



# Fourth Quarter 2018 Performance and Business Update

February 6, 2019

## Important Notice

Please read this management presentation together with the Company's press release issued earlier today announcing the Company's fourth quarter 2018 financial results and in conjunction with the Company's recent Annual Report and Quarterly Results as filed with the Securities and Exchange Commission (SEC).

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 undertakes no obligation to update forward-looking statements to reflect events or circumstances occurring after the date of this presentation.

Part 1:  
Fourth Quarter 2018 Performance

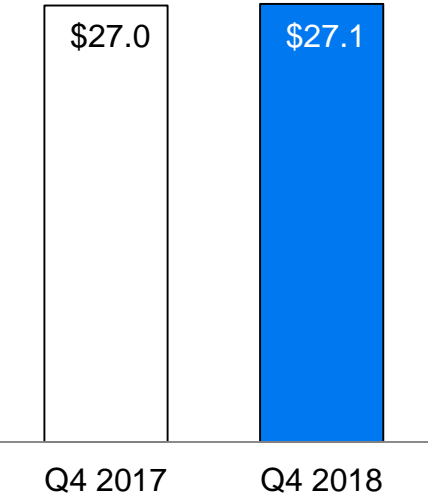
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Part 2:  
Management Focus

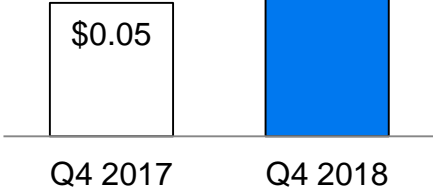
While revenues in our reporting currency just increased slightly year over year, earnings more than doubled.

Q4 2018 Financial Performance

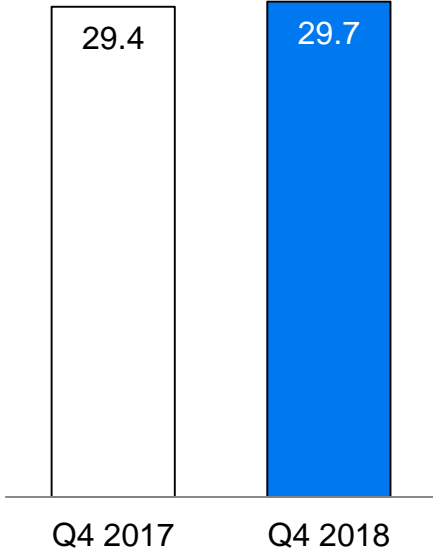
**Revenue**  
\$ millions



**EPS**  
\$ per share

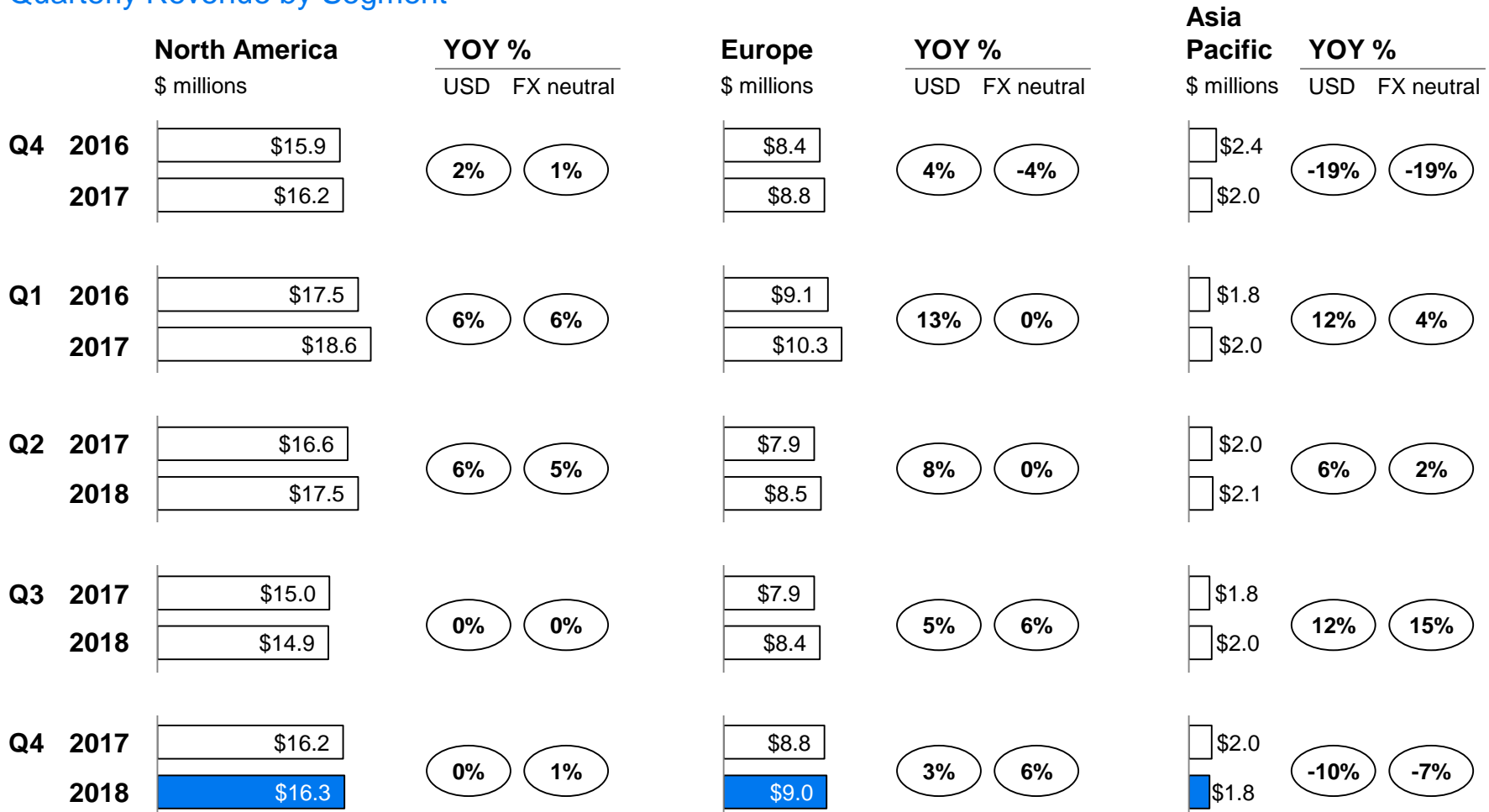


**Members**  
Millions



# When eliminating FX changes, revenue growth in local currency was better in all three segments.

## Quarterly Revenue by Segment\*

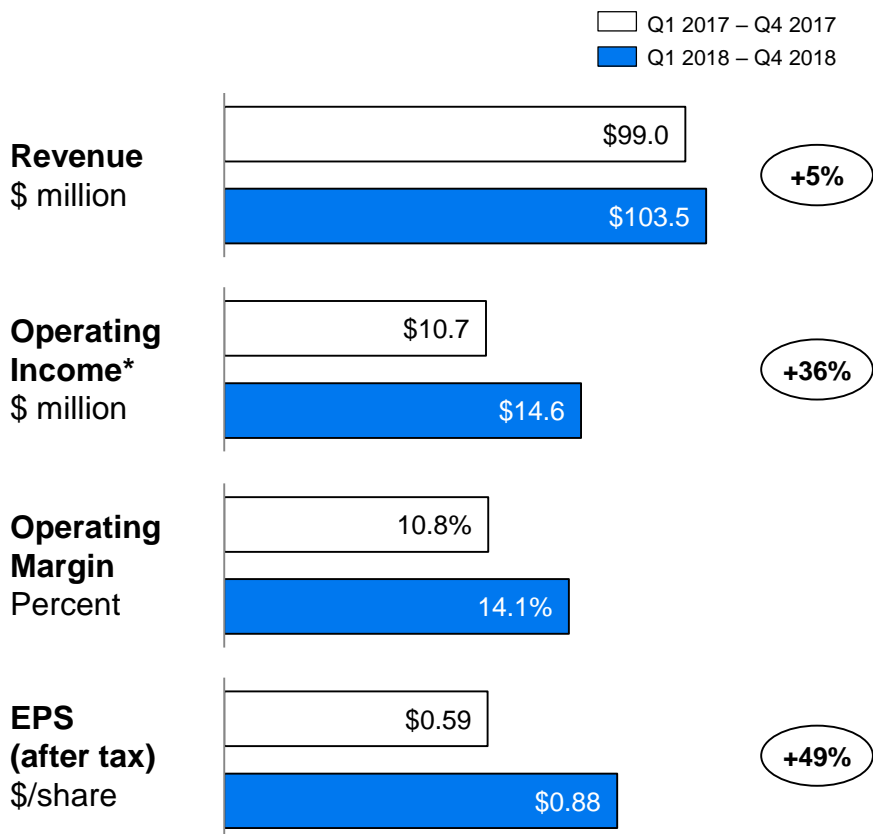


- Overall impact of unfavorable F/X trends during Q4 2018 is \$394,000.

The solid performance of our core businesses is masked by our investments in Asia Pacific. North America and Europe generated after-tax EPS of \$0.88.

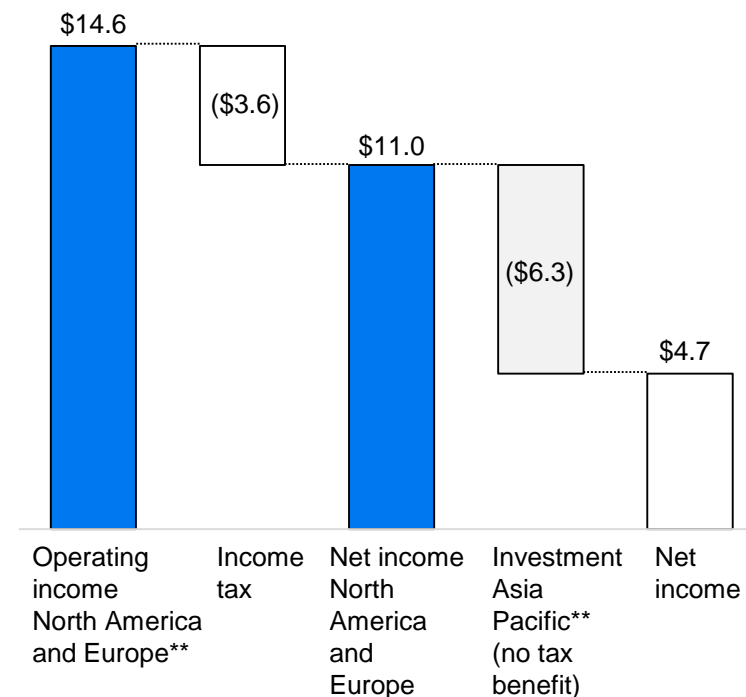
### North America and Europe

TTM, compared to previous 12 months



### Investment in Asia Pacific

\$ million TTM (Q1 2018 – Q4 2018)



\* Includes other income \$173,000 and \$48,000 for the TTM period ended Q4 2017 and Q4 2018, respectively.

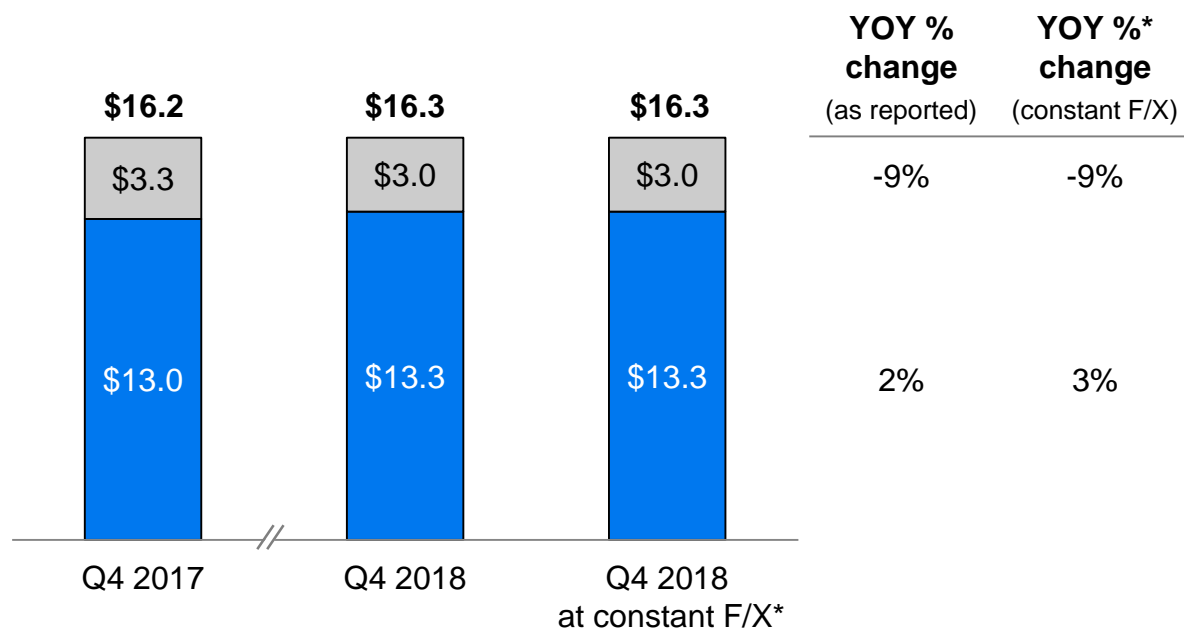
\*\* Includes other income of \$590,000 for North America/Europe and other expenses of \$542,000 for Asia Pacific.

\*\*\* EPS calculation uses the average diluted shares of 12,894,800 and 12,510,000 for the TTM period ended Q4 2017 and Q4 2018, respectively.

North America was still catching up from a lost advertiser at the end of Q3, which went out of business – but growth is expected to resume and accelerate in 2019.

### North America Revenue by Type

\$ millions



#### Highlights\*

- **Travel** – YOY 2% increase in spite of the loss of a large customer.
- **Local** – YOY 9% decrease due lower revenue from entertainment offers in the quarter.

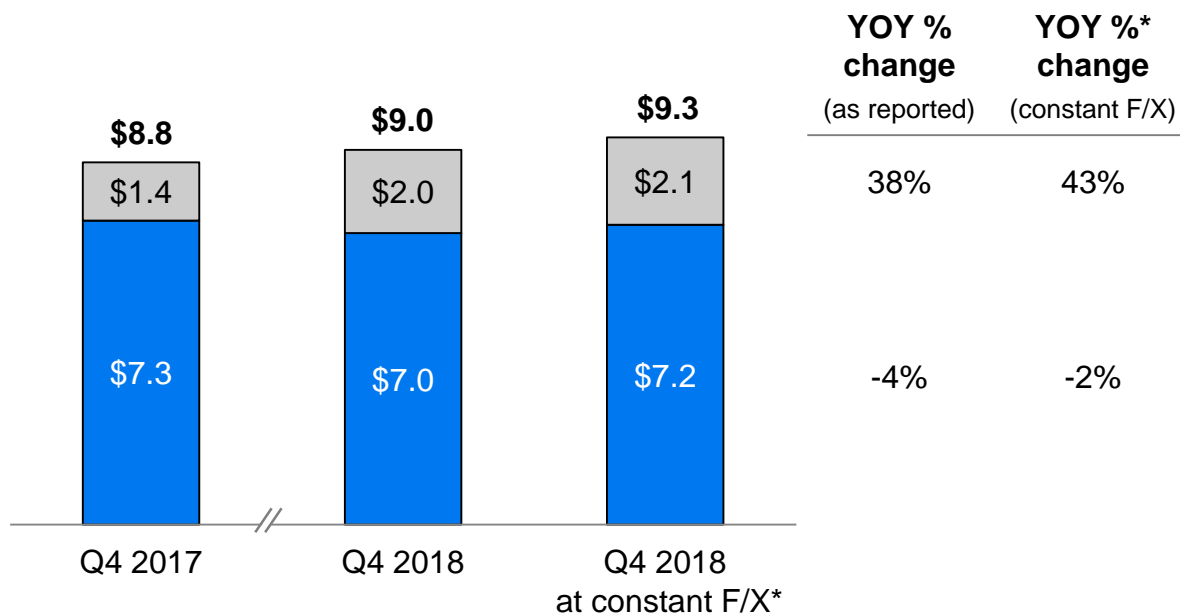


\* Based on constant F/X rates for CAD

# In Europe, revenues continued to grow year-over-year, with particularly strong revenues in Local.

## Europe Revenue by Type

\$ millions



### Highlights\*

- **Travel** – YOY -2% after strong comps in Q4 2017.
- **Local** – YOY 43% increase due to YOY improvement in voucher sales.



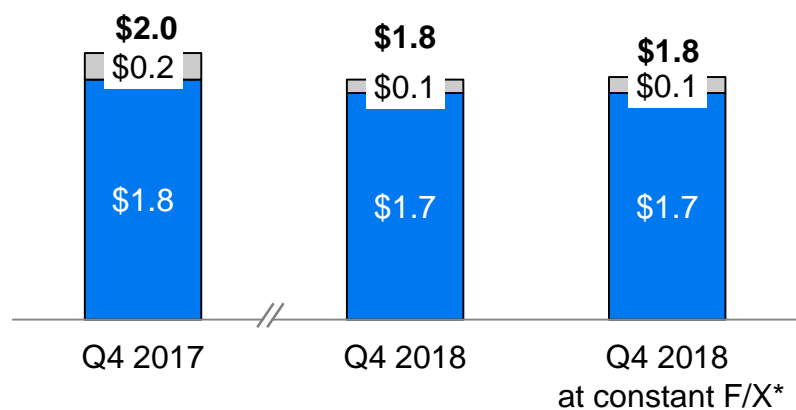
\* Based on constant F/X rates for GBP and Euro



In Asia Pacific revenue suffered from a temporarily smaller sales team in China, but Japan, Hong Kong and Southeast Asia were growing.

### Asia Pacific Revenue by Type

\$ millions



YOY % change (as reported)	YOY %* change (constant F/X)
-24%	-21%
-8%	-6%

### Highlights\*

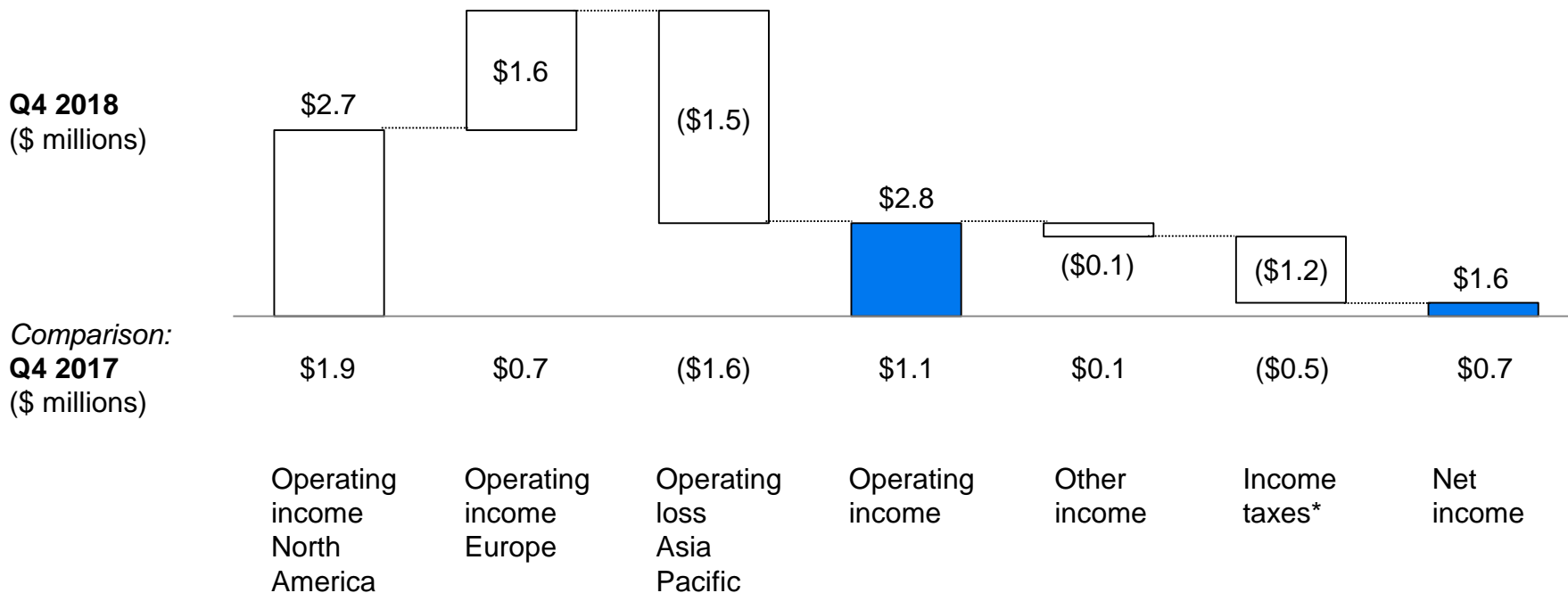
- **Travel** – YOY 6% decrease due to a smaller sales team in China, which we will build up in 2019.
- **Local** – YOY 21% decrease, as we focus on most profitable opportunities.



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

North America and Europe generated profits of \$4.3 million – almost double from last year. \$1.5 million was used towards investments in Asia Pacific.

### Year-Over-Year Comparison

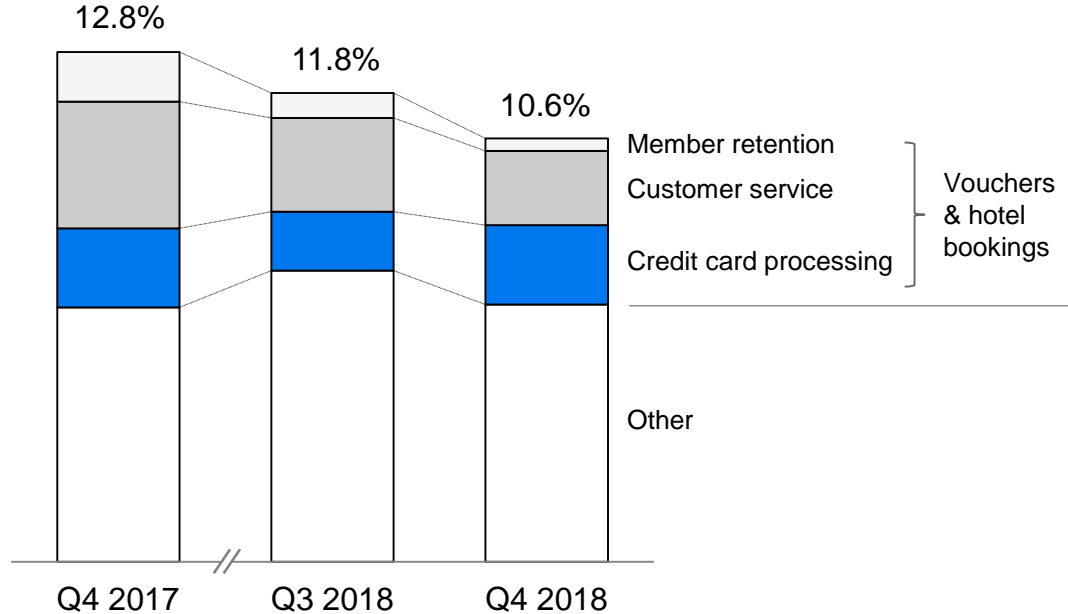


\* Income taxes reflect taxes on North America and Europe income without any offsetting tax benefit from the separate tax jurisdiction Asia Pacific losses.

# Gross margins improved compared to last year and operating margins increased by 158%.

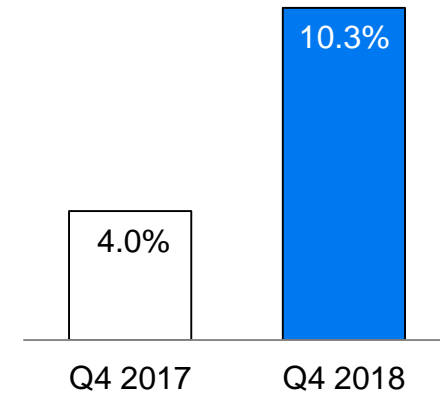
## Cost of Revenue

as percentage of revenue



## Operating Margin

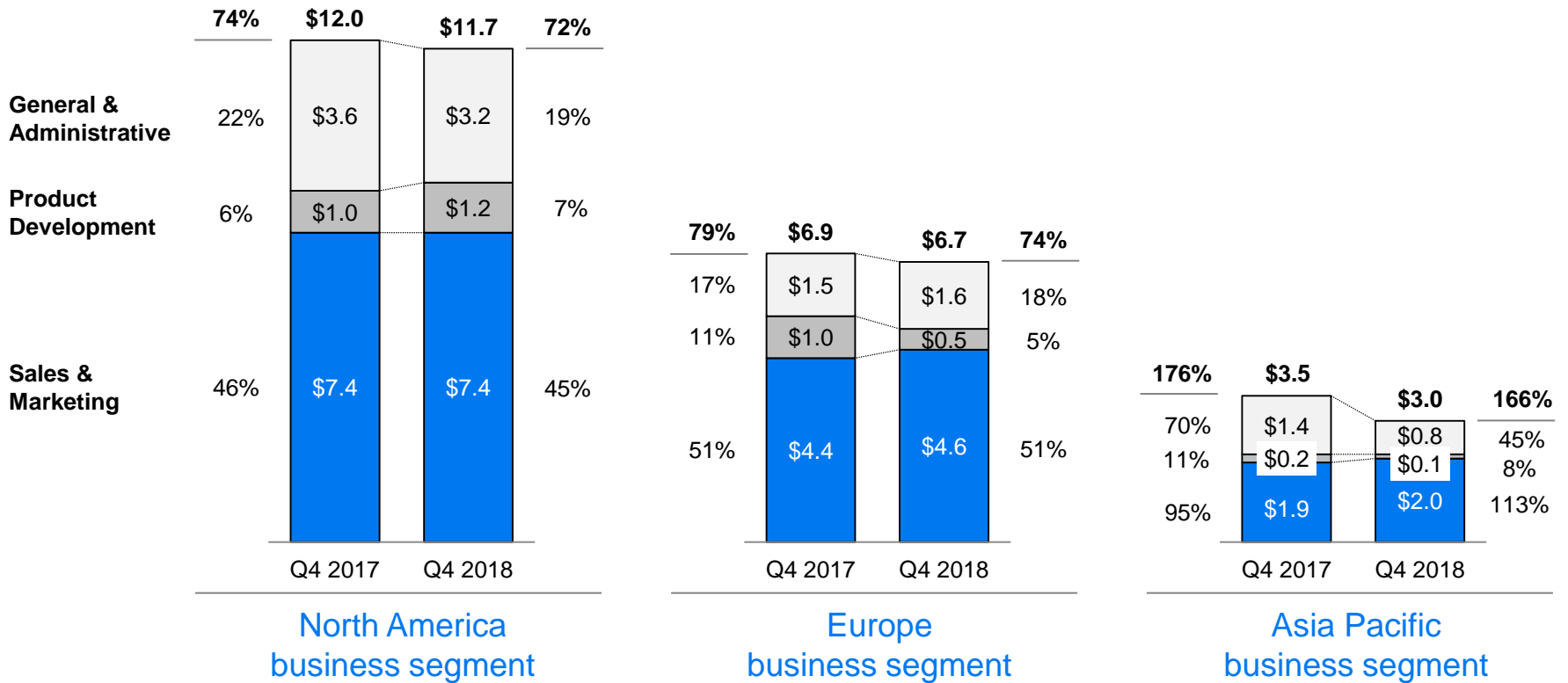
as percentage of revenue



# Operating expenses as a percent of revenue decreased in all three segments.

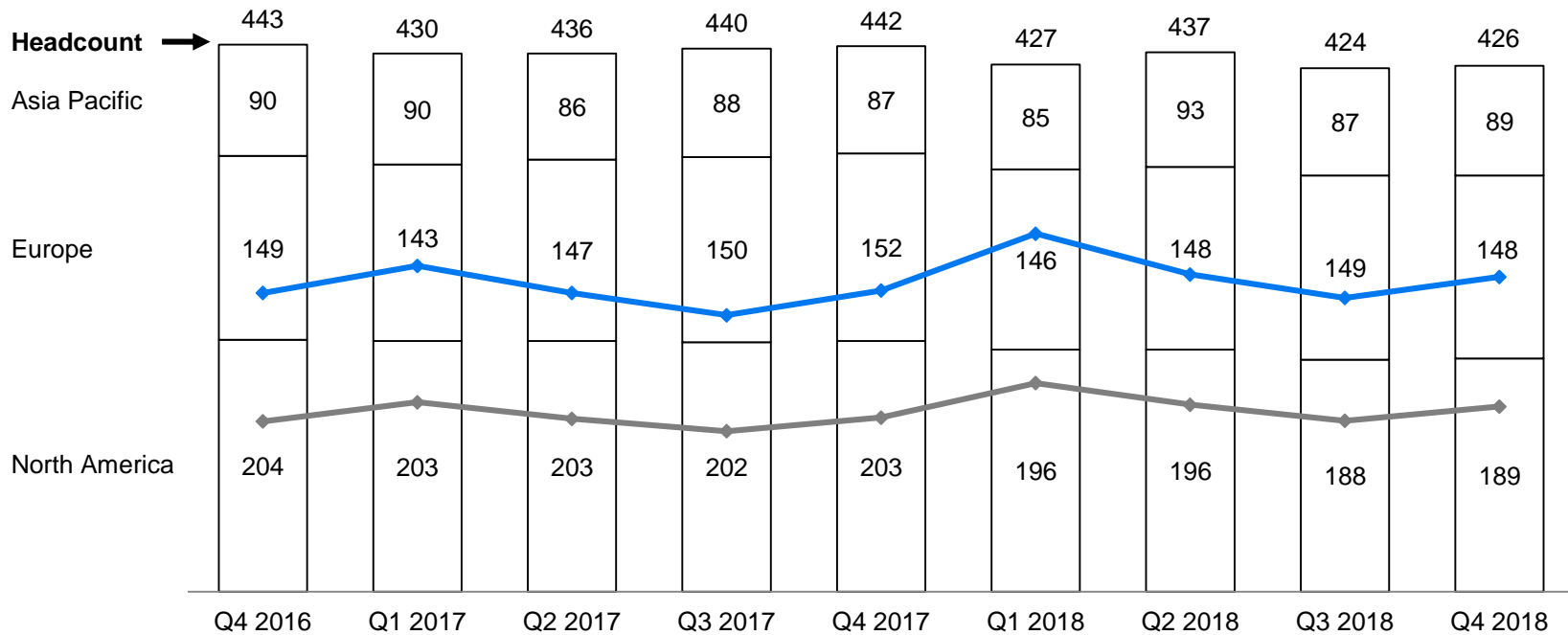
## Operating Expenses

\$ millions and as percentage of revenue



# Productivity increased year over year.

## Headcount and Average Annualized Revenue per Employee



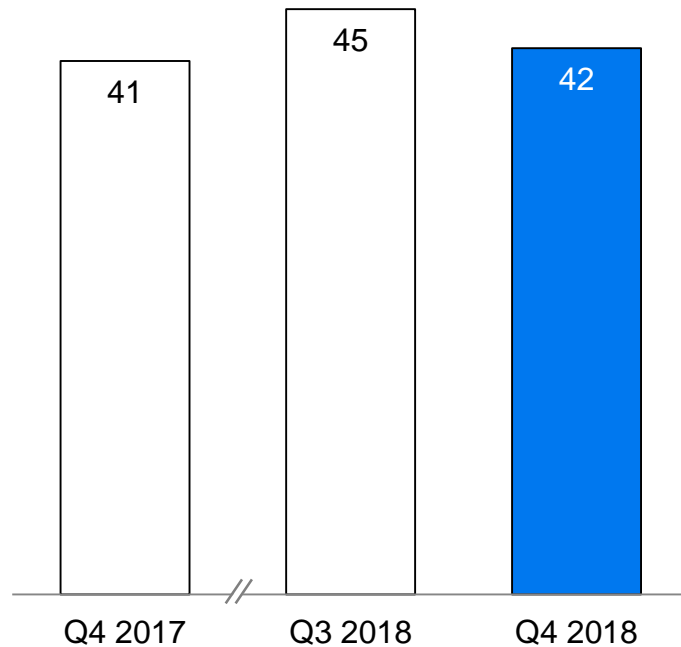
### Revenue per employee (\$ thousands)

	Q4 2016	Q1 2017	Q2 2017	Q3 2017	Q4 2017	Q1 2018	Q2 2018	Q3 2018	Q4 2018
Without Asia	\$276	\$307	\$280	\$260	\$282	\$338	\$303	\$277	\$300
With Asia	\$242	\$264	\$242	\$224	\$244	\$290	\$257	\$239	\$255

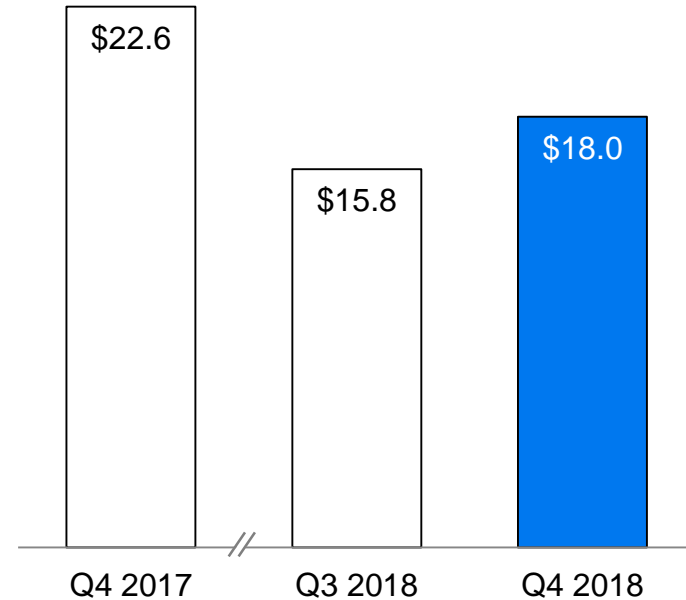
The Company's cash balance increased versus end of Q3, even though stock repurchases continued in Q4.

## DSO and Cash Balances

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



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



\* Includes cash and cash equivalents

# Fourth Quarter 2018 Performance Summary

- Overall revenue increased slightly, with revenue growth in Europe offset by a decrease in Asia Pacific.
- Significant improvement of operating profit and margins year over year in spite of continued investments in Asia Pacific and products.
- Solid cash position enabled continued stock repurchases.

Part 1:  
Fourth Quarter 2018 Performance

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Part 2:  
Management Focus



- Maintain our quality leadership position by publishing high-quality deals and tightening brand control.
- Expand exclusive offers to our members in the areas of hotels, vacations and local businesses.
- Expand visibility and awareness of the Travelzoo brand.
- Build scale in Asia Pacific via partnerships in order to achieve positive operating margins by 2020.
- Achieve double-digit revenue growth in 2019.
- Invest for future growth while continuing to increase margins.

# APPENDIX

**Travelzoo**  
**Revenue by Segment and Type - Quarterly**  
(in thousands except for percentages)

<b>North America</b>		Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2-18	Q3-18	Q4-18	YTD 2017	YTD 2018
Travel		12,493	12,759	14,859	13,910	12,146	12,964	16,036	14,596	12,223	13,290	53,879	56,146
	Y/Y growth rate	-4%	3%	1%	-2%	-3%	2%	8%	5%	1%	3%	30%	4%
Local		3,298	3,190	2,687	2,653	2,822	3,283	2,546	2,915	2,712	2,995	11,444	11,169
	Y/Y growth rate	-15%	-23%	-18%	-28%	-14%	3%	-5%	10%	-4%	-9%	12%	-2%
<b>Total North America Revenues</b>		<b>15,791</b>	<b>15,949</b>	<b>17,546</b>	<b>16,563</b>	<b>14,968</b>	<b>16,247</b>	<b>18,582</b>	<b>17,511</b>	<b>14,936</b>	<b>16,285</b>	<b>65,323</b>	<b>67,314</b>
	Y/Y growth rate	-6%	-3%	-3%	-7%	-5%	2%	6%	6%	0%	0%	26%	3%
<b>Europe</b>		Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2-18	Q3-18	Q4-18	YTD 2017	YTD 2018
Travel		7,357	6,646	8,005	6,796	7,052	7,328	9,053	7,409	7,387	7,008	29,181	30,857
	Y/Y growth rate	-10%	-15%	-11%	-16%	-4%	10%	13%	9%	5%	-4%	19%	6%
Local		1,117	1,770	1,066	1,102	894	1,439	1,227	1,091	991	1,983	4,501	5,293
	Y/Y growth rate	-20%	-4%	-31%	-20%	-20%	-19%	15%	-1%	11%	38%	11%	18%
<b>Total Europe Revenues</b>		<b>8,474</b>	<b>8,417</b>	<b>9,071</b>	<b>7,898</b>	<b>7,946</b>	<b>8,767</b>	<b>10,280</b>	<b>8,500</b>	<b>8,378</b>	<b>8,991</b>	<b>33,682</b>	<b>36,150</b>
	Y/Y growth rate	-12%	-13%	-14%	-16%	-6%	4%	13%	8%	5%	3%	18%	7%
<b>Asia</b>		Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2-18	Q3-18	Q4-18	YTD 2017	YTD 2018
Travel		2,335	2,263	1,668	1,858	1,645	1,823	1,879	1,922	1,862	1,669	6,993	7,332
	Y/Y growth rate	-4%	-3%	-18%	-16%	-30%	-19%	13%	3%	13%	-8%	6%	5%
Local		223	184	146	92	129	160	134	134	137	116	527	521
	Y/Y growth rate	-23%	-33%	-36%	-58%	-42%	-13%	-8%	46%	6%	-27%	-21%	-1%
<b>Total Asia Revenues</b>		<b>2,558</b>	<b>2,447</b>	<b>1,813</b>	<b>1,950</b>	<b>1,773</b>	<b>1,983</b>	<b>2,013</b>	<b>2,056</b>	<b>1,998</b>	<b>1,786</b>	<b>7,519</b>	<b>7,854</b>
	Y/Y growth rate	-6%	-6%	-20%	-20%	-31%	-19%	11%	5%	13%	-10%	4%	4%
<b>Consolidated</b>		Q3 16	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2-18	Q3-18	Q4-18	YTD 2017	YTD 2018
Travel		22,185	21,668	24,532	22,564	20,843	22,114	26,969	23,927	21,472	21,967	90,053	94,335
	Y/Y growth rate	-6%	-4%	-5%	-8%	-6%	2%	10%	6%	3%	-1%	24%	5%
Local		4,638	5,145	3,898	3,847	3,845	4,883	3,907	4,141	3,840	5,095	16,472	16,982
	Y/Y growth rate	-17%	-18%	-23%	-27%	-17%	-5%	0%	8%	0%	4%	10%	3%
<b>Total Consolidated Revenues</b>		<b>26,823</b>	<b>26,813</b>	<b>28,429</b>	<b>26,411</b>	<b>24,687</b>	<b>26,997</b>	<b>30,875</b>	<b>28,067</b>	<b>25,312</b>	<b>27,062</b>	<b>106,525</b>	<b>111,317</b>
	Y/Y growth rate	-8%	-7%	-8%	-11%	-8%	1%	9%	6%	3%	0%	22%	4%

(1) Travel includes travel publications (Top 20, Website, Newsflash, Network), Getaway vouchers and Hotel Platform

(2) Local includes Local Deals vouchers and Entertainment non-vouchers

**Travelzoo Inc.**  
**Quarterly Statements of Operations**  
**Adjusted for Search Discontinued Operations**

	Q4 16	Q1 17	Q2 17	Q3 17	Q4 17	Q1 18	Q2 18	Q3 18	Q4 18
	(In thousands, except per share amounts)								
<b>Revenues</b>	\$ 26,813	\$ 28,429	\$ 26,411	\$ 24,687	\$ 26,997	\$ 30,884	\$ 28,075	\$ 25,301	\$ 27,062
Cost of revenues	3,262	3,207	3,222	3,018	3,462	3,385	3,016	3,055	2,880
Gross profit	23,551	25,222	23,189	21,669	23,535	27,499	25,059	22,246	24,182
Operating expenses:									
Sales and marketing	13,368	15,355	14,213	13,973	13,746	15,542	15,628	13,375	13,974
Product development	2,077	2,357	2,344	2,315	2,208	2,511	2,386	2,230	1,799
General and administrative	6,077	5,447	5,246	5,363	6,502	5,789	5,967	5,927	5,620
Total operating expenses	21,522	23,160	21,803	21,651	22,456	23,842	23,981	21,532	21,393
Income (loss) from continuing operations	2,029	2,062	1,386	18	1,079	3,657	1,078	714	2,789
Other income (loss), net	(480)	7	18	86	62	161	30	(91)	(52)
Income (loss) from continuing operations before income taxes	1,549	2,069	1,404	104	1,141	3,818	1,108	623	2,737
Income tax expense (benefit)	542	1,209	771	680	466	1,316	631	499	1,173
Income (loss) from continuing operations	1,006	860	633	(576)	675	2,502	477	124	1,564
Income (loss) from discontinued operations, net of income taxes	(64)	1,884	54	-	-	-	-	-	-
Net income	\$ 943	\$ 2,744	\$ 687	\$ (576)	\$ 675	\$ 2,502	\$ 477	\$ 124	\$ 1,564
Income (loss) per share - basic:									
Continuing operations	0.07	\$ 0.07	\$ 0.05	\$ (0.05)	0.05	0.20	0.04	0.01	0.13
Discontinued operations	(0.00)	0.14	0.00	-	-	-	-	-	-
<b>Net income per share - basic</b>	\$ 0.07	\$ 0.21	\$ 0.05	\$ (0.05)	\$ 0.05	\$ 0.20	\$ 0.04	\$ 0.01	\$ 0.13
Income (loss) per share - diluted:									
Continuing operations	\$ 0.07	\$ 0.07	\$ 0.05	\$ (0.05)	\$ 0.05	\$ 0.20	\$ 0.04	\$ 0.01	\$ 0.13
Discontinued operations	(0.00)	0.14	0.00	-	-	-	-	-	-
<b>Net income per share - diluted</b>	\$ 0.07	\$ 0.21	\$ 0.05	\$ (0.05)	\$ 0.05	\$ 0.20	\$ 0.04	\$ 0.01	\$ 0.13
Weighted average shares:									
Basic	13,665	13,288	13,030	12,628	12,462	12,462	12,462	12,314	12,059
Diluted for income per share *	13,714	13,288	13,058	12,628	12,462	12,462	12,622	12,629	12,151

\* Weighted average shares of 13,665 were used for the Q4 2016 diluted EPS for discontinued operations.