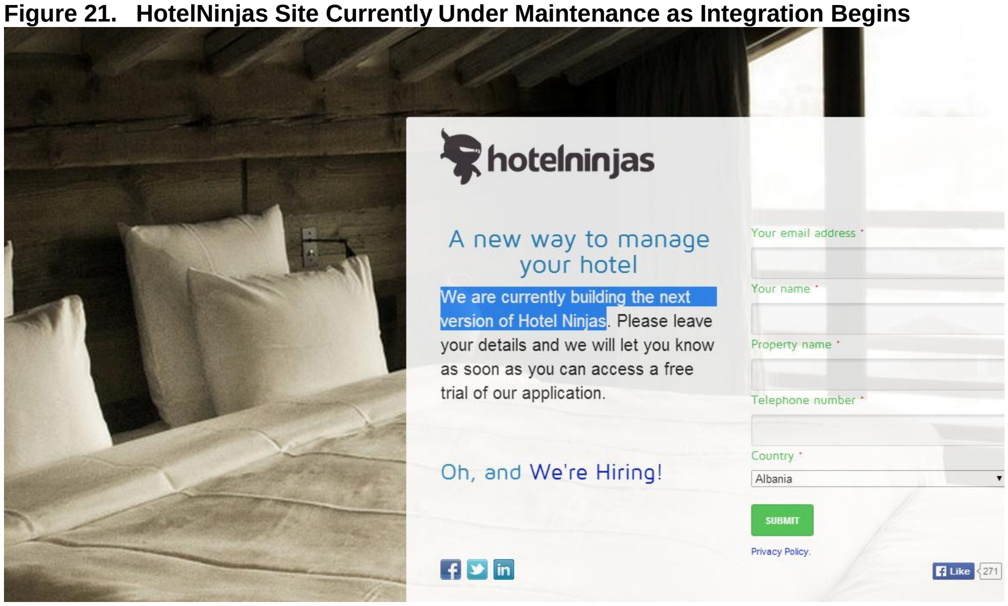
CORE	PRO	ULTRA
Best for small operations with a simple digital strategy	Best choice for complete digital marketing control	Full-service digital marketing with some customizable features
$2,400 / property	$4,500 / property	$12,000 / property
Mobile & Tablet Ready Site	Mobile & Tablet Ready Site	Mobile & Tablet Ready Site
20 Pages	Unlimited Pages	Unlimited Pages
1 Language	5 Languages	Unlimited Languages
Commission-Free Booking Engine	Commission-Free Booking Engine	Commission-Free Booking Engine
Redirects to 3rd-Party Booking	CRS Integration	CRS Integration
Limited Analytics & Reporting	In-Depth Analytics & Reporting	Benchmark Analytics & Reporting
Online Support	Online & Phone Support	Content/SEO Audits

Source: Buuteeq, Evercore Group L.L.C. Research

Hotel Ninjas **Moves Priceline Even Further to Supplier Back-end**

Hotel Ninjas, Priceline's other recent major travel-specific Enterprise acquisition, offers a cloud-based property management system (PMS), which is currently in the process of being integrated with Buuteeq on the front end. We understand from our industry conversations that the integration of its new PMS with the channel and marketing services of Buuteeq would bring Priceline that much closer to providing hoteliers with a full enterprise hospitality stack, in which customer folios and housekeeping services can be managed through a single cloud-delivered web interface. We would expect this ultimately to move into captive demand channels too, but we believe not until at least 2015.

Figure 21. HotelNinjas Site Currently Under Maintenance as Integration Begins



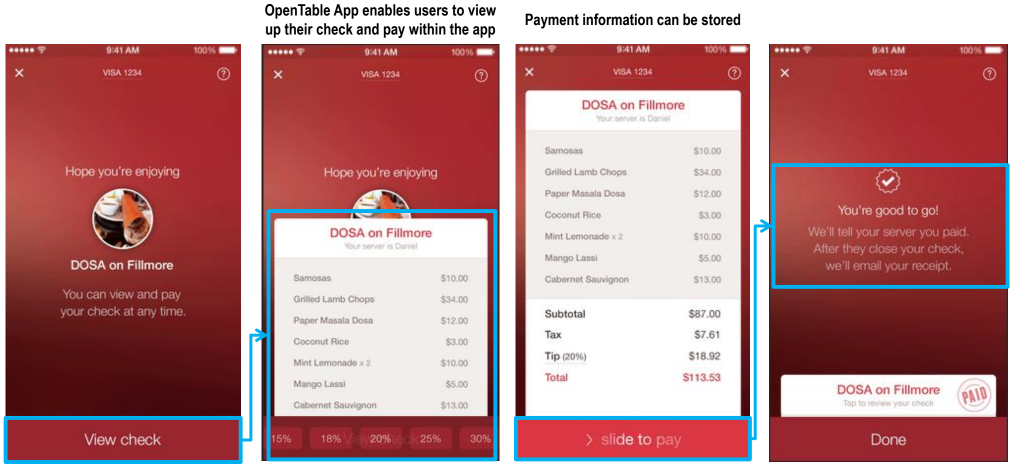
Source: HotelNinjas, Evercore Group L.L.C. Research

Finally, ***Pay with OpenTable*** **Stands to Close the Loop**

Pay with OpenTable gives users the ability to pay their check directly from the table and is consistent with Priceline's mobile travel initiatives which involve managing your itinerary, changing reservations, engaging in on-property purchasing, and even unlocking one's room.

We would expect to see Open Table's features integrated into Hotel Ninjas and maybe even Buuteeq by relaunch.

Figure 22. Pay with OpenTable Offers an Even Deeper Level of Integration



Source: Company data, Evercore Group L.L.C. Research

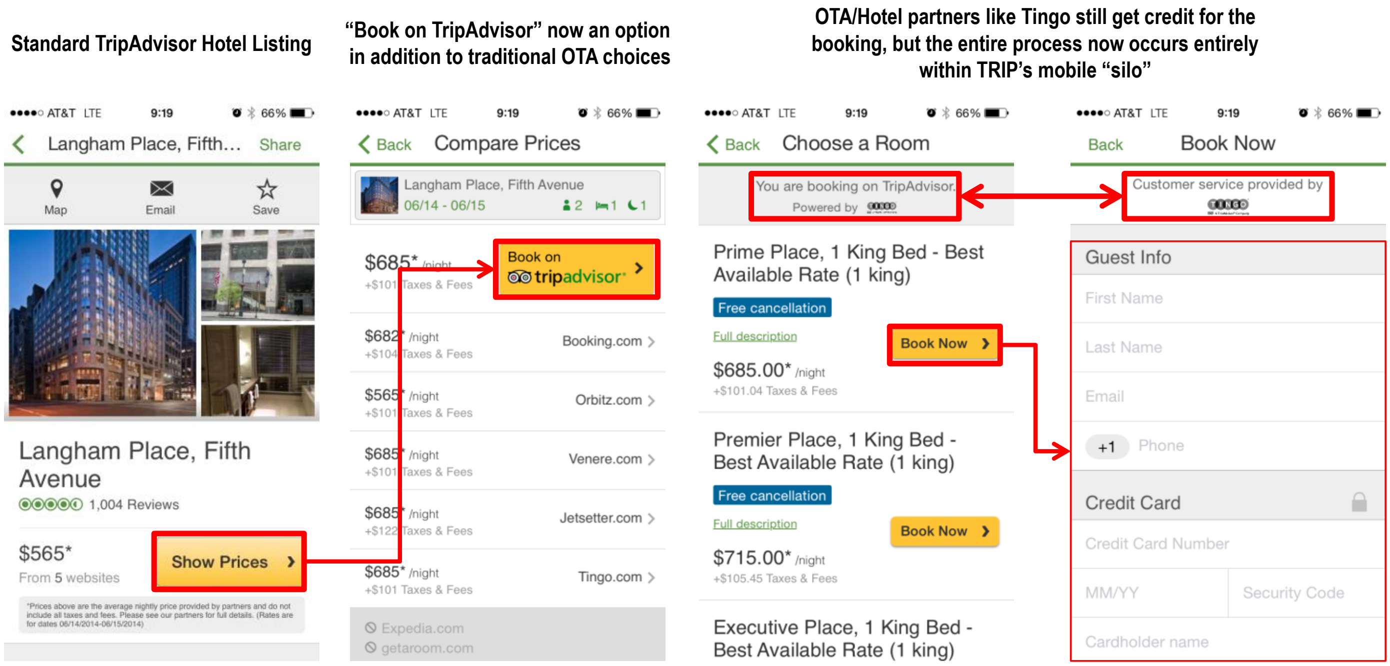
An interesting parallel to this discussion is the role that an expense management player like Concur (CNQR) could play, which could make T&E an almost automatic process at payment

An interesting parallel to this discussion is the role that an expense management player like Concur (CNQR) would play in this space, given that not only do they know where a frequent traveler's loyalty is or where a brand has preferred agreements, it also stands to tie expense capability directly to the pay process, making T&E an almost automatic process upon payment, as opposed to having to chase down T&E receipts after the fact. Therefore, we could see Concur having strategic appeal for Google or any of the major travel players, including Priceline.

Everyone Loves a Good *Book*

In contrast, while Priceline has chosen to aid suppliers on the back-end (providing cloud-based ERP tools to hoteliers), TripAdvisor seems headed in a direction similar to Google's based on an assisted booking capability with deeper supplier / brand channel integration. Specifically, through Assisted Booking, which was fully rolled out in the US earlier this year, TripAdvisor has begun to simplify the booking process for consumers by housing the entire booking experience within the TripAdvisor app (as opposed to leading you to an OTA site to complete the booking). While Priceline and Expedia have avoided the idea of integrating with the product, TripAdvisor has found some traction with hoteliers as evidenced by partnerships formed with both Choice Hotels and Travelport (a leading GDS with 580,000 hotel properties), giving a rather substantial inventory base to the new product. We provide an example below of how TRIP's assisted booking capabilities (i.e., Instant Book) compare to Google's shown earlier. While the ability to convert the demand is certainly there for TRIP (potentially at rates even favorable to the OTAs), the ability to provide personalized pricing, such as what Google is doing, in addition to providing deeper integrations through Maps & Wallet for itinerary linking and so forth, seems distant. Nevertheless, the promise of a more robust TripAdvisor bookings experience is there, particularly given TripAdvisor's open API platform, TripConnect, where such integrations ultimately stand to occur.

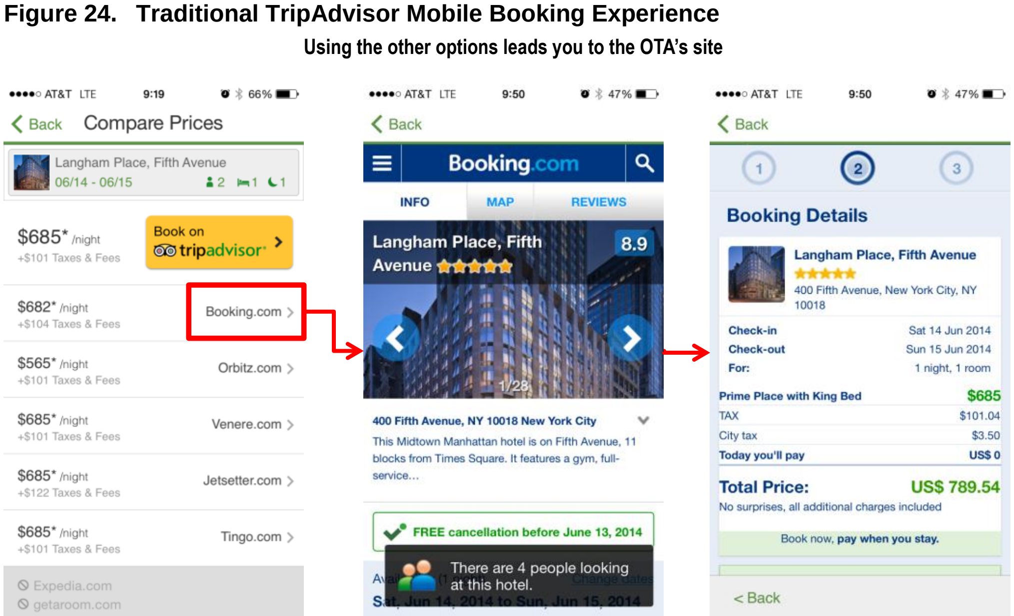
Figure 23. TRIP's New Mobile Assisted Booking Offers Fluidity in Mobile Booking Process



Source: Company data, Evercore Group L.L.C. Research

This compares to the traditional TRIP booking experience where hotel shoppers are directed to a mobile web version of the OTA site for booking.

Figure 24. Traditional TripAdvisor Mobile Booking Experience



Source: Company data, Evercore Group L.L.C. Research

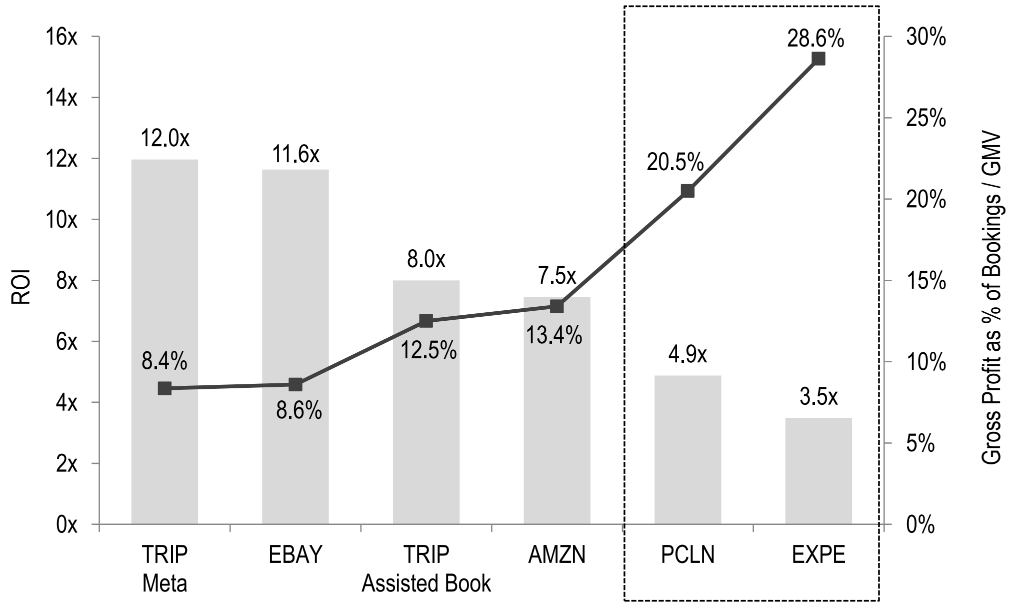
Where Google's Effect Will Be Most Felt

We can all agree that the online travel industry is likely to move in a direction that is more efficient. Therefore, in this section, we look at channel efficiency from the standpoint of suppliers / brands. The reason is that if we are correct that Google is likely to fuel a devaluing in the cost of traffic from these newer initiatives, then it is important to know which players stand to be most affected. What we find is that on the basis of supplier ROI, Expedia followed by Priceline seems most exposed. We arrive at this conclusion through a couple of different methods.

First, A Look at ROI by Channel

The online travel players cost suppliers more per dollar of bookings/GMV relative to other e-commerce sites like eBay and Amazon (which also sell third party goods and services). In order to quantify this, we use hotel gross profit as a percentage of hotel bookings. Specifically, a lower gross margin for the channel would indicate better value and ROI as less spend would be required for each incremental dollar in bookings/GMV. On this basis, we found that PCLN and EXPE charge hoteliers over 20% of each booking on average (adjusted to account for just hotels), whereas AMZN and EBAY take closer to 13% and 9%, respectively.

Figure 25. Comparable Gross Profit Margins (as a % of Bookings) and ROI



	EBAY	AMZN	PCLN	EXPE	TRIP Meta	TRIP Assisted Book
Gross Profit	$6,569	$16,336	$5,400	$3,094		
/ Bookings or GMV	$76,431	$121,866	$26,346	$10,809		
= GP Margin	8.6%	13.4%	20.5%	28.6%	8.4%	12.5%

Source: Company data, Evercore Group L.L.C. Research; All data shown represents FY 2013 disclosure. EBAY figures are Marketplaces GMV and Marketplaces transaction revenue (given that EBAY is entirely third party revenues). AMZN GMV are our estimate of AMZN GMV. For the OTAs, we use hotel revenues only less cost of revenue divided by hotel bookings. For PCLN, because hotel revenues are not separately broken out, we infer hotel revenues by applying EXPE's air revenue margin to PCLN's non-hotel bookings, and then back this out of total transaction revenues. PCLN and EXPE also exclude Kayak and Trivago related revenues. TRIP based on Seekda Gmbh data, see above for description. TRIP Assisted Booking based on midpoint of 10-15% booking commission company disclosure.

Of note, using data from seekda, which serves 30,000 hotel suppliers and vacation rental properties, we discovered that TripAdvisor ROI is actually more attractive relative to the OTAs under both Meta click-based pricing and assisted booking models than we had appreciated. Specifically, amongst seekda clientele, the average CPC was ~€1.30 (though reaching nearly €5.00 for more expensive clicks) with a conversion of 2.7% (i.e. one booking for every 37 clicks). Thus, with average booking volume of €572, this implies a 8.4% supplier cost under meta, a ~12x ROI. This compares to higher CPC markets, such as in NYC, where the CPC is closer to $5 to $6.

Figure 26. TRIP Meta ROI Calculation

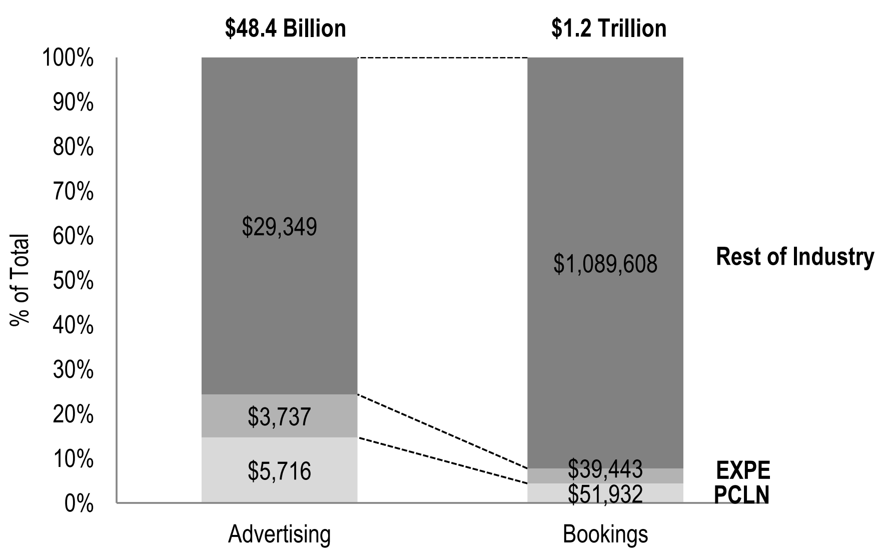
TRIP Avg CPC	€ 1.30
/ Conversion Rate	2.7%
= Avg. Supplier Cost	**€ 47.8**
/ Avg. Booking Volume	€ 572.0
= Supplier Cost Margin	**8.4%**
ROI	*12.0x*

Source: Seekda, Evercore Group L.L.C. Research; Note: ROI = measure of inverted gross profit as a percentage of bookings

Next, We Compare Aggregate Travel Advertising to Bookings

With an estimated $48bn spent in travel advertising each year to help generate over a trillion in bookings (including hotel, air, car rentals), a look at the two leading OTAs, Priceline and Expedia, shows that they account for 20% of travel ad spend while contributing to 8% of global bookings. While not a perfect measure of efficiency, this comparison does highlight the important position that the OTA holds within the industry for suppliers, and the need for suppliers to pay up accordingly.

Figure 27. PCLN and EXPE as % of Total Industry Advertising Spend and Bookings

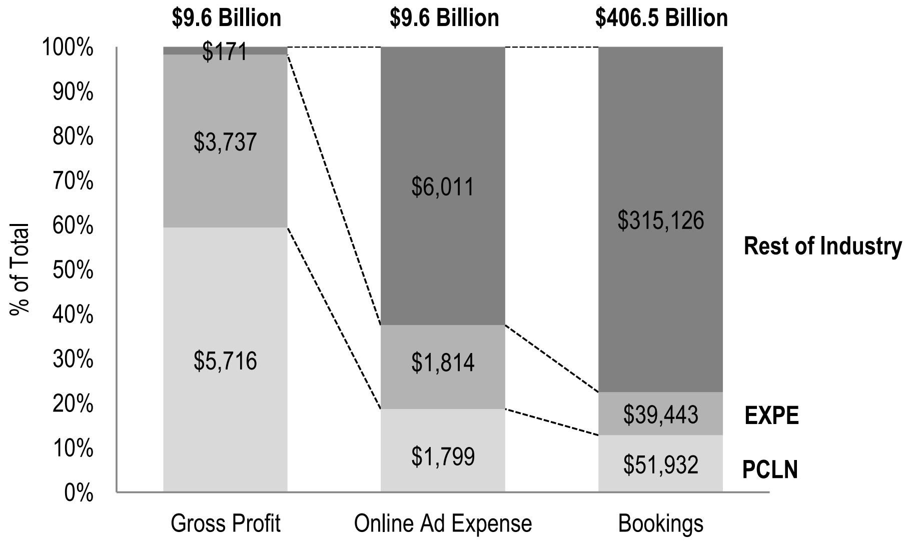


	Online Ad	+	Offline	=	Total Ad	Source
Global Ad Spend	120,294	+	364,732	=	485,025	Magna Global
x Travel Vertical Share	8%		8%		8%	IAB
= Travel Ad Spend	**$9,623**	**+**	**$29,179**	**=**	**$38,802**	**Calc**

Source: Magna Global, IAB, PhoCusWright, Evercore Group L.L.C. Research; Consistent with IAB which estimates that travel ad spend is roughly 8% of total. % of total advertising is PCLN and EXPE Gross Profit divided by estimated travel related advertising spend. Bookings represent total online and offline travel bookings. All estimates based on 2013 figures.

Furthermore, if we focus solely on the online channel, and compare the online advertising expense of the OTAs to the bookings they generate, we note that this imbalance is nearly as large. Again, while PCLN and EXPE spend nearly 40% of the total estimated travel-related online advertising market of $9.6bn, they deliver just 23% of total online travel bookings. Furthermore, if we were to compare the gross profit of PCLN and EXPE (which would include the OTA take rate on top of their ad expense), the amount that hoteliers pay to Priceline and Expedia alone would roughly account for the entire travel advertising pie.

Figure 28. PCLN and EXPE as % of Online Industry Advertising Spend and Bookings

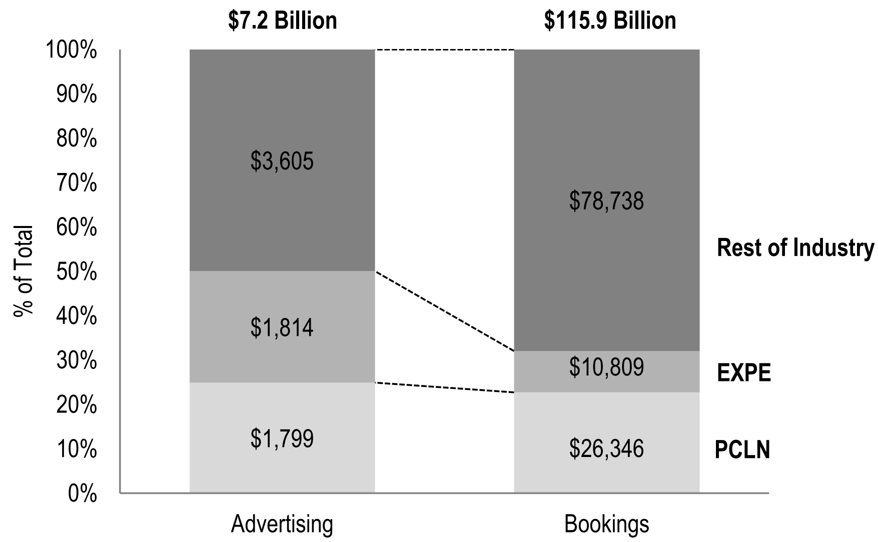


Expedia Online Ad Expense Calc	2013
PCLN Online Ad Expense	$1,799
/ PCLN Total Marketing Expense	$2,162
= PCLN Online as % of Total	**83.2%**
EXPE Total Marketing Expense	$2,180
x PCLN Online Ad Expense	83.2%
= EXPE Est. Online Ad Expense	**$1,814**

Source: Magna Global, IAB, PhoCusWright, Evercore Group L.L.C. Research; Note, because Expedia does not disclose online advertising expense in detail like Priceline does, we use PCLN online ad expense as a percentage of total offline ad expense, online ad expense, and sales and marketing expense and apply an equal ratio to EXPE's total in order to estimate.

Lastly, if we assume that 3/4th of online travel advertising spend is hotel-related (as opposed to air, or other), then PCLN and EXPE online advertising expense would represent ~50% of total advertising for the hotel industry, while again our estimate of the two's combined bookings would constitute less than 1/3rd the industry.

Figure 29. PCLN and EXPE as % of Online Hotel Advertising Spend and Bookings

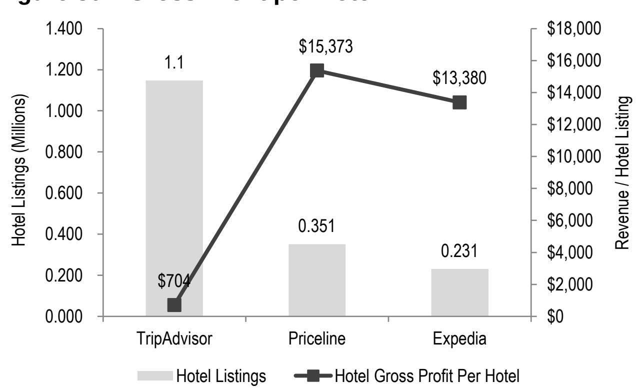


Source: Magna Global, IAB, PhoCusWright, Evercore Group L.L.C. Research; See above notes for detail

Finally, We Look at Unit Comparisons (Rev per Hotel / User)

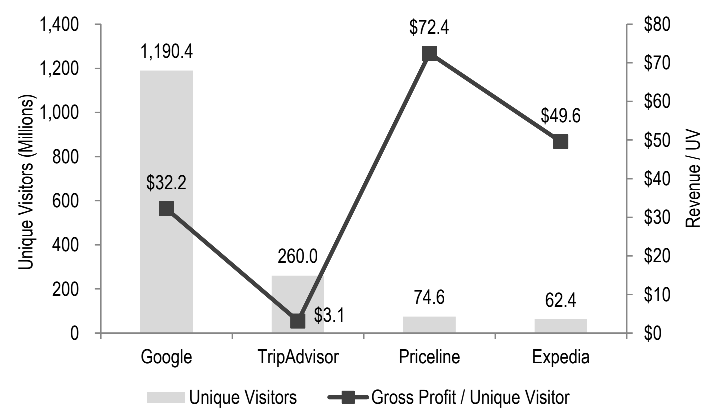
Another method of efficiency could be to look at OTA gross profit per hotel, visitor, or time spent. Here, we see Priceline and Expedia well outearning TripAdvisor and even Google on the basis of annual gross profit per user. To some extent, this reflects an inverse math of efficiency from the standpoint of the hotelier, which is ultimately the one that pays for the higher rate of monetization for a Priceline or Expedia. For example, while TripAdvisor generated $720 per hotel (excluding display revenues), Priceline and Expedia each generate nearly ~$15,000 per hotel. Similarly, on the basis of unique visitors, OTA monetization upwards of $50 is more than 15x that of TripAdvisor (just $3/unique visitor) and almost 2x that of Google at $32/unique visitor.

Figure 30. Gross Profit per Hotel



Source: Company data, Evercore Group L.L.C. Research; hotel listings include vacation rental listings. GP for TRIP excludes Display revenues. Hotels listed are an average for 2013. GP is as represented above, excludes estimated air revenues.

Figure 31. Gross Profit per UV

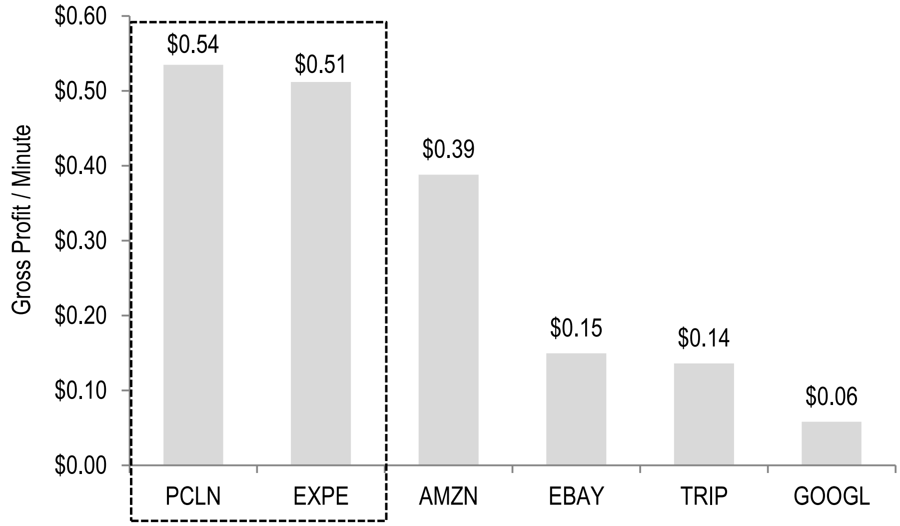


Source: comScore, Evercore Group L.L.C. Research; Note uses the 260m TRIP disclosed UVs. UVs are avg 2013 annual UVs. Google represent advertising revenues net of TAC. GP is as represented above, excludes estimated air revenues.

Story Is Similar on Basis of Traffic, Not Surprisingly

While one could certainly cite the better performance among Priceline and Expedia as deserved given their ability to drive higher conversions within their experience, the cost of traffic through this channel stands higher than other industries (i.e. AMZN and EBAY) and its competitors within the travel industry (TRIP), leaving the OTAs exposed to a potentially widespread reduction in traffic cost, which we see occurring under Google's current and expected initiatives.

Figure 32. OTA vs. E-Commerce Gross Profit / Minute Spent



Source: comScore, Evercore Group L.L.C. Research; GP used in numerator is as represented above, excludes estimated air revenues for the OTAs. Time spent is based on total comScore worldwide desktop time spent in 2013.

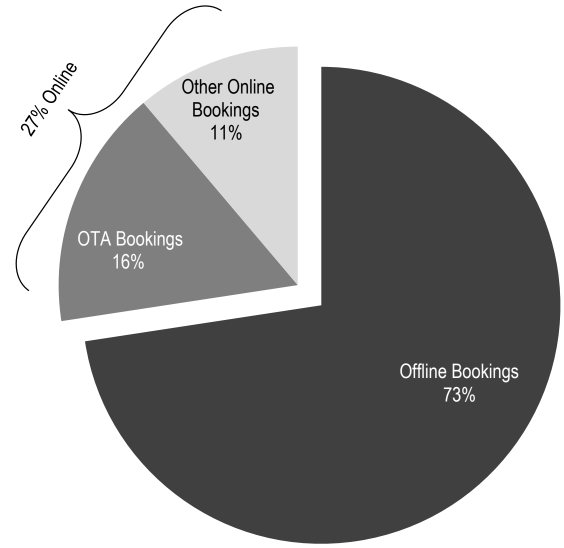
Framing the Financial Tradeoffs of Move Towards SaaS

One very simple measure of the tradeoff that OTAs could face from a move towards enterprise (vs. being paid on the basis of bookings) is the comparison between the hospitality SaaS market and industry hotel commissions for the OTAs. Therefore, assuming the OTAs could manage to maintain a similar share split of the SaaS industry vs. their current market position within traffic management, they would be trading a roughly $13bn addressable market (where PCLN is about half) for one that is ~$8bn, where a number of leading software providers compete. Therefore, in this section, we walk through how we think about sizing the SaaS-Based Hospitality Industry.

Lower Rates on Higher Volumes

In 2013, Online bookings represented just 27% of total bookings (16% of total coming through OTA), implying nearly ¾ of total bookings still coming offline. Therefore, while on the surface the move from traffic source to channel partner could be cannibalistic, it stands to reason that the ability to touch a greater number of transactions and traveler services could unveil other growth opportunities yet to be contemplated by the move that Priceline (and soon likely other OTAs) will be exploring.

Figure 33. Online Bookings Still a Small Piece of Total Hotel Bookings

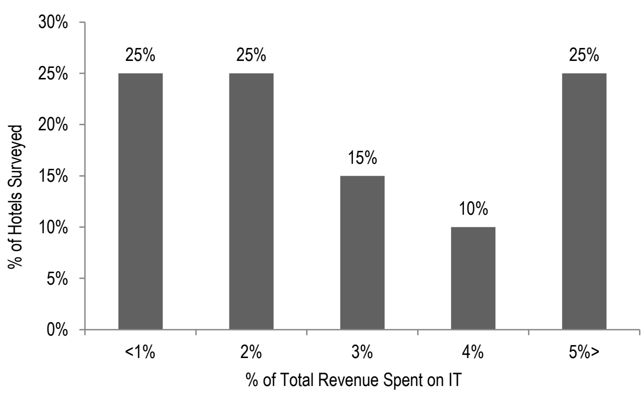


Source: PhoCusWright, Evercore Group L.L.C. Research

Comparing the SaaS Hospitality Market to OTA Commissions

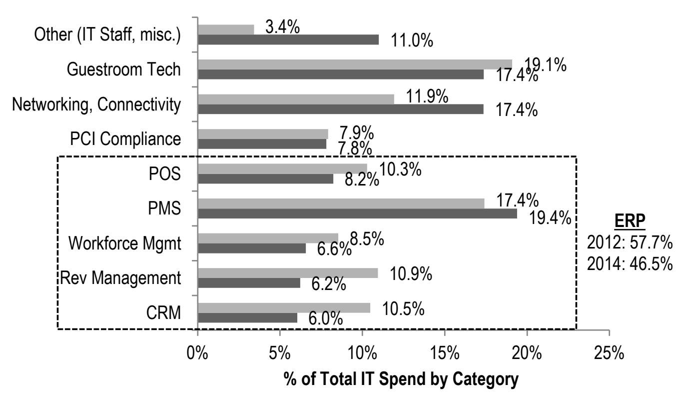
Using information from the *Lodging Technology Study* done by *Hospitality Technology Magazine* and PhoCusWright travel industry data, we estimate that the SaaS-hospitality addressable market could be ~$8.3bn. The data from *Hospitality Technology* includes surveying of managers and/or owners of over 49,000 properties which shows hoteliers as spending between 2 – 5% of bookings / revenues on IT-related spend and 45 – 60% of this spend going to solutions such as PMS, CRS, Revenue Management, etc. This is substantially lower than the ~20% of bookings we find to go to the OTAs, based on our earlier sizing of revenues that stand to be at risk. Nevertheless, we see the cost of traffic that Google is ultimately gearing towards as being ultimately in the single-digit vicinity, so that the cost of solutions plus traffic may be just high single digit for suppliers and brands over the next few years.

Figure 34. 2 – 5% of Revenue Spent on IT



Source: Hospitality Technology, Evercore Group L.L.C. Research

Figure 35. % of IT Spend by Category

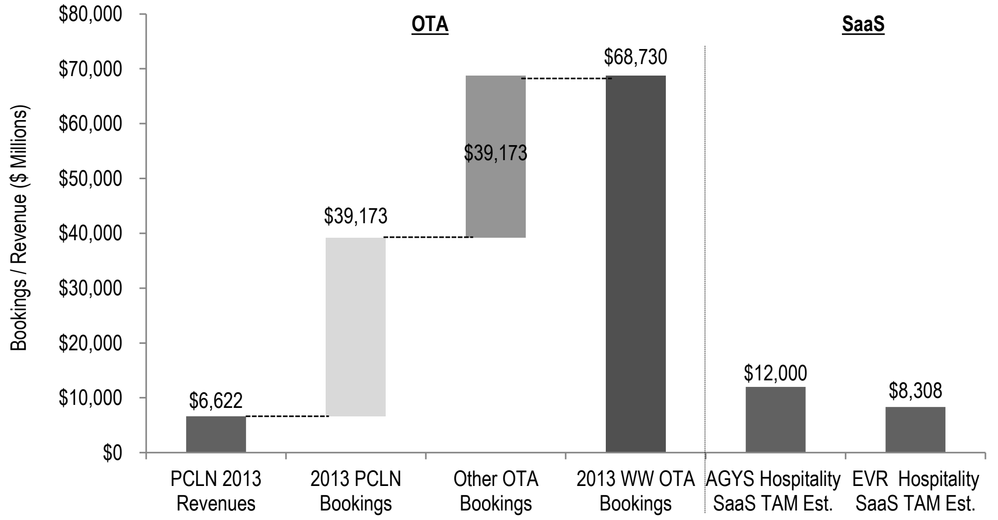


Source: Hospitality Technology, Evercore Group L.L.C. Research

Applying 2-5% IT Spend on Bookings

By applying the 2-5% take-rate to the bookings industry (source: PhoCusWright), we estimate an average market size of around $8 billion (using the high and low assumptions provided by Hospitality Technology). We note that this covers most all of the Enterprise resource planning solutions available for hoteliers. Nevertheless, we note that our estimate of the SaaS-based hospitality industry compares to a study by Agilysys (AGYS), a SaaS PMS provider, in partnership with Smith Travel Research, which estimated the market to be $12 billion, or towards the higher-end of our range.

Figure 36. Hospitality SaaS Addressable Market



	2014			
($mm)	Low	High	Average	Source
2014 WW Gross Hotel Bookings	**$452,154**	**$452,154**	**$452,154**	PhoCusWright
x % of Revs on IT Spend	2.0%	5.0%	3.5%	Hospitality Technology
= WW Hotel IT Spend	**$9,043**	**$22,608**	**$15,825**	Calc
x % of IT Spend on ERP	45.0%	60.0%	52.5%	Hospitality Technology
= WW Hotel ERP Spend	**$4,069**	**$13,565**	**$8,308**	Calc

Compares to Agilysys's $12 billion TAM estimate

Source: Source: PhoCusWright, Hospitality Technology, Evercore Group L.L.C. Research; Note WW OTA bookings represent hotel bookings only. OTA revenues are estimated as being ~25% of OTA bookings, or roughly an average of the estimated hotel take rates for PCLN, EXPE, and OWW, three of the largest OTAs. As a percentage of Bookings, PCLN revenues are slightly understated given that the majority of their bookings come under the agency model, which books revenues net of cost, as opposed to merchant bookings which come gross.

Downgrading Priceline to Equal-Weight

Although Priceline recently made what we consider to be a very savvy move towards Enterprise, which stands to defend it against Google and TripAdvisor's encroachment towards suppliers / brands, it's initiative is nascent and doesn't have the "captive demand" capabilities we see evolving from Google. Further, as the ability to facilitate captive demand channels into an assisted bookings path through Google, TripAdvisor, Facebook and others will only likely grow, we see the lack of such capabilities for Priceline as hindering its Enterprise adoption, making the initiative less defensive / offensive than we may have hoped. Still, we support the direction as it gives Priceline a front row seat to consider its next move. In terms of our forecast, we have modestly lowered outer year estimates in order to reflect these headwinds, leaving our 2015 and 2016 Adj. EBITDA now 2% and 5% below Street, respectively. This, combined with a lower implied terminal multiple, lowers our target to $1,350 from $1,450, implying 16x and 22x 2015 Adj. EBITDA and Adj. EPS, each one turn below our previous estimate.

Upgrading TripAdvisor To Equal-Weight

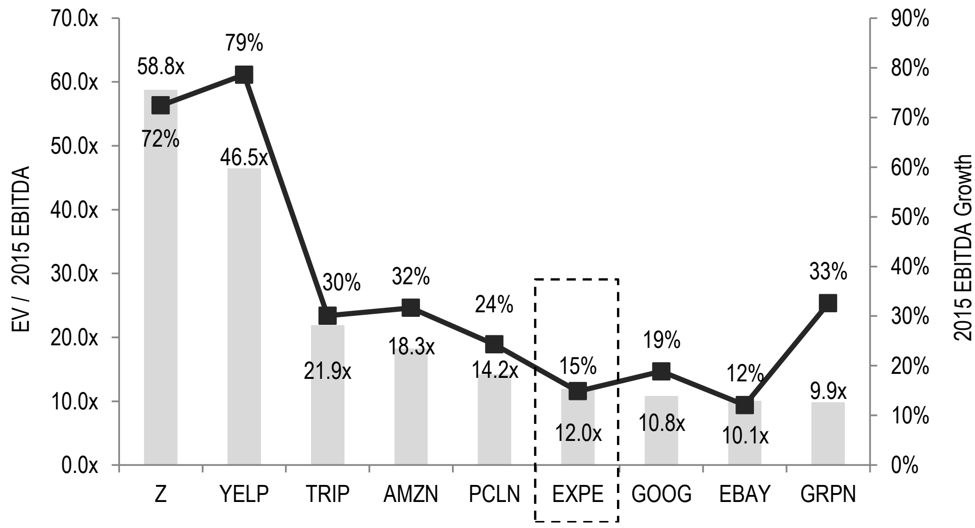
Similar to Google's initiatives, TripAdvisor has begun to simplify the booking process for consumers by housing the entire booking experience within the TripAdvisor app (as opposed to leading you to an OTA site to complete the booking). While Priceline and Expedia have both turned down the notion of integrating with the product, TripAdvisor has found some traction with hoteliers as evidenced by partnerships formed with both Choice Hotels and Travelport (a leading GDS with 580,000 hotel properties), giving a rather substantial inventory base to the new product. This, combined with an updated analysis of TripAdvisor ROI, which shows improving efficiency relative to the OTAs, lead us to view it as an increasingly viable channel for hoteliers. However, TripAdvisor too faces risks posed by Hotel Finder. Specifically, although TripAdvisor's initiatives with Assisted Booking do smooth the booking path, improving conversion as we expect Google Hotel Finder will, TripAdvisor's biggest customers are also the OTAs, creating a "Catch 22" for TripAdvisor as to which road it will take. While TripAdvisor could choose to incorporate the captive demand channels we discuss throughout this report (for example, through involving the 60mm emailable members and Facebook connected users already under their wing), this would simultaneously come at the expense of arbitraging OTA rates, potentially cannibalizing their core revenues.

Nevertheless, as Assisted Book and TripConnect both stand to improve monetization of TripAdvisor's strong user base, we are increasing our revenue per hotel shopper for both 3Q14 and outer year estimates. For 3Q, on higher CPC revenues, which increase 2% to $256m (35% y/y), our total revenue comes up 2% to $351m (38% y/y). And, on relatively consistent margins, our Adj. EBITDA increases 2% as well to $129m (24% y/y). Similarly, our 2015 CPC revenue estimates also increase 2% to $1.15bn (30% y/y), implying a corresponding increase to our total revenue forecast, which comes up to $1.6 bn (30% y/y) and Adj. EBITDA, which we now forecast to be $683m (40% y/y). And, while we are increasing our forecast now, we would note that TRIP's monetization per user (and per hotel shopper) remains significantly below its OTA peers, implying there could be even further upside from these levels. On these higher outer year estimates, our target comes up to $110 from $85, implying shares should trade at 23x 2015 Adj. EBITDA and 37x Adj. EPS, consistent with growth.

Maintaing Equal-Weight on Expedia

Lastly, Expedia appears to be taking its own approach, continuing to focus on strengthening their OTA model, broadening their inventory of hotels, and even reaching into Meta with the acquisitions of Wotif and Trivago (each of which concentrates its efforts outside the US market). However, as we have highlighted these concerns before, we are maintaining our Equal-Weight rating which balances a less expensive valuation (at 12x EBITDA) against concerns over the fact that we see little sign of Expedia moving down the path that Priceline and others are taking (through the development of supply-side tools, etc.). For Expedia, our estimates reamin largely unchanged as we remain 1% below the Street on 2015/2016 gross profit at $5.1 billion and $5.6 billion, respectively and 4% below consensus 2016 Adj. EBITDA at $1.3 billion. As such, our $80, which implies shares should trade at target remains unchanged as we believe our current estimates and multiple adequately factor the potential risks presented in this report.

Figure 37. Comparative EV / 2015 EBITDA and 2015 EBITDA



Source: FactSet, Evercore Group L.L.C. Research

Adding Google to Conviction Buy List

As its travel actions mirror advances in Retail and Local, we see strong momentum on reasonable valuation. Further, we see the long-term strategic rationale in travel as far outweighing the potential traffic subsidy it involves. Hence, we are adding shares to Evercore's Conviction Buy list and increasing our target to $750 from $725, placing us at 14x and 23x our '15 EBITDA and EPS estimate, or roughly 1x PEG, and implying 26% return from current levels.

Valuation Comparisons

Figure 38. Comparative EV/EBITDA Multiples, 2015E

9/4/2014	GOOGL	AOL	AMZN	EBAY	LNKD	FB	GRPN	ZNGA	PCLN	EXPE	TRIP	TWTR	MM	FUEL	YELP
Stock Price	$593.1	$42.8	$346.0	$54.4	$227.6	$76.0	$7.0	$3.1	$1,220.8	$87.9	$98.3	$50.2	$2.2	$15.4	$81.9
x Shares Outstanding	685	83	461	1,267	125	2,862	676	930	53	134	146	786	112	35	77
= Equity Market Cap	**$406,427**	**$3,550**	**$159,483**	**$68,975**	**$28,502**	**$217,366**	**$4,756**	**$2,837**	**$64,645**	**$11,776**	**$14,350**	**$39,487**	**$241**	**$540**	**$6,312**
+ Net Debt (Cash)	(61,204)	(11)	(3,261)	(6,389)	(2,367)	(11,630)	(65)	(1,137)	(4,790)	2,584	(176.0)	(2,097)	(93)	(169)	(351)
+ Other Adjustments	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	($302.2)	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
= Adjusted Enterprise Value	**$345,223**	**$3,539**	**$156,222**	**$62,586**	**$26,135**	**$205,736**	**$4,691**	**$1,397**	**$59,856**	**$14,360**	**$14,174**	**$37,390**	**$149**	**$371**	**$5,961**
- Off Balance Sheet Assets	$0.0	$0.0	$0.0	$752.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$250.0	$0.0	$0.0	$0.0
+ Minority Interest	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0	$0.0
= Enterprise Value	**$345,223**	**$3,539**	**$156,222**	**$61,835**	**$26,135**	**$205,736**	**$4,691**	**$1,397**	**$59,856**	**$14,360**	**$14,174**	**$37,140**	**$149**	**$371**	**$5,961**
/ Adj. EBITDA *(excludes SBE)*	$16,067	$543	$8,551	$6,431	$769	$10,928	$310	$134	$4,145	$1,188	$683	$758	$13	$17	$128
= EV/Adj. EBITDA Multiple	**21.5x**	**6.5x**	**18.3x**	**9.6x**	**34.0x**	**18.8x**	**15.1x**	**10.5x**	**14.4x**	**12.1x**	**20.8x**	**49.0x**	**11.6x**	**22.3x**	**46.5x**
/ Revenue (Gross)	$37,905	$2,689	$109,319	$20,809	$2,853	$16,570	$3,703	$811	$10,187	$6,418	$1,620	$3,030	$309	$644	$550
= EV/ Revenue Multiple	**9.1x**	**1.3x**	**1.4x**	**3.0x**	**9.2x**	**12.4x**	**1.3x**	**1.7x**	**5.9x**	**2.2x**	**8.7x**	**12.3x**	**0.5x**	**0.6x**	**10.8x**

Source: Company data, Evercore Group L.L.C. Research

Figure 39. Comparative P/E Multiples, 2015E

9/4/2014	GOOGL	AOL	AMZN	EBAY	LNKD	FB	GRPN	ZNGA	PCLN	EXPE	TRIP	TWTR	MM	FUEL	YELP
Stock Price	$593.14	$42.83	$345.95	$54.44	$227.55	$75.95	$7.04	$3.05	$1,220.76	$87.94	$98.29	$50.24	$2.15	$15.35	$81.91
/ GAAP EPS	$15.64	$2.22	$1.24	$2.55	$0.57	$1.49	($0.12)	($0.05)	$54.98	$3.44	$2.59	$0.09	($0.07)	($0.43)	$0.38
= P/E (incl-Stock Comp)	**37.9x**	**19.3x**	**278.0x**	**21.3x**	**402.3x**	**51.1x**	**n.m.**	**n.m.**	**22.2x**	**25.6x**	**37.9x**	**550.6x**	**n.m.**	**n.m.**	**212.9x**
= Adj. P/E (x-Stock Comp)	**32.9x**	**15.4x**	**65.6x**	**16.8x**	**74.6x**	**37.2x**	**77.1x**	**83.5x**	**19.7x**	**19.6x**	**33.2x**	**99.0x**	**16.4x**	**160.2x**	**74.7x**
/ 4 Year Growth Rate	15.9%	8.4%	65.2%	13.6%	46.7%	28.4%	54.9%	60.3%	16.3%	24.9%	29%	150%	35%	142%	83%
= PEG	**2.1x**	**1.8x**	**1.0x**	**1.2x**	**1.6x**	**1.3x**	**1.4x**	**1.4x**	**1.2x**	**0.8x**	**1.2x**	**0.7x**	**0.5x**	**1.1x**	**0.9x**
Adjusted EPS	$18.03	$2.78	$5.28	$3.25	$3.05	$2.04	$0.09	$0.04	$62.04	$4.49	$2.96	$0.51	$0.13	$0.10	$1.10

Source: Company data, Evercore Group L.L.C. Research

Figure 40. Comparative P/FCF Multiples, 2015E

9/4/2014	GOOGL	AOL	AMZN	EBAY	LNKD	FB	GRPN	ZNGA	PCLN	EXPE	TRIP	TWTR	MM	FUEL	YELP
Op. Cash Flows	**$27,364**	**$472.3**	**$11,377**	**$6,531**	**$780.5**	**$8,834.7**	**$386.8**	**$139.9**	**$3,266**	**$1,104.4**	**$478.1**	**$405.0**	**$10.4**	**$27.8**	**$64.7**
- CAPEX	$10,226	$76	$5,411	$1,665	$420	$2,286	$91	$24	$119	$372	$130	$515	$20	$52	$14
= FCF	**$17,138**	**$396**	**$5,966**	**$4,867**	**$360**	**$6,548**	**$295**	**$116**	**$3,147**	**$732**	**$348**	**($110)**	**($10)**	**($24)**	**$51**
/ EBITDA	$16,067.0	$543.4	$8,551.4	$6,430.6	$768.8	$10,928	$310.3	$133.7	$4,145.4	$1,188.3	$683.0	$757.5	$12.9	$16.6	$128.2
= FCF/EBITDA Conversion	**106.7%**	**72.9%**	**69.8%**	**75.7%**	**46.9%**	**59.9%**	**95.2%**	**86.5%**	**75.9%**	**61.6%**	**51.0%**	**n/a**	**n/a**	**n/a**	**39.5%**
Free Cash Flow	$17,138.3	$396.1	$5,966.0	$4,866.7	$360.2	$6,548.3	$295.4	$115.6	$3,146.6	$732.2	$348.5	($110.1)	($9.8)	($23.7)	$50.7
/ Shares Outstanding	685	83	461	1,267	125	2,862	676	930	53	134	146	786	112	35	77
= Free Cash Flow per Share	**$25.01**	**$4.78**	**$12.94**	**$3.84**	**$2.88**	**$2.29**	**$0.44**	**$0.12**	**$59.42**	**$5.47**	**$2.39**	**n/a**	**n/a**	**n/a**	**$0.66**
Stock Price	$593.14	$42.83	$345.95	$54.44	$227.55	$75.95	$7.04	$3.05	$1,220.76	$87.94	$98.29	$50.24	$2.15	$15.35	$81.91
/ Free Cash Flow per Share	$25.01	$4.78	$12.94	$3.84	$2.88	$2.29	$0.44	$0.12	$59.42	$5.47	$2.39	n/a	n/a	n/a	$0.66
= P/FCF Multiple	**23.7x**	**9.0x**	**26.7x**	**14.2x**	**79.1x**	**33.2x**	**16.1x**	**24.5x**	**20.5x**	**16.1x**	**41.2x**	**n/a**	**n/a**	**n/a**	**124.5x**
FCF Yield	**4.2%**	**11.2%**	**3.7%**	**7.1%**	**1.3%**	**3.0%**	**6.2%**	**4.1%**	**4.9%**	**6.2%**	**2.4%**	**n/a**	**n/a**	**n/a**	**0.8%**

Source: Company data, Evercore Group L.L.C. Research

Financial Models (Annual and Quarterly)

Priceline

Figure 41. PCLN Income Statement, 1Q13-4Q15E

	Qtr. Ending Mar			Qtr. Ending Jun			Qtr. Ending Sep			Qtr. Ending Dec		
	1Q13	1Q14	1Q15E	2Q13	2Q14	2Q15E	3Q13	3Q14E	3Q15E	4Q13	4Q14E	4Q15E
Total revenues	**$1,302.0**	**$1,641.8**	**$2,036.2**	**$1,680.2**	**$2,123.6**	**$2,506.8**	**$2,269.9**	**$2,793.5**	**$3,356.3**	**$1,541.2**	**$1,917.0**	**$2,287.2**
- Cost of revenues	292.3	235.3	254.9	296.4	240.6	249.6	280.8	237.5	262.1	207.9	191.3	218.9
= Gross Profit	**$1,009.7**	**$1,406.5**	**$1,781.3**	**$1,383.9**	**$1,883.0**	**$2,257.2**	**$1,989.1**	**$2,556.0**	**$3,094.1**	**$1,333.3**	**$1,725.6**	**$2,068.3**
- Offline Advertising	27.7	53.5	55.1	32.1	58.0	59.6	39.9	75.5	78.5	27.7	51.1	55.7
- Online Advertising	403.2	520.8	690.9	463.1	639.7	781.1	533.2	726.8	897.1	399.2	577.9	700.7
- Sales and Marketing	52.3	64.3	78.2	59.9	75.1	96.7	65.3	81.4	130.8	58.4	74.1	88.6
- Personnel	112.5	155.7	204.9	131.3	186.7	219.2	151.9	185.5	235.4	162.5	213.8	258.5
- G&A	50.2	73.0	78.2	64.9	91.1	90.7	63.1	84.1	81.7	74.8	74.1	75.3
- Info Technology	13.2	23.2	19.6	17.0	24.0	24.2	18.5	27.1	32.7	23.2	18.5	22.2
- Depreciation	19.1	38.4	38.1	26.0	40.3	48.3	35.7	54.7	66.2	37.1	36.9	44.3
+ Amortization of intangibles in D&A, Other	29.8	22.8	22.0	14.8	23.0	22.0	22.9	22.9	22.0	22.7	22.9	22.0
= Adj. Op Income	**$361.4**	**$500.4**	**$638.4**	**$604.3**	**$791.1**	**$959.5**	**$1,104.3**	**$1,343.6**	**$1,593.9**	**$573.1**	**$702.3**	**$845.0**
- Stock compensation	21.7	38.8	43.5	34.7	35.2	46.5	34.6	40.7	49.9	49.5	46.9	54.8
- Amortization of intangibles in D&A, Other	29.8	22.8	22.0	14.8	23.0	22.0	22.9	22.9	22.0	22.7	22.9	22.0
= Reported EBIT	**$309.8**	**$438.7**	**$572.8**	**$554.8**	**$733.0**	**$891.0**	**$1,046.9**	**$1,280.0**	**$1,521.9**	**$500.8**	**$632.5**	**$768.1**
+ Interest income	0.9	1.0	2.4	1.1	1.6	2.4	0.9	1.6	2.4	1.3	1.6	2.4
- Interest expense	17.3	17.7	23.8	19.6	17.1	23.3	24.1	22.7	23.3	22.2	23.8	23.3
- Foreign currency exchange	2.9	6.0	0.0	0.8	1.8	0.0	3.3	0.0	0.0	29.8	0.0	0.0
+ Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Pretax Income	**$290.4**	**$416.1**	**$551.5**	**$535.6**	**$715.8**	**$870.1**	**$1,020.4**	**$1,258.9**	**$1,501.1**	**$450.2**	**$610.3**	**$747.3**
- Income tax expense	46.2	84.8	110.3	98.1	139.3	174.0	187.4	251.8	300.2	72.1	122.1	149.5
- Net income attrib. to noncontrolling interests	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Preferred stock dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Net income (GAAP)	**$244.3**	**$331.2**	**$441.2**	**$437.3**	**$576.5**	**$696.1**	**$833.0**	**$1,007.1**	**$1,200.9**	**$378.1**	**$488.2**	**$597.8**
/ Diluted Wtd avg shares	51.4	53.0	53.4	52.1	53.0	53.4	53.0	53.4	53.4	52.9	53.4	53.4
= EPS (GAAP)	4.76	6.25	8.26	8.39	10.89	13.04	15.72	18.86	22.49	7.14	9.14	11.20
Adj EPS (Non-GAAP)	**5.76**	**7.81**	**9.86**	**9.70**	**12.51**	**14.75**	**17.30**	**20.53**	**24.39**	**8.85**	**10.80**	**13.04**
Non-GAAP Diluted Shares	51.57	53.33		52.40	53.33		53.19			53.21		
Tax rate	15.9%	20.4%	20.0%	18.3%	19.5%	20.0%	18.4%	20.0%	20.0%	16.0%	20.0%	20.0%
Y/Y Growth												
Total Revenue	25.5%	26.1%	24.0%	26.6%	26.4%	18.0%	33.0%	23.1%	20.1%	29.4%	24.4%	19.3%
Gross Profit	35.8%	39.3%	26.7%	37.8%	36.1%	19.9%	42.4%	28.5%	21.1%	41.9%	29.4%	19.9%
Cost of revenues	-0.5%	-19.5%	8.3%	-8.1%	-18.8%	3.8%	-9.4%	-15.4%	10.4%	-17.2%	-7.9%	14.4%
Advertising - Offline	148.5%	92.8%	3.0%	223.8%	80.6%	2.8%	372.6%	89.3%	3.9%	363.9%	84.2%	9.1%
Advertising - Online	45.5%	29.2%	32.6%	47.3%	38.1%	22.1%	42.1%	36.3%	23.4%	30.1%	44.8%	21.3%
Sales and Marketing	14.8%	23.1%	21.6%	26.2%	25.4%	28.8%	23.2%	24.7%	60.7%	16.9%	26.7%	19.7%
Personnel	33.7%	38.4%	31.6%	45.2%	42.2%	17.4%	29.1%	22.2%	26.8%	57.7%	31.6%	20.9%
G&A	23.3%	45.5%	7.2%	63.1%	40.3%	-0.4%	49.2%	33.3%	-2.8%	48.4%	-1.0%	1.7%
Info Technology	23.2%	75.6%	-15.8%	62.4%	41.8%	0.6%	71.6%	46.4%	20.5%	97.9%	-20.1%	19.7%
Margins as % of GROSS PROFIT												
Gross Profit (as % of Rev)	77.5%	85.7%	87.5%	82.4%	88.7%	90.0%	87.6%	91.5%	92.2%	86.5%	90.0%	90.4%
Cost of revs (as % of Rev)	22.5%	14.3%	12.5%	17.6%	11.3%	10.0%	12.4%	8.5%	7.8%	13.5%	10.0%	9.6%
Advertising - Offline	2.7%	3.8%	3.1%	2.3%	3.1%	2.6%	2.0%	3.0%	2.5%	2.1%	3.0%	2.7%
Advertising - Online	39.9%	37.0%	38.8%	33.5%	34.0%	34.6%	26.8%	28.4%	29.0%	29.9%	33.5%	33.9%
Sales and Marketing	5.2%	4.6%	4.4%	4.3%	4.0%	4.3%	3.3%	3.2%	4.2%	4.4%	4.3%	4.3%
Personnel	11.1%	11.1%	11.5%	9.5%	9.9%	9.7%	7.6%	7.3%	7.6%	12.2%	12.4%	12.5%
G&A	5.0%	5.2%	4.4%	4.7%	4.8%	4.0%	3.2%	3.3%	2.6%	5.6%	4.3%	3.6%
Info Technology	1.3%	1.7%	1.1%	1.2%	1.3%	1.1%	0.9%	1.1%	1.1%	1.7%	1.1%	1.1%
EBITDA	**36.5%**	**36.5%**	**36.7%**	**44.9%**	**43.0%**	**43.7%**	**56.0%**	**53.8%**	**52.9%**	**43.4%**	**41.5%**	**41.9%**
Adj. Op Income	35.8%	35.6%	35.8%	43.7%	42.0%	42.5%	55.5%	52.6%	51.5%	43.0%	40.7%	40.9%

Source: Company data, Evercore Group L.L.C. Research

Figure 42. PCLN Income Statement, 2012-2020E

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR '14-'20
Total revenues	**$5,261.0**	**$6,793.3**	**$8,475.8**	**$10,186.5**	**$12,075.0**	**$13,957.2**	**$15,748.0**	**$17,663.8**	**$19,491.5**	**14.9%**
- Cost of revenues	1,177.3	1,077.4	904.8	985.6	1,091.6	1,253.9	1,354.8	1,466.4	1,616.8	10.2%
= Gross Profit	**$4,083.7**	**$5,715.9**	**$7,571.1**	**$9,200.9**	**$10,983.4**	**$12,703.3**	**$14,393.2**	**$16,197.4**	**$17,874.8**	**15.4%**
- Offline Advertising	35.5	127.5	238.1	248.9	279.8	311.5	341.5	375.2	404.8	9.2%
- Online Advertising	1,273.6	1,798.6	2,465.2	3,069.7	3,730.3	4,240.7	4,720.1	5,238.7	5,709.7	15.0%
- Sales and Marketing	195.9	235.8	294.8	394.3	468.7	542.8	613.5	689.3	761.6	17.1%
- Personnel	395.3	558.2	741.7	918.0	1,075.9	1,245.3	1,402.2	1,591.5	1,756.2	15.4%
- G&A	173.2	253.0	322.2	325.9	374.9	434.3	490.8	551.5	609.3	11.2%
- Info Technology	43.7	71.9	92.9	98.6	117.2	135.7	153.4	172.3	190.4	12.7%
- Depreciation	65.1	118.0	170.3	196.9	230.3	261.0	289.8	319.6	345.7	12.5%
+ Amortization of intangibles in D&A, Other	24.1	69.6	91.6	88.1	84.8	80.6	64.6	55.8	557.2	35.1%
= Adj. Op Income	**$1,925.5**	**$2,622.6**	**$3,337.4**	**$4,036.7**	**$4,706.4**	**$5,532.0**	**$6,381.9**	**$7,259.2**	**$8,097.2**	15.9%
- Stock compensation	71.6	140.5	161.6	194.7	228.2	255.1	267.1	280.9	309.9	11.5%
- Amortization of intangibles in D&A, Other	24.1	69.6	91.6	88.1	84.8	80.6	64.6	55.8	557.2	
= Reported EBIT	**$1,829.8**	**$2,412.4**	**$3,084.2**	**$3,753.9**	**$4,478.1**	**$5,276.9**	**$6,114.8**	**$6,978.3**	**$7,787.3**	**16.7%**
+ Interest income	3.9	4.2	5.9	9.7	18.4	29.1	40.3	53.5	69.5	50.7%
- Interest expense	62.1	83.3	81.4	93.6	93.1	93.1	67.1	60.1	38.4	-12%
- Foreign currency exchange	9.7	36.8	7.7	0.0	0.0	0.0	0.0	0.0	0.0	-100%
+ Other income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Pretax Income	**$1,761.9**	**$2,296.5**	**$3,001.0**	**$3,670.0**	**$4,403.5**	**$5,212.9**	**$6,088.0**	**$6,971.7**	**$7,818.4**	**17.3%**
- Income tax expense	337.8	403.7	598.0	734.0	880.7	1,042.6	1,217.6	1,394.3	1,563.7	18.9%
- Net income attrib. to noncontrolling interests	4.5	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
- Preferred stock dividend	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Net income (GAAP)	**$1,419.6**	**$1,892.7**	**$2,403.0**	**$2,936.0**	**$3,522.8**	**$4,170.3**	**$4,870.4**	**$5,577.4**	**$6,254.7**	**16.9%**
/ Diluted Wtd avg shares	51.2	52.4	53.2	53.4	53.4	53.4	53.4	53.4	53.4	0.1%
= EPS (GAAP)	27.70	36.11	45.17	54.98	65.97	78.10	91.21	104.45	117.13	16.8%
Adj EPS (Non-GAAP)	**31.46**	**41.72**	**51.82**	**62.04**	**73.77**	**86.72**	**100.03**	**113.66**	**136.57**	**17.2%**
Non-GAAP Diluted Shares		52.66								
Tax rate	19.2%	17.6%	19.9%	20.0%	20.0%	20.0%	20.0%	20.0%	20.0%	
Y/Y Growth										
Total Revenue	20.8%	29.1%	24.8%	20.2%	18.5%	15.6%	12.8%	12.2%	10.3%	
Gross Profit	32.6%	40.0%	32.5%	21.5%	19.4%	15.7%	13.3%	12.5%	10.4%	
Cost of revenues	-7.7%	-8.5%	-16.0%	8.9%	10.8%	14.9%	8.0%	8.2%	10.3%	
Advertising - Offline	0.1%	259.1%	86.8%	4.5%	12.4%	11.4%	9.6%	9.9%	7.9%	
Advertising - Online	38.6%	41.2%	37.1%	24.5%	21.5%	13.7%	11.3%	11.0%	9.0%	
Sales and Marketing	20.4%	20.4%	25.0%	33.7%	18.9%	15.8%	13.0%	12.4%	10.5%	
Personnel	37.9%	41.2%	32.9%	23.8%	17.2%	15.7%	12.6%	13.5%	10.3%	
G&A	40.0%	46.1%	27.4%	1.2%	15.0%	15.8%	13.0%	12.4%	10.5%	
Info Technology	29.2%	64.6%	29.2%	6.1%	18.9%	15.8%	13.0%	12.4%	10.5%	
Margins as % of GROSS PROFIT										
Gross Profit (as % of Rev)	77.6%	84.1%	89.3%	90.3%	91.0%	91.0%	91.4%	91.7%	91.7%	
Cost of revs (as % of Rev)	22.4%	15.9%	10.7%	9.7%	9.0%	9.0%	8.6%	8.3%	8.3%	
Advertising - Offline	0.9%	2.2%	3.1%	2.7%	2.5%	2.5%	2.4%	2.3%	2.3%	
Advertising - Online	31.2%	31.5%	32.6%	33.4%	34.0%	33.4%	32.8%	32.3%	31.9%	
Sales and Marketing	4.8%	4.1%	3.9%	4.3%	4.3%	4.3%	4.3%	4.3%	4.3%	
Personnel	9.7%	9.8%	9.8%	10.0%	9.8%	9.8%	9.7%	9.8%	9.8%	
G&A	4.2%	4.4%	4.3%	3.5%	3.4%	3.4%	3.4%	3.4%	3.4%	
Info Technology	1.1%	1.3%	1.2%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	
EBITDA	**48.3%**	**46.9%**	**45.1%**	**45.1%**	**45.0%**	**45.8%**	**46.8%**	**47.3%**	**47.9%**	
Adj. Op Income	47.2%	45.9%	44.1%	43.9%	42.8%	43.5%	44.3%	44.8%	45.3%	

Source: Company data, Evercore Group L.L.C. Research

Google

Figure 43. GOOGL Income Statement, 1Q13-4Q15E

	Qtr. Ending Mar			Qtr. Ending Jun			Qtr. Ending Sep			Qtr. Ending Dec		
	1Q12	1Q13	1Q14	2Q12	2Q13	2Q14	3Q12	3Q13	3Q14E	4Q12	4Q13	4Q14E
Site Revenues (Net of TAC)	$6,844	$7,960	$9,624	$7,035	$8,162	$10,042	$7,171	$8,639	$10,429	$8,006	$9,727	$11,562
+ Network (Net of TAC)	$871	$982	$1,010	$890	$886	$1,024	$919	$931	$1,078	$994	$1,035	$1,184
= Net Advertising Revenue	**$7,715**	**$8,942**	**$10,634**	**$7,925**	**$9,048**	**$11,066**	**$8,090**	**$9,570**	**$11,506**	**$9,000**	**$10,762**	**$12,746**
+ Licensing & Other	$420	$1,049	$1,554	$439	$1,046	$1,596	$666	$1,230	$1,836	$829	$1,647	$2,215
= Net Google Core Revenue	**$8,135**	**$9,991**	**$12,188**	**$8,364**	**$10,094**	**$12,662**	**$8,756**	**$10,800**	**$13,342**	**$9,829**	**$12,409**	**$14,961**
+ MMI	$0	$1,018	$0	$843	$0	$0	$1,778	$1,139	$0	$1,514	$1,151	$0
= Net Revenues	**$8,135**	**$11,009**	**$12,188**	**$9,207**	**$10,094**	**$12,662**	**$10,534**	**$11,939**	**$13,342**	**$11,343**	**$13,560**	**$14,961**
- Other Cost of Revenue (x-TAC)	$1,205	$2,875	$2,634	$1,985	$2,072	$2,721	$2,998	$3,304	$2,876	$2,966	$3,958	$3,195
- Research & Development	$1,142	$1,457	$1,670	$1,238	$1,365	$1,791	$1,416	$1,558	$1,861	$1,487	$1,642	$2,087
- Sales & Marketing	$1,172	$1,453	$1,582	$1,279	$1,458	$1,783	$1,479	$1,661	$1,841	$1,611	$1,983	$2,065
- General & Administrative	$671	$1,000	$1,348	$766	$991	$1,229	$882	$1,074	$1,206	$1,007	$1,138	$1,352
= Operating Income Adjusted (Non-GAAP)	**$3,945**	**$4,224**	**$4,954**	**$3,939**	**$4,208**	**$5,138**	**$3,759**	**$4,342**	**$5,557**	**$4,272**	**$4,839**	**$6,262**
+ Interest (Expense) Income	$156	$134	$357	$253	$236	$145	$65	$24	$164	$152	$125	$164
= Pretax Income (Non-GAAP)	**$4,101**	**$4,358**	**$5,311**	**$4,192**	**$4,444**	**$5,283**	**$3,824**	**$4,366**	**$5,722**	**$4,424**	**$4,964**	**$6,427**
- Provision for income taxes	$773	$436	$1,012	$830	$1,087	$1,108	$869	$723	$1,200	$791	$857	$1,367
- Extraordinary Items	$0	$23	$0	$0	$0	$0	$0	$0	$0	$65	$11	$0
= Net Income After Ex. Items (Non-GAAP)	**$3,328**	**$3,899**	**$4,299**	**$3,362**	**$3,357**	**$4,175**	**$2,955**	**$3,643**	**$4,522**	**$3,568**	**$4,096**	**$5,059**
/ Diluted Shares Outstanding	660.3	673.3	685.2	661.6	676.7	686.4	666.6	678.5	688.1	670.0	682.0	689.8
= Diluted EPS (Non-GAAP)	**$5.04**	**$5.79**	**$6.27**	**$5.08**	**$4.96**	**$6.08**	**$4.43**	**$5.37**	**$6.57**	**$5.33**	**$6.01**	**$7.33**
EPS (GAAP)	$4.38	$4.97	$5.04	$4.21	$4.77	$4.99	$3.26	$4.38	$7.51	$4.31	$4.95	$8.43
EPS (GAAP) from continuing operations	$4.38	$4.94	$5.33	$4.28	$4.10	$5.08	$3.24	$4.36	$5.44	$4.34	$4.96	$6.08
Adjusted EBITDA	**$4,456.0**	**$5,123.0**	**$6,040**	**$4,609**	**$5,238**	**$6,217**	**$4,587**	**$5,316**	**$6,728**	**$5,225**	**$5,875**	**$7,534**
Q/Q Growth												
Site Revenues (Net of TAC)	0%	-1%	-1%	3%	3%	4%	2%	6%	4%	12%	13%	11%
Network (Net of TAC)	0%	-1%	-2%	2%	-10%	1%	3%	5%	5%	8%	11%	10%
Net Advertising Revenue	0%	-1%	-1%	3%	1%	4%	2%	6%	4%	11%	12%	11%
Licensing & Other	2%	27%	-6%	5%	0%	3%	52%	18%	15%	24%	34%	21%
Net Google Core Revenue	0%	2%	-2%	3%	1%	4%	5%	7%	5%	12%	15%	12%
Net Revenues	0%	-3%	-10%	13%	-8%	4%	14%	18%	5%	8%	14%	12%
Y/Y % Change												
Google Site Revenues (Net of TAC)	23.5%	16.3%	20.9%	19.8%	16.0%	23.0%	12.8%	20.5%	20.7%	16.8%	21.5%	18.9%
The Google Network (Net of TAC)	19.8%	12.7%	2.9%	21.3%	(0.4)%	15.6%	19.7%	1.3%	15.8%	14.4%	4.1%	14.4%
Net Advertising Revenue	**23.1%**	**15.9%**	**18.9%**	**20.0%**	**14.2%**	**22.3%**	**13.5%**	**18.3%**	**20.2%**	**16.6%**	**19.6%**	**18.4%**
Licensing & Other	56.1%	149.8%	48.1%	41.6%	138.3%	52.6%	73.0%	84.7%	49.3%	102.2%	98.7%	34.5%
Net Google Core Revenue	**24.4%**	**22.8%**	**22.0%**	**20.9%**	**20.7%**	**25.4%**	**16.6%**	**23.3%**	**23.5%**	**20.9%**	**26.2%**	**20.6%**
Net Revenues	**24.4%**	**35.3%**	**10.7%**	**33.1%**	**9.6%**	**25.4%**	**40.3%**	**13.3%**	**11.8%**	**39.5%**	**19.5%**	**10.3%**
Adjusted EBITDA	**22.8%**	**15.0%**	**17.9%**	**22.2%**	**13.6%**	**18.7%**	**11.3%**	**15.9%**	**26.6%**	**14.9%**	**12.4%**	**28.2%**
% of Net Revenues												
Other Cost of Revenue (x-TAC)	14.8%	26.1%	21.6%	21.6%	20.5%	21.5%	28.5%	27.7%	21.6%	26.1%	29.2%	21.4%
Gross Margin (% of Net)	85.2%	73.9%	78.4%	78.4%	79.5%	78.5%	71.5%	72.3%	78.4%	73.9%	70.8%	78.6%
Research & Development	14.0%	13.2%	13.7%	13.4%	13.5%	14.1%	13.4%	13.0%	14.0%	13.1%	12.1%	14.0%
Sales & Marketing	14.4%	13.2%	13.0%	13.9%	14.4%	14.1%	14.0%	13.9%	13.8%	14.2%	14.6%	13.8%
General & Administrative	8.2%	9.1%	11.1%	8.3%	9.8%	9.7%	8.4%	9.0%	9.0%	8.9%	8.4%	9.0%
Operating Income (Excl. Stock Comp)	**48.5%**	**38.4%**	**40.6%**	**42.8%**	**41.7%**	**40.6%**	**35.7%**	**36.4%**	**41.7%**	**37.7%**	**35.7%**	**41.9%**
Adjusted EBITDA	**54.8%**	**46.5%**	**49.6%**	**50.1%**	**51.9%**	**49.1%**	**43.5%**	**44.5%**	**50.4%**	**46.1%**	**43.3%**	**50.4%**

Source: Company data, Evercore Group L.L.C. Research

Figure 44. GOOGL Income Statement, 2012-2019E

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	CAGR '14-'19
Site Revenues (Net of TAC)	$29,056	$34,488	$41,657	$49,009	$57,579	$66,233	$74,582	$81,169	14.3%
+ Network (Net of TAC)	$3,674	$3,834	$4,296	$4,771	$5,154	$5,532	$5,506	$5,311	4.3%
= Net Advertising Revenue	**$32,730**	**$38,322**	**$45,952**	**$53,780**	**$62,732**	**$71,765**	**$80,088**	**$86,479**	**13.5%**
+ Licensing & Other	$2,354	$4,972	$7,201	$9,672	$12,263	$15,109	$18,036	$21,253	24.2%
= Net Google Core Revenue	**$35,084**	**$43,294**	**$53,154**	**$63,451**	**$74,995**	**$86,873**	**$98,124**	**$107,732**	**15.2%**
+ MMI	$4,135	$4,306	$0	$0	$0	$0	$0	$0	
= Net Revenues	**$39,219**	**$47,600**	**$53,154**	**$63,451**	**$74,995**	**$86,873**	**$98,124**	**$107,732**	**15.2%**
- Other Cost of Revenue (x-TAC)	$9,154	$12,209	$11,426	$13,024	$14,315	$15,939	$17,835	$19,424	11.2%
- Research & Development	$5,283	$6,022	$7,409	$8,166	$9,359	$10,842	$12,246	$13,445	12.7%
- Sales & Marketing	$5,541	$6,555	$7,271	$8,756	$10,349	$11,989	$13,541	$14,867	15.4%
- General & Administrative	$3,326	$4,203	$5,136	$5,162	$5,830	$6,715	$7,584	$8,327	10.1%
= Operating Income Adjusted (Non-GAAP)	**$15,915**	**$18,611**	**$21,911**	**$28,343**	**$35,141**	**$41,390**	**$46,918**	**$51,669**	**18.7%**
+ Interest (Expense) Income	$626	$519	$658	$838	$1,059	$1,329	$1,663	$2,059	25.6%
= Pretax Income (Non-GAAP)	**$16,541**	**$19,130**	**$22,569**	**$29,180**	**$36,200**	**$42,719**	**$48,580**	**$53,728**	**18.9%**
- Provision for income taxes	$3,263	$3,103	$4,687	$6,002	$7,409	$8,701	$9,846	$10,836	18.2%
- Extraordinary Items	$65	$34	$0	$0	$0	$0	$0	$0	
= Net Income After Ex. Items (Non-GAAP)	**$13,213**	**$15,993**	**$17,882**	**$23,179**	**$28,790**	**$34,018**	**$38,734**	**$42,892**	**19.1%**
/ Diluted Shares Outstanding	664.6	677.6	687.4	690.8	694.3	697.7	701.2	704.7	0.5%
= Diluted EPS (Non-GAAP)	**$19.88**	**$23.60**	**$26.02**	**$33.55**	**$41.47**	**$48.76**	**$55.24**	**$60.86**	**18.5%**
EPS (GAAP)	$16.16	$20.54	$25.73	$28.55	$35.86	$42.40	$48.12	$53.13	15.6%
EPS (GAAP) from continuing operations	$16.23	$19.82	$21.68						
Adjusted EBITDA	**$18,877**	**$22,259**	**$25,761**	**$32,742**	**$40,101**	**$46,888**	**$52,910**	**$58,020**	**17.6%**
Y/Y % Change									
Google Site Revenues (Net of TAC)	18.0%	18.7%	20.8%	17.7%	17.5%	15.0%	12.6%	8.8%	
The Google Network (Net of TAC)	18.6%	4.4%	12.0%	11.1%	8.0%	7.3%	(0.5)%	(3.5)%	
Net Advertising Revenue	**18.1%**	**17.1%**	**19.9%**	**17.0%**	**16.6%**	**14.4%**	**11.6%**	**8.0%**	
Licensing & Other	71.3%	111.2%	44.8%	34.3%	26.8%	23.2%	19.4%	17.8%	
Net Google Core Revenue	**20.6%**	**23.4%**	**22.8%**	**19.4%**	**18.2%**	**15.8%**	**13.0%**	**9.8%**	
Net Revenues	**34.8%**	**21.4%**	**11.7%**	**19.4%**	**18.2%**	**15.8%**	**13.0%**	**9.8%**	
Adjusted EBITDA	**17.5%**	**17.9%**	**15.7%**	**27.1%**	**22.5%**	**16.9%**	**12.8%**	**9.7%**	
% of Net Revenues									
Other Cost of Revenue (x-TAC)	23.3%	25.6%	21.5%	20.5%	19.1%	18.3%	18.2%	18.0%	
Gross Margin (% of Net)	76.7%	74.4%	78.5%	79.5%	80.9%	81.7%	81.8%	82.0%	
Research & Development	13.5%	12.7%	13.9%	12.9%	12.5%	12.5%	12.5%	12.5%	
Sales & Marketing	14.1%	13.8%	13.7%	13.8%	13.8%	13.8%	13.8%	13.8%	
General & Administrative	8.5%	8.8%	9.7%	8.1%	7.8%	7.7%	7.7%	7.7%	
Operating Income (Excl. Stock Comp)	**40.6%**	**39.1%**	**41.2%**	**44.7%**	**46.9%**	**47.6%**	**47.8%**	**48.0%**	
Adjusted EBITDA	**48.1%**	**46.8%**	**48.5%**	**51.6%**	**53.5%**	**54.0%**	**53.9%**	**53.9%**	

Source: Company data, Evercore Group L.L.C. Research

TripAdvisor

Figure 45. TRIP Income Statement, 1Q13-4Q15E

	Qtr. Ending Mar.			Qtr. Ending Jun.			Qtr. Ending Sep.			Qtr. Ending Dec.		
	1Q13	1Q14	1Q15E	2Q13	2Q14	2Q15E	3Q13	3Q14E	3Q15E	4Q13	4Q14E	4Q15E
CPC	$179.4	$207.0	$285.2	$182.8	$235.0	$306.3	$189.3	$256.3	$323.6	$144.4	$193.9	$241.0
+ Display	24.6	32.0	38.2	31.4	37.0	44.2	30.5	34.9	41.5	32.5	37.7	44.6
+ Subscription	25.9	42.0	67.2	32.7	51.0	80.3	35.3	60.2	73.7	35.8	61.9	74.7
Total Revenues	**$229.9**	**$281.0**	**$390.5**	**$246.9**	**$323.0**	**$430.8**	**$255.1**	**$351.4**	**$438.8**	**$212.7**	**$293.6**	**$360.3**
- Cost of revenue	3.6	8.0	10.2	4.3	9.0	10.3	5.2	9.8	10.5	4.6	8.2	8.6
- Selling and marketing	77.0	98.0	131.2	80.3	124.0	157.3	95.4	146.2	166.4	105.0	115.8	140.7
- Technology and content	22.4	32.0	44.1	27.9	35.0	44.7	28.9	39.7	47.4	30.4	39.9	45.9
- General and admin	17.5	21.0	29.3	21.6	26.0	32.8	21.2	26.6	31.7	20.5	22.3	26.0
- Related party shared service fee (G&A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Adj. EBITDA	**$109.3**	**$122.0**	**$175.6**	**$112.8**	**$129.0**	**$185.7**	**$104.4**	**$129.0**	**$182.8**	**$52.2**	**$107.4**	**$139.0**
- Stock compensation	13.6	14.0	17.0	10.2	15.0	17.9	11.7	16.8	18.2	13.5	15.1	16.3
- Depreciation	6.3	10.0	10.7	6.9	11.0	11.8	7.6	8.2	12.1	8.7	9.3	9.9
- Amortization of intangible assets	1.1	2.0	1.5	1.6	3.0	1.5	1.4	1.5	1.5	1.5	1.5	1.5
= Reported Operating Income	**$88.3**	**$96.0**	**$146.4**	**$94.1**	**$100.0**	**$154.4**	**$83.7**	**$102.5**	**$151.0**	**$28.5**	**$81.6**	**$111.2**
+ Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
- Interest expense	3.9	0.0	2.7	4.2	0.0	2.7	0.1	2.7	2.7	1.7	2.7	2.7
- Other, net	0.0	2.0	0.0	0.0	2.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Pre-Tax Income	**$84.4**	**$94.0**	**$143.7**	**$89.9**	**$98.0**	**$151.7**	**83.6**	**$99.8**	**$148.3**	**$26.7**	**$78.8**	**$108.5**
- Provision for income taxes	22.1	26.0	43.1	22.9	30.0	45.5	27.7	27.9	44.5	6.5	22.1	32.6
- Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Net income	**$62.3**	**$68.0**	**$100.6**	**$67.0**	**$68.0**	**$106.2**	**$55.9**	**$71.9**	**$103.8**	**$20.3**	**$56.8**	**$76.0**
- Net income attributable to non controlling interests	0.0	0.0	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.0	0.1	0.1
= Net income attributable to TripAdvisor	**$62.3**	**$68.0**	**$100.5**	**$67.0**	**$68.0**	**$106.1**	**$55.9**	**$71.8**	**$103.7**	**$20.3**	**$56.7**	**$75.9**
/ Diluted Shares Outstanding	144.7	146.0	147.8	145.7	146.0	148.2	145.5	146.7	148.6	145.3	147.5	148.9
= Reported EPS (after extraordinary items)	$0.43	$0.47	$0.68	$0.46	$0.47	$0.72	$0.38	$0.49	$0.70	$0.14	$0.38	$0.51
Adj EPS (stock comp+intangible assets)	**0.50**	**0.54**	**0.77**	**0.52**	**0.55**	**0.81**	**0.45**	**0.59**	**0.80**	**0.21**	**0.47**	**0.60**
Non-GAAP Diluted Shares	145.1	146.5	147.8	145.1	146.5	148.2	145.1	146.7	148.6	146.0	147.5	148.9
Income tax rate	26%	28%	30%	25%	31%	30%	33%	28%	30%	24%	28%	30%
Y/Y % Change												
CPC revenues	24%	15%	38%	21%	29%	30%	13%	35%	26%	17%	34%	24%
Display revenues	14%	30%	19%	18%	18%	20%	29%	15%	19%	46%	16%	18%
Subscription revenues	51%	62%	60%	68%	56%	57%	67%	70%	22%	54%	73%	21%
Total revenues	**25%**	**22%**	**39%**	**25%**	**31%**	**33%**	**20%**	**38%**	**25%**	**26%**	**38%**	**23%**
Cost of revenues	33%	120%	27%	46%	110%	15%	81%	89%	7%	29%	80%	5%
Selling and marketing	16%	27%	34%	27%	54%	27%	44%	53%	14%	60%	10%	22%
Technology and content	37%	43%	38%	46%	26%	28%	42%	37%	19%	57%	31%	15%
General and admin	24%	20%	40%	46%	20%	26%	33%	26%	19%	24%	8%	17%
Adjusted EBITDA	**30%**	**12%**	**44%**	**16%**	**14%**	**44%**	**-2%**	**24%**	**42%**	**-19%**	**106%**	**29%**
Margins as % of Revenue												
Cost of revenues	1.6%	2.8%	2.6%	1.7%	2.8%	2.4%	2.0%	2.8%	2.4%	2.2%	2.8%	2.4%
Selling and marketing	33.5%	34.9%	33.6%	32.5%	38.4%	36.5%	37.4%	41.6%	37.9%	49.4%	39.4%	39.1%
Technology and content	9.7%	11.4%	11.3%	11.3%	10.8%	10.4%	11.3%	11.3%	10.8%	14.3%	13.6%	12.8%
General and admin	7.6%	7.5%	7.5%	8.8%	8.0%	7.6%	8.3%	7.6%	7.2%	9.7%	7.6%	7.2%
Adj. EBITDA	**47.6%**	**43.4%**	**45.0%**	**45.7%**	**39.9%**	**43.1%**	**40.9%**	**36.7%**	**41.7%**	**24.5%**	**36.6%**	**38.6%**

Source: Company data, Evercore Group L.L.C. Research

Figure 46. TRIP Income Statement, 2012-2020E

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR '14-'20
CPC	$587.8	$695.9	$892.2	$1,156.2	$1,459.8	$1,811.2	$2,207.8	$2,655.3	$3,094.8	23.0%
+ Display	94.1	119.0	141.7	168.5	194.8	222.5	250.7	283.0	311.0	14.0%
+ Subscription	81.1	129.8	215.1	295.8	384.0	487.6	605.6	738.7	861.0	26.0%
Total Revenues	**$763.0**	**$944.7**	**$1,249.0**	**$1,620.5**	**$2,038.6**	**$2,521.2**	**$3,064.2**	**$3,677.0**	**$4,266.7**	**22.7%**
- Cost of revenue	12.1	17.7	35.1	39.7	48.9	60.5	73.5	88.2	102.4	19.6%
- Selling and marketing	261.6	357.7	484.0	595.8	733.6	884.1	1049.4	1230.3	1396.7	19.3%
- Technology and content	75.2	109.6	146.7	182.1	209.2	238.5	263.5	300.4	348.6	15.5%
- General and admin	61.6	80.9	95.9	119.8	147.3	171.4	195.3	234.4	272.0	19.0%
- Related party shared service fee (G&A)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Adj. EBITDA	**$352.5**	**$378.8**	**$487.4**	**$683.0**	**$899.6**	**$1,166.6**	**$1,482.4**	**$1,823.7**	**$2,147.0**	**28.0%**
- Stock compensation	30.1	49.0	60.9	69.4	76.4	87.1	96.6	112.8	130.4	13.5%
- Depreciation	20.0	29.5	38.4	44.6	51.0	63.0	61.3	73.5	85.3	14.2%
- Amortization of intangible assets	6.1	5.7	8.0	6.0	8.0	8.0	8.0	8.0	8.0	0.0%
= Reported Operating Income	**$296.3**	**$294.6**	**$380.1**	**$563.0**	**$764.2**	**$1,008.5**	**$1,316.5**	**$1,629.3**	**$1,923.3**	**31.0%**
+ Interest income	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
- Interest expense	10.9	9.9	5.4	10.9	5.4	0.6	0.6	0.0	0.0	-100.0%
- Other, net	3.4	0.0	4.0	0.0	0.0	0.0	0.0	0.0	0.0	-100.0%
= Pre-Tax Income	**$282.0**	**$284.7**	**$370.7**	**$552.2**	**$758.9**	**$1,007.8**	**$1,315.9**	**$1,629.3**	**$1,923.3**	**31.6%**
- Provision for income taxes	87.4	79.3	106.0	165.7	227.7	302.4	394.8	488.8	577.0	32.6%
- Extraordinary items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Net income	**$194.6**	**$205.4**	**$264.6**	**$386.5**	**$531.2**	**$705.5**	**$921.1**	**$1,140.5**	**$1,346.3**	**31.1%**
- Net income attributable to non controlling interests	0.5	0.0	0.2	0.4	0.0	0.0	0.0	0.0	0.0	-100.0%
= Net income attributable to TripAdvisor	**$194.1**	**$205.4**	**$264.4**	**$386.1**	**$531.2**	**$705.5**	**$921.1**	**$1,140.5**	**$1,346.3**	**31.2%**
/ Diluted Shares Outstanding	141.3	145.3	147.5	148.9	148.9	148.9	148.9	148.9	148.9	0.2%
= Reported EPS (after extraordinary items)	$1.37	$1.41	$1.79	$2.59	$3.57	$4.74	$6.18	$7.66	$9.04	30.9%
Adj EPS (stock comp+intangible assets)	**1.54**	**1.68**	**2.15**	**2.96**	**3.95**	**5.14**	**6.59**	**8.10**	**9.54**	**28.2%**
Non-GAAP Diluted Shares	141.9	146.0	147.5	148.9	148.9	148.9	148.9	148.9	148.9	
Income tax rate	31%	28%	29%	30%	30%	30%	30%	30%	30%	
Y/Y % Change										
CPC revenues	18%	18%	28%	30%	26%	24%	22%	20%	17%	
Display revenues	10%	26%	19%	19%	16%	14%	13%	13%	10%	
Subscription revenues	58%	60%	66%	38%	30%	27%	24%	22%	17%	
Total revenues	**20%**	**24%**	**32%**	**30%**	**26%**	**24%**	**22%**	**20%**	**16%**	
Cost of revenues	11%	47%	98%	13%	23%	24%	22%	20%	16%	
Selling and marketing	27%	37%	35%	23%	23%	21%	19%	17%	14%	
Technology and content	41%	46%	34%	24%	15%	14%	10%	14%	16%	
General and admin	78%	31%	19%	25%	23%	16%	14%	20%	16%	
Adjusted EBITDA	**9%**	**7%**	**29%**	**40%**	**32%**	**30%**	**27%**	**23%**	**18%**	
Margins as % of Revenue										
Cost of revenues	1.6%	1.9%	2.8%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	
Selling and marketing	34.3%	37.9%	38.8%	36.8%	36.0%	35.1%	34.2%	33.5%	32.7%	
Technology and content	9.9%	11.6%	11.7%	11.2%	10.3%	9.5%	8.6%	8.2%	8.2%	
General and admin	8.1%	8.6%	7.7%	7.4%	7.2%	6.8%	6.4%	6.4%	6.4%	
Adj. EBITDA	**46.2%**	**40.1%**	**39.0%**	**42.1%**	**44.1%**	**46.3%**	**48.4%**	**49.6%**	**50.3%**	

Source: Company data, Evercore Group L.L.C. Research

Expedia

Figure 47. EXPE Income Statement, 1Q13-4Q15E

	Qtr. Ending Mar.			Qtr. Ending Jun.			Qtr. Ending Sep.			Qtr. Ending Dec.		
	1Q13	1Q14	1Q15E	2Q13	2Q14	2Q15E	3Q13	3Q14E	3Q15E	4Q13	4Q14E	4Q15E
Revenues	$1,012.4	$1,200.4	$1,356.7	$1,205.0	$1,494.6	$1,658.3	$1,401.9	$1,680.2	$1,869.4	$1,152.0	$1,347.6	$1,533.2
- Cost of revenue	249.5	293.4	329.5	261.8	299.6	325.7	275.4	311.4	340.0	247.5	301.9	333.0
= Gross Profit	$762.8	$907.0	$1,027.2	$943.2	$1,195.1	$1,332.5	$1,126.4	$1,368.8	$1,529.4	$904.5	$1,045.6	$1,200.2
- Selling and marketing	491.9	619.4	704.3	586.8	738.8	838.2	621.4	738.6	830.0	479.9	565.9	648.0
- Technology and content	132.9	157.4	177.7	136.0	164.1	176.9	138.4	179.3	190.4	150.0	183.0	193.3
- G&A	84.7	86.3	104.9	84.9	92.2	113.2	84.5	98.3	119.1	89.9	103.1	125.6
= Operating Income Adjusted	$53.4	$43.9	$40.2	$135.5	$199.9	$204.2	$282.1	$352.7	$389.9	$184.7	$193.6	$233.3
- Amort of intangible assets	12.6	18.5	12.2	18.8	18.3	14.9	18.5	18.5	16.8	21.8	15.5	12.3
- Legal reserves / Other	71.4	3.5	13.6	6.2	31.4	16.6	6.9	5.0	18.7	3.2	4.0	15.3
- Stock compensation	75.1	24.8	23.6	16.1	21.0	24.7	18.0	25.2	25.7	21.0	24.0	25.0
= Operating Income Reported (GAAP)	-$105.6	-$3.0	-$9.1	$94.29	$129.2	$148.0	$238.7	$304.0	$328.7	$138.7	$150.0	$180.8
- Net Interest Income (expense)	15.8	16.0	15.4	14.4	15.4	15.4	15.3	15.4	15.4	17.1	15.4	15.4
- Other, net	-2.2	0.5	0.0	-7.5	7.2	0.0	11.3	0.0	0.0	1.2	0.0	0.0
= Pretax Income	-$119.3	-$19.5	-$24.6	$87.4	$106.6	$132.5	$212.1	$288.5	$313.2	$120.5	$134.6	$165.4
- Provision for income taxes	-11.9	0.3	-6.1	24.4	20.8	33.1	45.4	72.1	78.3	26.5	33.6	41.3
= Net income before extraordinary items	-$107.4	-$19.8	-$18.4	$63.0	$85.9	$99.4	$166.7	$216.4	$234.9	$94.0	$100.9	$124.0
- Discon. Ops, Extraordinary items, Restruc.	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
= Net Income Reported	-$107.4	-$19.8	-$18.4	$63.0	$85.9	$99.4	$166.7	$216.4	$234.9	$94.0	$100.9	$124.0
-Income attrib. to non-controlling interests	-3.1	-5.5	-6.4	-8.5	-3.5	-4.1	-4.1	-4.8	-5.7	-0.7	-0.9	-1.0
= Net income attributable to Expedia	-$104.2	-$14.3	-$12.0	$71.5	$89.4	$103.5	$170.859	$221.2	$240.6	$94.7	$101.8	$125.0
+ Adjustments (SBE, FX, Disc. Ops, etc)	139.5	35.7	35.1	19.0	48.3	33.3	30.1	24.7	37.2	30.6	24.6	33.6
= Adj. Net Income	$35.3	$21.4	$23.1	$90.5	$137.6	$136.8	$200.9	$245.9	$277.8	$125.3	$126.4	$158.6
/ Non-GAAP Dilutes Shares	142.0	135.4	133.1	141.1	133.9	133.0	140.5	133.6	132.8	135.9	133.2	132.7
= Adjusted EPS (Non-GAAP)	$0.25	$0.16	$0.17	$0.64	$1.03	$1.03	$1.43	$1.84	$2.09	$0.92	$0.95	$1.19
Reported EPS	-$0.77	-$0.11	-$0.09	$0.51	$0.67	$0.78	$1.22	$1.66	$1.81	$0.70	$0.76	$0.94
GAAP Diluted Shares	135.6	130.6			133.7							
Tax Rate	10%	-2%	25%	28%	19%	25%	21%	25%	25%	22%	25%	25%
Y/Y % Change												
Total revenues	24.0%	18.6%	13.0%	15.9%	24.0%	10.9%	16.9%	19.9%	11.3%	18.2%	17.0%	13.8%
Gross Profit Growth	23.6%	18.9%	13.3%	16.3%	26.7%	11.5%	17.8%	21.5%	11.7%	20.5%	15.6%	14.8%
Cost of revenues	25.3%	17.6%	12.3%	14.4%	14.4%	8.7%	13.4%	13.1%	9.2%	10.3%	22.0%	10.3%
Selling and marketing	32.0%	25.9%	13.7%	33.0%	25.9%	13.5%	23.6%	18.9%	12.4%	22.8%	17.9%	14.5%
Technology and content	27.0%	18.5%	12.9%	21.3%	20.7%	7.8%	13.8%	29.5%	6.2%	15.1%	22.0%	5.7%
General and admin	18.8%	2.0%	21.6%	13.9%	8.6%	22.7%	9.2%	16.3%	21.1%	-0.6%	14.7%	21.8%
EBITDA growth	3.3%	1.6%	7.5%	-13.6%	35.2%	9.1%	15.8%	23.2%	12.8%	31.1%	9.1%	20.4%
Margins (as % of GP)												
Cost of revenues (as % of Rev)	24.6%	24.4%	24.3%	21.7%	20.0%	19.6%	19.6%	18.5%	18.2%	21.5%	22.4%	21.7%
Selling and marketing	64.5%	68.3%	68.6%	62.2%	61.8%	62.9%	55.2%	54.0%	54.3%	53.1%	54.1%	54.0%
Technology and content	17.4%	17.4%	17.3%	14.4%	13.7%	13.3%	12.3%	13.1%	12.4%	16.6%	17.5%	16.1%
General and admin	11.1%	9.5%	10.2%	9.0%	7.7%	8.5%	7.5%	7.2%	7.8%	9.9%	9.9%	10.5%
EBITDA margin	13.8%	11.8%	11.2%	20.3%	21.7%	21.2%	30.2%	30.6%	30.9%	26.8%	25.3%	26.5%

Source: Company data, Evercore Group L.L.C. Research

Figure 48. EXPE Income Statement, 2012-2020E

	2012	2013	2014E	2015E	2016E	2017E	2018E	2019E	2020E	CAGR '15-'20
Revenues	**$4,030.3**	**$4,771.3**	**$5,722.8**	**$6,417.6**	**$7,097.7**	**$7,899.2**	**$8,793.0**	**$9,787.6**	**$10,812.5**	11.0%
- Cost of revenue	895.3	1,034.3	1,206.3	1,328.3	1,440.7	1,556.8	1,652.5	1,755.6	1,909.5	7.5%
= Gross Profit	**$3,135.0**	**$3,737.0**	**$4,516.4**	**$5,089.3**	**$5,656.9**	**$6,342.4**	**$7,140.5**	**$8,032.0**	**$8,903.0**	**11.8%**
- Selling and marketing	1,707.6	2,180.0	2,662.7	3,020.5	3,372.5	3,668.7	4,000.4	4,339.9	4,675.5	9.1%
- Technology and content	468.8	557.4	683.8	738.3	771.1	858.2	938.2	1,044.3	1,153.7	9.3%
- G&A	313.6	344.0	379.9	462.8	484.4	542.1	603.4	671.7	742.0	9.9%
= Operating Income Adjusted	**$645.1**	**$655.7**	**$790.0**	**$867.7**	**$1,028.9**	**$1,273.5**	**$1,598.5**	**$1,976.1**	**$2,331.7**	**21.9%**
- Amort of intangible assets	31.7	71.7	70.7	56.2	35.5	20.1	16.3	37.2	37.2	-7.9%
- Legal reserves / Other	117.0	87.7	44.0	64.2	71.0	79.0	87.9	97.9	108.1	11.0%
- Stock compensation	64.6	130.2	95.1	99.0	101.3	109.0	119.9	132.3	145.2	8.0%
= Operating Income Reported (GAAP)	**$431.7**	**$366.1**	**$580.2**	**$648.3**	**$821.1**	**$1,065.3**	**$1,374.4**	**$1,708.7**	**$2,041.2**	**25.8%**
- Net Interest Income (expense)	61.4	62.6	62.3	61.8	61.8	61.8	61.8	61.8	61.8	0.0%
- Other, net	20.3	2.8	7.7	0.0	0.0	0.0	0.0	0.0	0.0	---
= Pretax Income	**$350.1**	**$300.7**	**$510.2**	**$586.5**	**$759.4**	**$1,003.6**	**$1,312.6**	**$1,646.9**	**$1,979.4**	**27.5%**
- Provision for income taxes	47.1	84.3	126.8	146.6	189.8	250.9	328.2	411.7	494.9	27.5%
= Net income before extraordinary items	**$303.0**	**$216.4**	**$383.4**	**$439.9**	**$569.5**	**$752.7**	**$984.5**	**$1,235.2**	**$1,484.6**	**27.5%**
- Discon. Ops, Extraordinary items, Restruc.	22.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	---
= Net Income Reported	**$280.4**	**$216.4**	**$383.4**	**$439.9**	**$569.5**	**$752.7**	**$984.5**	**$1,235.2**	**$1,484.6**	**27.5%**
-Income attrib. to non-controlling interests	0.3	-16.5	-14.7	-17.2	-20.0	-23.0	-26.2	-29.8	-34.0	
= Net income attributable to Expedia	**$280.2**	**$232.9**	**$398.1**	**$457.1**	**$589.5**	**$775.6**	**$1,010.6**	**$1,265.0**	**$1,518.6**	**27.1%**
+ Adjustments (SBE, FX, Disc. Ops, etc)	158.3	219.1	133.2	139.3	143.6	145.4	142.1	164.5	166.8	3.7%
= Adj. Net Income	**$438.5**	**$452.0**	**$531.3**	**$596.4**	**$733.1**	**$921.0**	**$1,152.7**	**$1,429.5**	**$1,685.4**	**23.1%**
/ Non-GAAP Dilutes Shares	139.9	140.2	134.0	132.9	132.2	131.6	130.9	130.9	130.9	-0.3%
= Adjusted EPS (Non-GAAP)	**$3.13**	**$3.22**	**$3.96**	**$4.49**	**$5.54**	**$7.00**	**$8.80**	**$10.92**	**$12.87**	**23.5%**
Reported EPS	$2.00	$1.67	$2.97	$3.44	$4.46	$5.89	$7.72	$9.66	$11.60	27.5%
GAAP Diluted Shares		139.6								
Tax Rate	13%	28%	25%	25%	25%	25%	25%	25%	25%	
Y/Y % Change										
Total revenues	16.9%	18.4%	19.9%	12.1%	10.6%	11.3%	11.3%	11.3%	10.5%	
Gross Profit Growth	16.5%	19.2%	20.9%	12.7%	11.2%	12.1%	12.6%	12.5%	10.8%	
Cost of revenues	18.1%	15.5%	16.6%	10.1%	8.5%	8.1%	6.1%	6.2%	8.8%	
Selling and marketing	16.8%	27.7%	22.1%	13.4%	11.7%	8.8%	9.0%	8.5%	7.7%	
Technology and content	27.6%	18.9%	22.7%	8.0%	4.4%	11.3%	9.3%	11.3%	10.5%	
General and admin	13.9%	9.7%	10.5%	21.8%	4.7%	11.9%	11.3%	11.3%	10.5%	
EBITDA growth	12.8%	9.6%	19.4%	13.3%	15.5%	19.3%	21.0%	19.8%	15.7%	
Margins (as % of GP)										
Cost of revenues (as % of Rev)	22.2%	21.7%	21.1%	20.7%	20.3%	19.7%	18.8%	17.9%	17.7%	
Selling and marketing	54.5%	58.3%	59.0%	59.4%	59.6%	57.8%	56.0%	54.0%	52.5%	
Technology and content	15.0%	14.9%	15.1%	14.5%	13.6%	13.5%	13.1%	13.0%	13.0%	
General and admin	10.0%	9.2%	8.4%	9.1%	8.6%	8.5%	8.5%	8.4%	8.3%	
EBITDA margin	25.6%	23.5%	23.2%	23.3%	24.3%	25.8%	27.7%	29.5%	30.8%	

Source: Company data, Evercore Group L.L.C. Research

Risks

Priceline

Risks to our Equal-Weight thesis on Priceline include more significant marketing deleverage and take rate pressure than we anticipate and stronger competition from Expedia and other channels, including Google Hotel Finder. While we recognize Priceline's leading position in marketing efficiency amongst OTAs, we may be overestimating. Additionally, travel is a cyclical industry and macro-economic factors will weigh on performance. Finally, should the OTA model in general come under less pressure from trends such as yield management than we anticipate, share performance could be impacted positively.

Google

Risks to our Overweight thesis on Google include an FTC determination that Google has abused its leading market position within Search, changing search behavior towards Social and Apps, failed or limited traction of recently launched product initiatives (including Google Offers, Wallet, Google+, and Hotel Finder), limited traction in premium display, and continued spending escalation, in addition to legal and macroeconomic factors.

Expedia

Risks to our Equal-Weight thesis on Expedia include stronger competition from Priceline, metasearch players, and new supply-side hotel yield optimizers as well as more significant marketing deleverage than we anticipate. Though we expect the overall travel bookings market to be large enough to accommodate multiple players, stronger-than-expected competition from Priceline and other competitors, specifically within the US, where Expedia derives the majority of its revenue, could weigh on Expedia's ability to execute. Finally, should competition from non-traditional travel players, such as those within Search and Social, increase beyond what we estimated, Expedia could experience more take rate pressure than we presently estimate.

TripAdvisor

Risks to our Equal-Weight thesis on TripAdvisor include stronger traction with and monetization of users, the company's current lead in reviews proving more defensible than we give credit, and the potential for TripAdvisor to more broadly open its APIs to loyalty rewards and bookings partners via TripConnect. TripAdvisor monetizes its users at less than half the rate of its OTA peers Expedia and Priceline. Should the company be able to grow its ARPU faster than we anticipate, shares could be impacted positively. Alternatively, at ~9x revenues, TripAdvisor trades at a premium to several names in our group. While while we acknowledge the company's strong lead in the number of total reviews compared to its competition, should competitors, such as Google, enter the competition for this engagement, shares may be negatively impacted.

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The analysts, Ken Sena, Andrew McNellis and Conor McDade, primarily responsible for the preparation of this research report attest to the following: (1) that the views and opinions rendered in this research report reflect his or her personal views about the subject companies or issuers; and (2) that no part of the research analyst's compensation was, is, or will be directly related to the specific recommendations or views in this research report.

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Additional information on securities or financial instruments mentioned in this report is available upon request.

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Overweight – the stock is expected to outperform the average total return of the analyst's coverage universe over the next 12 months.

Equal-Weight – the stock is expected to perform in line with the average total return of the analyst's coverage universe over the next 12 months.

Underweight – the stock is expected to underperform the average total return of the analyst's coverage universe over the next 12 months.

Suspended – the company rating, target price and earnings estimates have been temporarily suspended.

Evercore ratings distribution (as of 09/05/2014):

Coverage Universe

Ratings	Count	Pct.
Overweight	159	48%
Equal-Weight	162	49%
Underweight	8	2%
Suspended	4	1%

Investment Banking Services/Past 12 Months

Rating	Count	Pct.
Overweight	33	21%
Equal-Weight	7	4%
Underweight	0	0%
Suspended	1	25%

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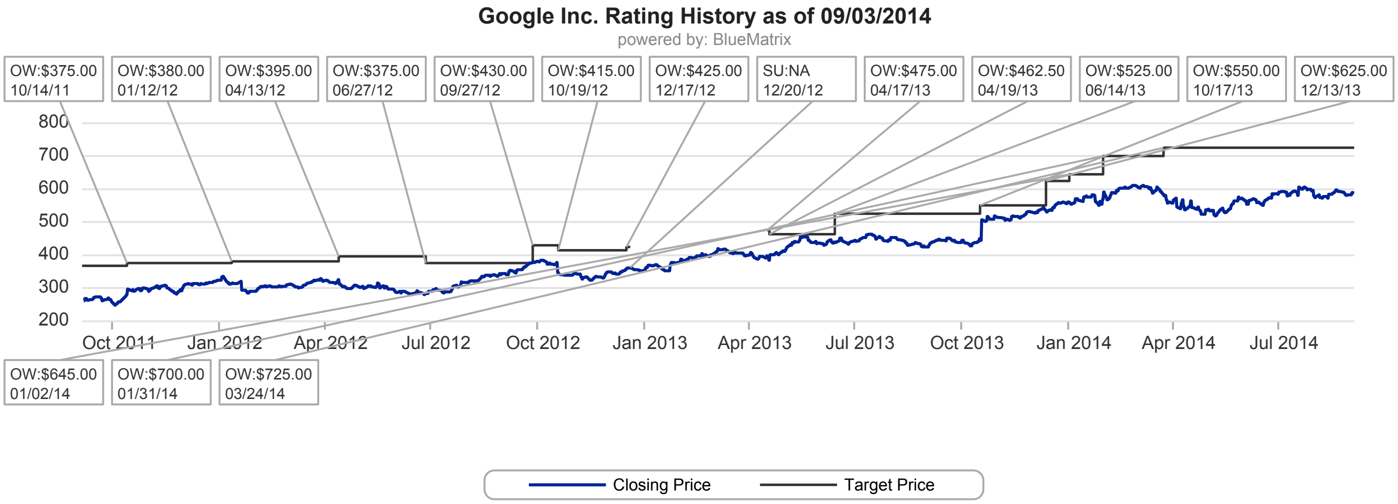
Price Charts


Google Inc. Rating History as of 09/03/2014
powered by: BlueMatrix
OW:$375.00 10/14/11
OW:$380.00 01/12/12
OW:$395.00 04/13/12
OW:$375.00 06/27/12
OW:$430.00 09/27/12
OW:$415.00 10/19/12
OW:$425.00 12/17/12
SU:NA 12/20/12
OW:$475.00 04/17/13
OW:$462.50 04/19/13
OW:$525.00 06/14/13
OW:$550.00 10/17/13
OW:$625.00 12/13/13
OW:$645.00 01/02/14
OW:$700.00 01/31/14
OW:$725.00 03/24/14
800
700
600
500
400
300
200
Oct 2011
Jan 2012
Apr 2012
Jul 2012
Oct 2012
Jan 2013
Apr 2013
Jul 2013
Oct 2013
Jan 2014
Apr 2014
Jul 2014
Closing Price
Target Price


priceline.com Incorporated Rating History as of 09/03/2014
powered by: BlueMatrix
I:EW:$525.00 10/10/11
EW:$540.00 11/08/11
EW:$570.00 02/27/12
EW:$755.00 04/16/12
EW:$710.00 08/08/12
EW:$735.00 11/02/12
OW:$850.00 03/21/13
OW:$975.00 07/22/13
OW:$1,100.00 08/08/13
OW:$1,250.00 10/30/13
OW:$1,350.00 01/14/14
OW:$1,480.00 02/21/14
OW:$1,450.00 03/24/14
1,600
1,400
1,200
1,000
800
600
400
Oct 2011
Jan 2012
Apr 2012
Jul 2012
Oct 2012
Jan 2013
Apr 2013
Jul 2013
Oct 2013
Jan 2014
Apr 2014
Jul 2014
Closing Price
Target Price


TripAdvisor, Inc. Rating History as of 09/03/2014
powered by: BlueMatrix
I:UW:$50.00 03/21/13
UW:$55.00 05/02/13
UW:$65.00 07/25/13
UW:$68.00 10/23/13
UW:$74.00 02/11/14
UW:$85.00 03/24/14
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40
20
Oct 2011
Jan 2012
Apr 2012
Jul 2012
Oct 2012
Jan 2013
Apr 2013
Jul 2013
Oct 2013
Jan 2014
Apr 2014
Jul 2014
Closing Price
Target Price

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