

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

EXPE - Q1 2016 Expedia Inc Earnings Call

EVENT DATE/TIME: APRIL 28, 2016 / 8:30PM GMT

OVERVIEW:

Co. reported 1Q16 results.



CORPORATE PARTICIPANTS

Alan Pickerill *Expedia, Inc. - VP, Treasurer & Head of IR*

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

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

CONFERENCE CALL PARTICIPANTS

Mark Mahaney *RBC Capital Markets - Analyst*

Justin Post *BofA Merrill Lynch - Analyst*

Naved Khan *Cantor Fitzgerald - Analyst*

Brian Fitzgerald *Jefferies LLC - Analyst*

Mike Olson *Piper Jaffray - Analyst*

Tom White *Macquarie Research - Analyst*

Lloyd Walmsley *Deutsche Bank - Analyst*

Ken Sena *Evercore ISI - Analyst*

Ron Josey *JMP Securities - Analyst*

Dae Lee *JPMorgan - Analyst*

Jed Kelly *Oppenheimer & Co. - Analyst*

Dan Powell *Goldman Sachs - Analyst*

Peter Stabler *Wells Fargo - Analyst*

Kevin Kopelman *Cowen and Company - Analyst*

Justin Patterson *Raymond James - Analyst*

Dan Wasiolek *Morningstar - Analyst*

Perry Gold *MoffettNathanson LLC - Analyst*

PRESENTATION

Operator

Good day and welcome to the Expedia Q1 2016 earnings call. Today's call is being recorded. At this time I would like to turn the conference over to Alan Pickerill, Vice President of Investor Relations at Expedia. Please go ahead, sir.

Alan Pickerill - *Expedia, Inc. - VP, Treasurer & Head of IR*

Thank you and good afternoon, everybody. Welcome to Expedia, Inc.'s financial results conference call for the first quarter ended March 31, 2016. Pleased to be joined on the call today by Dara Khosrowshahi, Expedia's CEO and President, and Mark Okerstrom, our CFO and EVP of operations.

The following discussion including responses to your questions reflects management's views as of today, April 28, 2016 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 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'll find reconciliations of the non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on our IR website at IR.ExpediaInc.com -- encourage you to periodically visit our Investor Relations site for important content including today's earnings release.

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 that sale. 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 revenues, 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 2015. With that I'll turn the call over to Dara.

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

Thanks, Alan. We're off to a solid start in 2016 with our financial performance coming in a bit better than expected, pretty much across-the-board. This was underscored by continued strong momentum in unit growth with global room nights up 37%, air tickets up 52%, car days up 48% and advertising and media revenue growing 44%.

Results were strong in Q1 across all of our major brands resulting in organic room night growth of 24%, consistent with last quarter despite about a 500 basis point harder comp. Brand Expedia and Hotels.com each saw healthy room night growth across all regions with Hotels.com accelerating in Q1 versus Q4.

Expedia Affiliate Network delivered room night growth above 30% for the fourth consecutive quarter, continuing to gain share versus our competition. And Egencia transaction growth accelerated in Q1 compared to Q4, although we saw signs of corporate travel spend tightening in the form of lower average booking values per transaction.

Going forward through 2016, we expect overall room night growth to moderate due to harder comp and the law of large numbers, largely offset by decreasing headwinds on revenue per room night.

The Orbitz integration is going well with Orbitz.com and CheapTickets now in the Brand Expedia platform. We are particularly pleased with hotel conversion and room night production on both websites which are benefiting from the upgraded technology platform along with the depth and breadth of our hotel inventory.

We completed the move of HotelClub traffic and customers over to Hotels.com and we expect the ebookers migration to be complete this summer. Integration efforts for Orbitz for Business and Orbitz Partner Network are on track and will take us through 2016 and beyond in certain cases.

Today we announced some significant changes at HomeAway as we continue to accelerate the transition of our platform from advertising to transactions. In the US, we're moving to a single and simple subscription model of \$349 annually for listings that are online bookable and \$499 for those that aren't. This will allow us to begin to optimize the sort and the properties consumers see by matching their unique travel preferences with the right listings while driving booking volume for owner and manager communities.

With booked transactional revenue up 170% year-over-year in the quarter, we took the opportunity to more than double our direct marketing investment in order to drive more traffic to our sites and partners, while also offsetting some weakness that we're seeing in Google SEO volumes

for some of our brands. These model changes and marketing increases, along with investments in product and technology talent will pave the way for an improved strategic and operational footprint in a category that's becoming more and more popular with travelers all around the world.

We are also seeing encouraging volume trends in the alternative lodging category for Brand Expedia and Hotels.com, which bodes well for a future state when we fully interweave supply and demand across all product categories within our global lodging marketplaces.

Lastly, trivago is off to a terrific start in 2016 with standalone revenue of \$176 million, up 48% year-over-year. trivago's core European markets grew revenue 33% on a euro-denominated basis, an acceleration from the 20% we saw in 2015, while the top line for the rest of the world grew 69%. The team continues to refine and improve its marketing methods and products in a way that not only benefits advertisers but should also improve trivago monetization margins over the long-term. Now I'll turn it over to Mark on the financials.

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

Thanks, Dara. We were pleased with the results this quarter that were a bit better than we expected. We saw solid execution across-the-board and also benefited from some timing differences. Easter shifted into the first quarter this year and we also deferred some marketing spend planned for Q1 into Q2. Together we estimate these factors shifted just over \$20 million of adjusted EBITDA into the first quarter from the second quarter.

Organic unit growth rates across our core brands were again healthy and on a consolidated basis the addition of Orbitz and HomeAway, along with the final quarter of inorganic contribution from the consolidation of the AirAsia/Expedia joint venture boosted total growth rates.

In total, excluding eLong, adjusted EBITDA was up 31% year-over-year in Q1. Orbitz and HomeAway together contributed 35 percentage points or \$44 million of growth. In line with the usual seasonality of our business, adjusted EBITDA for the rest of Expedia, Inc. was down 4% collectively as our brands put marketing spend to work and incurred other variable costs to drive bookings ahead of the heavy travel season and for which revenue will be recognized in future quarters.

The anticipated acceleration in the growth rate of technology and content expense did in fact materialize and was also a factor impacting the bottom-line growth rate.

In terms of product line performance, hotel revenue growth of 25% was driven by room night growth of 37%, partially offset by a decrease in revenue per room night of nearly 9%. Acquisitions added 13 percentage points of room night growth resulting in organic growth consistent with last quarter. The gap between an ADR decline of just over 3% and the decrease in revenue per room night was about 540 basis points and consistent with that of the fourth quarter.

Ongoing reductions to our contracted hotel commission rates around the world, which are aimed at expanding the breadth of our global lodging inventory and the impact of our fast-growing and successful loyalty programs, continue to be the main drivers here.

We continued to see solid performance in both our air and car products as well. Air revenue grew 54% year-over-year on 52% volume growth. Car revenue was up 39% on 48% growth in car days, partially offset by a 6% decline in revenue per day. Orbitz added about 34 percentage points and 27 percentage points to air and car volume growth, respectively. Ad and media revenue was up 44% year-over-year in Q1 driven by strong performance at trivago and good growth from our Media Solutions group. Orbitz added about 4 percentage points of total ad and media revenue growth.

The overall shape of our P&L this quarter was generally consistent with our ongoing goal of using leverage in key expense categories to fund aggressive selling and marketing investments around the world. As I mentioned earlier, technology and content expense was an exception in Q1, growing quite a bit faster than recent trends on an organic basis.

This faster rate of organic growth was driven by trivago, our e-commerce platform group and Brand Expedia along with increased data center costs. Note that we continue to incur additional costs in our core business to support the integration of the Orbitz brands.

Additionally, we were pleased to be able to fill a number of open technology roles in the core business with talented teams from Orbitz as they rolled off their Orbitz duties. This is a great outcome from a strategic and operational standpoint, but did accelerate overall hiring into Q1, which otherwise would have occurred on a more metered basis throughout the year.

Note that all of this is within our previously communicated expectations for how 2016 would likely play out, and we expect to see these elevated levels of tech and content expense growth through Q3 with growth in the fourth quarter moderating.

Against the backdrop of a strong start to the year, I do want to remind you that we continue to strike a balance between delivering healthy near-term profit while also investing to position the business for continued medium- and long-term growth.

In that regard, when we see outperformance or windfalls either from our organic business or from acquisitions, we have a bias to reinvest at least a portion of that back into the business. This is part of the reason that we do not guide to or place undue emphasis on one specific quarter's performance and this quarter is no exception.

Turning to our financial expectations for 2016, we are reiterating the guidance we gave to you on our Q4 call. On a consolidated basis, including all of the businesses we own today and excluding eLong, we continue to expect full-year adjusted EBITDA to grow in the range of 35% to 45% year over year. Included in that growth we continue to expect that Orbitz and HomeAway combined will deliver adjusted EBITDA of \$275 million to \$325 million.

I would also like to remind you about the relative shape of our year. Despite a strong Q1, we do expect the vast majority of our adjusted EBITDA dollar growth will come in the back half of the year. And I would remind folks that certain tailwinds in Q1, such as the Easter shift, will be headwinds for Q2. As such, I would encourage you to take a close look at quarterly phasing with our Q1 beat, largely unchanged first half guidance and completely unchanged full-year guidance in mind.

The usual seasonality of the organic business will be amplified by recent acquisitions with integration and transition investments for both Orbitz and HomeAway in the first half of the year expected to make way for synergy realization in the second half.

Finally, in terms of capital allocation, we are pleased to have repurchased 2.9 million shares for \$312 million so far this year. We will continue to balance capital allocation between M&A, share repurchases and our dividend.

Now let me hand it back to Dara for a few last comments and then we'll take your questions.

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

Thanks, Mark. Just a few closing comments to frame where we are in the bigger picture before moving to Q&A.

Over the past several years, we've positioned Expedia, Inc. to be the most comprehensive travel distribution platform that the world has ever seen. We've organically built unrivaled geographic reach and awareness for our flagship brands, Expedia and Hotels.com; we've invested billions of dollars in our technology platforms and established Expedia, Inc. at the forefront of product and technology innovation in the travel industry, an advantage we'll continue to press for years to come.

Like many industry disruptors, we've not only invested to creating an offering with superior price transparency, selection, ease-of-use and value for our travelers, but we've also been systematically reducing the cost of distribution for our travel supply partners.

Lastly, with the additions of trivago, Travelocity, Orbitz and, most recently, HomeAway, we've deployed capital to not only make ourselves strategically complete but, more importantly, to set up the opportunity for significant shareholder value creation over the coming years.

Our teams are motivated, excited and hungry and, if we do our jobs, I think you'll be very happy shareholders. All of us here at Expedia are absolutely up for the challenge and the journey. We hope you are too. With that, let's move to Q&A. Operator, will you remind participants how to queue up?

QUESTIONS AND ANSWERS

Editor

[KL1]

Operator

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

Mark Mahaney - RBC Capital Markets - Analyst

Thanks. Hey, Dara, two questions, please. First, on alternative accommodations, you mentioned that as a promising growth area. If you could talk a little bit about the operational challenges that would allow -- that Expedia has to overcome. Do you think about them more as inventory, marketing, user interface? Just talk about how you break through that morass to tap into what is a large market.

And secondly, you made this comment about moving away from organic search. Is that a reasonable way to think about how you are thinking about marketing in the future? It seems like what Google has done is forced people away from it. It probably plays to some of your competencies. But just talk about the balance of organic versus paid search for your business going forwards. Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Yes, as far as -- thanks for the question, Mark. As far as alternative accommodations and the challenges there go, we're trying to actually not think too many big thoughts here. The main activity is behind HomeAway -- and the HomeAway team has incredible knowledge of the homeowners and managers and what they need and it's built up an incredible tool set there.

And we want to combine that knowledge with the kind of knowledge that we have on the Hotels.com and Expedia side as far as what travelers want. And when you combine those two, you can create a pretty powerful platform. We've obviously done it on Expedia and Hotels.com side, so we know what has to happen. And right now the HomeAway team is heads down and really building up the infrastructure that you need in order to build a global transactional travel platform.

And it's a bunch of technical work being done, design work being done. But we've done it before and actually we have -- the HomeAway opportunity is so attractive that a fair bit of talent from the Expedia teams have moved over to the HomeAway teams to help out, one, and also because they see just an enormous opportunity.

So that is really just day-to-day execution on the HomeAway front. And I think on the Hotels and Expedia front, once we get the HomeAway inventory -- a higher percentage of the HomeAway inventory online bookable, once we feed it into Hotels.com and Expedia and Orbitz and Travelocity in an integrated manner, all signs point to that inventory producing very well.

We have been adding some apartment inventory, mostly in urban centers, etc., on Expedia and Hotels.com and it is producing and it's producing very well and it's clearly an inventory category that our users want.

As to your search question, we are seeing some of the moves I'd say broadly from Google. For example, they're adding a fourth paid search link -- move a higher proportion of traffic from free to paid. Fortunately, we are a Company that has built up some pretty strong capabilities on the paid search side, so we're able to bring in the volume anyway.



It is probably a net headwind for us on the margin side, but this is a headwind that we've been living with for a number of years and it's a headwind that we've been able to grow through and so it's nothing new. We've seen this -- we've heard this song before and we're up for the dance.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thank you, Dara.

Operator

Justin Post, Bank of America Merrill Lynch.

Justin Post - *BofA Merrill Lynch - Analyst*

Thank you. Two questions, maybe one for Dara. How has HomeAway gone since you've added the booking fee? How has that affected booking growth and what are you seeing there? I know you gave a metric on the call.

And then maybe, Mark, you could talk about the implied margin growth in your guidance for the year with a lot of EBITDA in the back half. Either maybe talk about by brand or what really has to happen to make those EBITDA numbers work out? Maybe you could talk about the synergies and other things? Thank you.

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

Yes, I'll start with HomeAway. Listen, the results that we've seen -- the early results of the booking fee -- as you know, we launched a booking fee a bit earlier than we had anticipated. The early results have been excellent and transactional booking growth is up very big, 170%, and that will be revenue that we recognize down the pike in Q2/Q3 based on a stay.

So you don't see that revenue coming yet, but we're very, very optimistic. Conversion in general has held up very well, actually better than we had planned. Listings growth is actually very healthy and certainly healthy compared to historical trends.

And we are taking a very significant portion of our services revenue and putting it either back to customers, so for example, with a guarantee. Or we are putting it in marketing money to make sure that we are driving traffic growth on a global basis.

So, I'd say at this point, while there is certainly going to be some questions from homeowners in the community, etc., I think the HomeAway team is executing very, very well in the plan. We still have a long way to go, but so far, so good. Mark?

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

And then, Justin, on your question around -- I think you're really getting at why the backend loading and how aggressive is the ramp. Listen, we feel pretty good about it. And one of the reasons we feel pretty good about it is it's largely a cost story, which is -- we've got some pretty modest expectations on the top line in the organic business. Comps are going to get harder there. We're not expecting anything herculean.

And really what we're doing over the back part of this year is a couple of things. One is that we are going to see a ramp up at HomeAway with the traveler fee and that's just going to build as the year goes on. We feel good about that. We already see progress.

On Orbitz, we are getting that business onto the Expedia platform. We've already got Orbitz and CheapTickets on; the rest will come through most of this year with a few laggards. And once we get those businesses on, again, we can start to shave off some of the excess costs that we've had in the first part of the year, so that's a cost story.



And then I would also just go back and revisit some of the one timers that we had in Q3. And then also, particularly in Q4, if you recall, we had some very significant purchase accounting impacts from Orbitz, we had some purchase impacts from HomeAway, and then in both cases, pretty significant deal and integration costs in Q3 and Q4 that just aren't going to repeat themselves. So again, we feel pretty good about it. It's a cost story and we think it's very much achievable.

Justin Post - *BofA Merrill Lynch - Analyst*

Thank you.

Operator

Naved Khan, Cantor Fitzgerald.

Naved Khan - *Cantor Fitzgerald - Analyst*

Yes, hi. Thanks. A couple of questions. Dara, can you -- or maybe Mark can quantify it -- can you just talk about Europe and any impact from the Brussels bomb and if you saw anything in your business? And then on trivago's performance, the business in the core European market accelerated. What was driving that?

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

Sure, so with respect to Brussels, anytime something like this happens, and we hope never to see it, but it does happen from time to time, we do see an impact to the precise area that was challenged. And certainly we saw that with Brussels in the form of higher cancellation rates, certainly lower bookings into that region.

Because we're such a big global business, though, on an overall basis, there was really no meaningful impact from the Brussels attack as far as we can see. And this was very different from Paris. When the Paris attack happened, what we saw was a overall tone of fear that not only hit Paris but also hit a number of other major international centers. We didn't see a similar thing with Brussels, and of course, Brussels as a destination is just significantly smaller than Paris.

With respect to trivago in -- sorry, not as big as Paris. With respect to trivago, the business is just performing really well. One of the things to keep in mind when you're looking at the reported results is that foreign exchange is a big impact on trivago. That eased significantly this quarter.

But FX neutral, it did accelerate and I would just put it down to strong execution. The business is doing well. They've been tuning their algorithms and really getting thier marketplace tuned to matching what's best for the consumer with what's best to monetize for them and it's working.

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

And I think just the one possibility, while we haven't exactly pulled this out, you can imagine that the core trivago markets had much more of an effect as a result of the Paris attacks in Q4, which obviously we didn't feel as much this year.

Naved Khan - *Cantor Fitzgerald - Analyst*

Got it. And then a quick follow-up. On the accelerator, can you provide us any kind of update there? How extensively it has been rolled out and what's the response that you have seen from the hoteliers?



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

Yes, it's very early. The rollout has happened on a global basis. We've got thousands of hotels now participating in the accelerator program and the number increases on a weekly basis.

I would remind you that a hotel can't just bid up with accelerator willy-nilly if they don't have high quality, if they don't have great reviews, if they don't have really good conversion. So the first thing that our hotel partners have to get right is experience and to have a terrific converting site with terrific pictures.

Then really accelerator becomes available to them as a tool. But we've seen very strong engagement and it's been a positive both for our supply partners as well as our consumers. So, so far so good, but it's still early in the year.

Naved Khan - *Cantor Fitzgerald - Analyst*

Great, thanks.

Operator

(Operator Instructions). Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thank you. This question is around Egencia. You said -- Dara, I think you said the bookings accelerated. You cited several new agreements in the press release. Is there any inflection going on there and how do you feel about the pipeline in terms of Egencia's deals?

And then also are you seeing any benefits from the integration of Orbitz Partner Network and Orbitz for Business? Is that impacting there also? And related to that, any reason why the timing or path of a business-oriented synergy realization would differ from a consumer facing segment like CheapTickets?

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

As far as Egencia goes, listen, the Egencia team has consistently been executing and gaining share in the corporate travel marketplace over a number of years. This last quarter wasn't any exception. I think that one new factor in Egencia's growth is that it is becoming a very, very credible choice for the largest of companies out there to use.

So we've always been very strong in the small and medium business segment, that makes us quite attractive to our supply partners because a lot of, let's say, the big chains and some of the airlines have a hard time reaching into small and medium businesses.

But as Egencia has built out a more robust toolset for CFOs on the cost side, on the care side, you have some very big businesses, such as P&G, using its toolset. The volume goes online, consumers love it compared to the traditional players out there and it's a win-win; it's a cost win, it's a consumer win and just Egencia continues to march along.

And you certainly see some of the pressure there. There's been a fair amount of leadership turnover in some of the competition and the Egencia team has been together for many years and they continue to execute on a consistent basis. And I do think that the product roadmap, the technology roadmap at Egencia looks better than it ever has and I absolutely expect the pace of innovation there to accelerate if nothing else.



As far as the Orbitz for the OPM business, or Orbitz for Business -- to be clear, Orbitz for Business is going to be a part of Egencia and we're going to be rolling over Orbitz for Business customers onto the Egencia platform throughout the year. We're off to a very, very good start there.

The Orbitz Partner Network business is kind of a private-label business. We've got some big clients such as American Express. That group is going to go into our Brand Expedia team and our EAN team, or Expedia Affiliate Network, based on the nature of those relationships. Those integrations take longer because they are quite -- they can be much more complex and, as a result, that integration work is going to go into late this year and, in some cases, even into 2017.

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

Brian, I would just add, too, that when you take Orbitz for Business out of the Egencia segment, we saw acceleration as well. So it wasn't just the inorganic impact; it was healthy across-the-board. Both room nights and ticket growth accelerated from Q4 into Q1.

Brian Fitzgerald - *Jefferies LLC - Analyst*

Thanks, Mark; thanks, Dara.

Operator

Mike Olson, Piper Jaffray.

Mike Olson - *Piper Jaffray - Analyst*

Hey, good afternoon. Over time, revenue generated from the HomeAway booking fee could be pretty significant, obviously. And while I'm sure some of that is going to fall to the bottom line, it sounds like you'll plow a lot of it back into the business. What are you investing that incremental revenue in? Is it primarily HomeAway marketing or does it migrate into accelerating other growth initiatives for core Expedia or other segments that we may not be factoring in at this point?

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

I'd say there are three areas. One is certainly product and technology; it is going to take some significant investment to build out a global transactional infrastructure.

Second is marketing, both on the brand marketing side but also building out a more robust variable marketing platform. Because HomeAway revenue was much more based on subscriptions, and to some extent not related to traffic and conversions, HomeAway couldn't bid on variable channels the way that some of our other brands can. More traffic means -- and higher conversion means more transactions means you can bid more on variable channels.

HomeAway didn't have that factor and any time you bid up into variable channels, typically your margins initially are lower and then you optimize to get to a higher return play. So certainly product, certainly marketing. We are going to reinvest a fair amount of the fees also to the consumer experience to make sure that they've got a great experience, to make sure that they get the home that they expect. So I'd say those are the three big factors.

Another factor to be aware of, and it's an announcement that we made today, is that on a go-forward basis, we are going to simplify the subscription product, which is going to take away some of the premium tiers that we had sold previously. And that's going to be a revenue negative, which we do believe is going to be offset by transactional revenue. But we are taking some revenue out of the system which then we have to replace through transactions.

Mike Olson - *Piper Jaffray - Analyst*

Right. Makes sense. Thank you.

Operator

Tom White, Macquarie.

Tom White - *Macquarie Research - Analyst*

Great. Thanks for taking my question. Intra-quarter there was some increased I guess news or commentary from some of the large hotels about trying to drive more direct bookings and taking some steps to try and make their rooms and rates look more competitive versus what is shown on the OTA sites.

Maybe just brief comments on whether you are seeing any impact or expect any impact from that on your business. And then just a clarification on the Egencia commentary. So the transaction, the unit growth was strong, but tightening of booking values. I'm just curious how that has related to the leisure business historically? Is that a leading indicator ever or anything we should read into maybe what might happen in the leisure space? Thanks.

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

Yes, let me take that one first then I'll turn it over to Dara. So yes, we saw strong volume growth but we did see a reduction in average ticket prices, average daily rates. We think some of this was essentially trade down activity. Particularly, we saw this in Europe. So people are still taking their trips, they are just looking for a more cost-effective way to do it.

We certainly do look at the corporate travel business as a leading indicator of what's happening in the overall economy, so it's something that we're watching very closely. That said, we don't see any real impact of any softening of the economy in our leisure business at this point, beyond what's happening more broadly with pricing in the market.

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

Yes, and as far as the hotel chains driving direct bookings, listen, I think it makes sense for any player out there, whether in the e-commerce sector or in the travel sector, to make sure that you have a balanced source of traffic and revenue.

It is very early at this point, but we are not seeing any significant effect on our volumes. What we are seeing is that the hoteliers who provide us with the best pricing, with the best inventory are gaining share on a relative basis in the marketplace, and they gain share two ways. One, just directly through bookings; and also, remember that they also gain audience share because they are higher up in the sort order and very often consumers are clicking from our results and going and checking out the hotel direct.

So I think the players who are giving us the best inventory are gaining both bookings share and audience share within our marketplace. Our marketplace has been a marketplace that has been growing within the overall travel market. We have been gaining share for many years. I don't see that changing and the volume trends at this point don't suggest that that's changing.

So, listen, every player is going to make their own decision. And I think that the supply partners who play well with us, who really provide a terrific experience for our customers over a long period of time are going to gain share in our marketplace, and we'll build a terrific partnership together over the long-term.



Tom White - *Macquarie Research - Analyst*

Thank you.

Operator

Lloyd Walmsley, Deutsche Bank.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks. A couple on HomeAway. First, just it looks like some of the changes you are not going to enforce the online bookability with one of the new subscription plans. And then it looks like you are adopting almost an accelerator model for HomeAway. So hoping you can comment on the philosophy behind those two changes.

And then a second question on HomeAway, if I can. There's been some speculation in the industry that some of the changes in traffic have been the result of just SEO snafus at HomeAway blocking Google from crawling parts of the site, suggesting that when they are fixed some of the traffic could come back quickly. But wondering if you could just give us some clarity on what some of those issues might be on the SEO side, how permanent are they? Internal, self-inflicted versus Google driven? Thanks.

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

Sure. Absolutely. As far as HomeAway and the philosophy there goes, listen, we want to create a marketplace that is flexible but also provides the right incentive. And what's very, very clear as it relates to our travelers is that they want and like online booking.

So the subscription price for one of our partners who is providing online bookings is significantly lower than someone who is not online bookable, so to speak. And we think that provides the right incentives in order to create a healthy marketplace that works for both sides.

From a philosophical standpoint, we do want to build out toolsets that allow our supply partners -- and this is at Expedia or Hotels.com or HomeAway -- to have a very low entry base price and then to be able to pay when they need the demand or when they what the demand. It's a very flexible model. It's easy to get into the marketplace.

And then if you want to optimize to the marketplace you can absolutely optimize to it and those are tools that we've built out on the Expedia and Hotels.com side and those are tools that we anticipate building out with HomeAway as well. And HomeAway being part of our family definitely gives us an advantage there because we've done it before.

On the SEO side, I don't want to get into too many specifics. There are some SEO effects that are structural such as, in general, some of the search results being moved down the page or the free search results being moved down the page. Some of the SEO results are results that we can optimize around and we can build technology around.

So I would say that the HomeAway team is definitely not standing still and we're hoping to improve the SEO trends. In the meantime, though, our direct traffic trends are super, super strong and the team is more than making up for it.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Great, thanks.

Operator

Ken Sena, Evercore.

Ken Sena - Evercore ISI - Analyst

Hi. So you mentioned for HomeAway that you are doing more in the way of moving it from an ad model to something more transactional and subscription-based. We're certainly seeing through TripAdvisor and through Google where more is being done in the case of login and also assisted booking capabilities.

trivago had a great performance, but could you maybe walk us through how you see that platform over time? And whether or not you might see more there too in the way of logged in and assistant booking, instant book and so forth? Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Yes, I think on the trivago side, listen, the trivago team is very focused on what they are good at and very focused on providing the ideal hotel for the consumer in the best way. And so, they are -- I think the core of trivago, which is find the right hotel for you at the very best price, is a great, great proposition and clearly one that's working on a global basis. trivago visits are up 70% on a year-on-year basis. The business and the brands are growing incredibly fast.

The trivago team is experimenting with assisted booking capability. They are testing it in Europe. Based on the test, we expect it to expand. I would say that the approach for trivago has been one in which it's not about keeping the consumer on the site; it's about optimizing the consumer experience based on however the consumer wants to book.

If the consumer wants to stay on trivago, they can. If they want to go to a partner site, if they want to go to booking.com or if they want to go to Hotels.com or Expedia, they can. So it's much -- it's very consumer focused and I really commend the trivago team for -- they are always solving for the consumer first, and we'll see how the results go. They are very data-driven, but we do expect this booking capability to expand on a metered basis over the year.

Ken Sena - Evercore ISI - Analyst

Great, and just maybe if I could, just one quick follow-up.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure.

Ken Sena - Evercore ISI - Analyst

Organic room night growth for domestic and international -- any chance of you providing that?

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

No, we're not going to do that on this call.

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

Yes, I don't think -- we'll do whatever we've done in the past. Thanks.

Ken Sena - *Evercore ISI - Analyst*

Okay. Thank you very much.

Operator

Ron Josey, JMP Securities.

Ron Josey - *JMP Securities - Analyst*

Great. Thanks for taking the questions. I wanted to ask a little bit about Orbitz. And I think you mentioned Orbitz.com and CheapTickets have been migrated over and those sites now have 130,000 more hotels to users. And you also said you were pleased with more improved conversion of hotels and room nights.

So can you talk about the speed at which you saw those conversion rates improved? And I believe, just to confirm, are you on schedule with the overall migration onto the Expedia platform? I know you talked about 2Q and into 2017 maybe for Orbitz for Business. But I'm asking as it relates to the synergies that you all have laid out and I think, quote/unquote, meaningfully greater than that \$75 million. So one on hotel conversions on Orbitz and the second is just the timeline please. Thank you.

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

Sure. So I just say that we are very much on track. We're pleased with the conversion rates we're seeing. They are definitely in line with what we were expecting. There is a benefit from having more hotels absolutely, but we're not yet at a spot where we are really accelerating the growth of that business.

That's something that's going to come over the course of the remainder of the year, because one of the challenges is we do have to get traffic growing again and we've got to get that top line moving. But we're encouraged that we do have the conversion rates to actually do that.

By and large, we are on schedule. In fact, Orbitz CheapTickets went over a little bit ahead of schedule. ebookers is on track. HotelClub is now -- has been migrated over to Hotels.com. Many of the Orbitz for Business customers have been migrated and the vast majority of them will be migrated over by the end of this year.

The remaining piece that we'll be working on that will stretch into 2017 will be the Orbitz Partner Network. We've got some big partners, some great partners there, that have got some unique requirements and we'll be working on transitioning those partners or alternatively just finding the best solution for them on the host of platforms that we've got.

So, all in all, we're on track and I think, again, we'd reiterate what we said on the synergy side. \$75 million was the original number. We do think we've got meaningful upside to that.

Ron Josey - *JMP Securities - Analyst*

Great. Thank you.



Operator

Douglas Anmuth, JPMorgan.

Dae Lee - JPMorgan - Analyst

Hi, this is Dae Lee in for Doug. Thank you for taking our question. My question is on TripAdvisor instant booking. Could you guys give us an update on the impact from the TripAdvisor instant booking rollout and whether you see any material change from three months ago?

And then as a follow-up on trivago, you guys mentioned that with the instant booking rollout trivago is becoming a bigger channel in terms of traffic volume. Is there any update on that as well? Thank you.

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

Sure, so on trip instant book, I would say no meaningful change from our last call. Last call we said think about it in the 100 to 200 basis point impact on room night growth. It's still in that range, to the extent that they continue to roll out globally and that other large global OTAs participate globally it could be bigger and it could get as heavy as 200 to 300. But so far quarter to quarter, we haven't seen a meaningful change from what we saw last quarter. And as a reminder, from a bottom-line perspective, no, we're not expecting any meaningful impact from it at all.

With respect to trivago, listen, the express booking product that trivago is rolling out is still very much in the early stages and we certainly like what we see. And we do think it's going to be a bigger channel for them in terms of volume. It's not yet at the spot where it's driving a meaningful difference for trivago.

The core trivago product, the meta-search product is still driving that business. And really they are going to be a spot where they rollout instant booking at a rate that is commensurate with the consumer benefit and the advertiser benefits they see and that's going to, we expect, transpire through the rest of this year.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

And I think if the question was is trivago becoming a bigger channel for us because of trip instant book -- our getting less traffic from trip instant book? The short answer is yes, because of that, and also because trivago is just growing really darn fast.

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

Yes.

Dae Lee - JPMorgan - Analyst

Great. Thank you.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Great. Thanks for taking my question. On HomeAway, as you remove the subscription tiers, factoring in the page rankings, how do you plan to balance the individual owner being able to compete in the page ranking algorithm against the professional property managers that are using more sophisticated software and managing multiple listings?

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

Well, I think -- listen, that's a great question. And the HomeAway team is very focused on making sure that they have a marketplace that individual owners can play in because those individual owners, those kind of [FRBO] listings are the heart and soul of HomeAway. And having a marketplace where, obviously, the professional PMs can operate in as well.

And, listen, it was true that professional PMs and individual owners were buying different tiers of subscriptions, etc., and they were figuring out ways to play in that marketplace. So I think that the rules of the marketplace are changing. They will be a bit more favorable to travelers and travel preferences.

So the owners who are updating their calendars, the owners who have great reviews, the owners who have terrific pictures and who put up pricing and are online bookable will tend to get more share in our marketplace. And we'll make sure that were making tools available for individual owners to do it. We'll make sure we've got FAQs. We'll make sure that we're in contact with them so that ultimately the right product is showing up in front of the right customer. It's something that the HomeAway team thinks about a lot.

Jed Kelly - *Oppenheimer & Co. - Analyst*

Thank you.

Operator

Heath Terry, Goldman Sachs.

Dan Powell - *Goldman Sachs - Analyst*

Hi, guys, this is Dan Powell on for Heath. Just a quick two-part question here. First of all, with hotels going to loyalty-based pricing discounts for direct booking, is there anything in any part of your guidance for the rest of the year that anticipates an impact from that? And then secondly, do you guys see the potential for a model where Expedia could incorporate those loyalty prices into your search results either at Expedia Brand or trivago? Thanks.

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

Yes, as far as the first part of that question -- is there anything in our guidance? There isn't because we haven't felt any significant impact one way or the other. So our guidance is -- obviously is consistent with where we were at the beginning of the year and we haven't seen any material impact, so it remains as is.

Is there potential for Expedia to incorporate those loyalty prices? I think absolutely. We have been working with a number of our partners, chains, regional chains, etc., to work on more flexible ways in which we can work with them. We're testing link offs from our site onto the direct sites of some of our chain partners. We are willing to test promotions where we will try to sign up loyalty members for them.

Listen, we are a very big new customer acquisition channel for our partners and we want to help our partners gain new customers. And we certainly want to arm them with whatever they need in order to bring in that customer, give them incredible service and then hopefully get a customer for life, because we don't think that one goes against the other, necessarily.

You've got services like TripAdvisor and trivago who are linking off for a living and are growing incredibly well. And we are much more willing to be very flexible in our business models. And we're finding engagement with some players out there and I think those smart players who play with us are eventually going to gain share over the long-term basis.

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

Dan, the only other thing I would add is that we did mention that we are seeing some of these big chains that are introducing these rates lose share to independent hotels. Generally, the commission rates with our independent hotels can be slightly higher than the chain hotels.

So far it looks like there are often more active participants in the Accelerator program. So there could be some margin benefit if we continue to see this mix shift provided we didn't see any impact to volume, which is what the case is right now.

Dan Powell - *Goldman Sachs - Analyst*

Great. Thanks, guys.

Operator

Peter Stabler, Wells Fargo Securities.

Peter Stabler - *Wells Fargo - Analyst*

Thanks so much for taking the question. Just a quick one on HomeAway and then a follow-up. On HomeAway you mentioned transactional booking growth up 170%. Just wondering how that compares to your internal expectations.

And then secondly, you mentioned 13,000 properties added to the platform, 23% growth. Could you talk about the sustainability of that growth rate in terms of adding supply? Thanks so much.

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

Sure. As far as the transactional booking growth, I'd say it's a bit higher than our original expectations. HomeAway is doing a bit better and we are investing a bit more aggressively. So in general, like Mark said, we're kind of taking the over performance and investing it back into the business and we think that's absolutely the right thing to do.

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

And the metric there is transactional revenue on a booked basis, so it takes into account both the volume and the increased monetization on those bookings, just to be crystal clear.



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

And typically we don't recognize the revenue until the stay, so there is a difference between booking and staying. And then as far as the 13,000 properties which we added to the platform, listen, there are -- I think on trivago there are over 800,000 hotels on a global basis. We are getting close to 300,000, so I think we've got a very, very long road ahead of us here.

Peter Stabler - *Wells Fargo - Analyst*

Great. If I could just -- one quick follow-up. Have you said what percent of properties are now online bookable in HomeAway?

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

We have not said that specifically. And I will tell you that we are much more focused on driving online bookings versus trying to get every single property out there online bookable at this point. There is always going to be a tail. We haven't exactly figured out our strategy. Do we want to go to 100%, or do we want to go 90%?

What we want to do is solve for the heart of the business at this point, optimize it, get it transactional, get the flywheel of higher conversion allowing you to market more, allowing you to gain more traffic, get that flywheel going. And we're not as focused on getting every single listing out there online bookable at this point. We'll determine that over the year.

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

Yes, that's how we did see the number of online bookable properties increase very nicely and that's really the metric we're focused on along with the core metrics that Dara mentioned.

Peter Stabler - *Wells Fargo - Analyst*

Thank you.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Company - Analyst*

Thanks a lot. So, first on trivago, I think you guys had an option to increase your ownership stake in trivago. Can you give us an update on that? And then just a follow-up on HomeAway. Can you give us a sense of what the dollar value of online transactions is today, either a run rate or last year or something? Thanks.

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

Sure, on trivago, there is an option to increase our ownership stake. There is a window of opportunity. That window is currently open and we are in discussions with the management team there. It's just an absolutely fantastic asset. It's an absolutely fantastic team. And at this point we have nothing to announce.

There is an opportunity for us to buy more. There is also an opportunity for us to do nothing this time around, and we'll see which way we go here over the course of the next couple of months. In terms of the dollar value of online transactions, not a number that we're disclosing at this point.

Kevin Kopelman - *Cowen and Company - Analyst*

Okay. Thanks, Mark.

Operator

Justin Patterson, Raymond James.

Justin Patterson - *Raymond James - Analyst*

Great. Thank you very much. Two, please. First on HomeAway, just as we go into the summer months here, you've obviously gotten a lot of traction and getting more users to the site and have been investing aggressively here. Occupancy has been down a little bit in the hotel market. We still have low gas prices.

Are you seeing any trading over to the HomeAway business now, just based off of your understanding of how that performed last year? And then secondly, this was your biggest buyback in quite some time. Could you talk about how you are thinking about capital allocation for the course of the year given market volatility? Have you seen bid-asks come in on some of the private companies anymore? Thanks.

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

So, on the HomeAway side, this has been a category that has been growing for some period of time and we look at HomeAway traffic and we look at listings counts, etc. And the growth rates there are consistent with the past or slightly stronger in some ways.

Is that volume that's moving from hotel to homes or is that just volume moving online? My bet is that the vast majority of that is just off-line volume moving online. That's powered our hotel listings for some period of time and we think that this category is behind where hotels were.

So, I think it's really the move online that's driving this business at this point. But HomeAway is young in our family and as we observe the trends over a greater period of time, and especially as we bring in this inventory into Hotels.com and Expedia, I think we'll be smarter about telling you whether there are trade-offs happening or whether it's net new volume. It is just too early at this point.

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

And on capital allocation, listen, in terms of philosophy, I'd say no change. We have always been buyers of our stock net. But of course we're always weighing that off versus M&A and, to some extent, our dividend last year obviously was a huge year on the M&A front, so we took a little bit of a break and this quarter we took the opportunity to get back into the market. I would just say look at our past behavior excluding 2015 as a good indicator of what's to come.

In terms of private companies, yes, I think there's been more reality injected into the private markets. To be honest, we were never a company that was that interested in talking to people with the lofty valuations that were flying around for a while.

So, we still see opportunities around. I don't think we'll have a year as active as last year, but we are always open for business and we -- on the M&A front. And we like the fact that valuations seem to be coming back down closer to earth.

Justin Patterson - *Raymond James - Analyst*

Great. Thank you, Dara; thank you, Mark.

Operator

Dan Wasiolek, Morningstar.

Dan Wasiolek - Morningstar - Analyst

Hi. Thanks for taking the question. Just looking at the take rate in the Core OTA business, it looks like this quarter the year-over-year declines lessened by a decent amount. Just wondering if you have any commentary or things to comment as far as the outlook for that take rate at some point maybe starting to stabilize further and potentially start to increase again on a year-over-year basis? Thank you.

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

Yes, I think -- listen, there's a few things that went on in the quarter. I think one is that we did inject Orbitz into that Core OTA segment. That actually put a little bit of pressure on take rates. And if you back that out, take rates are actually just slightly increased. The increase was caused by a couple of things. One is Easter shift revenue right into the quarter and there's no real bookings there. And then also we saw a continuation of the mix shift into hotel away from air, again all of this excluding Orbitz.

I would say I wouldn't expect a big trend there. We're hopeful that it will stabilize over time. Certainly as we've spoken about, if you look over the next two or three years, revenue per room night declines should moderate and I think that will be a tailwind for us. But I would say for 2016, there is nothing specific that I would say that it would indicate a change from what we've seen historically.

Dan Wasiolek - Morningstar - Analyst

Okay, thank you.

Operator

Perry Gold, MoffettNathanson.

Perry Gold - MoffettNathanson LLC - Analyst

Hi, guys. Thanks for taking the question and congratulations on the quarter. Are you officially reiterating the \$350 million EBITDA guide for HomeAway in 2018? Does anything about your outlook change as a result of the new subscription tiers? And then also, can you provide any color on either app download trajectory by any of your brands or any update on mobile bookings or mobile revenue as a percentage of total? Thanks so much.

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

So, on HomeAway, we didn't officially reiterate, but I will right now. Certainly we are happy with what we're seeing and we see no reason to change that guidance. We feel good about the progress. There's obviously lots of work ahead of us, but early encouraging signs and the change in subscription revenue -- listen, it was always the plan that there would have to be some change there and this is certainly in line with what we've been expecting.

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

And as far as mobile goes, mobile penetration across our brands continues to increase. Probably last year we were talking about it being in the 20s, now it's in the 30s. We've got brands like Hotwire where mobile penetration is in the 40s now. And so, mobile continues to be a very, very strong growth driver for us.

In general on the app side, we don't look as much on downloads anymore as we do into app transactions. If you are just driving for downloads, sometimes you're not focused some retention and retention and attention is a pretty powerful lever.

And last year was an absolutely dynamite year for us as far as growth in app production, bookings, etc. The comps get a lot tougher this year, but app bookings continue to grow at healthy -- very, very healthy rates. It's just the comps this year are going to get a little tougher, so the teams have a bit more of a challenge ahead of them to keep those growth rates going.

Perry Gold - *MoffettNathanson LLC - Analyst*

Great. Thank you.

Operator

And there are no other questions at this time. I'd like to turn things back to our speakers for any additional or closing remarks.

Alan Pickerill - *Expedia, Inc. - VP, Treasurer & Head of IR*

Okay. Thanks, everybody, for joining the call. Dara, any final thoughts?

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

I'll just say it's a good start to the year, but not a great start to the year. We've got a lot of work ahead of us as a team and we're very focused. Last year was a big announcement year. This year is a big execution year and the teams are hard at work and I just want to take a moment to thank them for the work that they are putting in. It's a lot to ask and the team is coming through and thank you for that.

Operator

Thank you, everyone. That does conclude today's conference. We thank you for your participation.

[KL1]12:44



DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2016, Thomson Reuters. All Rights Reserved.