



The Deal Experts. Over 28 Million Members Worldwide.

# Second Quarter 2016 Performance and Growth Strategy Overview

July 28, 2016

---

## Important Notice

Please read this management presentation together with the Company's press release issued earlier today announcing the Company's second quarter 2016 financial results and in conjunction with the Company's recent Annual Report and Quarterly Results as filed with the Securities and Exchange Commission (SEC). All current and prior period financial results presented have been adjusted to include the financial results of the Travelzoo Asia Pacific business acquired during the second quarter 2016. Certain prior period income statement amounts have been reclassified to conform to the current period presentation primarily due to the allocation of facility costs and the separate disclosure of product development costs.

Certain statements contained in this presentation that are not historical facts may be forward looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities and Exchange Act of 1934, as amended. These forward looking statements may include, but are not limited to, statements about our plans, objectives, expectations, prospects, expected future financial guidance and intentions, markets in which we participate and other statements contained in this presentation that are not historical facts. When used in this presentation, the words "expect," "predict," "project," "anticipate," "believe," "estimate," "intend," "plan," "seek" and similar expressions are generally intended to identify forward looking statements. Because these forward looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward looking statements, including changes in our plans, objectives, expectations, prospects and intentions and other factors discussed in our filings with the SEC. We cannot guarantee any future levels of activity, performance or achievements. Travelzoo Inc. undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this presentation.

---

Part 1:  
Second Quarter 2016 Performance

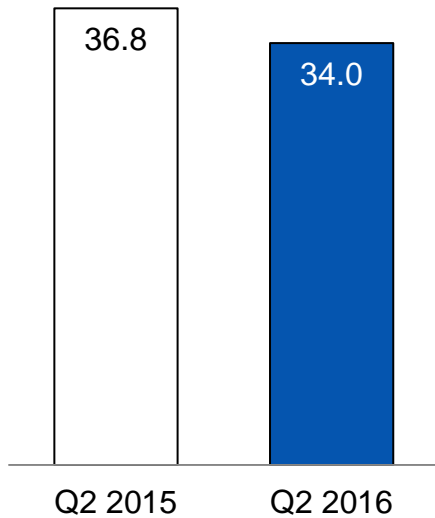
Part 2:  
Growth Strategy Overview

We improved earnings significantly as we operated smarter and continued to invest in member growth.

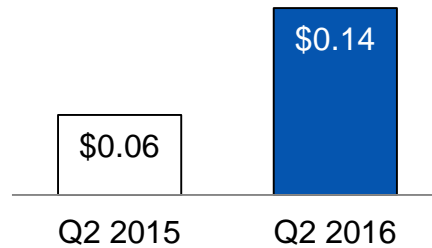
---

## Q2 2016 Financial Performance

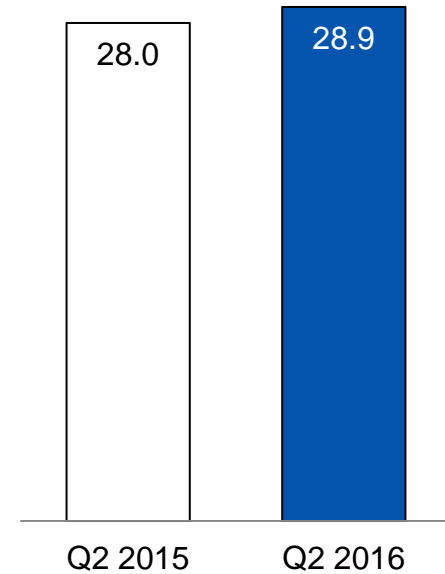
**Revenue**  
\$ millions



**EPS**  
\$ per share

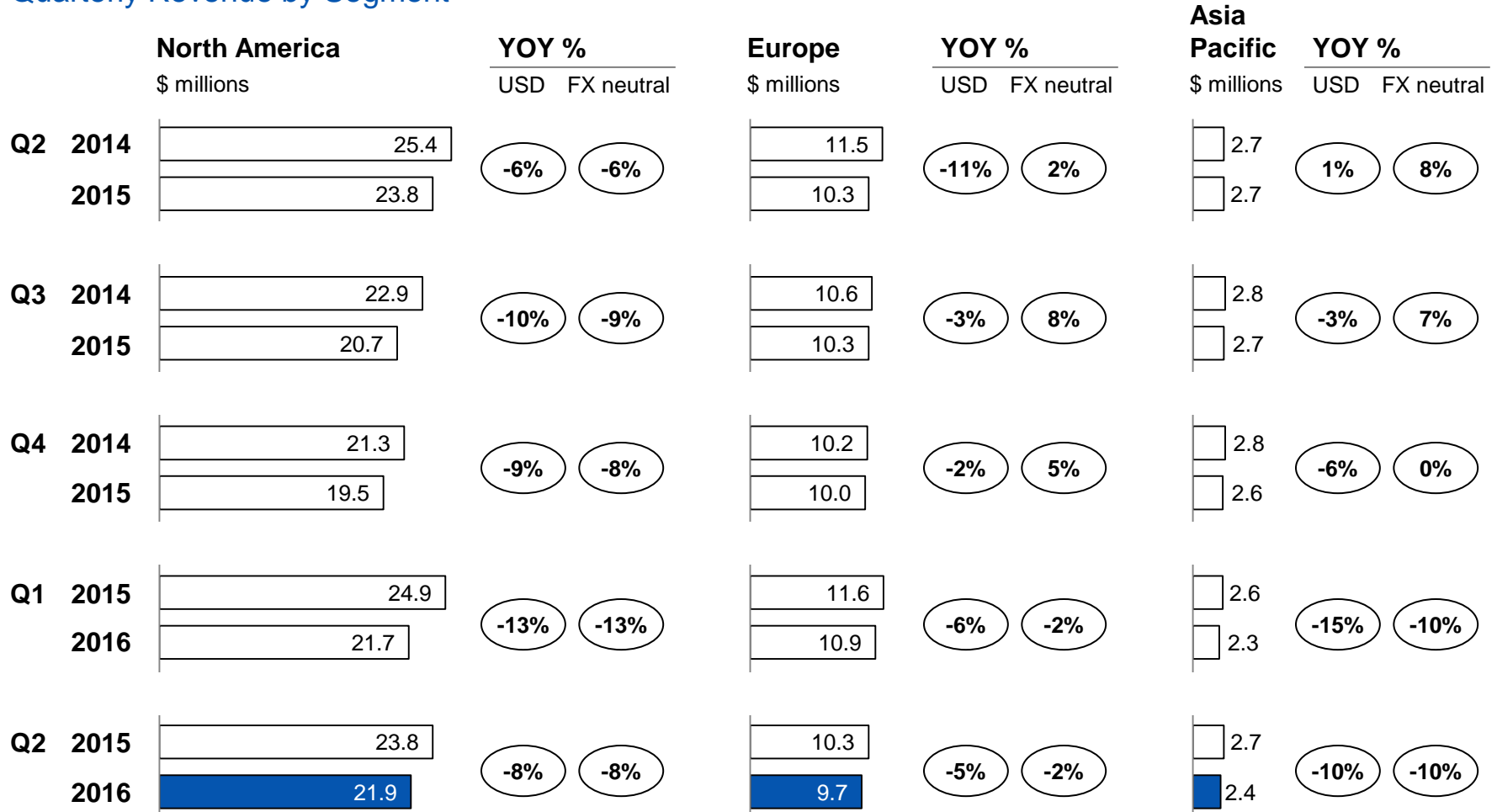


**Members**  
Millions



# Reported revenues in USD continue to be impacted by unfavorable F/X trends.

## Quarterly Revenue by Segment\*

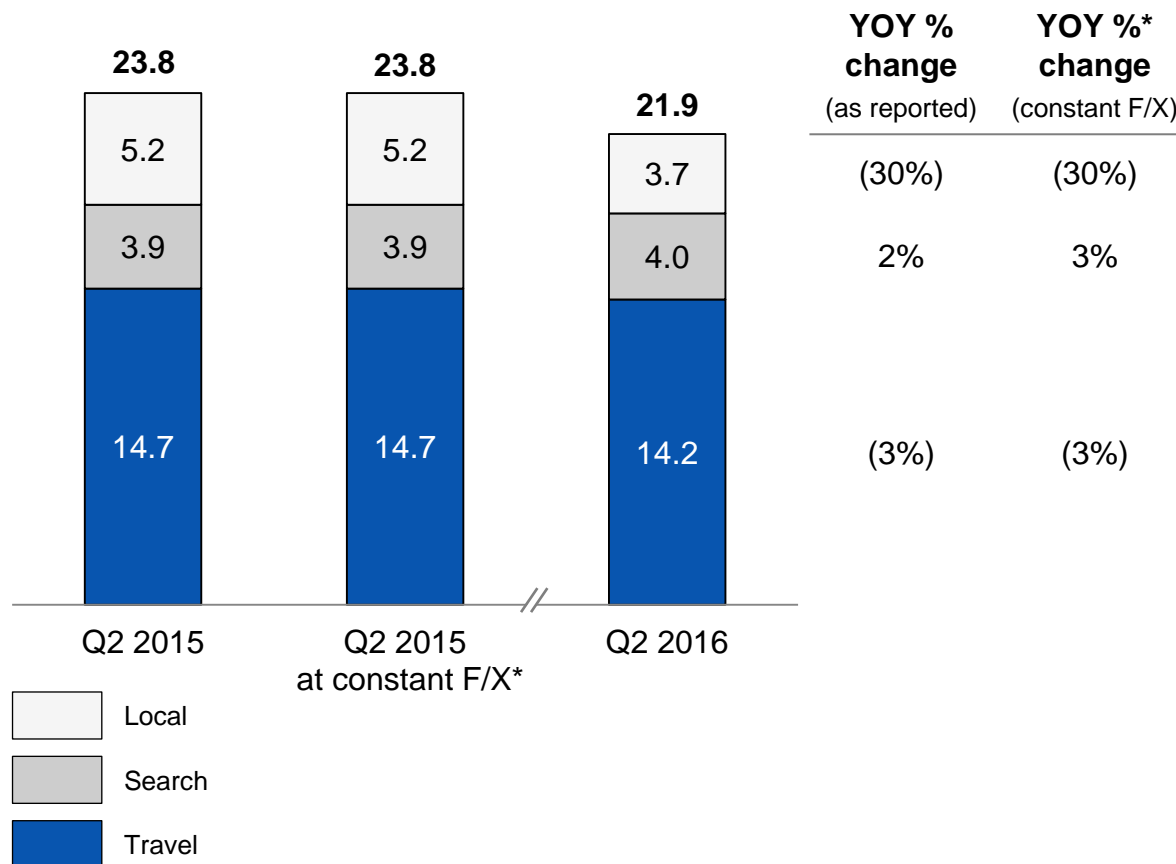


\* Overall impact of unfavorable F/X trends is 0.4 million

North America revenue decreased as we continued to focus and streamline our business.

### North America Revenue by Type

\$ millions



#### Highlights\*

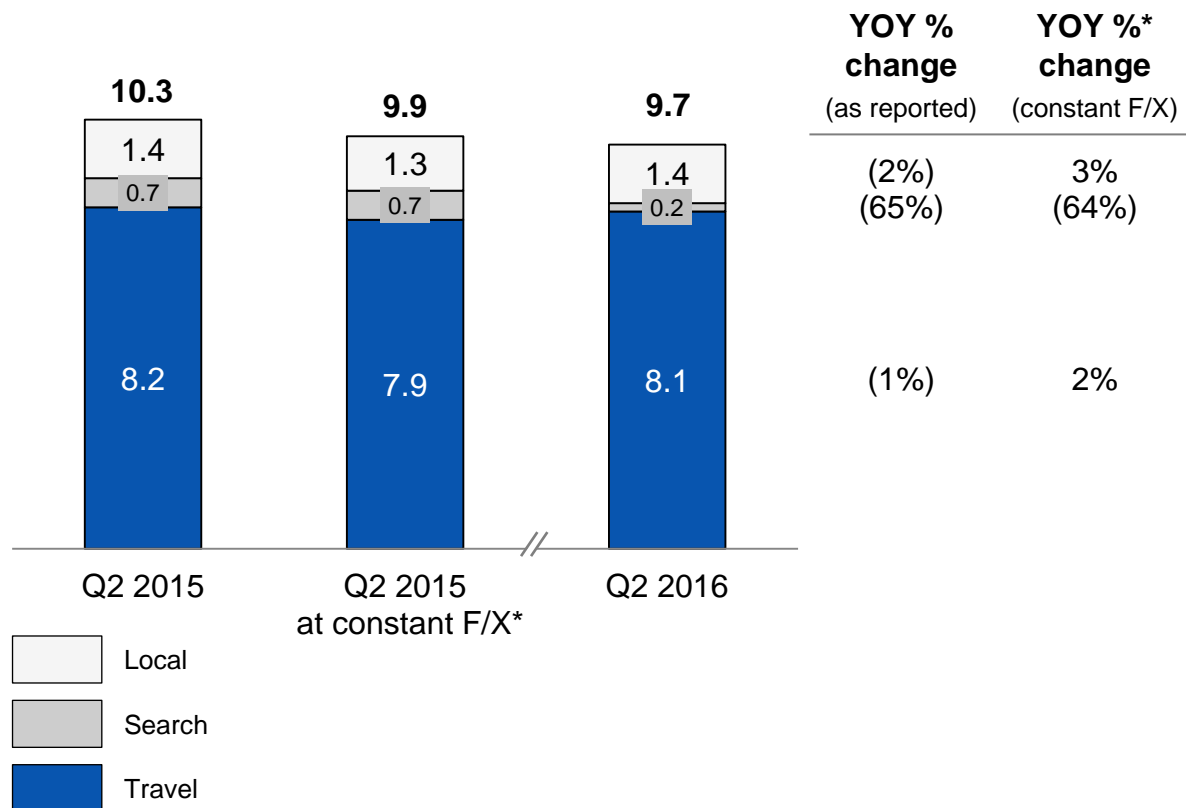
- **Travel** –YOY 3% decrease driven primarily by elimination of unprofitable business activities.
- **Search** –YOY 3% increase due to effective traffic acquisition during the quarter.
- **Local** –YOY 30% decrease driven by focusing on fewer cities and elimination of unprofitable activities.

\* Based on constant F/X rates for CAD

Revenue in Europe (at constant F/X) was down slightly due to reduced Search traffic acquisition spend. Our Local business grew by 3%.

## Europe Revenue by Type

\$ millions



### Highlights\*

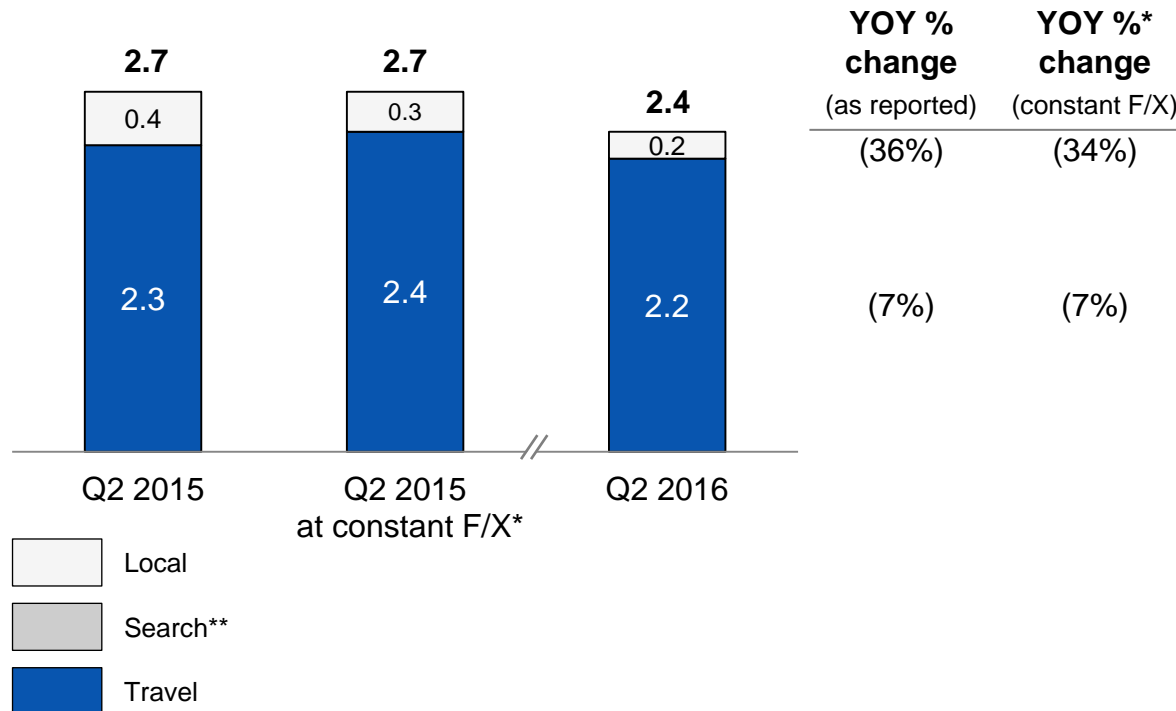
- **Travel** – YOY 2% increase.
- **Search** –YOY 64% decrease driven by reduced traffic acquisition spend.
- **Local** –YOY 3% increase driven by additional voucher sales.

\* Based on constant F/X rates for GBP and Euro

Asia Pacific revenue down as we are restructuring our sales operations to become more effective.

## Asia Pacific Revenue by Type

\$ millions



### Highlights\*

- **Travel** –YOY 7% decrease driven by reorganization of sales teams in various countries.
- **Local** –YOY 34% decrease driven by focusing on most attractive local opportunities.

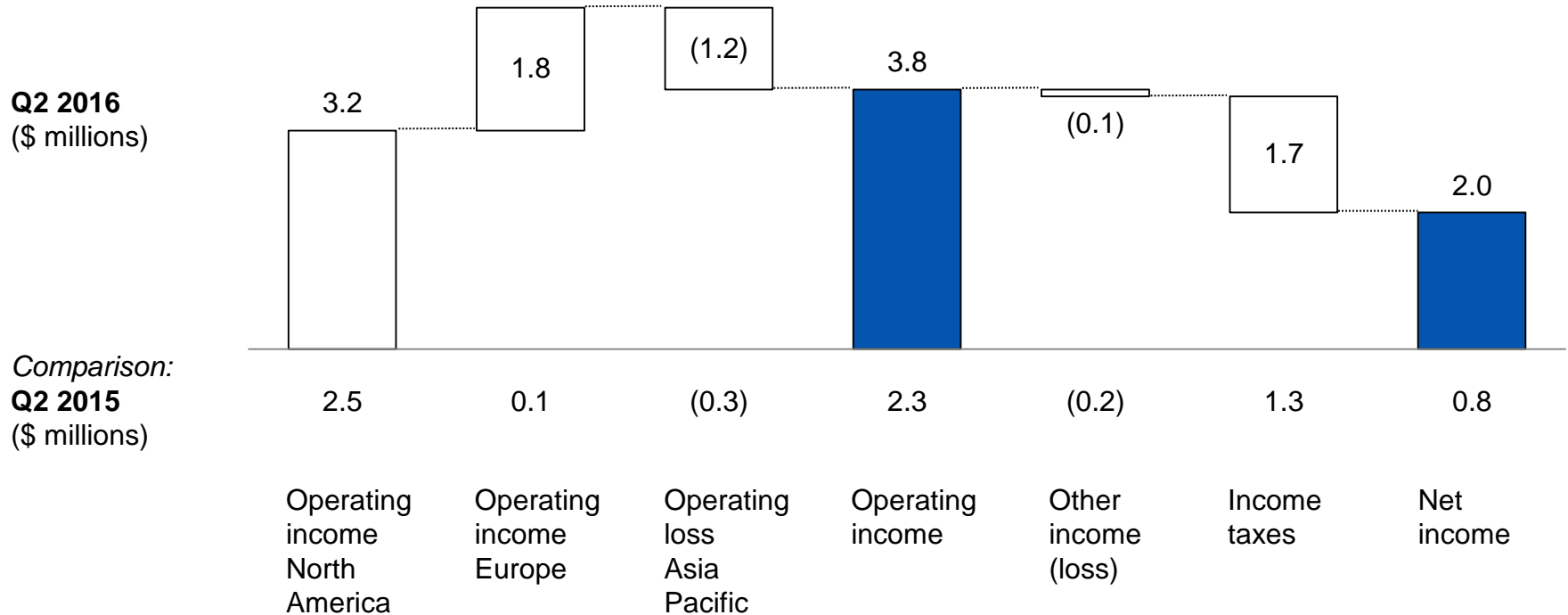
\* Based on constant F/X rates for Asian currencies

\*\* Asia Pacific has limited Search revenues



Operating income increased year-over-year. Asia Pacific operating loss was up due to increased investments in member acquisition.

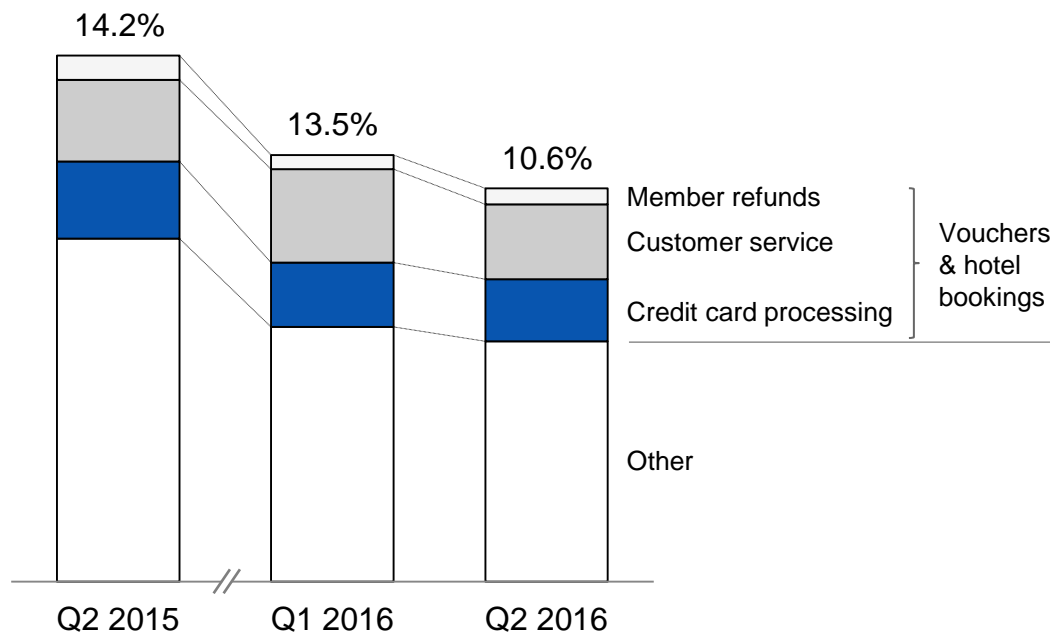
### Year-Over-Year Comparison



With a smaller portion of voucher sales and syndication, cost of revenues decreased. Operating margin almost doubled year-over-year.

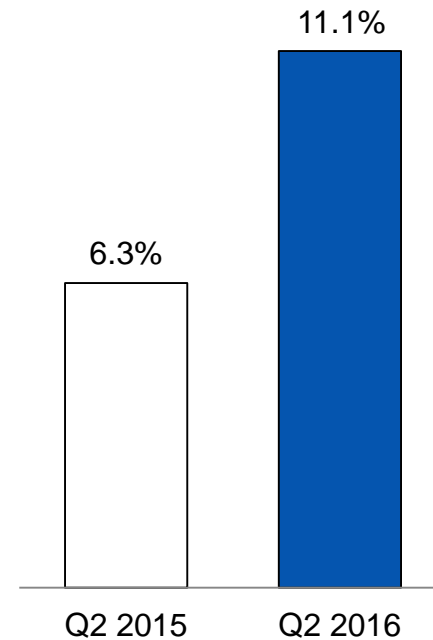
### Cost of Revenue

as percentage of revenue



### Operating Margin

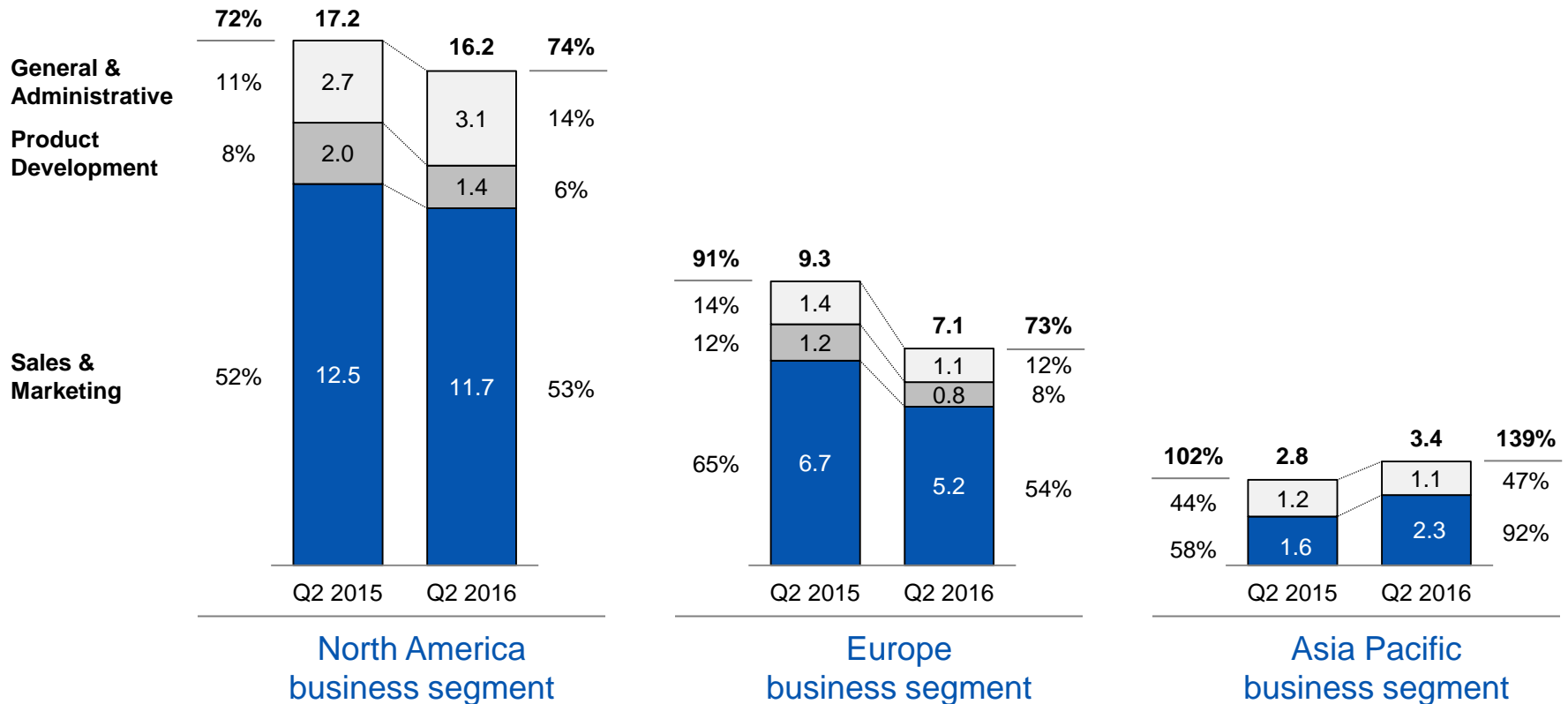
as percentage of revenue



# Total operating expenses decreased in North America, Europe and Asia Pacific as a result of operating smarter.

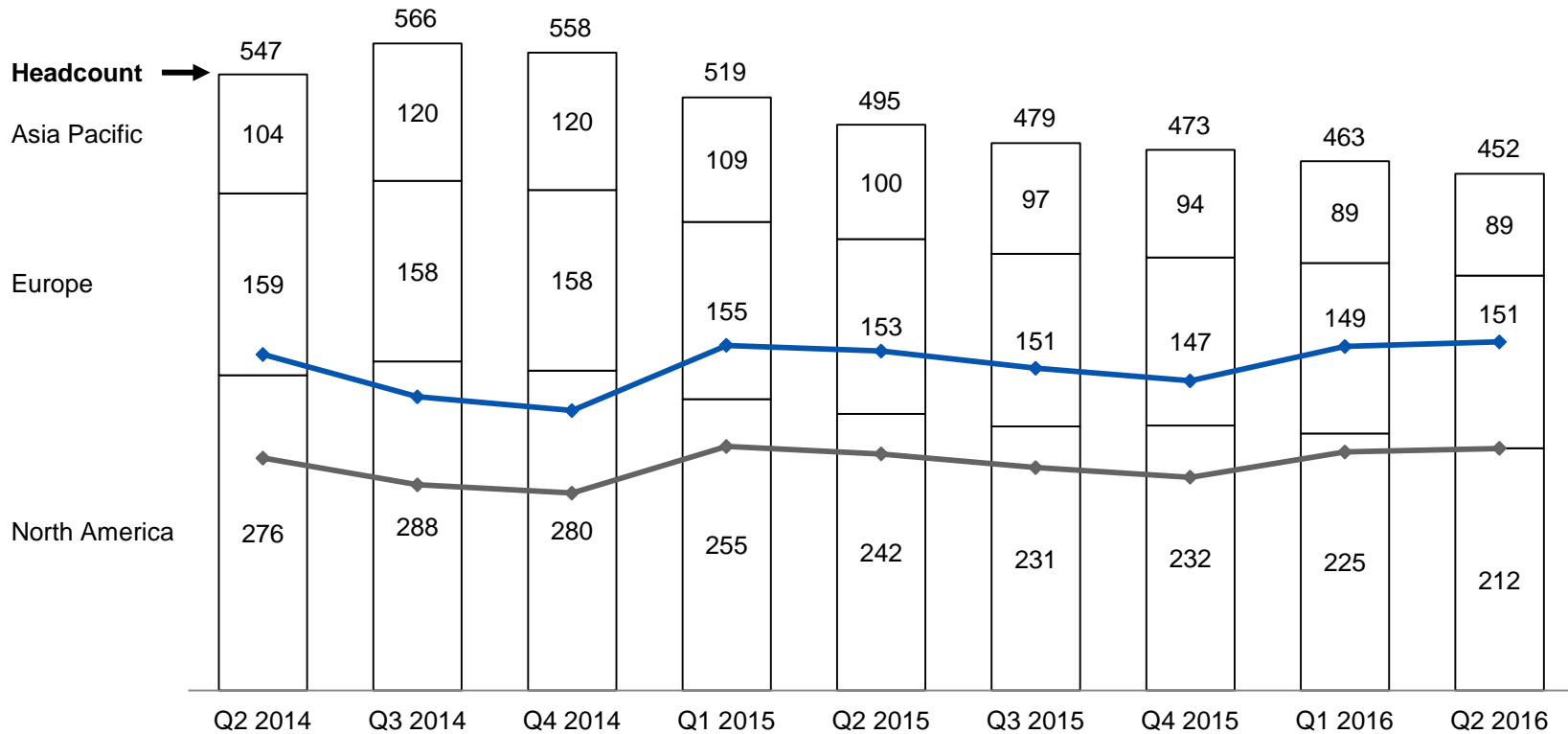
## Operating Expenses

\$ millions and as percentage of revenue



# Productivity is up slightly year-over-year and sequentially.

## Headcount and Average Annualized Revenue per Employee



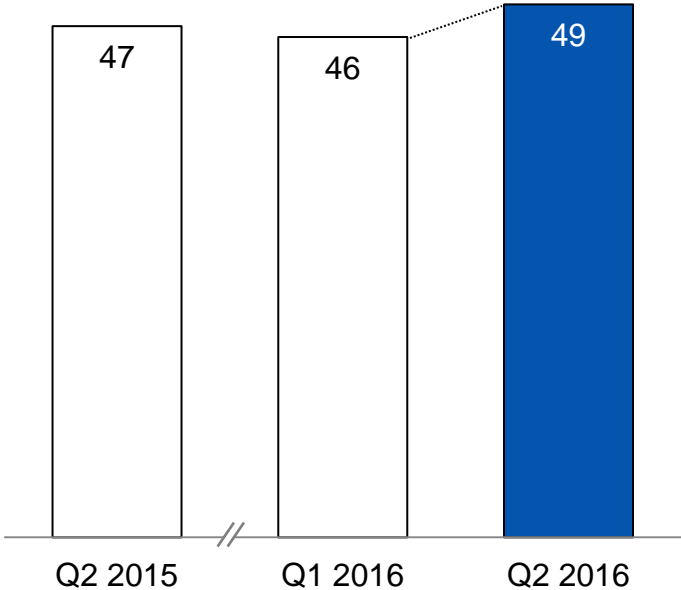
### Revenue per employee (\$ thousands)

	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016
Without Asia	\$339	\$300	\$288	\$356	\$345	\$325	\$311	\$348	\$353
With Asia	\$294	\$257	\$245	\$302	\$297	\$282	\$271	\$301	\$305

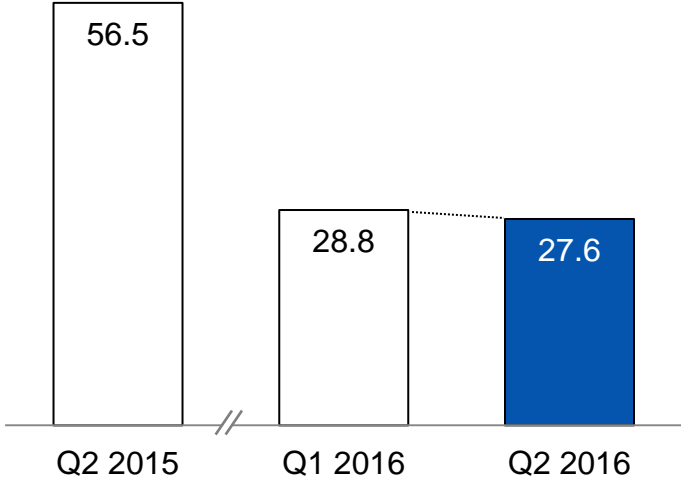
DSO increased year-over-year due to longer collection cycles in Search and Asia Pacific. Cash position solid after repurchasing more stock.

### DSO and Cash Balances

**DSO (Days Sales Outstanding)**  
# of days



**Cash Balance at End of Quarter\***  
\$ millions



\* Includes cash and cash equivalents

---

## Second Quarter 2016 Performance Summary

- Majority of revenue declines driven by planned reductions in Local, Search and syndication revenue as well as negative F/X.
- Improvements in profitability and operating costs given our continued focus on operating smarter.
- Solid cash position after repurchasing more stock.

---

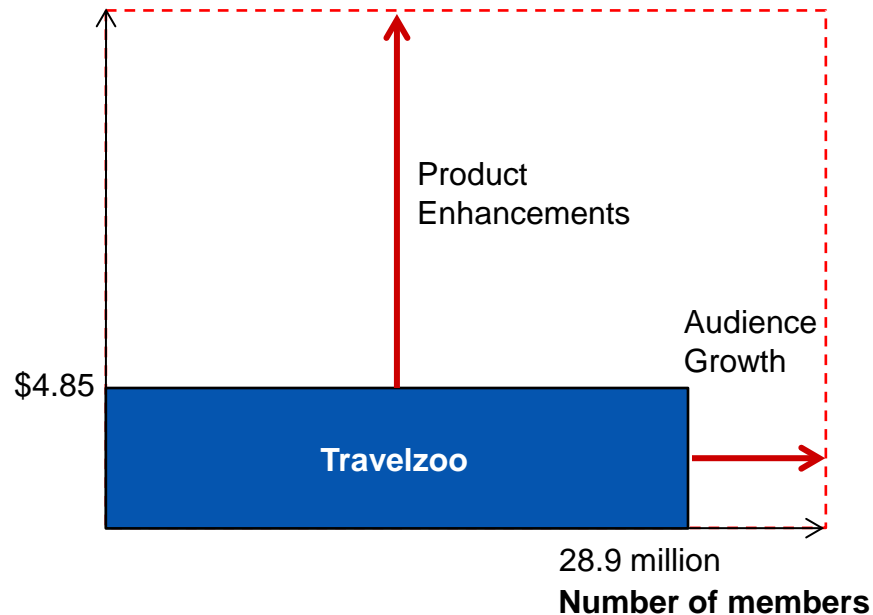
Part 1:  
Second Quarter 2016 Performance

Part 2:  
Growth Strategy Overview

Our growth strategy continues to build on enhancing our products and growing our audience.

### Annual revenue per member\*

US\$ per member



Long-term growth in our business is driven by our audience, people, and products.

### Strategic Elements

#### 1. Audience:

Grow members, but also mobile users, Facebook fans, and Twitter followers.

#### 2. Products:

Enhance our products to enable users to search “what”, “where” and “when”, particularly on mobile and for hotels.

\* Defined as year-to-date annualized revenue divided by the number of members at beginning of year



# Our strategic investments are focused on member growth, product enhancements, and enabling date-specific hotel search.

---

## Strategic Priorities

### Member Growth

- Add new members at faster pace than past 3-4 years
- Combine online marketing and referrals, and test off-line campaigns
- Leverage social media/marketing

#### Progress and Outlook

- 900,000 new members added during the quarter
- Current levels of quarterly spend to continue, subject to ROI goals
- Greater investments in Asia Pacific, particularly China

### Product Enhancements

- Make all products more mobile-friendly
- Simplify user experience and functionality
- Enable searches for “what”, “where” and “when”

#### Progress and Outlook

- Less but more relevant emails; further enhancements in personalization
- Simplified “what”, “where” and “when” search
- Fully responsive and simplified products in testing with select members

### Date-specific Hotel Search

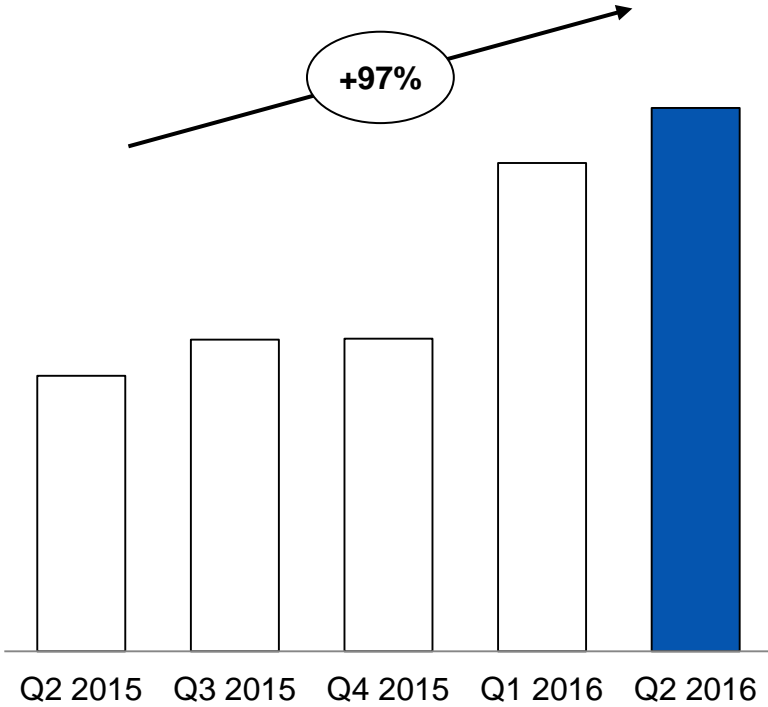
- Enable members and users to find hotel deals and recommendations where and when they need them
- Enhance user experience and hotel relations via the global universal hotel platform

#### Progress and Outlook

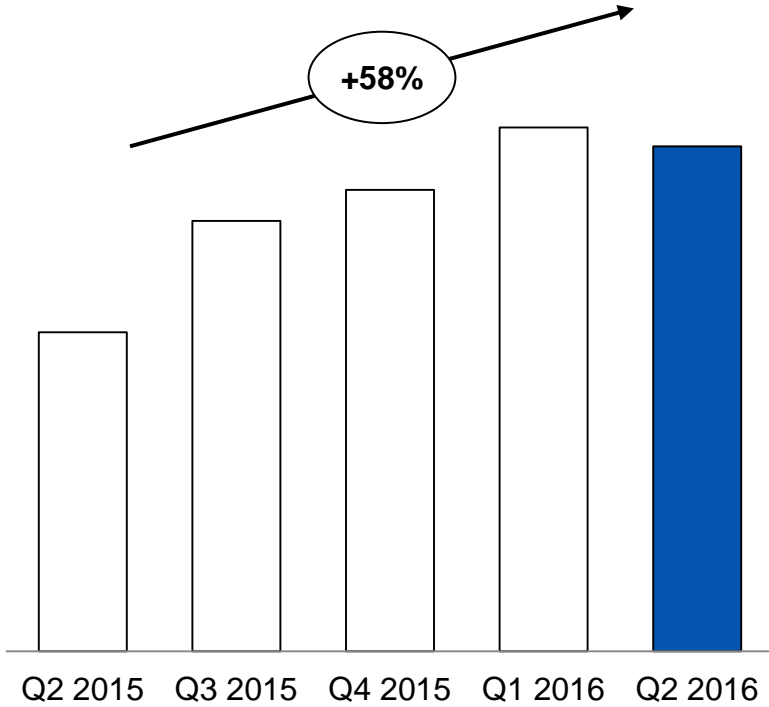
- Hotel search live in U.S., Canada and the UK
- Transactions and conversion rates on the platform continue to increase
- Further integration of hotel search functionality in new responsive site

Bookings on our hotel platform continue to grow and hotel search sessions are rising. We are looking to promote hotel search increasingly to our members.

### Hotel Search Sessions

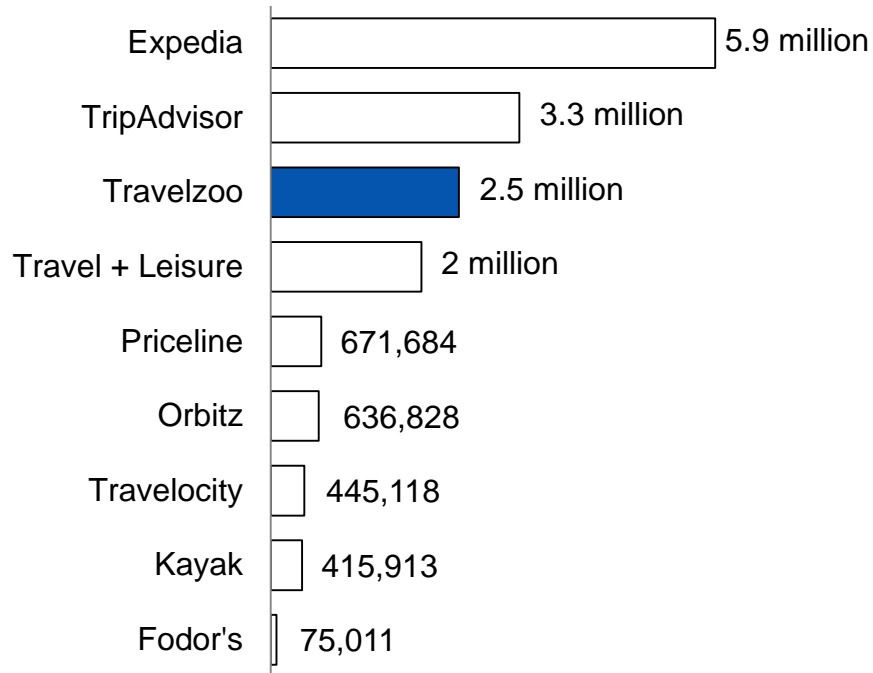


### Quarterly Bookings on the Hotel Platform Number of Stays Completed

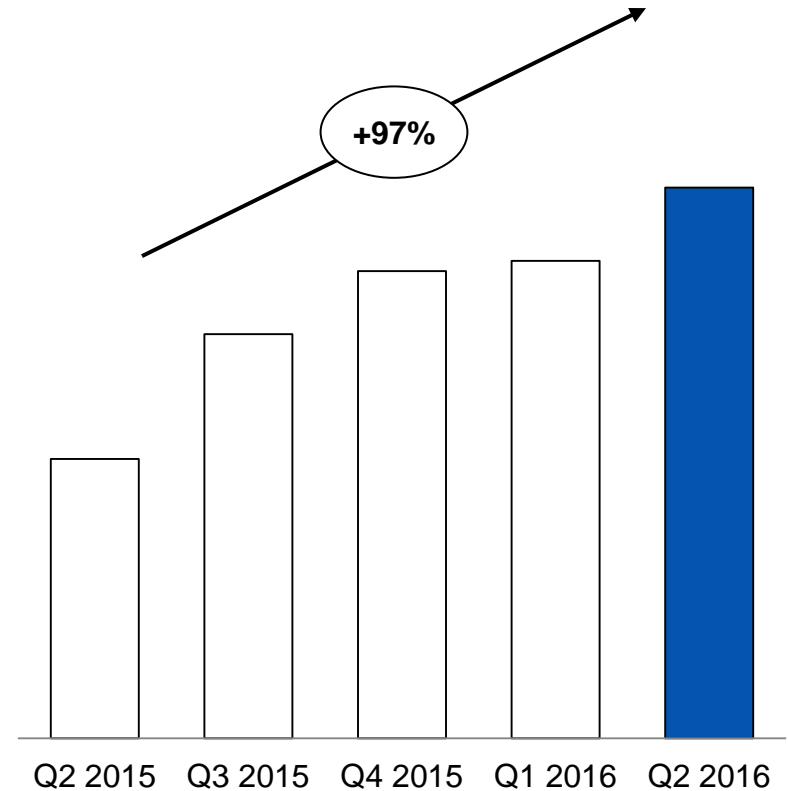


We have become more successful with social media and marketing, delivering content to our members in new ways beyond email.

Facebook Audience Compared to Other Travel Brands (as of April 13, 2016)  
Million



Total Number of Visits from Facebook During the Quarter U.S.

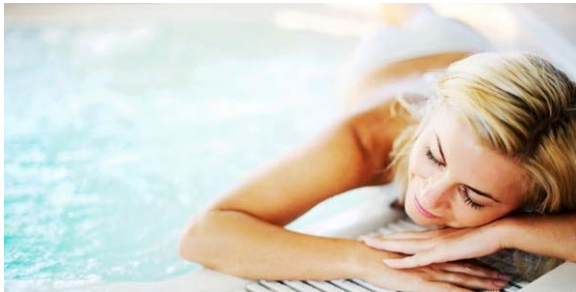


We continue to believe that deal quality drives member loyalty and positions us well for long-term success.

---

### High-Quality Local Deals

Highly rated restaurants, luxe spas, top shows and exciting local adventures.



### Outstanding Travel Deals

We feature deals at Travel + Leisure's World's Best 500 and Conde Nast Traveler's Gold List.



### Top 20® list

This week's most outstanding travel, entertainment and local deals, researched and tested.



---

## Management Focus

- ✓ Maintain our quality leadership position by publishing high-quality deals and tightening brand control.
- ✓ Resume top-line revenue growth by investing in:
  - Products that make it easier for members and users to find deals when and where they need them, particularly on mobile and for hotels.
  - Audience growth and engagement, across email, web, social and mobile.
- ✓ Invest for future growth while remaining profitable.

---

# APPENDIX

North America		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	YTD 2014	YTD 2015	YTD 2016
Travel		17,265	15,149	13,944	12,747	16,041	14,689	12,986	12,340	14,757	14,240	32,414	30,729	28,996
	Q/Q growth rate	16%	-12%	-8%	-9%	26%	-8%	-12%	-5%	20%	-4%			
	Y/Y growth rate	-1%	-7%	-6%	-15%	-7%	-7%	-3%	-3%	-8%	-3%	-4%	-5%	-6%
Search		4,071	4,154	4,216	3,447	4,738	3,900	3,816	2,973	3,638	3,996	8,225	8,637	7,634
	Q/Q growth rate	1%	2%	2%	-18%	37%	-18%	-2%	-22%	22%	10%			
	Y/Y growth rate	-30%	-33%	-23%	-14%	16%	-6%	-9%	-14%	-23%	2%	-32%	5%	-12%
Local		5,267	6,080	4,763	5,089	4,157	5,232	3,891	4,141	3,257	3,664	11,346	9,388	6,921
	Q/Q growth rate	-23%	15%	-22%	7%	-18%	26%	-26%	6%	-21%	13%			
	Y/Y growth rate	-22%	-22%	-22%	-25%	-21%	-14%	-18%	-19%	-22%	-30%	-22%	-17%	-26%
<b>Total North America Revenues</b>		<b>26,602</b>	<b>25,383</b>	<b>22,922</b>	<b>21,283</b>	<b>24,935</b>	<b>23,820</b>	<b>20,693</b>	<b>19,454</b>	<b>21,652</b>	<b>21,900</b>	<b>51,985</b>	<b>48,755</b>	<b>43,552</b>
	Q/Q growth rate	3%	-5%	-10%	-7%	17%	-4%	-13%	-6%	11%	1%			
	Y/Y growth rate	-11%	-16%	-13%	-17%	-6%	-6%	-10%	-9%	-13%	-8%	-14%	-6%	-11%
Europe		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	YTD 2014	YTD 2015	YTD 2016
Travel		10,590	8,850	8,473	7,933	9,449	8,154	8,191	7,810	9,006	8,075	19,440	17,603	17,082
	Q/Q growth rate	22%	-16%	-4%	-6%	19%	-14%	0%	-5%	15%	-10%			
	Y/Y growth rate	15%	9%	4%	-9%	-11%	-8%	-3%	-2%	-5%	-1%	12%	-9%	-3%
Search		1,352	798	455	405	640	698	725	332	333	242	2,150	1,339	576
	Q/Q growth rate	78%	-41%	-43%	-11%	58%	9%	4%	-54%	0%	-27%			
	Y/Y growth rate	40%	-18%	-46%	-47%	-53%	-12%	59%	-18%	-48%	-65%	11%	-38%	-57%
Local		1,673	1,887	1,668	1,891	1,473	1,406	1,402	1,852	1,551	1,382	3,560	2,879	2,933
	Q/Q growth rate	-27%	13%	-12%	13%	-22%	-5%	0%	32%	-16%	-11%			
	Y/Y growth rate	-22%	-8%	-13%	-17%	-12%	-25%	-16%	-2%	5%	-2%	-15%	-19%	2%
<b>Total Europe Revenues</b>		<b>13,615</b>	<b>11,535</b>	<b>10,595</b>	<b>10,230</b>	<b>11,562</b>	<b>10,259</b>	<b>10,317</b>	<b>9,994</b>	<b>10,891</b>	<b>9,699</b>	<b>25,150</b>	<b>21,820</b>	<b>20,591</b>
	Q/Q growth rate	16%	-15%	-8%	-3%	13%	-11%	1%	-3%	9%	-11%			
	Y/Y growth rate	11%	4%	-3%	-13%	-15%	-11%	-3%	-2%	-6%	-5%	7%	-13%	-6%
Asia		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	YTD 2014	YTD 2015	YTD 2016
Travel		2,343	2,251	2,322	2,392	2,259	2,345	2,425	2,326	2,028	2,220	4,593	4,604	4,248
	Q/Q growth rate	-5%	-4%	3%	3%	-6%	4%	3%	-4%	-13%	9%			
	Y/Y growth rate	-4%	-11%	-2%	-3%	-4%	4%	4%	-3%	-10%	-5%	-8%	0%	-8%
Search		30	34	25	12	11	16	3	4	5	9	63	27	14
	Q/Q growth rate	5%	14%	-27%	-51%	-5%	38%	-78%	6%	41%	72%			
	Y/Y growth rate	-51%	-61%	-56%	-58%	-62%	-53%	-86%	-70%	-55%	-44%	-57%	-57%	-49%
Local		454	397	443	374	377	353	289	274	228	218	851	730	446
	Q/Q growth rate	-18%	-12%	11%	-16%	1%	-6%	-18%	-5%	-17%	-5%			
	Y/Y growth rate	4%	-28%	-14%	-32%	-17%	-11%	-35%	-27%	-40%	-38%	-14%	-14%	-39%
<b>Total Asia Revenues</b>		<b>2,826</b>	<b>2,681</b>	<b>2,790</b>	<b>2,778</b>	<b>2,648</b>	<b>2,713</b>	<b>2,718</b>	<b>2,604</b>	<b>2,261</b>	<b>2,447</b>	<b>5,507</b>	<b>5,361</b>	<b>4,708</b>
	Q/Q growth rate	-7%	-5%	4%	0%	-5%	2%	0%	-4%	-13%	8%			
	Y/Y growth rate	-4%	-15%	-5%	-9%	-6%	1%	-3%	-6%	-15%	-10%	-10%	-3%	-12%
Consolidated		Q1 14	Q2 14	Q3 14	Q4 14	Q1 15	Q2 15	Q3 15	Q4 15	Q1 16	Q2 16	YTD 2014	YTD 2015	YTD 2016
Travel		30,198	26,250	24,739	23,072	27,749	25,187	23,601	22,476	25,791	24,535	56,448	52,936	50,326
	Q/Q growth rate	16%	-13%	-6%	-7%	20%	-9%	-6%	-5%	15%	-5%			
	Y/Y growth rate	4%	-3%	-2%	-12%	-8%	-4%	-5%	-3%	-7%	-3%	1%	-6%	-5%
Search		5,453	4,985	4,695	3,864	5,389	4,614	4,545	3,309	3,977	4,247	10,438	10,003	8,223
	Q/Q growth rate	13%	-9%	-6%	-18%	39%	-14%	-1%	-27%	20%	7%			
	Y/Y growth rate	-20%	-31%	-26%	-20%	-1%	-7%	-3%	-14%	-26%	-8%	-26%	-4%	-18%
Local		7,393	8,364	6,873	7,354	6,007	6,991	5,582	6,267	5,036	5,264	15,757	12,998	10,300
	Q/Q growth rate	-23%	13%	-18%	7%	-18%	16%	-20%	12%	-20%	5%			
	Y/Y growth rate	-20%	-20%	-19%	-24%	-19%	-16%	-19%	-15%	-16%	-25%	-20%	-18%	-21%
<b>Total Consolidated Revenues</b>		<b>43,043</b>	<b>39,599</b>	<b>36,307</b>	<b>34,291</b>	<b>39,145</b>	<b>36,792</b>	<b>33,728</b>	<b>32,052</b>	<b>34,804</b>	<b>34,046</b>	<b>82,642</b>	<b>75,936</b>	<b>68,850</b>
	Q/Q growth rate	6%	-8%	-8%	-6%	14%	-6%	-8%	-5%	9%	-2%			
	Y/Y growth rate	-5%	-11%	-10%	-15%	-9%	-7%	-7%	-7%	-11%	-7%	-8%	-8%	-9%

(1) Travel includes travel publications (Top 20, Website, Newsflash, Network), Getaway vouchers and Hotel Platform  
(2) Search includes SuperSearch and Fly.com  
(3) Local includes Local Deals vouchers and Entertainment non-vouchers