

LTRPA

Elevator Pitch

LTRPA owns 1/5th of the world's largest travel platform with its share being 6x larger than its current market capitalisation.

LTRPA

In 2014, Liberty Interactive Corporation's (Qurate Retail) Liberty Ventures Group spun off its controlling interest in TripAdvisor into Liberty TripAdvisor. Today, LTRPA owns 21% of TripAdvisor common stock with 57% voting interest. LTRPA has a market capitalisation of \$85m despite over \$800m in cash and over \$200m in accounts and income taxes receivable and contract assets (including over \$50m allowance for credit losses). Further, it has TTM CFFO over \$200m of which over 70% translates into free cash flow. Its current cash and equivalents covers its 2025 and 2026 senior notes; its CFFO covers its Series A Preferred Stock Liability; and surplus future cash ought to cover all other liabilities. Moreover, its 1/5th stake in TRIP is currently valued in the market at \$500m yet LTRPA has a sub-\$100m market capitalisation. LTRPA is currently trading at three times its 1/5th ownership of TRIP's FCF (TTM) and 1.5x TRIP's 2019 FCF. Interestingly, in 2019, TripAdvisor declared a special ~\$500m dividend of which ~\$100m was attributable to LTRPA; a number which exceeds LTRPA's current market capitalisation. Of particular importance is TRIP had ~\$650m C&CE with FCF of ~\$350m and CapEx of ~\$60m therefore their special dividend equated to: (a) ½ C&CE + 1yr FCF; or (b) ~75% of C&CE. Using a similar proxy - and examining TRIP's current balance sheet - TRIP could distribute a special dividend at (or above) their previous dividend given that using the two factors above, they are in a more robust position. Should they distribute just a ~\$400m special dividend, LTRPA's share would exceed its current market capitalisation.

TRIP

[TripAdvisor](#) is the world's largest travel platform offering consumers the ability to plan their trips using reviews and ideas for activities. TripAdvisor is made up of: (a) Hotels, Media, and Platform – TripAdvisor Branded Hotels & TripAdvisor Branded Display and Platform; (b) Experiences and Dining; and (c) Other – Private Rentals, Flight, Cruise, Car Rental and TripAdvisor China (a JV with Trip.com Group). In 2004, the company was acquired by IAC/InterActiveCorp and, a year later, was spun off as a package with Expedia. In April 2011 Expedia split into two spinning off TripAdvisor. TripAdvisor is rated #1 in travel & tourism with 167m monthly visits; second to Booking.com and: (a) 3.6x Kayak; (b) 1.7x Expedia; (c) 1.7x Airbnb ([SimilarWeb](#)). TRIP has ~2/3 the 2019 US traffic of Expedia & Booking yet is 6x and 28x smaller, respectively (by market cap). It has compounded revenues at 16% CAGR with Q1 2022 revenue equating to just 70% of pre-COVID levels. Further, cash & equivalents and accounts receivable amounts to 40% of its current market capitalisation.

TripAdvisor has proven its flexibility in the downturn given its ability to reduce OpEx by \$101m and SG&A by \$364m in 2020 to offset the impact in declining revenues. Further, using TRIP's current cash position of \$800m and assuming a \$150m FCF with a debt timeline of: (a) \$100m due p.a. for three years; and (b) \$400m due p.a. for subsequent four years they can repay their ~\$2bn debt with current cash + annual FCF (assuming it remains stagnant at \$150m) and have an ending cash position in 2027 of ~\$50m. However, in the three months ended March 31, 2022, TRIP increased cash equivalents by ~\$60m thus annual FCF is closer to \$250m therefore net cash position in 2027 is \$650m. Should TRIP return to pre-COVID FCF of ~\$300m this brings their net cash position in 2027 to \$1bn. Thus, 5yrs from now, TRIP could use just their FCF to reduce liabilities to \$0, have total assets (excl. cash & equivalents) remain stagnant at \$1.5bn, and have an ending cash position of ~\$50m to \$1bn thus would have total equity of \$1.5 - \$2.5bn, of which 0 – 66% will be pure cash and no liabilities. Moreover, LTRPA's ~20% stake in this company would be worth \$300 - \$500m thus, even with a 25% holding co discount, would see LTRPA (at a current market cap of ~\$90) return of 3.5 – 6x excluding any growth. The global online travel market is a \$1.3 trillion market that is growing as online bookings take share from offline bookings. To this day, only about 40% of the world's population has internet access and more than half of global travel bookings are still done offline by phone or through retail travel agents. TripAdvisor ought to experience a tailwind as these numbers continue to shift in its favour ([Macrae538 - VIC](#)).

I tend to disagree with other views of TRIP. I find it hard to believe cafes, restaurants, and hotels care about having a TripAdvisor sticker in their front window. I struggle to see potential strength when Expedia exists. Despite this, TripAdvisor makes money so imagine how much money it would make if it could capture greater fees from consumers with increased 'stickiness' from TripAdvisor+. I liken TRIP to Uber; Uber's customer experience revolves around someone picking up your delivery and making other deliveries before you (unless you pay up) leaving your time sensitive, hangover-curing, heat-dissipating Double Sausage and Egg McMuffin meal in transit and, once received, you realise they forgot the extra patty, at which point there is no one to contact and no sense of responsibility when you do get through and if you have more than three such occurrences they ban you from ever getting another refund due to 'abnormal fraudulent activity' without factoring in your daily order for three months ('abnormal eating activity') and yet... no one uninstalls the app! As such, even if the experience is shit - and you are unable to understand why people use it - unless you can uninstall the app, it is serving a purpose.

Why does this opportunity exist?

1. COVID

- a. TRIP's unique monthly visitors fell 2/3^{rds} from ~450m to ~150m with market cap falling 2/3^{rds} also and rightfully so. Despite this, TRIP's Total Equity, CFFO, and FCF only halved.

- b. TripAdvisor's revenue decreased just under 2/3rds during COVID. Its stock price went from a 2019 Hi of ~\$60 to a 2020 lo of ~\$15 overexaggerating its revenue decline.
2. Margin Call
 - a. TripAdvisor's stock price declined significantly in March 2020 triggering a mandatory prepayment of its margin loan thus entered into an agreement with Certares for an 8% Series A cumulative redeemable preferred.
 3. Stagnation
 - a. TRIP has remained stagnant for 10yrs with a 10yr MC range of \$2.5 - \$12bn.

Catalysts

1. TRIP buys LTRPA¹ at a 50% market discount (\$250m for 21%) [return: 3x]
2. LTRPA sells its TRIP at a 25% holding discount (\$2.5bn * 0.21 * 0.75) [return: 5x]
3. LTRPA disperses its TRIP shares to LTRPA shareholders like that of Expedia [return: 5x]
4. TRIP reverts via cyclical recovery² to \$7.5bn and LTRPA sells at 25% holding discount [return: 14x]
5. TRIP is sold elsewhere (with premium @ 100%, price would fall below all acquirer's cash positions)³
6. Increased insider buys driving positive sentiment
 - a. Maffei doubles his stake vs. BKNG's VP & CEO reducing their stakes by 1/3 and 1/9.
7. Reinvention driven by Greg O'Hara ([Rhianik - VIC](#))
 - a. Chairman of AmEx Global Business Travel; Chairperson of Hertz Global; and Vice Chairman of LTRPA
 - i. TripAdvisor+ priced at \$99 with instant discount for \$750+ transactions which exceed the cost of subscription and additional perks such as free breakfast, late checkout, etc. as such there is huge stickiness with this subscription offer as there is no 'psychological value' required – one will see that the discount exceeds the price of TripAdvisor+ thus think they are 'cheating the system'.
 1. TripAdvisor's user base dropped almost 2/3rds to 167m from 421m pre-pandemic. Should TRIP convert 3-6% of this depressed user base to TripAdvisor+, they will be able to generate 50-100% of their current revenues from this segment alone.
 2. eDreams Odigeo launched a consumer subscription 3yrs ago and has 664k members from a total monthly user base of 6m thus offering an 11% conversion to a paid subscription ([Rhianik - VIC](#)). Given TRIP is 28x to 70x the size of eDreams – should TRIP offer the same level of penetration as eDreams – it will see 18.5m users paying \$99 p.a. thus generating almost \$2bn (double its current revenue base). Should TRIP only receive 50% of the penetration rates of eDreams its revenues from just TRIP+ will exceed its current revenues.
 - a. This coincides with management's belief that they have the potential for tens of millions of subscriptions and sees potential for billions of dollars in subscription revenue at this price point ([Rhianik - VIC](#)).
8. Credit card partnerships
 - a. American Express partnership cards (BA, Nectar, Marriott and Amazon) have an average fee of £100 p.a.⁴ thus, if Chase, BofA, or any credit card provider offered a partnership, using ([Rhianik - VIC](#))'s thesis, each 1m TripAdvisor+ members would generate \$100m+ of revenue. Thus, using the 10-20m users as hypothesised previously, this would see \$1 - \$2bn of revenue which exceeds current revenues.
 - i. Given Greg O'Hara's previous experience as CIO of JPMC's Special Investment's Group and MD of JPMorgan's private equity arm in Tandem with American Express' Global Business Travel unit, O'Hara fully understands this avenue and may be able to navigate TRIP down this path as Vice Chairman of LTRPA.

Risks

1. Lack of 'share of mind'
2. Consumers do not typically transact on TripAdvisor
 - a. "The failed experiment with instant book offers a reminder that this will not be easy ([Rhianik - VIC](#)).
3. "Management has historically been weak. While Greg Maffei is a genius and exceptionally strategic guy, under his stewardship, TRIP has been less than successful. One could argue that relative to its potential, TRIP has been one of the worst of the Liberty Media investments. CEO Kaufer has been in his role for over 20 years. We are hopeful that changes are forthcoming" ([Rhianik - VIC](#)).
4. Falling revenue growth
5. Negative EBIT since COVID
6. Hard-hitting recession squashing customer demand for holidays etc.

¹ Liberty's S-1 filing supposes TRIP would purchase LTRPA ("Separating LTRPA from the Liberty group will help facilitate a potential combination with TRIP which would benefit shareholders" ([Mement mori - VIC](#)))

² Auction revenue @ 58%; US hotel auction revenue @ 85%; display and platform revenues @ 60%; Experiences @ 64%; Dining @ 74%.

³ TRIP + 100% premium = % of approx. cash & equivalents: EXPE (100%); BKNG (50%); META (30%); GOOGL (25%); BABA (15%).

⁴ Nectar Card (£25); Amazon Business Prime (£50); Marriott Bonvoy (£75); BA Premium+ (£250).