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PRESENTATION

Operator

Good day, and welcome to the Expedia Group Q1 2018 Earnings Conference Call. Today's conference is being recorded.

At this time, I'd like to turn the conference over to Michael Senno, Vice President of Investor Relations. Please go ahead.

Michael Senno - *Expedia Group, Inc. - Vice President, Investor Relations*

Good afternoon, and welcome to Expedia Group's financial results conference call for the first quarter ended March 31, 2018.

I'm pleased to be joined on the call today by Mark Okerstrom, Expedia's CEO and President; and Alan Pickerill, our CFO.

The following discussion, including responses to your questions, reflects management's views as of today, April 26, 2018, only. We do not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to today's earnings release and the company's filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's Investor Relations website at ir.expediagroup.com. And I encourage you to periodically visit our IR website for other important content, including today's earnings release.

Unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense exclude stock-based compensation and depreciation expense. And all comparisons on this call will be against our results for the comparable period of 2017.

One additional item to note. In this quarter's earnings release, we presented financial results both for Expedia Group in total and excluding trivago in order to provide increased transparency on the underlying performance of our transactional businesses. You will find reconciliations for non-GAAP measures excluding trivago in our earnings release.

Finally, a reconciliation of adjusted EBITDA guidance to the closest corresponding GAAP measure is not provided because we are unable to predict the ultimate outcome of certain significant items without unreasonable efforts. These items include, but are not limited to, foreign exchange, returns on investment spending and acquisition-related restructuring expenses. As such, the items that are excluded from our non-GAAP guidance are uncertain, depend on various factors and could have a material impact on GAAP results for the guidance period.

And with that, let me turn the call over to Mark.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Michael, and welcome aboard.

We're off to a good start in 2018 with gross bookings and revenue each increasing a healthy 15% in the first quarter and adjusted EBITDA coming in a bit ahead of our expectations. We're also continuing to make excellent progress on our key strategic initiatives aimed at positioning us even better to deliver sustained healthy top and bottom line growth for many years to come.

Helped in part by Easter timing, total lodging stayed room nights grew 15% in the quarter, led by a 16% growth at our global growth brands: Brand Expedia, Hotels.com, Expedia Partner Solutions and Egencia. HomeAway was also a factor, posting strong room night growth at 36% year-over-year.

We accelerated the pace of new property additions for our global lodging portfolio, directly adding 50,000 properties in addition to making another 25,000 HomeAway properties available to our Core OTA brands. All told, we now count over 665,000 properties in our core lodging portfolio.

While we're still ramping up our supply initiatives in the first quarter, the pace of property acquisitions in our priority markets has begun to accelerate, and we expect property growth in these markets to pick up further in the second quarter and continue as we move through the year. Overall, we remain on track to add more than 180,000 new properties directly to our global lodging portfolio for the full year while continuing to integrate additional HomeAway properties.

HomeAway delivered another strong quarter with 46% growth in gross bookings, benefiting from our ongoing efforts to ramp and optimize performance marketing as well as an increase in conversion from continued improvements in customer and partner-facing experiences. That also pushed HomeAway's online and reported gross bookings to $10 billion on a trailing 12-month basis, a nice milestone as the team continues to make great strides in transitioning to a true e-commerce business. It's still early days and we have lots of work to do. But we continue to see a tremendous opportunity ahead in the $120 billion alternative accommodation space.

Egencia grew gross bookings 15%, exceeding $2 billion in quarterly bookings for the first time while first quarter revenue was up a solid 23%. We posted another quarter of over 20% year-over-year growth in new client signings as the investments we've made in Egencia's sales team over the past year continue to pay dividends. So we have good momentum in this business, a healthy sales pipeline and we're progressing well towards hitting our ambitious goals for Egencia.

As expected, challenges at trivago continued in the first quarter with revenue down modestly on a standalone currency neutral basis. trivago is expecting top and bottom line pressure to continue into the second quarter with trends improving in the back half of the year.

Last month, we launched a new corporate identity reflecting our increasingly global focus and the powerful global travel platform we've become. Our new identity is symbolic of the next chapter in the Expedia Group journey, which we began late last year. On a go-forward basis and more than ever, our efforts are squarely aimed at leveraging the full scale of our global platform and improving operations across the portfolio of assets we've built and bought over the years. While there is still lots to do, the steps we've already taken give us increased confidence in our ability to deliver strong growth and share gains in this huge $1.6 trillion market for many years to come.

With that, I'll turn it over to Alan.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Thanks, Mark.

We were pleased to deliver healthy top line growth in the first quarter, helped in part by Easter timing and foreign currency. Lodging revenue, including both hotel and HomeAway, grew 15%, in line with the stayed room night growth. The shift in Easter timing added an estimated 150 basis points to total lodging room night growth.

Excluding HomeAway, revenue per room night was flat while average daily rates grew approximately 5% year-over-year, a slightly smaller gap than last quarter. We continue to expect the gap between revenue per room night and average daily rates to narrow as we move through the year.

HomeAway revenue increased 26% on strong stayed property night growth of 36%. HomeAway's transactional revenue grew 70% in the quarter while subscription revenue declined 29%, in line with our expectations. While the seasonality of the business can obscure it, we're pleased with our continued progress in monetization. As we continue to progress our transition to a transactional business, we do anticipate further declines in our subscription base and currently expect subscription revenue to decrease in the mid-20% range for the full year. HomeAway's negative $21 million in adjusted EBITDA in the first quarter was in line with our expectations due in part to the planned investments in performance-based marketing. That contributed to HomeAway's very strong growth in gross bookings and will drive revenue growth in future quarters. We also continued to invest in both consumer and supplier-facing products and HomeAway's migration to the cloud.

Total advertising and media revenue was up 10% for the quarter as a benefit from foreign exchange more than offset local currency revenue declines at trivago. Our Media Solutions business delivered solid 14% growth.

Air revenue grew 11% with a 1% increase in air tickets sold and 10% growth in revenue per ticket. Two changes that took effect this quarter drove the majority of air revenue growth. One relates to distribution fees previously classified as contra revenue now classified in cost of revenue. The other is a reclassification of certain customer refunds from air revenue to insurance. Neither of these changes has an impact on overall profitability.

All other revenue increased 18% in the first quarter, reflecting healthy growth in car rental and travel insurance.

Turning to adjusted expenses. In line with our expectations for the quarter, each category grew faster than revenue due to a combination of our key strategic initiatives and ongoing investments, along with elevated spending at trivago and the foreign currency impacts.

Cost of revenue grew slightly faster than revenue in the quarter, similar to what we expect for the full year. Cloud cost contributed about 350 basis points to that growth, and the accounting change related to air revenue added a 200 basis point headwind.

Total selling and marketing increased 19%, growing a bit faster than revenue. The primary drivers of deleverage in direct selling and marketing were trivago, the acceleration in marketing spend at HomeAway and continued growth at Expedia Partner Solutions. Indirect selling and marketing growth was elevated given the increased headcount associated with our supply initiative and the sales team at Egencia. We continue to expect selling and marketing to grow faster than revenue for the full year.

Technology and content expenses grew 27% during the quarter as we've increased headcount over the last year to invest in platform and product across the organization, most notably at HomeAway. Our cloud migration and the inorganic impact from acquisitions each contributed around 300 basis points of growth. Given these investments, we continue to expect technology and content to deleverage for the rest of the year.

General and administrative expenses also grew faster than revenue on increased staffing that mainly took place in the second half of last year, notably at trivago and HomeAway. The inorganic impact from acquisitions also added about 250 basis points of growth. Looking ahead, we expect growth in general and administrative expenses to slow slightly in the second quarter and moderate further in the second half of 2018 as comps become easier. We remain on track to see solid leverage on general and administrative expenses for the full year.

In terms of capital allocation, our historic balanced approach remains the same. Year-to-date, we made $268 million in share repurchases, taking in 2.5 million shares at an average price of $107. We also paid $46 million in dividends. We are returning capital to shareholders while also investing responsibly in organic initiatives across the business given the significant opportunities we have in front of us. As always, we will continue to look at M&A opportunistically.

Turning to our financial expectations for the year. We are reiterating our guidance for consolidated adjusted EBITDA growth of 6% to 11%, or 10% to 15% excluding cloud. Our outlook incorporates the updated adjusted EBITDA guidance trivago provided yesterday, and we now expect trivago to be an approximate 200 to 400 basis point headwind on our consolidated adjusted EBITDA growth.

Before closing, I want to highlight a few items to keep in mind for the balance of the year. First, we are expecting slightly slower room night growth in the second quarter due to a few factors. As I mentioned earlier, Easter stays shifted largely into the first quarter this year. We are also facing more difficult room night comps due to the acceleration we saw from the first to the second quarter last year. In addition, we are increasingly looking for ways to better optimize direct marketing spend, which could have a marginally negative impact on unit growth. Second, turning to the shape of the year, we continue to expect more than 100% of our adjusted EBITDA growth to come in the second half of the year. I also want to note a few below-the-line items. We plan to redeem our 7.5% coupon bonds that mature in August and as a result, expect net interest expense to be approximately flat for the full year. And lastly, moving to taxes. Based on our current analysis of the impact of U.S. tax reform, we expect our full year effective tax rate to be a bit below the new U.S. corporate tax rate of 21%. This could change as we continue to receive additional guidance and interpretation of the tax law.

In closing, though it's still early in the year, we are pleased with how we're executing and remain confident in our ability to deliver on our financial expectations for the year.

With that, operator, we're ready to take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we'll take our first question from Mark Mahaney with RBC Capital Markets.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

As you build up this inventory, both for traditional accommodation or especially for traditional accommodations, can you talk about what you're already seeing in terms of conversion rates, revenue and if there's any impact on ADRs? I think there's a very well-known reason why you're trying to build up that, a very thoughtful reason for why you're trying to build that inventory. But have you already started to see the flywheels off that increase in inventory?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. Well, with -- in relation to the stuff we've already started this year, it's still pretty early. We did acquire 50,000 properties in the first quarter, but that built as we moved through the quarter. So it is a bit early. I mean, historically, what we have seen is that conversion does improve as you add more property density into a destination. So we do expect to see that. We have seen some pockets of nice acceleration in some of our wave 1 countries. We do believe that this is in part driven by the property acquisition push. But again, it's too early for us to call victory on this by any means.

Operator

We'll take our next question from Justin Post with Merrill Lynch.

Justin Post - *BofA Merrill Lynch, Research Division - MD*

A couple of questions. Can you just help us understand how HomeAway dynamics are going to work in the second half with the 46% bookings growth? Any thoughts on what the organic rate is? I know there's a transition online that's helping you. Is the whole platform growing? Do you think it is? Maybe some thoughts on that. And then, finally, with trivago. It's clearly one of the big advertisers, and we think Booking.com is pulling out. Are you getting the benefit to your room nights of -- as they spend less on that platform?

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

So Justin, on HomeAway, I would just say both is occurring. I mean, there was a book of business that existed when we acquired the company 2 years ago. That was estimated at that time at around $15 billion. Our belief is that, that has grown in the 2 years that we acquired the company. So there is a tailwind associated with the existing customers and existing supply partners transacting more and more online. But the company is growing organically as well. And one of the best examples of that, I think, is that they've been able to stand up a proper performance-based marketing team really for the first time in the history of that company and invest in AdWords on Google and bring in traffic that way. And that is part of what's driving the 46% gross bookings growth. So what the kind of pure, pure organic growth rates would be if the -- all of the book of business that was already involved in the platform was online. It's difficult to say other than we think the industry is growing and there should be plenty of room for very healthy growth for that business for a long time.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Yes. And certainly, we see traffic growing nicely. We've certainly seen a pretty significant increase in the number of properties on the platform over the period as well. So we do believe the overall volume is growing.

With respect to trivago, it's an interesting dynamic. I think what we see is that Booking.com does appear to be pulling back. I think that's pretty clear and it's an auction. And so the auction essentially adjusts. That said, trivago is adjusting their marketing spend as well. And so overall, volume isn't growing as quickly as it has in the past. So it's not really an us versus them situation. We continue to react to the auction or at least our big brands do, and the overall channel's a little bit slower than it has been in the past just given the pullback on marketing.

Operator

We'll take our next question from Deepak Mathivanan from Barclays.

Deepak Mathivanan - *Barclays Bank PLC, Research Division - Research Analyst*

Two questions from me. So first, the deleverage in direct marketing was better compared to last quarter. You discussed the trends in trivago and AWAY. That was pretty helpful. But can you comment on the trends in the Core OTA business? And as we think about 2Q and beyond, can we expect similar trends in there? And then second question. As you continue to add more properties in these markets, have you ramped marketing spend on these regions already? So do you feel like you are gaining market share at this point or is it too early to say?

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Yes. So -- Deepak, on your first question, I would say, as you alluded to and as we said, the deleverage in the quarter principally came from trivago and HomeAway. What's happening on the other side of the business is a combination of factors. One is that we do continue to grow those business -- businesses globally. We do push on some marketing in our -- in international markets. And as we've said before, when we do that, that -- those new markets or newer markets are going to be at lower marketing efficiencies than established businesses. Having said that, we are also looking for opportunities to optimize. In the marketing channel, we're looking for inefficient spend that has low probability of repeat and are willing to make trade-offs where we may get better -- eliminate some of that spending, get better profitability. And the result may be slightly slower room night growth in those circumstances, but we think those are good trade-offs for us to be making. So we saw good traction on that in the quarter across a couple of the big brands.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

And Deepak, with respect to the priority markets where we're adding properties more significantly, generally, yes, we are ramping marketing spend. First of all, we are being a little bit more focused in terms of our global offline or brand spend and focusing at -- not dramatically, but certainly, incrementally on the target markets where we're building stronger positions. And then, secondly, as we add new properties, we are entering new auctions that exist in performance marketing channels where we simply couldn't spend historically. So almost definitionally, we are gaining market share. We do monitor the impact on our existing properties very closely and make sure that growth into new properties isn't coming at the expense of our existing partners.

Operator

We'll take our next question from Jed Kelly with Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Just on HomeAway. Is there anything that you've seen that indicates it's going to be sort of harder to replicate the success you've had with HomeAway in the United States, is it going to be harder to replicate in international markets? And then sort of, I guess, Airbnb has been testing a -- of removing the traveler fee to reduce some friction. Do you ever foresee where potentially you shift more of the fees to the host versus the traveler?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Jed. I would say that generally, everything outside of the U.S. is harder than the U.S. And I think we learned this very early in our Core OTA business, that being multilanguage, being multicurrency, it is a little bit more challenging. And a lot of these markets, there are other players there that we have to compete with versus the U.S. where the HomeAway, and particularly the VRBO brand was really one of the first and is so exceptionally strong. That said, we do think there is a big opportunity there, and we are seeing -- starting to see some nice growth in a number of markets because the product is great, and customers want it and customers want to have choice when they're shopping around for alternative accommodations. And as HomeAway, VRBO steps up their efforts in international markets, there's certainly a willing and receptive market for them both on the host or supplier side and on the consumer side. But it is a little bit more challenging.

With respect to Airbnb, testing the removal of the traveler fee, listen, we -- HomeAway has been in the great position of having a combination of all monetization models for a while. We think it's important to have that flexibility. I think that all of the alternative accommodations players out there are likely to have some combination in the near term. I think that as the overlap between properties amongst the players gets larger, and I think that will happen over time, I expect that the monetization will shift a little bit more to supplier pays and away from traveler pays based on what we've seen in other industries. But right now, that's just an expectation. We don't really know at this point.

Operator

And we'll take our next question from Mike Olson with Piper Jaffray.

Michael Joseph Olson - *Piper Jaffray Companies, Research Division - MD and Senior Research Analyst*

Regarding the expectation for slowing room night growth in Q2. Could you just elaborate on what you said related to optimizing marketing spend? What kind of changes are you making there? And maybe just so models don't end up all over the place, maybe you can say approximately how much you expect room nights could decelerate by.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Well, in the second part, I'm not going to go there. I mean, we don't guide our room nights, and we don't guide by quarters. So happy to give the directional indicator but not going to try to put a pin in it. Yes. I mean, I -- on the other bit, again, I mean, for competitive reasons, we'd probably rather not be super specific here. But the fact is that we spend billions of dollars on selling and marketing every year, and a lot of that is geared towards trying to drive traffic related to hotel shoppers and bookers. And we've always had efforts in place to try and optimize channels, make sure we're getting the most bang for our buck in given channels. But we also increasingly are interested in finding pockets of spend that we think is not efficient enough or doesn't drive the opportunity for repeat traffic. So I don't want to be specific about channels or specific geos, but we'll look for that. Now -- and I don't want to overstate it either. I mean, the issue is that there's this -- there's a huge growth opportunity in front of us, and we're definitely biased towards global growth. So think of this, I think, as a little bit more around the edges and try to optimize the channels. I don't know.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

I think you said it very well, Alan.

Operator

And the next question from Eric Sheridan with UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe following up on that. Just trying to tease out a little bit of within global brands versus some of the acquired in regional properties. Is there any sense you can give us the way you're attributing marketing? Is it a function of your aiming for growth in the global brands so that's why we're seeing numbers like up 16%, and we should be thinking about the percentage of bookings that aren't tied to that of sort of being run off or just run for profit? How should we be thinking about that narrative as we move through the year? And then the second question. Is there any way to call out headwinds and tailwinds from Easter and what it contributed to Q1 and what it might create in terms of Q2? I didn't hear that during the prepared remarks, didn't know if you wanted to frame that for folks.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

So I'll take the first one, Eric, and then I'll turn the Easter question over to Alan. Generally, the strategy on the global brands versus the regional brands remains the same. The global brands are increasing their footprint around the world, are pushing growth and building strong brand positions around the world. And as a result, we are allocating significantly larger portion of our marketing spend both online and offline towards those brands. That said, the regional brands still have a loyal following and continue to be great profit generators. And our goal with those brands is to have them grow broadly in line with the market in which they operate. And most of them are in the more mature U.S. markets. So growth rates are a little bit more modest or a lot more modest than we see in the global growth brands. So that's basically the strategy. It hasn't changed much. And I think as we move through the year, our goal is to try to grow those regional brands as well as we can with an eye to profitability. And our expectation is that we will continue to do that. But we do expect it's always going to be a large bit slower growth than we see in the global growth brands.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Yes. And then, Eric, on the Easter impact. What I said in the prepared remarks was that it was about -- we estimate it to be about 150 basis point benefit to Q1 room night growth. The -- that the impact on the call to the traditional Core OTA side of that is a bit lower. The impact on HomeAway was quite a bit higher than that. And that makes sense given the mix of those 2 businesses. It's tricky this year because Easter fell on April 1, as you know. And so some of the stays happened before and some of the stays happened after Easter. So a little trickier to estimate. But those are the numbers that we provided.

Operator

(Operator Instructions) We'll next go to Keith -- excuse me, Heath Terry with Goldman Sachs.

Heath Patrick Terry - *Goldman Sachs Group Inc., Research Division - MD*

Alan, I was hoping maybe you could disaggregate a little bit the 240 basis points of incremental marketing cost that we saw on a year-over-year basis this quarter. How much of that should we think of as sales in the form of people out getting new hotels signed up for the platform versus the cost of driving bookings in the quarter? And then, Mark, you made the point that you guys don't give quarterly guidance, but you actually did give pretty specific quarterly guidance back at the beginning of March for EBITDA in Q1 and then came in significantly above the EBITDA guidance that you gave. Wondering how much of that was the quarter was significantly better than or the last few weeks of the quarter were significantly better than you expected they were going to be at that point. And if that's the case, how much of that is carried -- how much of that momentum is carried forward into Q2?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. So I'll take the second question and then turn it to Alan for the marketing question. That was Alan that said that. It wasn't me, just to clarify. The fact we did -- we did break our practice because we felt it was appropriate. We saw a combination of things. We did in the Core OTA business see real legitimate stronger performance, better revenue performance and more efficient marketing spend. And we found that encouraging. We did also, as Alan mentioned, benefit from Easter shifts in -- you pick up a couple of days more than you think you will and stays and it can help as well. So it wasn't all just pure organic goodness, but there was a healthy dose of organic goodness in the results as well. I think so far, Q2 looks broadly as Alan said, we are expecting some deceleration on tougher comps and the beginning part of April was a little bit choppy just due to Easter comps. But we continue to feel good about the overall strength of the business and confident about our full year guidance. Alan, do you want to take the marketing?

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Yes. And then, Heath, on the marketing bit. If I understood the question correctly, I think the way I would view it is take a look at the numbers ex-trivago so you can isolate trivago's impact on selling and marketing deleverage. And then, specifically, once you do that, if you take a look at the relative growth rates of direct selling and marketing, that's really the category that has all of the real selling and marketing -- performance-based marketing, television advertising, et cetera, that I think you would categorize as what's intended to drive gross bookings. And then the indirect -- and that was up on -- an ex-trivago basis was up 15%. The indirect selling and marketing is the people cost. And so that's -- and it's not all our Lodging Partner Services team. There's headcount for Egencia and for our Partner Solutions business in there, which I'm not going to get to that level of detail. But that line was up 29% year-over-year. And again, you can kind of get down to the dollar impacts as well. That's probably the way I would tear it apart to kind of answer the question I think you're after.

Operator

We'll go to Lloyd Walmsley with Deutsche Bank.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

I have a couple, if I can. First, just on the supply acquisition effort. Can you give us a sense for how much visibility you have across that process from adding each employee, how many hotels they can add? How they perform in metasearch when you plug it in, and then conversion rate, lifts, repeat rates? Like is that a well-worn path where you can project all of this with a good deal of certainty? And how, I guess, are the early innings progressing versus planned? And then a second one. Can you give us an update for the HomeAway gross bookings? What percent of those carry traveler fees? And what percent also carry host fees? And how is that changing? Are you continuing to book more and more on -- or more -- move away from subscription? And just when do you think your total revenue as a percent of gross bookings will start to rise?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Lloyd, I'll take the first one and then turn the second over to Alan. On the supply efforts, we have good and [are] trying to get to great visibility into the end-to-end process of adding properties, having content build, having marketing campaigns propagated and ultimately, delivering first booking to properties. So I'd say, good on that upfront. We do have teams working very diligently on -- giving us better visibility into that and really tracking that like a true manufacturing process. Where we don't yet have great visibility for the properties that we're adding is impact yet on conversion rates and repeat rates. We certainly have the capability to do that, and we have done that historically. And really, that's what gave us -- one of the pieces that gave us such great confidence that this was the right strategic direction to go. But we're not yet seeing a significant impact on that because it's just -- it's simply too early given the rate at which we're adding these properties, but also too early in terms of the traveler frequency cycle or purchase frequency cycle that exists in the travel market. So I'd say we are in early innings here. But again, the teams are working on getting up to a point where we can really demonstrate true operational excellence. And we do have good confidence that we'll see the results in conversion rates and repeat rates that you're referencing.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

And Lloyd, on the HomeAway question, there's a couple of thing. I mean, I probably won't get to the level of detail that you're looking for in this. I think the -- but just directionally, the fact is that a big percentage of the listings, the online bookable listings, are on pay per booking on HomeAway. But there's still a big, I'd call it, disproportionate or outsized percentage of the bookings happening on subscription properties. So for all bookings on the platform, there is a traveler service fee. But for a good number of the bookings, there still is not a host fee. Those are still coming through subscription. And so that -- and that will continue to evolve as the business goes forward and as more and more of the business moves over to pay per booking. I would say we're kind of in mid-innings on that.

As regards that the blended take rate, I think that we will see some -- the biggest impact there in my mind is just the fact that subscription continues to be a headwind for us. Now it's shifted from being both a volume and rate headwind to being essentially just a volume headwind. And I think once we kind of fully normalize the subscription side of that business, then the take rate can start to normalize. One of the ways that we try to get a little kind of better visibility on the trend there is to look at it on a trailing 12-month basis and/or full year basis. And so you can see like, I think, in 2017, the revenue margin for HomeAway was 10.3% or 10.4%. And that's going to come down in 2018, but not substantially. It'll be -- I think it'll be in and around that area.

Operator

We'll go to Peter Stabler with Wells Fargo Securities.

Peter Coleman Stabler - *Wells Fargo Securities, LLC, Research Division - Director & Senior Analyst*

Another one on vacation rentals. Given the pressure in performance marketing channels and given the brand strength of your key rival in the space, wondering if you think the multi-brand strategy is in any way a disadvantage. I understand in international regions, you have dominant country brands. But let's say in the U.S., when you're looking at VRBO and HomeAway, to what extent is there consumer confusion? To what extent is there a property host confusion? And is this a disadvantage of -- for you when you're up against a single brand with so much power?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Yes. Look, I think it's certainly a added degree of complexity operationally. I do think that we are ultimately dividing our marketing spend in terms of brand building across a couple of different brands if you take the U.S., for example. And that issue does exist around the world. We do, however, have good loyal customer following for each of these brands. So we do have to be careful in terms of how we treat them. We do have to be careful not to just to disregard any of them. But I do think it is a disadvantage in terms of complexity. But so far, it has -- it's not been a material deterrent for us growing this business exceptionally well. And we don't expect it'll hold us back. But certainly, if we were able to concentrate all of our marketing dollars and all of the customer and supplier side loyalty on one brand, it would be a simplifier in our life and I think could be a benefit.

Operator

We'll next go to Tom White with D.A. Davidson.

Thomas Cauthorn White - *D.A. Davidson & Co., Research Division - Research Analyst*

Just quickly on the EBITDA growth guidance. So it's affirmed versus what you guys had before despite obviously weaker outlook for trivago. Can you just remind us what you guys had anticipated for trivago? I feel like maybe it was supposed to be breakeven EBITDA. But if you could just clarify that. And then the property supply initiatives and the impact on revenue margins. It looked like revenue margins in the Core OTA business were up a bit. As you guys look to contract with more hotels, some of which might be kind of big Booking.com customers, do you expect any pressure on revenue margins in order to kind of get in there? Or are those properties kind of eager to have another kind of distribution channel to sort of play against your competitor?

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Hey, Tom. It's Alan. Yes. On your first question, I don't want to give the specifics. I mean, we -- they didn't guide that specifically in Q1 nor did we. But we did have a full year loss baked into our guidance for trivago for 2018 on our prior call. The guidance that they gave yesterday is updated and is worse than, that what we had assumed. But I don't want to get into the specifics of what we assumed in the Q1 call or Q4 call, sorry.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

And Tom, just in terms of our supply initiative and their impact on revenue margins. We do not use our revenue margins or discounting them as any sort of competitive weapon. Generally, when we show up to properties, they are eager to have new distribution channels. Our demand footprints, the ability for us to target demand by country, the ability for us to include properties in package path, which are generally places where our suppliers and new suppliers want to play, give us at least a differentiated offering to properties than what our competitor has. And so generally, they are happy to see us. And generally, they are happy to pay the market-based prices that we offer for distribution.

Operator

We'll next go to Douglas Anmuth with JPMorgan.

Douglas Till Anmuth - *JP Morgan Chase & Co, Research Division - MD*

Just wanted to ask two. First, there's been a lot of movement in the activity space recently. I was just hoping you could give us a better understanding of how you're positioned there and how it's -- how you're thinking about it in terms of packaging and the shopping cart. And then, secondly, we heard obviously trivago's view of the performance marketing space. I was curious just to get a little better understanding from you in terms of your brands and how you're thinking about profitability targets.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Doug. We feel good about our current position in activities. It is a place where we've highlighted over for the course of the last 6 months or so where we're interested in stepping up our efforts. We do have our things to do or activities business that in total is north of $0.5 billion in bookings [in 2017]. In Q1 it grew north of 20% year-over-year in terms of transactions. So we've got a big business. It's growing nicely. But we do think there's a lot more we can do I think. Inclusion in shopping cart or a shopping-cart-type product is certainly something we're looking at as we continue to roll out the functionality of that product. I think there's a big standalone opportunity. I think the fact that our brands have, I think, now over 250-some-odd million app downloads gives us the opportunity to make offers in destination. We've already got the connection with the customer. So we do think there's a world of opportunity here. We feel good about our organic positioning. But there are always M&A opportunities out there, and we will be very disciplined in looking at those. And we will be -- we'll be opportunistic.

In terms of trivago's view of the performance marketing space and how we're thinking about the profitability targets for our brands. As Alan mentioned, we are on the margin working to be a little bit more disciplined and, perhaps, into more analytically driven in looking at our performance marketing spend and making sure that we, to the best of our ability, are able to concentrate spend in places that we feel are incremental places where we feel like we can drive good, strong loyal customer repeat rates and where efficiencies are acceptable. Again, it's not a huge sea change for us. It is really on the margin. But we are looking for places to be more efficient to be sure.

Operator

We'll next go to Brent Thill with Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

I was wondering if you could just give us an update on the transition date of AWS with Amazon and maybe just give us a sense of your expectations when the lodging stack gets fully ported over.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. So the transition continues to go well. First of all, the teams are very happy with the transition and are very happy with what it's like to operate in the cloud environment. That said, we are being very deliberate about it. We are not running wild into the cloud. We're making sure we do it in the right way, and we continue to make great progress in moving the lodging stack over. We do expect to have the vast majority of it over towards the end of this year. But we are being careful making sure that we do it the right way and that we're mindful of costs as we do it.

Operator

We'll next go to Naved Khan with SunTrust.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

I had a couple of questions. So can you just comment on the performance of the inventory you brought over from HomeAway on the Core OTA? And then can you also comment on expectations from maybe potential impact on GDPR rollout in Europe and how we should think about it?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. So the inventory on HomeAway, again, I think we've got around -- over 150,000, 175,000 properties on right now. Predominantly, the experimentation is happening on Brand Expedia points of sale as well as the other multiproduct points of sale, Orbitz, Travelocity, et cetera. It's good. It's not in the grand scheme of things of our business. It's not yet at a point where it's a big driver for us. The teams are continuing to look at ways to optimize in search and optimize for sort order, find those situations, for example, large groups where it's just quite obvious that a whole home will be better. So it's still in the early stages, I would say. But we are optimistic that it's going to be a nice driver for us.

In terms of GDPR in Europe. From a financial perspective, no meaningful impact operationally. We are working hard to make sure that we are in compliance, and we're certainly, well aware of what we need to do and the teams are diligently going against (sic) putting their appropriate infrastructure and safeguards in place.

Operator

We'll next go to Ron Josey with JMP Securities.

Ronald Victor Josey - *JMP Securities LLC, Research Division - MD and Senior Research Analyst*

Maybe a quick follow-up to the one you just answered around AWAY -- HomeAway integration on Expedia. So I think you said it's -- you're optimizing for sort order and trying to figure everything out. Would it be helpful if you put more -- why not put more properties on faster? I think you're at 175,000 now over -- and that's relative to the 665 in total globally. So that's question one as a follow-up. And just a bigger picture, Mark. Past 3 quarters, international bookings have been 39-plus percent of total bookings versus, call it, mid-30s prior. I know you can't put like one thing on it. But can you just talk about the international business, might just be all hotels here, but how you're investing here and then how you see this play out longer term?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. That gait on putting more properties on faster, honestly, it's largely an operational gait. Yes. Brand Expedia continues to lead the charge in testing user interfaces, but there's also a significant piece of work that needs to be done on the part of the hosts and property manager partners to make sure that we can serve up availability quickly and make sure that the prices that a Brand Expedia customer sees is the prices that they get when they roll through. And some of the complications here include things like a lot of alternative accommodations are used to charging by the week. And we've got to translate that into a daily rate. And there's just a lot of operational stuff that happen -- that has to happen not only in our Core OTA brands, not only at HomeAway, but also from our partners. So we'll get there. It's just a matter of a lot of sausage-making as we like to say.

In terms of international bookings. One thing to note particularly this quarter is foreign exchange is a big tailwind for us. So I think if you look at the FX neutral numbers, you won't see as much of a significant acceleration. That said, we are pressing internationally, and we do expect that over time as we concentrate in our priority markets now here in 2018 and subsequently roll out more groups of priority markets where we'd go in and work to essentially build a hugely competitive product, both for suppliers and customers, that we should be able to deliver better growth rates, international bookings, also international room nights. And we would hope that we're able to do it in a way that delivers better marketing efficiencies for us over time because we're just able to garner more overall brand loyalty.

Operator

We'll next go to Brian Nowak with Morgan Stanley.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I have two. The first one on the supply efforts and building the Lodging Partner Service (sic) team. I guess the question is, Mark, as you look kind of the plan for the year, where are you now in your plan of overall hiring for the year? Should we still expect a significant step up in that in the back half of the year to hit your hiring goals? And then as we go into next year, by the time you get through 2018, will you scale that team enough? Or should we think of this as sort of this is an ongoing process as we see the opportunity to continue to add more bodies and more properties in '19 and '20 and beyond? And the second one on free cash flow conversion. Understanding free cash flow is temporary compressed by headquarters and cloud integration, duplicative costs, how do you think about free cash flow conversion potential as you get into '19 and '20 and start to realize the benefits of the cloud and you get rid some of these onetime and duplicative costs?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

So Brian, on the supply efforts, there are 2, call it, bodies of work here. One is a significant ramp up in our priority markets where we're hiring up hundreds of new folks, both salespeople but operational people. In that regard, we're largely done hiring those folks, if not nearly completely done. And I think we've said that this overall supply investment is in the ballpark of $50 million or so, and that will be the impact this year. And this is a big push for us. In the grand scheme of our expense base, it's not a massive investment. But it is a significant investment. So that's bucket #1. Bucket #2 is we are still acquiring properties at a much more, call it, measured pace in other parts of the market and there is some, I would just say, ordinary course headcount growth in those markets. Nothing as dramatic or significant as we see in the priority markets.

In terms of 2019, again, we are watching very closely the results of this effort, and we'll make a call towards the end of '18 in terms of what we do in terms of incremental headcount growth. But I would reiterate that, again, in the grand scheme of our overall expense base and the grand scheme of our overall, I think, pretty consistent approach to how we balance long-term growth and short-term growth and the way that we're generally gearing this business to be able to deliver a nice, solid earnings growth in the near term and also invest in the long term. I wouldn't necessarily take comments that we might make around further investments in the supply headcount as necessarily indicating that we're going to depress our overall earnings growth because of it. So again, we do believe in this. We are likely to continue on this path. But I wouldn't take it as a sign that we're going to accept lower earnings growth than we have historically. Alan, do you want to take the...

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP & CFO*

Yes. So on the free cash flow conversion relative to EBITDA. I mean, I'm not going to get specific here in terms of numbers. I think that we have the opportunity to have a very healthy conversion rate here in this business. And there's a few factors to consider. I mean, the -- I guess to the -- we've got the headquarters, which we've talked at length about for '19 and '20, those are going to be significant expenditures. So they will have an impact all-in on free cash flow. But we've got some other things happening. One is that HomeAway will increasingly be a generator of free cash flow. As their gross bookings grow, our merchant hotel business continues to grow pretty much ratably with the agency hotel business. And so that generates significant free cash flow. And so all those factors lead to healthy trends. There are some other things on the other side of that ledger. I mean, one is that we've got businesses that we're growing that don't have those same working capital tailwinds like trivago, like our private-label business, like Egencia, where they're a little bit more traditional businesses that generate receivables and consume working capital as opposed to having the negative working capital cycle in our hotel business. The last couple of things would be we've got our -- we do have a tax rate benefit, which I talked about on the call, which should help us over the long term. And as we mentioned on the call last quarter, our data center CapEx in terms of what we would have needed to spend on data centers relative to what we will need to spend in the cloud or after we're in the cloud has come down substantially. So that's a tailwind as well.

Operator

We'll go to Mark May with Citi.

Mark Alan May - *Citigroup Inc, Research Division - Director and Senior Analyst*

First, in terms of optimizing direct marketing spend. I assume there that you're referring mostly to meta. I guess one of the questions would be your plans to possibly reallocate that to other channels, including maybe more brand marketing. And then I know that HomeAway, it seems like a lot of focus. Certainly, the commentary is around pushing the pedal on the marketing side. When it comes to supply growth, a lot of the commentary spend, I think, more on the traditional lodging and outside the U.S. I guess my question is, HomeAway listing growth, is that a priority for you? Some of the data would suggest that it's been relatively slow recently. Is that for your own doing or are there other factors driving that?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Mark. I'd say the direct marketing spend, again, this is not a big thing. It's -- we are on the margin trying to optimize a little bit more intelligently. It's not just on meta. It's across-the-board whether it's display or retargeting or traditional search. It really is sort of a broader just -- again, just focus on really digging in analytically and figuring out, are we happy or not with efficiencies? And is there opportunity to do again an inch better? I think that there is and always an opportunity for us to reallocate into brand marketing. But again, we've been doing brand marketing across the portfolio for a very long time. And the teams that are the big brand marketing teams are really quite sophisticated at it, and we look at brand marketing spend as a -- largely, a discrete decision. And so I wouldn't assume that we take out from one and directly put into another. We're always looking at the best places to put our capital across the P&L.

In terms of HomeAway's focus on the marketing side, they've been focused, I really think on actually 2 things. One is building performance and also their brand marketing capabilities, but also just improving the product overall, both on the customer side and the host side. Listing growth has not been the big priority for them. It's really been about taking the existing base of business that they have and doing a better job for partners and for customers. And as a result, being able to monetize the platform better. That said, despite the fact that they're not actively looking to do it, hosts and properties and listings just keep flowing in. I mean, if you look at the listing count from Q4 and you compare it to the end of Q1, I think there's about 100,000 more listings that are available all online bookable. So the platform has gravitational force. They are not actively trying to do it. There will be a phase at some point here over the next couple of years where listing acquisition does become a priority, both in the U.S., but I think increasingly in international markets. And all signs say that, that could be a nice catalyst for HomeAway. But again, it's not been a focus for them at this point.

Operator

That concludes today's question-and-answer session. At this time, we'll turn the conference back to Mark Okerstrom for any additional or closing remarks.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Great. Well, obviously, thanks so much to all of you for your interest in Expedia Group. And a big thanks to our awesome employees around the world, a solid start. But there's lots of hard work and execution ahead of us and certainly, we're looking forward to going after it. So thank you.

Operator

That concludes today's conference, and thank you for your participation.