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PRESENTATION

Operator

Good day and welcome to the Expedia's Q3 2015 earnings call. Today's conference is being recorded. At this time I would like to turn the call over to Alan Pickerill, Vice President Investor Relations at Expedia. Please go ahead, sir.

Alan Pickerill - *Expedia, Inc. - VP of IR*

Thank you very much. Good afternoon, everybody, welcome to Expedia's financial results conference call for the third quarter ended September 30, 2015. Pleased to be joined on the call today by Dara Khosrowshahi, Expedia's CEO and President, and Mark Okerstrom, our CFO and EVP Operations.

The following discussion, including responses to your questions, reflects management's views as of today, October 29, 2015 only. We do not undertake any obligation to update or revise the 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 press 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 the non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release which is posted on the Company's IR website at IR.ExpediaInc.com. I encourage you to periodically visit our Investor Relations site for important content including today's earnings release and an updated investor deck.

As a reminder, we sold our 62.4% ownership stake in eLong on May 22, 2015 which was previously a consolidated entity of Expedia, Inc. For GAAP accounting purposes the results of eLong are included in our results through the date of the sale. But in order to allow investors to compare our current results on a like-for-like basis with our historical results, our commentary in the earnings release and on this call is principally focused on our results excluding eLong, which should be considered in addition to the GAAP results on a fully consolidated basis.

Finally, unless otherwise stated all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense also exclude stock-based compensation and depreciation expense. And all comparisons on this call will be against our results for the comparable period of 2014. With that I would like to turn the call over to Dara.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Thanks, Alan. The third quarter was another strong one for Expedia building on the very good results we saw in the first half of the year. It all starts with the unit growth and ours was excellent -- room night growth of 36%, air tickets up 31% and car days up 30% year-over-year.

Excluding Orbitz, gross bookings grew 18%, revenue was up 15% and adjusted EBITDA grew 17% with our performance nicely above what we had expected when we last spoke. Note too that we achieved these results despite considerable foreign exchange, revenue margin and deal expense headwinds. Our teams are executing well.

Let me quickly cover a few other key matters I am sure are of interest to all of you before handing it over to Mark. We were pleased to have closed the Orbitz transaction on September 17. The teams immediately began integration planning, working quickly to determine how best to bring these two leading travel companies together.

As we've said before, Orbitz Worldwide is a global business and as such is significantly more complex than our prior integrations. The bulk of the integration work is expected to take place over the next nine months with certain businesses such as Orbitz Partner Network and Orbitz for Business pushing out to a year or more.

That said, we are off to a strong start and the teams are working hard to bring the companies together as quickly and as efficiently as possible, making sure that our travelers and supplier distribution partners are all taken care of in the process.

We have decided to move the Orbitz.com and CheapTickets businesses onto the Brand Expedia platform and we will look to look for leverage opportunities across the Orbitz portfolio brands. Mark will cover the near-term financial expectations for the Orbitz business in his remarks.

Our hotel supply position continues to improve and this year we added 14,000 properties to our inventory, now up 29% year-over-year. We continue to invest in people, processes and technology across our supply organization and are onboarding new hotels in record time at higher quality than we ever have. We expect to see some variation in seasonality quarter to quarter and expect property additions in Q4 to outpace Q3. We continue to have aggressive plans for property growth over the long-term.

Now I am sure you have questions regarding any potential impacts arising from recent developments in the TripAdvisor instant book product. To the extent that Priceline's participation accelerates instant book global penetration, we would anticipate additional volume pressure in the TripAdvisor channel.

While certainly not a positive, TripAdvisor has been a shrinking share of our overall demand pool for some time. Note too that TripAdvisor is one of our lower margin channels, so the impact on profitability will most likely be muted.

Lastly, I will tell you that we are very happy to have Trivago, one of the fastest-growing major global hotel meta-brands, as part of our family. You have seen us invest aggressively in that brand; you should expect the same moving forward.

Now a fundamental part of our strategy is to continue to develop our marketing and product efforts relating to our proprietary direct channels. There are three areas that I would like to highlight today: loyalty, mobile and attach.

On loyalty we continue to see good progress in terms of customer loyalty and repeat behavior. The hotels.com rewards loyalty program, which recently surpassed the 20 million member milestone, continues to see strong growth and in fact is one of the fastest-growing marketing channels for that brand. Our Expedia Plus rewards program now has over 12 million members and has launched in 27 countries just this year with two more to come by year-end.

Turning to mobile, mobile web for us is about new customer acquisition and app is about cementing those new customers into loyal repeat users. We see great traction in both channels, especially on the conversion and product side with our OTA brands seeing a range of 40% to 60% of traffic and 20% to 40% of transactions booked on mobile overall. I think it is safe to say that mobile has transitioned from being a profit headwind to a key component of our core offerings and a channel and product where we see significant potential going forward.

Last and certainly not least we have in our portfolio now the preeminent full-service OTA brands such as Brand Expedia, Travelocity, hotwire, Wotif, Orbitz, CheapTickets and eBooker's and that means lots of air shoppers.

Today, not including Orbitz, we see over 7.5 billion annual air searches, which is likely to increase over time and drive real opportunities to upsell into ancillary air product and fair offerings as well as cross-sell into hotels apartments, vacation rentals, rental cars, car hire, local tours and activities, insurance and more. We have just scratched the surface here in an area where we believe we have a substantial lead and a strategic advantage.

Next on the agenda is to execute this very same playbook with rail. We are coding up a new rail product as we speak which we plan to launch next year. The vast majority of our profits come from our direct channels and efforts like these represent the strategic growth drivers of the Company now and moving forward.

We have had a terrific year so far and I would like to take a moment to thank our employees for all of their hard work and for a job well done. Tremendous effort is going to improving our capabilities in our business each and every day. With that I will hand it to Mark.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Thanks, Dara. One quick reminder before I get started. We sold our 62% stake in eLong on May 22 and financial results for that business are included in our GAAP results on a consolidated basis through that date. To aid in comparability and to focus on the parts of the business that are ongoing, our comments today focus on Expedia, Inc. results excluding eLong.

The overall trajectory of the business remains strong with the third-quarter results broadly consistent with the trends we have seen throughout the year. Strength across our breath of leading brands and across geographies continued with rare exception. Our core OTA segment, Trivago and Egencia are all having solid years with strong execution and good financial results.

Top-line growth was again driven by robust unit growth across all major geographies. Room night growth remained strong for all of our major brands relative to first-half growth rates, leading to global room night growth of 36% year-over-year, a slight acceleration from 35% last quarter.

The inorganic impact from recent acquisitions added approximately 8 percentage points to global room night growth in Q3. Note that due to purchase accounting rules we don't recognize revenue or the related room night volume from acquisitions which was booked prior to the close date and therefore the impact on hotel revenue and room night growth from Orbitz was de minimis.

Domestic room nights grew 25% in Q3 while international room nights were up 50%. Revenue per room night was down approximately 15% this quarter while ADRs were down 6%. These metrics are similar to those we've reported in Q2 and the factors influencing our room night economics are largely the same as they have been for a while.

Foreign currency accounted for a little more than half of the decline in revenue per room night while deliberate reductions in hotel margins and, to a lesser extent, the impact of our loyalty programs and other incentives accounted for the rest. We continue to be happy to trade some of our unit economics to drive volume and global scale.

Air revenue grew 19% on ticket growth of 31%, partially offset by a decline in revenue per ticket of 9%. We continue to see fast ticket growth from Brand Expedia on the back of the consolidation of the AirAsia Expedia joint venture and the benefit of innovating on the platform.

In addition, Orbitz contributed 6 percentage points to air ticket growth this quarter. Excluding all inorganic impacts air revenue would have grown 4% on ticket growth of 19%.

Our advertising and media business, which is made up of Trivago and our Media Solutions group continued growing nicely with Trivago growing standalone revenue 27% or approximately 49% currency neutral. Media Solutions also grew at a healthy rate and Orbitz contributed 2 percentage points to ad and media growth this quarter.

We continue to drive to a P&L that reflects aggressive sales and marketing investment around the world to expand our global reach and drive long-term growth, while gaining scale and leverage in other key expense categories. Excluding the impact from Orbitz, the P&L we delivered in Q3 was consistent with this approach. Selling and marketing growing a bit faster than revenue, while cost of revenue, technology and content and G&A growing slower providing leverage.

Importantly, our results for Q3 also include the layering in of the Orbitz standalone financials for the 14 days of the quarter that we owned the business.

As we told you to expect on our Q2 call, the impact from Orbitz on adjusted EBITDA was indeed negative in Q3, primarily as a result of purchase accounting impacts, which when taken with approximately $7 million of deal and integration costs, resulted in a negative impact of approximately $17 million in adjusted EBITDA for the quarter. At the top line Orbitz contributed $421 million of gross bookings and $19 million of revenue.

Now I would like to cover our financial expectations for full-year 2015. I will give some color on our expectations both excluding the impact of the Orbitz transactions, or on an apples-to-apples basis with prior guidance, as well as including the impact of Orbitz so you can fully understand the relevant impacts.

Given performance to date and the trends we are seeing we are now forecasting full-year consolidated adjusted EBITDA growth, excluding eLong, of 12% to 15%. On an apples-to-apples basis relative to prior guidance for Expedia excluding eLong and excluding all impacts of the Orbitz transaction in Q3 and Q4 we are forecasting full-year 2015 adjusted EBITDA growth to come in near the high-end of that range.

On the other hand including all impacts of Orbitz for both Q3 and Q4 which were not included in our prior guidance, we expect full-year adjusted EBITDA to be near the lower end of our range. In total we expect a full-year negative adjusted EBITDA impact from Orbitz of over $32 million with approximately $15 million coming in the fourth quarter. This includes integrated related costs as well as Orbitz operating results which, as mentioned, will be negatively impacted by purchase accounting rules.

Although we plan to give you more color on our Q4 call regarding the likely impact of Orbitz for 2016, I am able to share some additional perspective today. Based on the current trajectory of Orbitz on a standalone basis we believe the business would have delivered full-year 2015 adjusted EBITDA of roughly $135 million, which we think is likely lower than Street expectations.

However, with the benefit of a more detailed integration planning we have been able to do since the closing of the transaction, we now have a better view on synergy realization timelines as well as run rate synergy potential.

Though there is still much work to do and details to iron out, what I can tell you is that we now believe that there is meaningful upside to the $75 million in run rate synergies that we projected at the time we announced the transaction. We expect these synergies to layer in slowly in the first half of the year, ramping to near run rate by the end of 2016.

With that, let's move to Q&A. Operator, will you please remind participants how to queue up for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Mahaney, RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Two quick questions for Mark, one for Dara. Mark, how far are you from ending the margin reductions on the hotel side? Like when do you think you will get to parity or where you want to get to? And then that 36% growth in room nights, you said 8% was from acquisitions, you compared it to 35% last quarter. Can you just give us the apples-to-apples comparison versus last quarter, i.e. ex acquisitions, what that growth rate would have been?

And then, Dara, big picture -- you know the question is coming up. Airbnb, can you just talk about what kind of impact that is having on your business, material or not, and how you think about them -- competing with them or if they are going forward? Thank you.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Sure, Mark, thanks for the question. In terms of margin reductions we do expect them to continue through 2016. They will start to mitigate in the back part of the year. And then you have got some and annualization of that. So I think we will be well into 2017 before we see ourselves in a position where that is no longer a significant headwind for us.

With respect to room night growth, I'd say listen, on an apples-to-apples basis organic around 28% really for both quarters this quarter and last quarter. So we really see really consistency in the strength of just the core business. Dara, do you want to take the Airbnb one?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, as far as Airbnb goes, you can tell by the results that any effect that Airbnb has had on us is immaterial at this point. We don't see it in the business, it is not affecting us directly at all.

If anything we think that Airbnb may be getting a new class of consumer into travel. It is typically a lower price point, it appeals to millennials and we think that, based on different occasions, sometimes some consumers will opt for rental type inventory and sometimes they will opt for hotels and we think the hotel product is a great product and it certainly shows up in our numbers.

That said, it is adding supply into the market, into the lodging marketplace. And that supply is addressable to a certain portion of the population. So our belief is that it will put pricing pressure in certain markets where you see a significant amount of Airbnb inventory.

We have heard sporadically from some of our market managers that there are certain periods that would be absolute peak periods where a town would totally sell out -- where it is not quite selling out. And actually that translates into goodness for us because we wind up having hotel inventory to sell and market to our consumers during a time where previously we wouldn't have that inventory.

So, so far when we talk to call it the crew on the ground who really knows what is going on in the business, they view it as a positive versus a negative. It is clearly product that is important for a certain group of people, so we will look to build out our rental product over time. First order of business is the traditional hotel product, but we are adding apartment type product and we will continue to add it. I think incrementally it will become a more important part of our mix next year and going into the following years.

Operator

Justin Post, Bank of America.

Justin Post *- BofA Merrill Lynch - Analyst*

Thank you. Dara, a couple questions that might help us think about the next couple years. First, OTAs have been around 15 years and yet you are growing domestic room nights 25%. Can you talk about the penetration of online bookings in the US, and then we'll think about international later, but two or three years into it?

Priceline arguably was nine years into their purchases of some of the booking.com platforms, but how much more room do you have to improve conversion or other things with that tech platform? Or do you think you might be running out of room? Thank you.

Dara Khosrowshahi *- Expedia, Inc. - President & CEO*

Sure. As far as the OTAs go, I just think that anyone now who is looking to travel or looking to research or book travel is going to look at OTAs. And I think we have become mainstream. The numbers that we see as far as online penetration are in the 40% to 50% range. And while there is some, you have to believe in the law of large numbers that online penetration is going to slow down.

I think our brands are becoming more relevant, our supply is getting better, our sites are getting better and faster, our service is improving. So it really does look like we are taking share from some of the smaller players who can't make the kinds of marketing and technology and customer service and loyalty investments that we can.

So I think at this point it is a game of not just online penetration increasing, but also our gaining share versus a number of other players. Keep in mind that we are still just a single-digit percentage of total room nights in the US. So we really think we have a long way to go and the teams are executing well. This is the teams that are accomplishing this.

On the tech platform, we look pretty carefully at what we call our win rate. We are obviously running thousands of tests that are powered by thousands of hypotheses by our product teams. And we look at our win rate versus call it neutral or a loss rate. We look at the average size of win; in other words if we have a win is it -- what does that look like on a percentage basis versus the base case.

And our win rate and the average size of win continue at rates that are pretty darn attractive and conversion continues to be a tailwind. So while theoretically we think that there is a high watermark that we might be hitting, we haven't seen it.

I do think that our increasing our supply and increasing the quality of supply and just the number of hotels is kind of a new tailwind that we hadn't seen in the past couple years. So I think the conversion is not only a factor of the product and the tech platform, but it is also a factor of the good work that our supply team is doing.

I would add just one thing about the tech platform is that -- one thing that really touched me about the tech platform is step one was the platform was about the user experience, was really about the website experience that the consumer saw. That tech platform now is going down the stack and, for example, our hotelier experience, the tools that we are offering our hoteliers are improving rapidly.

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We are arming them up with so much more data. Our hoteliers can look up how many people are looking at their hotel, how many people looked at their hotel and booked on arrival hotel. They are able to do it on a website, they are able to do it through an app, etc.

This tech platform is -- the benefits that we are getting from the tech platform are much broader than just the consumer. And we think that we are just getting started on the other parts that typically don't get headlines but are quite valuable.

Justin Post - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Naved Khan, Cantor Fitzgerald.

Naved Khan - *Cantor Fitzgerald - Analyst*

Thanks. I have two questions. One sort of related to Trip's Instant Book and Priceline's decision to participate in that. How do you see your own participation change on the Google hotel product? And how do you see Priceline's participation change in Trivago maybe? And then I had a question on China. Are you seeing any kind of changes in demand in China outbound?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure, as far as the instant book product goes, we have worked with Google very closely on their hotel product, various parts of their hotel product. And I think we talked about previously that it was our intention to test and learn with Google on the book on Google.

We thought the branding, the clarity that they sent to consumers was right on. So it is our intent to test and learn with them and we will let the data and what our consumers tell us essentially drive the long-term decision there.

As far as Priceline participation on Trivago, it is unknown. Trivago is now pretty aggressively testing out a product that looks like Instant Book. We think that there is a lot more clarity again on where the consumer is booking their travel. Trivago is simply trying to optimize that path versus let's say gather consumer data to upsell them other stuff.

So they are very, very focused on just optimizing that consumer experience in that moment. The test is happening in Germany and so far we like what we see. And many of Expedia brands are participating and I think the Trivago team is excited about rolling out that product. We will see if Priceline participates or not.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

And specifically on that they're on -- 90% of their traffic on desktop in Germany is live with the product, 50% app. And they are looking forward, based on the encouraging results they have seen, to starting to roll this out to English-speaking countries over the course of next year. So very promising.

I will take your China outbound question. Listen, I'd say no major change for us. It is hard with a country that big, which is growing travel so fast, for us to perceive different movements either way.

Again, we are participating in China both through our Expedia affiliate network business that powers a lot of the leading players in China with our international hotel inventory, also through hotels.com, also through Egencia and Trivago is putting its toe in the water I would say in China.

And we are looking forward to implementing the broader commercial relationship that we have with Ctrip through the back part of this year and the beginning part of next year. And so we do think, at least for us anyway, China outbound remains a very big opportunity and we continue to like what we see there.

Naved Khan - *Cantor Fitzgerald - Analyst*

That is helpful. Thanks.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Thanks, guys. You have mentioned before there are kind of two stages of leverage as you step through an acquisition integration. One is getting the brand onto the common platform. And then two comes as the data starts to flow and you can learn and optimize.

So, just curious on the second point with recently completed integrations where are we? And then with the Orbitz integration it sounds like the optimization timeline is consistent with these prior endeavors. You get it on the platform and then the optimization comes over the course of one to two quarters. Is that the right way to think about it?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Yes, I think you have broadly got it right. The two that we are nearing the end of that process with are of course Travelocity where we did the tech integration really through last year and we started the marketing integration that you speak of this year.

We are probably three quarters of the way through the process with Travelocity right now and we like what we see. That is a brand that has continued to be a growth brand lapping over everything. So very encouraging.

Wotif is probably a quarter through. It is on the platform, we are training the marketing models. They've just launched a brand-new brand campaign in Australia which we are pretty excited about, it is one of their biggest ever and that is really aimed at returning that iconic brand to iconic status.

And I think, listen, those are good parallels for Orbitz generally. That said, as Dara said in his prepared remarks, Orbitz is a bigger business. Orbitz is a more global business. Even if you look at Orbitz and CheapTickets, I mean these are businesses that have been, I would say compared with Wotif or compared with a Travelocity, a little bit closer to optimization already.

And so, I think for the Orbitz business, even though the playbook is the same, the caveat is that we could see, when we flip it over to the platform, actually a moment where conversion might degrade and we actually have a little bit more of an optimization period to go through. So I think that is the caveat that we really don't know the answer to yet, but aside from that I think it is a very similar playbook.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

And I think the other thing to add with Orbitz is that whereas with some of the other brands Travelocity, Wotif, we put them on our platform and that was it, there are some very interesting things and technologies and processes that the Orbitz teams have developed. We love their loyalty program, so that is a feature that we will look to build on our platforms, but it is their idea, their conception, etc.

And there are technologies that they have built around air search, around connectivity with various providers. Those are, again, super interesting technologies that they have built. The talent there is really good. So, I think while Orbitz will move on to the Expedia platform, we are going to look for Orbitz to improve the Expedia platform as well.

Operator

Tom White, Macquarie.

Tom White - *Macquarie Research - Analyst*

Great, thanks for taking my question. You talked a little bit about attach rates for air. I was just wondering have you guys seen sort of similar inflation in CPCs for air queries like we have seen in hotel over the past 12 to 18 months, be it from maybe the air carriers and consolidation in that space? Or is air query still just a cheaper way for you guys to get traffic and hopefully cross-sell it?

And then just maybe an update on Trivago profitability. Can you kind of give us a sense of your view on long-term margins for that business and maybe a timeline for when you might be able to scale back the investment there a bit? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure. As far as air queries go, in general air CPCs tend to be lower than hotel CPCs and air revenue per unit tends to be significantly lower than hotel revenue per unit. We have not to date aggressively participated in variable channels in air because of the revenue and profitability per unit that air has had historically.

We think that we are in a position now to participate more aggressively in some of these variable channels. And the growth rates that we see in those variable channels are very significant, but off small bases. So, air tends to be much more of a direct business, so the attach revenue tends to be higher-margin revenue so to speak. But we are very much looking forward to participating more aggressively in variable channels on the air side.

There are some variable channels such as meta in the US on the air side where we can't participate based on some of the kind of deals, agreements that the meta channels have with some of our air partners. So, while I think there is growth in the variable channel for air, it is not going to quite look like what we see in the hotel product, but it is nice upside versus where we are now.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

And then Tom, just on Trivago, listen, I think what we look for in terms of the long-term profitability or what we look at when looking at long-term profitability is what we see in their major mature markets, markets like Germany, the UK, France, Italy. And what we see there is a margin structure that quite frankly looks a lot like TripAdvisor essentially, it is a big media business that is growing nicely with attractive margins.

The phase we are in right now however continues to be that we are able to take those profits and put them into new opportunities. The story continues to be told in the US, Canada and Australia. The growth rates in the US continue to be very impressive and US awareness is now up to one in every second American has actually heard of Trivago coming from a point of obscurity in 2012. So we are really still in that investment mode.

We do think that the US market will start to mature probably into next year, but then we look at some of the other markets where they have entered recently. I mean Japan, for example, we are seeing revenue actually quadruple year-over-year, fivefold in Brazil, in the Middle East it is sevenfold in some places. So there still continues to be pockets of real great opportunity for Trivago and we continue to be very willing to invest in that.

But again, the thing to keep in mind here is that we do have the model where we can actually see what long-term profitability looks like. We are just in a mode right now where we just have too many attractive investment opportunities to drop that to the bottom line.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

We could very easily turn that business into a profit business and it is really about the incremental opportunity that we have for our next investment dollar. And at this point Trivago has been very strategic for us.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thanks for taking the question. A bigger picture question again coming back to marketing channels. Appreciate the color on Trip and book on Google, but how should we be thinking about the relative ROI you are seeing today across your marketing channels? How are you thinking about how that might develop in the coming years or what that might mean for marketing leverage in the business? Thanks, Dara.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure. In general, our ROI in the various channels has been fairly consistent this year versus last year. The amount that we can bid in certain geographies such as Europe has gone down on a CPC basis because of foreign exchange. But our efficiencies, sometimes they will go up, sometimes they will go down based on the bidding dynamics of the auction on a local basis.

But when we look at our overall efficiency this year versus last year in the larger channels and Google and trip and Trivago and some of the social channels the efficiencies haven't changed much. What we do look for is channels that are significantly call it new customer acquisition channels and then our capability on moving those new customers into repeat customers through call it direct channels.

The more we are able to convert those customers the higher kind of toll we are willing to pay for those new customers. And it has been a formula that has been going on for a while and it is pretty comfortable. So I would say right now things are pretty stable.

The only I would say notable new factor is that the mobile channels for us are beginning to become more affordable so to speak. We had to -- call it two, three years ago when we were bidding into mobile we had to go in at substantial loss in order to build up volume, in order to test and learn, in order together data so that we could optimize our product. Those losses now have been significantly mitigated. And while we are still in investment mode on mobile, it is a nice story on a year-over-year basis for us.

Operator

Douglas Anmuth, JPMorgan.

Douglas Anmuth - *JPMorgan - Analyst*

Thanks for taking the question. I just want to circle back on Instant Book. It seems like some participants recently -- some of the hotels and then OTAs who have recently joined, they are seemingly getting more control over their brand in messaging and perhaps customer service than was originally contemplated in the service.

So just try to understand still I guess why it is not appropriate for you and if there is something in the dynamic that could change that going forward. And then also do talked about the platform some in terms of the Orbitz synergies. Can you just outline more the biggest sources of upside versus what you were originally expecting there? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

On the Instant Book basis we think that the trend of let's say participants getting more control over their brand of the better customer experience of not being confused about where they are booking -- we think that is a positive trend. TripAdvisor continues to be an important channel for us and we are in constant discussions and dialogue with TripAdvisor.

So, based on how we see the treatments of Instant Book we will make our decision. At this point we are not in. But from a long-term perspective this is certainly a product that we have the option of participating in and we will keep that option open. There is no reason to close it one way or the other and we will keep revisiting it.

At this point obviously you can see that our growth rates are very, very healthy despite let's say the short-term stance that has hurt us which we think is a good long-term stance.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

And then, Doug, just on Orbitz synergies, one of the big pivotal decisions that we made recently which opens up incremental opportunity was the decision to put Orbitz.com and CheapTickets.com on the Brand Expedia platform. And that opens up a bunch of opportunities that go beyond what we said on the call initially which was really access to our global hotel footprint, access to our technology platform potentially, and reduction of some corporate costs.

And really what has opened up now is that once Orbitz and CheapTickets are on the Brand Expedia platform, not only do they get access and get to ride on the test and learn machine that Dara has spoken about frequently around just all the testing we do and the product getting better and better. But they instantly get access to our global footprint of not only just global hotels but air, car, vacation packages, activities, etc. So the product envelope gets widened.

The other pieces of this though are that as we have dug into the business we have seen that they did have, and they spoke about it, fraud and chargeback problems. That is something that we can help them with instantly as part of the program. We do have a global customer operations team which has truly global scale and has huge amounts of efficiency benefits. They will immediately go onto that.

And then the cherry on top of all of this, as Dara said, is that they do have some great technology around some of the air technology they have built, some of their loyalty technology that we use to make our overall product better as well. So those are all of the things that add up. Of course we don't know the exact amount yet, we are not ready to update the exact amount. What we do know is those things add up to what we think is some meaningful upside.

Operator

Lloyd Walmsley, Deutsche Bank.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks. Sticking with the Orbitz and the synergy theme, can you just give us a sense -- I think you said $135 million in standalone EBITDA had Orbitz kind of been independent. It seems like that would imply a pretty quick improvement on the fraud issues they were facing. How much of that will be -- kind of require be platform transition and how much can you do even ahead of that?

And then as a follow-up to that, can you just give us a broad sense for how much of the synergy, maybe either using the 75 as a baseline or your revised projections, just how much will come from the revenue side on better terms from hotels or better air terms and how much of that is going to be coming off of the operating expense side?

Clearly they had a lot of non-marketing operating expense that would seem to be able to come out of the business. What are the kind of pockets there that we should be thinking about?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Sure. I will give you a bit of information now and then on our Q4 call we will be able to give you some more detail because, of course, there is still a fair bit of detail for us to work through. On the $135 million, listen, I'd actually say that the Orbitz team has taken some very positive steps to stave off the fraud problem that they have been facing, but we think we can help them significantly beyond that.

So, I think they have stemmed a lot of the losses. But again, we think we can do that plus keep the conversion benefits that sometimes get hurt when you take certain steps to stop fraud.

In terms of how much from revenue, how much from cost synergies, we are not going to provide a ton of detail on that at this point again. We are still working through the detail. Obviously there is a cost component around public company costs, etc., that we mentioned and there are some redundant teams if you will, but we are not really getting into too much detail.

I would tell you though that we --even though we think there is a cost reduction opportunity that will create synergies on paper for the deal case, it also presents a huge recruiting opportunity for us. We have about 1,000 open positions at Expedia that are in our base operating budget that we guide you to. But we just have open positions.

And what we find at Orbitz is a very talented team. We are looking to place people that may find themselves redundant in as many of those roles as we can. We do think we are going to have some meaningful technology and product capabilities in addition to Orbitz teams located in Chicago. And we think this is a win-win opportunity across the board.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Great, thanks. I guess one just sort of housekeeping question. Are there plans either through an 8-K or some other disclosure to cover the Orbitz results for the part of the quarter that wasn't included in your results?

And then looking at the gross differential between bookings and revenues, and I know you guys have touched on this a couple of different ways, is there a path that you could see that would lead to those numbers converging over time? Largely thinking is there a way that as the business stabilizes you start to see revenue growth that looks more like your bookings growth?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Sure, Heath, so I will take that. We are not going to provide at this point information around the part of the quarter that was not part of our results. We will be putting in our investor presentation a page that lays out the impact of Orbitz on our results for the 14 days that they were part of it.

And we will also outline the guidance update that I gave on this call. But we aren't going to provide anything beyond that at this point. There is some pro forma data in the Q that you can see tomorrow that can give you a little bit more color.

In terms of growth differential between bookings and revenue, listen, the big driver there continues to be what we have been doing on the hotel side, it is reflected in our revenue per room night. A big chunk of that is foreign exchange but also just the deliberate margin reductions we are doing.

So as I said to Mark on the kickoff question, I think we are really well into 2017 before we expect to see those pressures abate. And I think at that point you could expect to see those growth rates converge. And then I would also say the bigger that Trivago gets that can be a tailwind for it as well because of course they are not in gross bookings at all, they are just a net add to revenue.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

I think revenue mix between air and hotel and then revenue mix between media and hotel are also separate factors.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

They will get better if our air volumes slow down which doesn't seem to be happening at this point.

Operator

Michael Millman, Millman Research Associates.

Michael Millman - *Millman Research - Analyst*

So following up on some previous questions. First, on China, does the acquisition have any effect on outbound? And on inbound do you see -- have you seen yet a pricing effect? Also, following up on --.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Michael, to be clear, what acquisition are you talking about?

Michael Millman - *Millman Research - Analyst*

I am talking about Ctrip's acquisition or combination with -- was it [Bandu], [Bandoz]?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You mean Qunar which was a sub of Baidu, is that correct?

Michael Millman - *Millman Research - Analyst*

Yes, thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Okay, just want to be clear.

Michael Millman - *Millman Research - Analyst*

And secondly, can you talk maybe a little bit more detail regarding your growth in repeat customers is accelerating, not accelerating, maybe some numbers? And relatedly, are you seeing growth or accelerated growth in conversions as well? Thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure. On China it is really too soon to tell as to how the Ctrip and Qunar transaction will affect how those respective businesses are run. Our admiration for the Ctrip team has only increased with that deal. We think it is strategically super, super smart. James and Jane and team are clearly executing not only well on the ground, but also strategically. And I think you also heard that the changes in the one child policy that I think James supported for a long time.

So that team is executing well on a number of fronts. We have very strong relationship with Ctrip as part of the eLong deal with eLong. And also we have been doing business with Qunar as well for a long time on the outbound business. So we think that our outbound volumes will continue with them, it is just too hard to tell at this point as to whether the deal that was announced will have any effect on those volumes. We don't think so, but you never know until you know.

As far as inbound volume goes I would say the same thing, there is plenty of inbound volume going to China as well. We haven't seen any material change since the announcement, but it really is early at this point.

As far as the growth in repeat customers, we don't disclose a bunch of data there, but I would certainly confirm that the growth rate of our repeat customers, if we look at it this year versus where we were three, four years ago is much more healthy than it had been.

And it is a natural factor in that we are bringing in more new customers from the variable channels, and so there is a mathematical factor in that a certain percentage of them turn into repeat customers. And the activity that we have in our core product, loyalty, etc., is also improving our repeat rates which is a very nice contributor to call it the core profit engine of the Company.

So the trends that we see there are certainly good trends and it is something that we are much more focused on now than where we were call it three, four years ago. Three, four years ago it was about product conversion, reaching into variable channels. Now it is not only those machines but also increasing our supply base and then increasing our repeat customer base as well.

And then I think you asked a question on conversion as well. Conversion continues to be a positive factor. We don't disclose how positive one way or the other, but it continues to be a nice tailwind for the business.

Michael Millman - *Millman Research - Analyst*

Can you disclose relative how positive, is it accelerating positive?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

It is good. That is all we will disclose.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Great, thanks for taking my question. Can you just give us an overall update on your tours business and how the latest TV campaign has been doing? And then another big picture question, can you just touch on your overall vacation rental strategy?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, sure. We are very, very, very, and just in case you didn't get it, very excited about our tours business. It is growing at triple-digit rates and it is -- the product has improved, that team has worked for a long time on improving that product and it is a product front to back. And the product, as you know now, is available in mobile, we feature the product on TV.

And this is, as far as the technology revamp, etc., this product was really revamped and launched into the marketplace based on the new tech platform really this year and the team has been optimizing aggressively. And it shows in the results. And I think we are very early, we think we have got many, many years going forward of our tours product improving substantially and we are just starting. But I am really excited for the team and I can tell you the team is pretty pumped right now.

As far as our vacation rental strategy, we touched on it. We think that it is an important product. At this point we are more focused on our core hotel product, it is kind of order of operations. And as you have seen this year, we have accelerated bringing in incremental new hotel inventory.

And as we go down the path, especially going into next year, we think that we will start adding more vacation rental apartments, etc., inventory because we do think that fundamentally it is a type of lodging that clearly customers are interested in and if customers are interested in we will look to offer it to them.

Operator

Ron Josey, JMP Securities.

Ron Josey - *JMP Securities - Analyst*

Great. Thanks for taking the questions. Dara, I wanted to get your thoughts on just rate parity requirements. Some European countries and France were talking about specifically if hotels can offer lower prices than Expedia or Venere how do you compete with that?

And then also just quickly on your 50% room night growth in international, I wonder if there's anything specific that is driving that. So meaning is there -- are you focused on any one particular geography or is this just better overall execution? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure. As far as rate parity goes, we are comfortable with where we stand and we agreed not to call -- kind of enforce rate parity provisions that we had in our contracts and I think we are generally in a good place with the EU regulators. Listen, our hotels can list their product in our marketplace for free, it is an on-demand marketplace, they can be in it, they cannot be in it, they can put their inventory in, etc.

And what we found and our hotel partners have found is that the better inventory they put into the marketplace the better they perform and they are completely free to do what they want. What we have seen is that hotels want volume. And in general there is kind of a good self reinforcing mechanism going on and our marketplace, as you know by our volumes, has gotten stronger.

Our relationship with our hotel partners in general has gotten better. And when we look at the quality of our inventory, the quality of our inventory has increased, not decreased, since some of these issues have come up. So, we absolutely want to be supplier friendly. We want to be on-demand. And I think that as our partners experience our marketplace more it is a marketplace that is they want to participate in more and I think our price decreases don't hurt either.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

And then Ron, on the hotel room night growth, I would just remind you that the impact of the Brand Expedia Asia joint venture consolidation and Wotif are both tailwinds to this metric on an inorganic basis. That said, we are seeing pretty broad organic strength in a bunch of places, Eastern Europe is strong, Africa is strong, Japan, South Korea, Taiwan, Indonesia.

I mean, these are all places that have growth rates that are high-double-digits, in some cases triple-digits. So, it is a mix of things. But just keep in mind the acquisitions do bolster that number.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

I think one interesting note on our international room night growth is that we are seeing an increase in international-to-international destination and especially call it travel closer to home. I'd say we are a great platform for international travelers, but our APAC-to-APAC, our Europe-to-Europe business, our in country business is the strongest segment of our business on a room night basis.

On an ADR basis that actually puts a little pressure on our ADRs, which is as you start to move into business that is less international and more domestic you tend to move into categories that are lower ADR. So we think that this long-term, this kind of shift in demand and supply is going to be a long-term room night positive but we will put some pressure on our ADRs. But we think overall that is a more healthy marketplace.

Operator

Ken Sena, Evercore.

Ken Sena - *Evercore ISI - Analyst*

So, in looking at the Trivago revenue and also the inter-segment elimination, it seems as though over the last year reliance on Trivago has increased quite a lot in terms of the Expedia portion. First, are we correct to think about it that way?

And second, as you look at Priceline's entrance into instant book can you say how or if it changes the calculus at all for you in terms of thinking about joining them maybe more broadly as just meta platforms become more end to end? How does the dynamic change in terms of reliance as far as OTAs on meta? If you could maybe sort of look out a few years that would be very helpful. Thank you.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Sure, Ken. So on Trivago, the Expedia brands and really sort of all the big brands in Trivago are generally gaining share. It is an analogous situation to what you see in the broader industry. I would say though particularly one of the things that drives Expedia's share gains in Trivago is the fact that they are expanding into markets where we are exceptionally strong, markets like the US, Canada, Australia for example.

And so, that just plays naturally into our strengths. But again, beyond that, our performance in Trivago is dictated by the strength of our platform, the conversion benefits we are driving as well as the capabilities of our teams and the full teams across those functions are doing pretty darn well. Dara, do you want to take the second question?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes. As far as Instant Book goes, listen, Priceline is our largest competitor. They are a very strong competitor. As you know, they are awfully smart. So we look at everything that they do with a great degree of interest and we would be stupid to act otherwise. So we will take a look at how they participate in Instant Book and they will certainly enter into our calculus. I just can't tell you what the answer is going to be.

Ken Sena - *Evercore ISI - Analyst*

Great. And then maybe just look out in terms of meta players being tethered in some way or another to an OTA. And does it change the dynamic over time, we are going to be looking at experiences that go more end-to-end where it really is about the exclusivity of the supply that you have?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

I think that in this industry you are getting various players and various experiences roll into each other in a way that is, that has changed and you are not going to have kind of these clear delineations between experiences the way that you had. Reviews is something that is very big on our site now. We talk about our review content, we talk about reviews and how it affects our conversion.

Review used to be something that was only in TripAdvisor's bailiwick, now it is a big part of TripAdvisor, but it is something that is core to our product just like it is something that's core to their product. They are more involved in the booking path. You have seen us and various players test with meta-like product on the OTA path. So I think a lot of these experiences are getting melded together.

This is an industry that we had a young person who recently joined our Company and I would like to spend some time with them. And he said, God, your industry has so many people competing with each other and working -- there is more co-opetition in your industry than I have ever seen. And sometimes when you are in the middle of an industry you kind of don't have that perspective.

A lot of these experiences are coming together. We don't know exactly where it is going to shake out, but we are trying to optimize for the customer experience and our partner and supply experience. And I think so far what we are doing is working, what TripAdvisor is doing is working, clearly what Priceline is doing is working.

And I think the bigger players are going to keep growing. This is a hugely fragmented marketplace and I do think these experiences are coming together. We just don't know exactly where it is going to shake out. Our interest is pretty simple in keeping our consumers and partners happy.

Ken Sena - *Evercore ISI - Analyst*

Thank you very much.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Company - Analyst*

Thanks a lot. Could you just touch on how you are thinking about the rail opportunity and what you are working on with the new rail product that you mentioned? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

The product hasn't been launched and I think you know by now that we test and learn this stuff. So fundamentally rail is an incredibly important way -- a transport mechanism for consumers all over the world, it is super important in Europe, it is very important in the APAC regions. We are hoping it will be more important in the US but it is not as large a factor in the US.

So this is just really important product. I think that it has been typically underinvested in as far as online travel agencies go because there isn't much money in the product itself. But I think that as we have built out our attach platforms, having context as to where the consumer is going I think is going to give us lots of upsell opportunity. And then increasing the frequency of touches with our travelers we think is going to really increase loyalty, especially on the mobile side, both of which are really good things.

So, we don't know exactly where this journey is going to take us. But we think that it can add to this theme that you have heard from us which is air gives us terrific context as to where people are going, gives us lots of opportunity for delighting them. And I think rail, which is a pretty commonly used product can be something very big over the next three to five years. We are going to start small but we are getting started now.

Operator

Aaron Kessler, Raymond James.

Aaron Kessler - *Raymond James - Analyst*

A couple questions. First, just on Trivago, looks like (inaudible) about 37% last quarter to about 27%. Anything specific there or is it just rule of large numbers? And second, on Orbitz, traditionally they have been softer or a little weaker in international and on the hotel side. Anything you are going to do or is it just really being on the Expedia platform will help Orbitz out on both of those areas? Thank you.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

So Trivago, I would just say it is a little bit of a law of large numbers. I mean the US is now their largest market. They are well deep into clean comps into the US, so that is a big factor. And remember, foreign currency is just a big headwind on this business. They are a euro denominated business and foreign currency neutral 49% year-on-year growth. So we are still pretty happy with that. If that's a slowdown, we are okay with that.

On Orbitz yes, they are traditionally weaker international hotel, etc., and also product mix. Definitely that is something we can help them with. Having access to our global footprint of now over 270,000 hotels around the world, having access to our international air and car and soon rail content can only help the Orbitz business.

I think as Dara mentioned, we've become pretty darn good at attaching hotel to air tickets. And one of the great things about Orbitz is they have just got a ton of air traffic. So we think that is a good opportunity which should help them on the hotel side as well.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

We certainly saw a strengthening and a product mix shift with Travelocity when they came onto our platform. And we expect to see a similar shift -- I think Orbitz on balance was stronger in hotel than Travelocity was. So maybe we won't see as much upside, but we saw it happen with Travelocity and hopefully we will see it happen with Orbitz as well.

Operator

And with no further questions in the queue I would like to turn the call back over to Alan Pickerill, Vice President Investor Relations.

Alan Pickerill - *Expedia, Inc. - VP of IR*

Great. Thanks, everybody, for joining the call today. Dara, do you have any closing comments?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, just a big thank you to our employees for another great quarter and to our investors. You should know that this is a team that is not satisfied with where we are. We always want to do more, we will always want to do better. We want to give better service to our customers and we are not done by a long shot. It is not a bunch of people here who are sitting comfortably in their seats. So we are looking forward to further travels with you. Thank you.

Operator

This does conclude today's conference. We thank you for your participation.
