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EXPE - Q2 2015 Expedia Inc Earnings Call

EVENT DATE/TIME: JULY 30, 2015 / 8:30PM GMT

OVERVIEW:

Co. reported 2Q15 YoverY revenue growth of 15%.



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PRESENTATION

Operator

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

Alan Pickerill - Expedia, Inc. - VP of IR

Thanks, Kevin. Good afternoon, everybody, and welcome to Expedia, Inc.'s financial results conference call for the second quarter ended June 30, 2015. I'm 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 questions, reflects management's views as of today, July 30, 2015 only, and we do not undertake any obligation to update or revise this information.

As always, some of the statements made on the call today 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 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.

Please note that 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.

In order to allow investors to compare our 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. And with that let me turn the call over to Dara.

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

Thanks, Alan. Second quarter was another solid quarter for Expedia. We once again saw healthy unit trends across products with global room nights up 35%, air tickets up 26% and car rental days up 35% year on year. We were pleased with revenue growth of 15% and adjusted EBITDA growth of 12% for the quarter.

Our core OTA segment continued to perform well led by strong top-line growth for brand Expedia and hotels.com, our two biggest businesses. We also saw healthy revenue growth from Travelocity and EAN along with an inorganic tailwind from Wotif and our AirAsia/Expedia joint venture which we now consolidate as a result of increasing our ownership stake to 75%.

Of particular note, we continue to see very good growth rates for Travelocity even as we anniversary the ramp up of that business last year. We are also optimistic about Wotif's potential to grow organically over time despite near-term FX headwinds now that it is fully integrated into the Expedia platform and with the team starting to iterate on the site and on marketing channels.

As was the case last year, we continue to see strong progress in new hotel property acquisition around the world with approximately 27,000 additional properties this quarter, including some recently integrated Wotif properties. This is a significant milestone as we now have added more properties in the first half of 2015 than we did in all of 2014. We have got a very long runway here and we expect to spend the next several years building out our global lodging inventory.

From a technology perspective we recently completed a move -- a project to move Venere on to the hotels.com platform. This is similar to our efforts in the last few years to extend the brand Expedia platform to brands such as Travelocity and Wotif.

We now have a global full-service OTA platform in brand Expedia and a global merchant agency standalone hotel platform in hotels.com, each capable of powering additional brands. Based on our experience thus far we believe that these two platforms represent unique competitive assets which can be leveraged to draw further top- and bottom-line growth going forward.

We continue to invest heavily in our technology capabilities to round out our service offerings, adding car rentals and activities to the brand Expedia mobile app, adding the cruise product onto the new platform for Travelocity, and innovating a supply facing technology such as real-time reviews which allow our hotel partners to receive feedback from travelers live during their stay to improve the overall guest experience.

Regarding the announced Orbitz transaction, we don't have any significant additional news to share today. We continue to cooperate with the DOJ, providing information and answering questions. We continue to believe that the transaction should be approved and then close in the back half of the year.

Trivago continued to see very strong growth generating standalone revenue of \$143 million in the second quarter and \$487 million on a trailing 12-month basis.

Trivago generated an adjusted EBITDA loss of about \$9 million in Q2, pretty consistent with the second quarter of last year, as we continue to invest aggressively in selling and marketing and as we moved into the busy part of the travel shopping cycle. We expect to continue to invest profits from higher-margin markets into developing markets in order to grow Trivago globally.

A note on China, although we did sell our ownership stake in eLong in the second quarter, I want to be clear that we are still participating in the huge long-term growth opportunity that China represents. We have ongoing commercial agreements which give us access to the outbound Chinese travelers of Ctrip and eLong and expect both to bear fruit over the near- and long-term.

Hotels.com and EAN are growing fast in China, although off of a small base, and brand Expedia has a presence in Hong Kong with more to come in the region. We expect to continue to invest to build our long-term prospects in China. And although our exposure to the domestic Chinese travel market is reduced for the near-term, we are pleased to be able to draw a substantial value creation for our shareholders through the eLong transaction.

In closing, I would like to thank our teams around the world for all of their efforts and, in doing so, celebrate for a moment a very good first half of the year. We must remain focused on driving strong execution and great innovation. There is still a lot of work ahead of us and competition remains as fierce as ever. With that I will hand it over to Mark.

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

Thanks, Dara. One quick note before I get started. As mentioned earlier, we sold our 62% stake in eLong on May 22. Financial results for eLong 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 will be ongoing our comments today focus on Expedia, Inc. results excluding eLong.

The overall trajectory of the business remains very strong, as has been the case for some time now, with the second-quarter results broadly consistent with Q1 trends and a bit better than we had expected. Strength across our breadth of leading brands and across geographies continues 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 Q1 growth rates, leading to global room night growth of 35% year-over-year, an acceleration from 32% growth last quarter. Domestic room nights grew 24% in Q2 while international room nights were up 50%.

The inorganic impact from Wotif and the consolidation of the AirAsia/Expedia joint venture added approximately 7 percentage points to global room night growth this quarter. For comparison, last quarter, excluding eLong, inorganic impacts drove over 5 percentage points of room night growth.

Revenue per room night was down just under 16% this quarter while ADRs were down almost 6%. The factors influencing our room night economics are largely the same as they have been for quite a while now.

Foreign currency accounted for a little less than half of the decline in revenue per room night while deliberate reductions in hotel margins and 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 scale.

Air revenue grew 14% on ticket growth of 26%, partially offset by a decline in revenue per ticket of 10%. We saw significant acceleration in air ticket growth from brand Expedia this quarter on the back of the consolidation of the AirAsia/Expedia joint venture along with continued strong performance as the team innovates on the platform. Excluding inorganic impacts, ticket growth would have been 20%, a nice acceleration from Q1.

Our advertising and media business, which is made up of Trivago and our media solutions group, continued growing nicely with Trivago growing standalone revenue 37% and net revenue after intercompany eliminations 25%. On a standalone FX neutral basis we estimate that Trivago revenues were up 67% year-over-year.

On the expense side we saw significant leverage in cost of revenue and technology and content expenses. Note that technology and content expense growth was lower than we expected largely due to lower than forecast headcount, higher capitalization rates and to a lesser extent the timing of some R&D tax credits. Going forward we are expecting more elevated year-over-year growth in tech and content expense.

General and administrative expenses grew faster than revenue primarily due to about 6 percentage points of growth from increased M&A-related costs and an additional 7 percentage points from the inorganic impact of recent acquisitions. Absent these impacts, G&A would have grown about 11% and leveraged nicely.

Direct selling and marketing grew faster than revenue as we continue to invest aggressively to drive global growth and ramp spend ahead of the busy travel season. Indirect selling and marketing costs grew slightly faster than revenue as we continue to scale up our lodging supply team. The net result was adjusted EBITDA growth of 12% for the second quarter.

From a cash and capital deployment perspective we issued a EUR650 million bond at a coupon of 2.5% in the second quarter with an eye towards financing a portion of the pending Orbitz transaction. We are also happy to announce a 33% increase in our quarterly dividend payable in the third quarter to \$0.24 per share.

Our approach to capital deployment remains the same. We will continue to balance the allocation of our cash flow between opportunistic M&A and returning cash to shareholders through share repurchases and dividends.

In terms of financial expectations for full-year 2015, we are maintaining our adjusted EBITDA guidance for Expedia excluding eLong in line with our prior guidance range of 10% to 15%. Though Q2 came in a bit better than expected, we plan to put that upside back into the business, mostly in Q3, to drive continued growth.

And as a reminder, our guidance this quarter comes with the same caveats as last quarter: we remain cautious about where we will fall in our guidance range due primarily to significant remaining foreign currency headwinds which have gotten slightly worse since our Q1 call.

Please note that other than some heightened legal and professional fees we are currently carrying, our financial expectations do not take into account material impacts of the potential Orbitz transaction.

In addition to integration costs, consolidation of Orbitz results could result in a negative near-term impact on our consolidated financial results due to the impact of purchase accounting rules which disallow the recognition of deferred revenue which is on the books of the acquired company prior to closing.

Finally, I will also note that primarily as a result of selling our stake in eLong, we are able to lower our expectations for our full-year effective tax rate to a more normalized mid-20% range.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Justin Post, Merrill Lynch.



Justin Post - *BofA Merrill Lynch - Analyst*

Thank you. Maybe two questions. First, it looks like you have really been able to accelerate room nights and is that primarily just your tech platform generating higher ROI or better conversion rates? Anything you want to call out there, maybe supply is helping?

And then on the competitive side, a lot of noise out there about TripAdvisor and Google taking bookings. How do you view that? Can you participate? And do you see that as a potential headwind down the road? Thank you.

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

Sure, Justin. As far as the room night acceleration I would say it is a game of inches and a lot of inches coming together. It certainly starts with the websites and the websites' ability to convert. If you don't have a great website that has the -- that is very easy to use, easy to understand you are nowhere in this business. So it does start with that.

But we have our marketing teams always looking for new demand veins that we can reach on an affordable basis. And it is really the website and those marketing teams working together that have been able to get us to a state of accelerated room nights growth for some period of time. And we have no reason to think that that is going to change.

I think the other two factors that you would add to it that are a bit more recent are obviously the addition of new hotel supply, 27,000 hotels. As we are going down the line and bringing in new hotels, on average they tend to be smaller hotels.

So the contribution per hotel is something that we would expect to come down over a period of time. But obviously the number of hotels that we are adding has increased. There is some cannibalization in larger markets, but we think the new hotels are certainly a nice positive for us.

And the last factor that I would discuss is that we are seeing an increased percentage of our business in general coming from repeat customers. We have been investing very aggressively in our loyalty programs and our customer service to keep customers coming back.

It is those repeat customers that account for the majority of the profit of the Company. And that repeat customer base has been growing as we have been investing in those customers as we have been growing our loyalty programs and increasing the benefits there.

So every part of what I describe plays a part in the growth. It is about the site, it is about marketing, it is about supply and it is about repeat. And when you get it all right you get a pretty good formula. For the time being we have it right and we have to very much stay on our toes to keep competitive in this marketplace because there are a lot of players competing for that customer attention.

As far as TripAdvisor and Google building out booking capability, etc., listen, this is nothing new. It is something that has gone on for some time, as you know, as far as TripAdvisor goes. We do participate in the TripAdvisor marketplace as an advertiser. We are not participating in Trip Instant Book.

So from a theoretical standpoint we are getting a smaller addressable market in the TripAdvisor marketplace. And my guess is a lot of that market is going to be hotels direct, that is not new. And that is a headwind that we've been facing, but it is a headwind that we have navigated pretty well and we are hoping to navigate on a go forward basis. And in general our business with trip advisor is growing.

We do see Google make some moves in the area. And I would say one difference that we see with the Google treatment of the bookings is that the Google treatment tends to be much more clear, that the booking is actually with the OTA and Google is not the merchant, etc.

It is really making the payment process easier rather than trying to own the customer one way or the other. So we do anticipate testing out with Google and testing out some of the other treatments and seeing how it affects our customers and our customer satisfaction and our economics in general.

Justin Post - *BofA Merrill Lynch - Analyst*

Great. Thank you for taking my questions.

Operator

Naved Khan, Cantor Fitzgerald.

Naved Khan - *Jefferies & Co. - Analyst*

Thanks. TripAdvisor spoke about seeing some CPC weakness in international geographies. As ad buyers you should be seeing a net benefit of that. So any comment you can provide there would be helpful. And then I had a question in terms of travel conditions in Europe and what you are seeing there.

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

If I just focus on Europe, we are not seeing real changes in the local currency CPC environment; most major geographies are seeing CPC increases. When we look at Trivago they are seeing, broadly speaking, across Europe CPC increases. Certainly the foreign exchange impact makes those look worse on a translated basis.

But again, in local currency we continue to see a healthy environment -- CPC is up, ADR is up, occupancies look strong. And really that rolls into the travel conditions in Europe.

We are continuing to see similar trends to what we mentioned last quarter which is we are seeing an increased mix of European travel staying in Europe and the addition of an increased propensity of Americans to travel into Europe. And across the board I think, with a few obvious exceptions in southern Europe, we are seeing a lot of health in the European market.

Naved Khan - *Jefferies & Co. - Analyst*

Thanks. And then anything to add with respect to better ad efficiency on TripAdvisor?

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

We don't like to comment on specific efficiencies in specific channels. I would say that we continue to be broadly happy with the efficiencies we are seeing across all channels and we haven't seen a marked change really across the board.

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

Maybe happy -- maybe broadly unhappy or happy (laughter). It continues to be a competitive marketplace.

Naved Khan - *Jefferies & Co. - Analyst*

Thank you.



Operator

Mark Mahaney, RBC Capital Markets.

Mark Mahaney - RBC Capital Markets - Analyst

Dara, you talked a little bit about the China outbound opportunity and Expedia is still part of that. Can you talk about how interesting of a market that is call it in the next three to five years?

Is that the largest outbound market that a global travel provider like Expedia is likely to look at and act like [frame it as] an opportunity for us? And then just talk briefly about vacation rentals, any new updated thinking on that opportunity for Expedia? Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure. As far as just the sheer scale and the size of that market as an outbound market, it is one of the top markets for us and I think for any travel provider out there. I think that the Chinese customer is quite different in what they are looking for and their behavior and their device mix.

So I think that it is a market that in general has been difficult to reach for Western companies. That doesn't make it impossible but it has been difficult to reach for Western companies. And as a result we see our exposure going forward being partially organic through the building up of some of the brands that we have there.

And then through partnership, partnership with eLong and Ctrip and certain aspects of the business. And then our EAN business going out and offering our global inventory both on a standalone basis and on a package basis.

And you can imagine that the Chinese outbound business is quite package related and our ability to offer package inventory on a global basis with the kind of scope that we have has proven to be quite interesting to local Chinese travel providers and we see the partnership opportunities there already pretty strong and we think we've got a lot of runway ahead of us.

So, this is not a one-year thing, it is a multiyear thing. And we won't be competing as much as we had in the past for the local Chinese customer. But we are very much involved in both the Chinese outbound business and inbound business going into China as well.

I think on vacation rentals, listen, I think we're -- we continue to test and learn. We have a partnership with HomeAway, we are expanding that partnership into Europe and we are testing and learning in certain European markets. And we are very excited to do that because the vacation rental market tends to be quite strong in the European market, so we absolutely want to be there and we are happy to be there with the HomeAway team.

I don't think that we have hit on a magic bullet at this point, so we don't see the additional inventory at this point materially increasing our revenue per shopper, but we think the customer experience at this point isn't what it needs to be.

And we think we can materially improve the customer experience and we are hoping that will add to our customer satisfaction and also help our revenue per shopper. And we are working with HomeAway on that front and we will look to bring in additional inventory as well.

Mark Mahaney - RBC Capital Markets - Analyst

Thank you, Dara.



Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

A couple questions. Are there any near-term or long-term impacts on the business in your view from the recent rate parity changes in Europe, noting that they don't go into effect until August 1?

And then, Dara, in terms of your comments around integration efforts with Wotif and the Venere consolidation, are all those fully bolted on or do you still have small tasks or tweaks you need to do in terms of getting them onto common platforms?

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

I think as far as the near- or long-term impacts from rate parity changes; I would certainly say from a near-term standpoint we don't see a change. The fact is that customers come to our site looking for the best availability and the best prices.

Any hotelier is free to list on our site as long as they treat our customers well, as long as they meet certain standards. And the hotel partners who give us the most attractive inventory both in terms of pricing and availability, those partners are going to be the ones who do best because the customers are going to pick that inventory.

As long as the customers can find cheaper prices and they can find greater availability, they will tend to move towards those partners and we don't see that changing. It has happened for many, many years and we think it will continue for many, many years.

From a long-term perspective, we think this normal economic lull will take care of itself, but I think it is too soon to make comments on the long-term. This is something that is new, we are comfortable with it and we will look to manage it on a go-forward basis.

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

Brian, I will just take the integration question and Wotif, Travelocity, Venere really all fall into this bucket. All of them are substantially complete with respect to the technology migration. Venere is now fully on the hotels.com platform, Wotif, Travelocity fully on the brand Expedia platform.

What's left to do there is really around the areas of marketing optimization largely. We've got to build a track record of performance on these websites in order to train our online marketing models. And there's also some back office type stuff. But I would think of them as substantially complete with optimization yet to come.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Great. Thanks, guys.

Operator

Lloyd Walmsley, Deutsche Bank.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Thanks. Two if I may. First, just kind of big picture -- in the markets where you're kind of coming in as a new entrant behind competitors already in the market at lower take rate, makes a lot of sense to move take rates lower to build supply in new markets. Just curious, can you talk about what is happening in the markets kind of where you are more established? How you feel take rates are progressing and where you think it will go in the future?

And then a second one, just on the supply growth in the quarter, it looked really strong. Curious how much of that came from the [Senexet] 20,000 properties that they have versus some of those may have already been ones where you had a relationship -- can you just give us a little color there?

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

Sure, as far as our take rates go, while every market is different I would say the lowering of our take rates in general to both secure new inventory and secure better inventory for existing partners has been broad. So our take rates have come down in the US, they've come down in Europe, they have come down in Asia whether we are a new entrant or not.

And we don't necessarily see that changing. We have adjusted our business model to be able to reduce cost to our marketing partners while able to drive good economics for our shareholders. And that is our job and we feel comfortable that we can continue to deliver on that.

As far as long-term position, etc., it is very difficult to tell. The only thing that I know is that there's lots and lots of different distribution channels for supply partners on a global basis. And in order to continue to be competitive as a distribution partner you have to be good and you have got to be cheap and I don't see that changing. We are prepared for that world, we think we have been able to grow in that world and we are comfortable with it.

As far as the supply growth going, the majority of the supply growth came from kind of call it organic acquisition. We have been investing in our market manager force pretty aggressively and that investment has led us to be able to go out and sign up hotels on a direct basis. So I would say be direct sign-ups have been the majority of the increase in supply growth.

We had a bit of a nice bump from Wotif, thank you for that team for bringing those hotels on board. And then we are also signing up hotels through some third parties, but that is the significant minority of the sign-ups that you saw at this point. We are hoping to accelerate it on a go forward basis.

Lloyd Walmsley - *Deutsche Bank - Analyst*

Great, thanks a lot.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

Great, thanks. Dara, just kind of curious, what would it take for international revenue growth to start to match up with hotel room night growth again? Is there just sort of a business model shift that has to be annualized through here or is there more to it than that?



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

It is Mark, I will take that one. Really the big drivers for international revenue growth lagging room night growth so significantly are really twofold. One is just the overall drag in revenue per room night we have seen, which is the biggest component has been or a substantial component has been us taking down our hotel margins.

That is a business model shift that will work its way through over the course of the next few years. Over the course though of the last year or so particularly we have seen just a huge impact from foreign exchange and it is largely foreign exchange translation. And so, as we move to the end of Q4 and hopefully into next year we would expect that to subside a bit as well.

Heath Terry - *Goldman Sachs - Analyst*

Okay, great. Thank you.

Operator

Michael Millman, Millman Research Associates.

Michael Millman - *Millman Research Associates - Analyst*

Can you discuss Ryanair? Are they having any impact on trying to get everyone to follow their lead out of OTA or are we hearing more talk than actually what is going on? Where do you see that going in Europe and do you see any of that in the US? Then I have another question.

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

We haven't seen any significant effect from Ryanair. They are a very strong company, they tend to be vocal, but I don't think they are necessarily representative of the industry. We have got very strong long-term contracts with the vast majority of our air supply partners. And I would say that those relationships are getting stronger, not the other way around.

One of the pretty important initiatives for us is to move from really just being a commodity provider of air product as far as just showing call it the lowest price and schedule to becoming a value-added player in selling air.

So if you look at our air product now, we have more content on the quality of the flight through a partnership with Routehappy and we are adding features such as branded fares. So that while we will show you the lowest price, you can get some more flexibility, you might be able to get -- be able to choose your seat, etc., and essentially sell in ancillary type revenue which is very, very important revenue.

If you follow the airline industry, the airlines have done remarkably well with ancillary revenue. And we are building out features to be able to assist our airline partners in marketing those ancillary services and revenue such as seat choice for example.

So this is a really important initiative for us. We are seeing nice traction from our air partners and right now I would say the relationships with the majority of our air partners are most definitely on the upswing.

Michael Millman - *Millman Research Associates - Analyst*

So this is in the US and Europe?



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

This is on a worldwide basis.

Michael Millman - *Millman Research Associates - Analyst*

Okay. And on US rental cars, Hertz has just come back it seems in the market and talking about how its fleet is down and Enterprise seems to have finished repositioning. I was wondering what effects you were seeing from these actions.

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

Well, I would say we are generally happy with our overall car business. As we said, great unit growth. We are innovating on the platform. Car rental days were up 35% in the quarter. So we are seeing generally pretty good strength.

We have seen little bits of incremental Opaque inventory come back into Hotwire which has been a great thing. But I could say no dramatic changes from quarter to quarter. We continue to be reasonably happy with what we see.

Michael Millman - *Millman Research Associates - Analyst*

And are you seeing any changes in pricing?

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

What we are seeing on our side is relatively flat pricing.

Michael Millman - *Millman Research Associates - Analyst*

Okay, great. Thank you.

Operator

Ken Sena, Evercore ISI.

Ken Sena - *Evercore ISI - Analyst*

Could you just maybe talk a little bit about Expedia and the cross sell and maybe the package capabilities and tracking the new supply versus maybe price? And perhaps how Expedia then I think from that perspective is a differentiator I think as far as how you expand and maybe driving some of that growth. And then I (inaudible) comment maybe a little bit more just on the traction that you are seeing within the loyalty program that would be great. Thanks.

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

Sure. As far as cross sell goes, we are very happy with our production in the cross sell area. We measure the percentage of Expedia bookers who buy more than one item for us, bundle an item for us and that number has been consistently increasing over a period of time and it allows a couple of things.



One is it often allows us to deliver a discount to the consumer by buying multiple products in one purchase, it is like your cable bundle. You buy your Internet and your phone service and your TV service together you get a discount. We are offering the Internet bundle for online travel and consumers are increasingly taking advantage of it and they are taking advantage of the discounts there.

From a supply partner basis it also helps in that these transactions tend to be longer dated transactions so that the supplier can kind of fill up their window, their inventory on a long dated basis and then carry with them lower cancellation rates because the consumer who is booking multiple things, multiple items typically is a more committed consumer as well.

So it has proven to be a great value proposition for our consumers, it is a differentiator versus the other standalone players out there. And it is a nice differentiator for our hotel and air partners as well. It has been a nice win-win and that business continues to track along well.

I think a coming benefit in that area is going to be our increasingly merchandising mobile offerings to consumers while they are on a trip. So you can imagine that if we know that you have flown into New Orleans and you have downloaded the Expedia app we can offer you activities in New Orleans.

If you go to the airport and don't have a ride we can offer you a ride to your hotel and we probably have a bunch of intelligence as to when you're getting to the airport or where you need to go in your hotel.

That is a nascent business, but we think you can really delight our customers. And to the extent that we are selling more stuff to our customers we can invest more in acquiring those customers or we can invest more in keeping those customers through loyalty, through other benefits, through better service.

So we are very excited about the opportunity. We think we are in the early to mid-innings. I won't say that we are in the absolute early innings because the team is making traction and they are doing good work.

As far as our loyalty programs, we continue to see very nice traction there. Hotels.com is the biggest in the family as far as loyalty goes; there are over 18 million now hotels.com rewards members around the globe.

I think that of those 18 million members, since the program started I think they have stayed in 4.5 million hotel rooms for free. So you can have idea of how much we are reinvesting in these loyal customers and a higher and higher percentage of our transaction mix and our revenue mix is coming from these loyalty members.

The Expedia loyalty program, the Expedia Plus was mostly a US program, it is now expanding globally, we are now in 18 points of sale. We are over 10 million members and that business continues -- or that loyalty customer base continues to grow as well. This is another differentiator for us and something that we are pretty excited about and something that we think we can extend and grow.

Ken Sena - Evercore ISI - Analyst

Great, thank you.

Operator

Ron Josey, JMP Securities.



Ron Josey - *JMP Securities - Analyst*

Great, thanks for taking the question. I wanted to follow up quickly just on margins. I think, Dara, you said we are at the longer-term process. But where are you in the process in terms of having these commissions in those markets come down? Are they down enough or is there still room to go?

And then I guess the real question is around reviews. I think, Dara, you mentioned reviews. Real-time reviews, hotels are using them to improve the quality of stays. Can you just talk about the importance of hotel reviews to Expedia, just noticing Trivago highlight that in some commercials? Thank you.

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

It is Mark. I will take the first one and then I will turn it over to Dara for the second one. With respect to margins, listen, what we are doing is essentially bringing our margins around the globe down to what we would say are sort of market parity type locally appropriate margins. We have been at it for I would say the better part of 2.5 to 3 years.

We are going to continue to make adjustments through the end of 2015 and could slip into 2016 before we see ourselves really at parity or where we want to get to and then you have to annualize those. So I think you are into 2017 nicely before you see the revenue per room night pressure from the deliberate margin actions recede.

Dara, do you want to take the review?

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

As far as reviews go, it is a very important factor in our traveler's decision as to which until they pick, second only to pictures I believe. So we are very actively continuing to collect more reviews on our hotels.

Our higher rated hotels tend to do best in the Expedia marketplace, so I think there is a nice incentive for hoteliers to make sure that the Expedia or hotels.com customer gets a good -- gets treated well because not only do those hotels perform better in the marketplace, but then over 50, 60 million other consumers are reading those reviews as well. So it is very important to treat those customers well.

The value that we bring with real-time reviews is that if you look at our reviews in the past the value -- the customer value for those reviews was that they were all real reviews. You knew that a customer stayed that hotel, they're 100% dependable.

We got some complaints from some hoteliers saying, listen, I wish I knew about this customer's poor experience, I wish I could do something about a review other than comment I am sorry about your experience.

So now with real-time reviews we are asking the customer when they are in the market how their experience was. We are then sending the comments from those consumers, either good or bad -- we will highlight the bad because you can do something about it -- to our hotel partners through our Expedia partner tool, which by the way is going mobile as well, so that if someone didn't like the room, if someone didn't like their view, if someone didn't have towels in their room the hotelier can do something about it on a real-time basis.

And you can imagine that being just a delightful experience if the hotelier does something about it without a complaint coming directly. So we think it is a great tool for hoteliers and we think it could be a terrific experience for our consumers as well. It is early innings but we are pretty excited about it.



Ron Josey - *JMP Securities - Analyst*

Super helpful. Thank you.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer Securities - Analyst*

Thanks for taking my question. Eliminations as a percentage of Trivago revenue decline sequentially. Is this a big function of the auction becoming more competitive or are there any other factors you can point to?

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

I would say it is up and down quarter to quarter based upon competitive factors. I would say that the Trivago auction is competitive, has always been competitive. Some of this also can be influenced by the geographic mix because foreign exchange is a big factor here. And we did see probably a higher portion of international business that had a higher portion of the essentially FX headwinds against it in the quarter.

Jed Kelly - *Oppenheimer Securities - Analyst*

Thank you.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Company - Analyst*

Thanks. First, could you just give us any more color on your marketing plans for the second half? You said you were reinvesting some of the upside from Q2. Should we expect kind of the levels of advertising spend to accelerate or will it be around the same as it has been in the first half?

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

Sure, Kevin. So we do plan to step on the gas on sales and marketing in the second quarter, particularly in the third quarter which is a pretty important one for us. We also had in June, some spend that we held back on and shifted into Q3. So I would expect levels to be elevated through the back part of the year and I think it is a good factor to keep in mind as people are shaping their models.

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

Kevin, I would also add that we don't know how much we are going to spend for the majority of our marketing spend going into a quarter. The majority of our marketing spend are -- essentially it is a variable spend.

We don't know how competitive the auction is going to be. And essentially in some of those marketing channels the more we spend the better because we are acquiring more new customers as long as you can do it in a competitive manner. So when we talk about shifting marketing spend, that is for plan to spend, that tends to be off-line.



And then things can change pretty darn materially when we are in quarter and I think our teams have handled it well and they operate within their efficiency formula so to speak. But marketing spend is not something that we necessarily want to keep predictable one way or the other. We are really about the core economics and we are not about the quarter.

Kevin Kopelman - *Cowen and Company - Analyst*

That is great. Thank you very much.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS - Analyst*

Thanks for taking the question. Dara, I was really interested in your comment around Travelocity that as you are coming up on anniversarying the deal you are seeing continued strength in the property, and then maybe going forward the property could even be stronger than you thought.

So in terms of how you are thinking about properties like that that you bought, what are you seeing in Travelocity? How should we think about the tail for growth that is a potential for Travelocity? And how much of that has to do with marketing spend and how much has to do with integrating it into the tech platform that you guys spent a number of years investing in? Thanks.

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

I think it goes to what Mark was talking about as far as the Wotif integration. The first benefit that we got from the Travelocity integration was higher conversion because Travelocity was able to piggyback off of a substantial investment that we made on the brand Expedia platform.

There is a second benefit that it got which is cost efficiency. We didn't have to carry a bunch of secondary cost building out features that had already been built out probably in a better way. So those two come pretty quickly.

And then the teams start optimizing on the marketing side in various marketing channels. And at that point they have got to burn in a bunch of algorithms and a bunch of decisions that have to be made, one, based on the conversion of that site in various channels; and two, based on the lifetime value of its customer base.

And those factors, while conversion has improved, the conversion of a Travelocity customer let's say in the Trivago marketplace and the lifetime value there is going to be different than Expedia, is going to be different from hotels.com.

So you start moving through a period of optimization in these marketing channels and I would say it takes -- it takes a good six months if not more for you to start getting these marketing channels to work in the way that they should. And then if you have a good site, if you have got good marketing, if you have got a great brand, which you see with Travelocity, you tend to have an entity that can grow and that is what we are seeing with Travelocity.

The thing that I would add is that we don't take 100% of those savings to the bottom line. We take some of the savings on overhead and we reapply them into the brand. So if you look at the Travelocity brand spend this year versus last year it will be up. We think that is a good thing.

And we think the combination of better conversion, better variable marketing, higher brand spend -- that is a formula that you need to grow a business. And our intention with Travelocity is to grow the business, it has been a year. We hope we can do it for multiple years.



Eric Sheridan - UBS - Analyst

Great, thank you.

Operator

Brian Nowak, Morgan Stanley.

Brian Nowak - Morgan Stanley - Analyst

Thanks for taking my questions. Just to go back to the Travelocity one for a second, it sounds like the business is really humming along. Any help at all on how many points Travelocity added to the domestic room night growth this quarter? And how should we think about it, Dara, as you continue to experiment on the advertising side and kind of get more efficient in the Travelocity marketing channels going forward?

And then the second one, the CapEx was pretty high, I think it was about \$366 million. I think that is more than you guys spent in all of 2014. What are the major areas you are investing in and how should we think about that flowing through tech and content for the rest of the year?

Mark Okerstrom - Expedia, Inc. - EVP & CFO

I will deal with the Travelocity question. It is doing well. We did start to lap over the hotel revenue side of that business in Q2. As a reminder, we started lapping over essentially the gross bookings part of it in the beginning of the year and then revenue lags and that cleaned out in the back part of the second quarter.

So there was some impact, but it is in and around call it the 100 bp type of range, it is not a very significant number for us. We think it can continue to grow quite nicely as we optimize the sales and marketing spend.

With respect to CapEx, the biggest thing this quarter was the closing of our transaction for the new Seattle headquarters and that was a number that hit CapEx pretty significantly.

With respect to the rest of it, which is largely capitalized software development, I would say just look at the past for a decent predictor of what to expect into the future. And just specifically on the real estate purchases, about \$229 million of that CapEx was just for that.

Operator

Dan Wasiolek, MorningStar.

Dan Wasiolek - Morningstar - Analyst

Thanks for taking the question. So you guys have been quite active the last several months with expanded partnerships and acquisitions. At this point are there particular regions or verticals within the travel industry that you would like to strengthen either through partnership or acquisition? Or at this point are you guys comfortable with your current portfolio and growing organically from here? Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

I think for the time being we have got plenty on our plates. We are going to be opportunistic and I would say especially outside the US we think we have potential. We want our revenue outside the US to be bigger than our revenue in the US.



So I do think to the extent that we look for partnerships or acquisitions it would tend to be outside the US and we think certainly we have our plates full here and we have plenty of work ahead of us for the next couple months.

Dan Wasiolek - *Morningstar - Analyst*

Makes sense. Thank you.

Operator

(Operator Instructions). At this time there are no further questions. Please go ahead, there are no further questions.

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

Thank you very much for joining us this quarter. Really good work to the Expedia, Inc. team and let's keep it up. The year ain't over. And to our investors, we look forward to talking to you next quarter. Thank you.

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

Thank you.

Operator

This does conclude today's call. Thank you for your participation.

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