Heath Terry: Great, so we'll go ahead and get started here. My name is Heath Terry, I cover the Internet space for Goldman Sachs. We're really happy to have with us today Mark Okerstrom, the CFO of Expedia. Obviously, incredibly interesting times and busy times for Expedia, so really appreciate the fact that you could be with us today.

Mark Okerstrom: Thanks, great to be here.

Heath Terry: Obviously, everybody in the room is, at the very least, familiar with Expedia as customers. What's the right way, as an investor, to think about what Expedia and all of its brands are as a company?

Mark Okerstrom: Well, we really are the largest travel platform that exists in the world. We, literally, have brands and assets against almost every major category of the travel industry that exists around the world. The overall travel industry is $1.4 trillion, so it's an absolutely huge industry. We're the largest player, and we've got about 4 percent.

And if you look at the assets we've got to go against it, we've got a core online travel agency business with such iconic brands as Expedia; Hotels.com; Travelocity; most recently, Orbitz, that we added to the family; and we're in the middle of integrating that onto the brand Expedia platform, Hotwire; Wotif, down in Australia. Those brands are serving both business and leisure customers. And then we also are powering offline travel agents and corporate travel agencies, as well. That business is in about 65 different countries around the world. Hotels in over 200 countries around the world.

You've then got Egencia, a managed corporate travel business. The 5th largest corporate travel business in the world; did over $5 billion of travel bookings last year. And they're really doing to corporate travel what Expedia.com started doing to leisure travel about 20 years ago, giving amazing consumer-like experiences to corporate travelers in the enterprise.

And then a couple of the more recent acquisitions that we've made -- trivago, which we acquired a majority of in 2013 is really the fastest-growing scale travel media player out there, growing at rates of about 50 percent year-over-year last quarter. I'm very excited about the growth prospects at trivago. And then, lastly, HomeAway, which is the leader in the alternative accommodation space doing business globally, and we're in the middle of a transition of that business from a traditional listings business to an e-commerce business where you can really do online bookings, and we think that's going to be a huge value creation opportunity as well.

So this thing called Expedia, Inc., is multi-faceted. It's going right after the entire travel industry, and we think has long legs for growth for a very long time to come in an absolutely huge industry.
Heath Terry: Yes. And so at that size and that scale, you've got a lot of perspective and see a lot of the waterfront of what's going on in travel. How do you view the current macro environment for travel?

Mark Okerstrom: Yes, I'd say it's okay. There has been some recent signals we've seen in the last quarter or so that do give us just some reason for caution. We mentioned on our last call that we were seeing Egencia, our corporate travel business. Although transaction volumes were holding up, we started to see some degradation in the average transaction value. Some of that is average ticket prices are going down, but also we do see some evidence of corporate travelers trading down, not flying business class, perhaps flying low-cost carriers, staying in cheaper hotel rooms.

So I think that's, sort of, a cautionary tale we're keeping our eye on. We have also recently had this travel advisory issued by the U.S. for travel to Europe. I think those things can create fear in consumers. I think that's an incremental word of caution that we've seen recently. And then in terms of our trends, we did mention on our last call that we were expecting to see a slowdown in our hotel room night growth as we move through the year.

We are seeing that here in the second quarter. To some extent it's comping over recent acquisitions, it's the law of large numbers, but we've also got teams of people very focused on doing the Orbitz and CheapTickets and ebookers migrations, and that can take some focus away from the core business and put stress on our infrastructure. So that's just something to keep in mind, too, for us, specifically.

Heath Terry: You mentioned the integrations. Obviously, you guys have been making acquisitions at sort of a torrid pace over the last couple of years. What are the advantages that you get when you bring a platform like Orbitz onto HomeAway or even something that's a little more different like HomeAway?

Mark Okerstrom: Well, I think Orbitz and HomeAway are very different. I think in the case of Orbitz, Travelocity, and Wotif, you really have this wonderful combination of good things or things that make a deal thesis great, which is you get revenue synergies and cost synergies. In the case of Travelocity, for example, this was a business that was flat to declining and had the full cost structure of a full-service OTA with all the technology infrastructure, call centers, et cetera, the supply team signing up hotels and yet, despite all of their efforts, they had become subscale. They couldn't compete with brand Expedia.

When we bought them, we were able to take that business that was flat to declining on the top line, start to grow revenue at double digits, and were able to do it on a significantly lower cost structure because we essentially took the Travelocity business, unplugged it from its existing infrastructure, and put it on a new version of the brand Expedia website giving Travelocity really industry-leading EBITDA margins.

So that's the story there. I think with HomeAway, we have, over the course of the last, now, call it, 10 years, and particularly in the last five, developed some real expertise around global online marketing, around really driving the conversion of our websites and we are able to bring a lot of that expertise to bear at HomeAway, while they're essentially transitioning from a listings business to a business that looks a lot more like Hotels.com than, certainly, their old one did. And that's a big boost for them as well.

Heath Terry: And so we were talking about some of the signs that things are starting to soften a little bit in the macro environment, but we're still at record ADRs, we're record occupancy
rates, we've been breaking new records the last few years. When you look at that kind of
environment, what kind of impact does it have on the relationships that you guys have
with the hotels themselves and the suppliers and how does that change things?

Mark Okerstrom: Well, I'd say that, generally, our relationships with all of our hotel partners are
constructive to good. We have, over the course of the last three or so years, done some
pretty significant changes to, really, the way that we operate.

One is we have systematically reduced the cost of distribution on our channel, really
taking us from a spot where we were charging a high-priced premium to all to a spot
where we were a relatively low market base rate, and then people -- suppliers who needed
volume can pay us more to get more. And, generally, that's been very well received in
the marketplace from our suppliers. We've got more rates and availability, we've
generally been able to sign up new hotels at a faster pace.

The second thing is that we've been growing very quickly, and generally that's provided a
great opportunity for hotel partners that play well in the channel. They've got great
prices, they give us great availability, they've got great photos, et cetera, to really rise up
in the sort order and gain significant volume from our channel. And so those have been
the positives.

I think on the down side, anytime you have a spot in the cycle like this, and you've got
someone like ourselves who is getting bigger and more significant, it can create a little bit
more friction with some of the larger chains, and I think you can see evidence of that in
terms of what's playing out in the marketplace right now.

Heath Terry: Yes. And so you reference the ability that hotels now have to pay a little bit more to get
more that's the Accelerator program. How has Accelerator been received, so far? What
have you learned in the early days of offering that out?

Mark Okerstrom: So, again, Accelerator basically allows hotels with good quality scores and otherwise
they've been good participants in the channel, they give our consumers the best prices and
the best availability. They've got a particularly compelling offer versus their competitive
set. We allow them to essentially bid more to rise up in the sort order and get more
bookings.

It's still relatively early. We've got thousands of hotels that are participating in the
program right now with active bids, but we've got over 280,000 individual hotels that
we've got to get used to using the tool and finding ways where they can use it most
effectively, and I would say we're very much in early phases here on that front. But so
far so good, the reception has been positive.

Heath Terry: And so we have seen hotels starting to launch these new loyalty direct programs or book
direct programs, even running advertising campaigns around it, and I think we've talked a
little bit before, it's hard for a lot of us to imagine in any other industry a supplier saying,"Don't buy our product at this place that we sell it." What do you think it is that's driving
this at this moment in time and what kind of impact does it ultimately have?

Mark Okerstrom: Yes, it's interesting to watch, and I think we have been, despite the fact that I think we
have been perhaps called out as a place where Hilton, I think, for example, does not want
consumers to shop. And we are, to some extent, on the sidelines here. The real
competition is not between ourselves and Hilton and ourselves and Marriott. It's been
Hilton and Marriott and Hyatt and Accor and all of the hotel chains themselves.
And I think when you have a discounting strategy, it starts to look a little bit like a price war. And so I think it will be interesting to see how this plays out, over time. And I think the big ramp-up in television spend asking consumers to not shop around, I think is an interesting message. If you look at San Francisco right now, Hilton will have about 20 properties within 15 miles of San Francisco. Expedia has about 404. So telling consumers not to check Expedia seems like it may be a losing battle.

But we'll see how this whole thing pans out. I think it's early phases, but we're watching from the sidelines with keen interest.

Heath Terry: Yes, it's fascinating. You've also seen models evolving within the online travel space -- TripAdvisor, formerly a division of Expedia, moving to a little bit more of a direct model through Instant Book and some of the things that they're doing. How does Expedia view that as a participant in the marketplace but also specifically as a customer of TripAdvisor’s for traffic?

Mark Okerstrom: Well, as you know, when TripAdvisor initially launched the Instant Book product, we were not in favor of participating. And, really, it was for a couple of reasons. One is that the product itself was confusing. It was really meant to essentially tell the consumers they were making a booking on TripAdvisor and that they were a customer of TripAdvisor. And, for us, that wasn't an interesting channel.

We look for marketing channels that can really be customer acquisitions channels for us. Channels where our customers can see our brand and then maybe come back to us directly before they make their first booking or see our brand, experience our website, have a booking, and then come back to us directly. And the original TripAdvisor product did not have those characteristics, and it was not an economics that we found particularly attractive.

I think if you look at the product today, the product that our competitor is in and some of the hotel chains are in, it has characteristics that are more consistent with a customer acquisition channel. It's more branded, it's less confusing, and so I think as the opportunity for us to participate in that channel becomes available at some point here over the coming months or years, that will be something we'll take a look at.

Heath Terry: So TripAdvisor has implied that that partner that you're referencing them working with has a certain period of exclusivity that a couple of weeks ago said ended sooner than most people think, whatever that means. Does that make this more interesting to you? Is Instant Book more interesting to you? Could you see Expedia becoming a partner there when that exclusivity is over?

Mark Okerstrom: I think it's certainly something we'd be interested in talking to TripAdvisor about. Again, the product just looks more attractive to us now than it did when we first had discussions, and, of course, the devil is always in the detail, and it always depends on economics, but we'd be very open to a discussion on it.

Heath Terry: Yes. trivago has been a tremendous success for you guys since the acquisition. What have you learned in owning that sort of metasearch model in Europe that you've been able to take or you see taking to other brands, over time? How does having trivago benefit the broader ecosystem?
Mark Okerstrom: Yes. Well, in a few ways. I think one is trivago is just a phenomenal growth asset itself, and it was a very fast-growing channel. So having trivago as part of the family really led us to send our teams in with the trivago team and really figure out how is it that we can be most effective in bidding in the trivago channel? And our brands have become pretty good at it, and as a result they've been able to really ride some of the growth and success that TripAdvisor, sorry, that trivago has had both in Europe and in the U.S.

It's also helped us as we've acquired more hotel properties, you know, particularly in Europe; be able to acquire those properties and immediately deliver demand of those properties via the trivago channel.

But also just having that business as part of the family has taught us some other things as well. I think one is they have developed some very sophisticated techniques around television brand marketing, and they're very good at it. And I think our brands have learned a lot. They were already very good at brand marketing, but they've really learned a lot from them in terms of how to really be much more analytical and measure and test advertising placements on television. I think that's been a big boon.

And then I think, also, it's just having trivago as part of the family and seeing how that business monetizes its traffic, I think it's just been a reconfirmation that when you have great assortment, you've got a lot of hotels, and you've got a good search experience. That is something that consumers absolutely love, you know, and it goes back to some of these structural advantages that the OTAs have, the metasearch players have versus the marketing arms of the big chain hotels, and these are real structural advantages. And I think watching trivago with all of its breadth of assortment really execute well and benefit from that assortment value has been a reconfirmation of that for us as well.

Heath Terry: And so the alternative accommodations trend that you're seeing in the markets, obviously, getting a lot of attention. You guys have made your big bet there with HomeAway. How do you see alternative accommodations in Airbnb, in particular, impacting the broader market and how does some way address that for you?

Mark Okerstrom: Well, there is, clearly, a demand for this product. Even if you just look at HomeAway, HomeAway would do $14 billion to $16 billion of alternative accommodation bookings. I think last year estimates have Airbnb in and around $9 billion or $10 billion. I mean, clearly, this is becoming a big segment.

In terms of what it does to the overall travel market, a couple of things. I think that on the margin, I do think there is some substitution from traditional hotel or hostels into alternative accommodation type offerings. It must be happening, just to see the growth of these businesses. People are substituting, you know, we, for example, have seen in the early days of our partnership with HomeAway before the acquisition, big families, for example, who were trying to figure out how to book adjoining rooms, when offered a whole home, they really liked that, and that's a great example of substitution.

And I think, very likely, as this type of inventory continues to go mainstream, it starts to appear on Expedia and Hotels.com and Orbitz, for example, I think there's a possibility that there could be more substitution into alternative accommodations.

The second impact we've seen is that in periods of high compression, peak periods, Super Bowl, Dreamforce in San Francisco, the Pope visiting in New York -- these were periods where, many times, we would get -- the town would fill out. And ADRs would go
through the roof, and it was a great opportunity for hoteliers really to yield up in a major way.

We've seen a couple of situations over the course of the last year or so, where, in fact, the town doesn't sell out any more. That you get this surge capacity that comes on through alternative accommodations. Maybe the hotel still sells out, but it's not able to yield up as much as it was before.

Generally, that's been a good thing for us because we are an intermediary, we are the spot market. There's available inventory at good prices, our consumers gobble it up, but it is an impact that I think is -- you know, people should be mindful of, particularly at this conference.

Heath Terry: So when you bought HomeAway, they were in the midst of a pretty big model transition going from what was essentially, in a lot ways, kind of a classified model to more of a transaction-driven model, a bookable model. How have you seen that progress -- or that transition progress since you've owned the company and how have you maybe changed the strategy there?

Mark Okerstrom: Yes. You know, so far, it's going very well. I mean, we have essentially helped, I would say, accelerate their plans. They were already on this path to becoming more online bookable. I think when we bought them they had over 60 percent of their properties were online bookable, and we continue to drive more properties online. We have recently introduced the traveler fee in the U.S. that happened at the end of February, beginning of March, and that's gone very well. Booked transactional revenue for HomeAway, and Q1 was up 170 percent year-over-year, so very significant.

And there was initial little bit of noise from owners who didn't like something had changed, but generally that's quieted down, and I think the owner community was generally pleased or at least satisfied with the way things are progressing here in the U.S. We just started to launch in Europe at the beginning of June here, and we expect to roll out the traveler fee throughout the rest of the month in June.

We have also accelerated plans to essentially change their pricing model. They had a tiered pricing model, which allowed vacation homeowners to pin their property to very high-up in the search results, and we've announced some changes to that to give HomeAway ultimately a lot more freedom in sorting the properties to the top that consumers like.

So we're making a lot of changes here, and I would say that, generally, the changes that we've made have really been around just accelerating their plans, both through our own expertise but also because being part of the larger family and outside of the glare of quarterly results, we can allow them to take a little bit more risk. We're very happy with things, so far.

Heath Terry: And so when you see where HomeAway is going, where you want it to be at the end of this initial integration and progress, how does HomeAway end up differentiating itself from something like Airbnb?

Mark Okerstrom: Well, I think what you'll find with HomeAway is that HomeAway already, right now, has a significant amount of unique inventory. When we bought HomeAway, it was estimated that the overlap with Airbnb was something like 20 percent to 30 percent of the properties, and the unique properties that HomeAway has, and they've got over 1 million
properties, are really these properties that are individually owned. It's very hard to get at them. They are not urban places for millennials to stay. These are very unique properties.

And I think that is what the HomeAway brand has traditionally been known for, and I think that will continue to be a competitive advantage for them, at least on the consumer side. I also think that on the supplier side, one of the great advantages that vacation homeowners and property managers will have with HomeAway is that when they sign up with HomeAway not only will they be able to get bookings from the HomeAway group of sites, but very soon here they're going to be able to get distribution on Expedia and Hotels.com, and Orbitz, and that just opens up a huge distribution opportunity for them that we think could be a further catalyst for popularity with vacation homeowners and property managers alike.

So that's really the story. I think the next leg of the story, though, for HomeAway is once we have the inventory from HomeAway, really integrated onto the Expedia and Hotels.com websites, we now have access to market properties that may be in New York or in Paris or in San Francisco that you know, to get that traffic is very, very expensive, and we've got that traffic already. And once we have the ability to integrate that inventory, it does open up the opportunity for us to take HomeAway much more forcefully into the urban markets and maybe get into more of this, sort of, apartment-sharing economy millennial-type offering that we see with Airbnb.

But we certainly know that Airbnb is an excellent competitor, and if we do go into that space, we will have a very strong competitive headwind against us.

Heath Terry: Sure. So when you take all of this together, particularly sitting in your seat as CFO, and you've got some assets you've acquired, like Travelocity, that was maybe flat or declining, and you've got assets like HomeAway that are growing really fast, and you've got the core Expedia business. How do you think about what that combined platform grows at? What kind of margins does it have when you, sort of, get it where you want it to be through these transitions?

Mark Okerstrom: That's a great question. I need a crystal ball. Listen, I think for the next two or three years here, as we migrate HomeAway, as trivago continues to grow at fast rates, although at some point a lot of large numbers will catch up with them but, nonetheless, they are getting to scale. As we complete these integrations, I think you're going to have a transition period here where there is the potential for margin expansion as we peel off some of these costs from the integrations, for example, and very healthy revenue growth.

First, we're not solving for EBITDA margin expansion, we're solving for EBITDA margin growth and free cash flow growth and adjusted EPS growth, but I do think it's a possibility if you compare last year versus, call it, 2018.

At steady state this is a business that ultimately, whenever steady state hits, it's getting to a size where at some point it will approach the overall travel market, but we think that's a long ways away. The travel market right now is growing at about 5 percent. The offline to online tailwind may double that. It gets into low double digits. And then we have been able to gain share through being a global player with significant advantages.

And I think if you look over the long term, I think the offline to online shift is going to mature at some point, but we still think that we are going to be a business that has a long runway of share gains ahead of us just given the significant competitive advantages that we've got.
Heath Terry: Yes. So Air is a category that really, as big as it is, as much as it represents from a bookings perspective, it doesn't really get a lot of attention or at least not at the level that the hotels do. But you guys have been talking about it a little bit more lately. What's Expedia's strategy in Air and where do you see the opportunity presenting itself there now?

Mark Okerstrom: Well, I guess we're a little bit contrarian but we love the Air business. And one of the reasons is that from a consumer perspective, we really believe in the value of the -- you know, again, it goes back to this point of the assortment. I mean, going to one place that's got all of your information stored on your app, being able to get your flight, your car, your hotel in and of itself is an amazing experience, and I think the Expedia group of full service and full product offering brands including Orbitz and Travelocity and Wotif, I mean, they're really very unique on a global basis in being able to provide that. In fact, they're really the only global player that can do it.

So from a consumer perspective, assortment matters. We think that Air really fills that in. It also gives us the opportunity to do some pretty amazing things in bundling. There are situations where if you book a car along with a flight into Las Vegas, the combined package can be cheaper than just buying the flight on its own, because we do get special offers that allow us to buy suppliers, that allow us to bundle things together to get rid of excess inventory.

So that's a huge value proposition, and I think, thirdly, for us we look at the air traffic that we have, and we have a significant amount of air traffic -- 8-some-odd billion annual flight searches looking for flights. We view that as a proprietary stream of traffic. It's very expensive to go into Google and buy New York hotel as keywords. It's very easy for us when someone books a flight to New York to be able to give them a special offer on a hotel and make that transaction happen. And that is proprietary. That's ours, and we think gives us a little bit of a walled garden to really harvest in an otherwise very competitive space, which is the space as you call it, selling hotel.

Heath Terry: So you touched on Google there a little bit. How do you think of them as partner, a place that you're buying expensive traffic, and competitor?

Mark Okerstrom: Well, they're a partner that we watch very closely. They're a great customer acquisition channel for us. It's a big pipe of demand where when we do better and our product is better, we can generally convert better, or we can gain more share. To some extent, we're trying to emulate that in our hotel search results. Those hotels that give our customers a great experience and give a great product can actually do better in our channel.

So -- we're a big fan of Google on that front. With that said, they are a dominant player at the top of the search funnel, and so we watch them very closely. But they've been in the travel game for a very long time, and travel is a very important category to them, ourselves, and our largest global competitor are huge customers of theirs. And, so far, what we've seen them do in the paid products is largely just try to make their traffic more qualified, try to create a better advertising product, and that's generally been a good thing for consumers, it's been a good thing for us.

So as long as that's the path they continue on, we're very happy. If they want to get into transactions, good luck to them. I don't know if they want to hire the 12,000 call center agents around the world answering phone calls in 36 different languages or hire the salesforce that we've got. But we don't necessarily see them going in that direction.
The other aspect of Google, which is, I would say, has been adverse and I think will be adverse over a long period of time is their quest to replace free traffic with paid traffic, and I think that's just going to be headwind that everyone in the Internet is going to have to deal with forever.

Heath Terry: Yes. So we do have time for questions from the audience. If there are any, please raise your hand. You all have mikes in front of you.

Unidentified Audience Member: Could you please talk a little bit about the transactions with HomeAway and Orbitz and how synergies and integration calls are tracking?

Mark Okerstrom: Sure. So on Orbitz, which is the most significant deepest integration, when we announced that transaction we said that we expected there to be about $75 million of run rate synergies. We then updated that to say that we believe there was meaningful upside to it. We expect synergy realization for Orbitz really to start materializing in the back half of this year.

During the first half, we've essentially got double costs. We've got teams that are reported and report up to the organic business, brand Expedia, for example, that are preparing that platform and did prepare it to take the traffic for Orbitz and CheapTickets and now ebookers, and we've still got teams that Orbitz and CheapTickets and ebookers that are maintaining those old platforms in the back part of the year. That should start to level off, and you will start to see synergy realization come in the back half and through 2017 as you probably get pretty close to run rate on that business at least for the quarter leisure business. There's still Orbitz for Business, which is corporate travel. We've got a big bank loyalty business called Orbitz Partner Network, and that will take a little bit longer to go.

In terms of HomeAway, it's not a lot of integration, per se, that's happening in HomeAway, but what is happening is this transition to online bookability. We have said that we are targeting $350 million of adjusted EBITDA in 2018, and that's versus a base last year of in and around $120 million, so we think there's a huge opportunity there, and so far things are tracking very well to that, and we still feel good about our ability to hit that number.

Unidentified Audience Member: What do you view as the keys to building out hotel supply in Europe and some of your other under-penetrated markets, and how has your ability to execute on that changed over the last few years?

Mark Okerstrom: Yes, a great question, and I'll probably tackle the last part of it first because we have developed very good capabilities to add hotel properties by making a bunch of changes over the course of the last three years.

Change number one was really developing a scale agency hotel business. A business where consumers could pay at the hotel, and then we would collect our commission later as opposed to the merchant business, which was we collect the credit card and then pay the hotel. That model itself wasn't particularly popular in Europe, and our largest competitor had set a market standard of having the agency post-pay model as the model to go by. And once we developed the capabilities to have that business model offering, that opened up the aperture a little bit for us.
Secondly, was that we reduced our hotel margins. We used to have premium margins that were significantly above where our chief competitors' margins were at the entry level, and now we're completely -- we think our market, on par, around the world. And so there's no real economic barrier to doing business with us.

And then, thirdly, is we developed, through building great online marketing capability and global multi-language brand platforms from a world where we had regional separate platforms, we really developed the ability to add a hotel, and when we add a hotel property, generate incremental demand through Google or TripAdvisor or trivago. And then when we add a cluster of properties, for example, once we have X percent of the hotels in Manhattan, now we can start bidding on Manhattan hotel keywords around the world as well.

And so now we have the ability to solve, you know, what is essentially the chicken and egg problem, which is, we can actually create incremental demand when we acquire new hotels, and therefore, we can actually deliver new volume to the new hotels, and also just continue to drive relevance to our existing hotels, and that's been a catalyst for us to really continue to drive acquisition on a go-forward basis. And we think we've got many, many years ahead of us in adding hotels.

Heath Terry: I saw a question over here? Here we go.

Unidentified Audience Member: I was wondering if you could just elaborate a little bit more on what's driving the disparity between the commercial travel atmosphere and the business travel atmosphere, and whether the slowness in business is bookings numbers, or whether it's pricing, and whether you've seen any recent changes as we've progressed through the spring into, I guess, coming into the summer?

Mark Okerstrom: Yes, so what we have seen on the corporate side is that transaction volumes have still stayed healthy, but transaction values have declined. And the decline in transaction value has been, in some part, due to reduced average ticket prices, but also we think some trading down, shift to low-cost carriers, shift to economy from business, et cetera, and that just indicates that, to us, that potentially corporates are being a little bit more cautious. But they're not banning travel, they're just saying, "Let's just be a little bit more cautious here," and I think that actually is reflective of our view on the overall economy. People are just generally cautious.

I think in the leisure side, for us, you know, to be honest, it's sometimes hard for us to get a real gauge on what's happening in the overall leisure travel industry, because we've been in share gain mode for so long, it's hard for us to know-- you know, we know we're growing significantly faster than the overall market. Could we be growing even faster if consumers felt better? Possibly, but it's harder for us to see that as clearly as we can with the corporate travel business, but we don't see a big change in consumer -- you know, leisure consumer behavior at this point.

Unidentified Audience Member: And then has that changed recently in the-- I mean, obviously, January, February, were very tough months, and then perhaps we've gotten mixed signals since then. Like, have you seen -- I mean, you're headed into the summer booking season, have you seen any pick up, or is there still this kind of tepidness or cautiousness, as you said?

Mark Okerstrom: I think the cautiousness exists. You know, we called out that trend with corporate travel bookings last quarter, and it continues in the second quarter here. We are seeing a slowdown, overall, in our room night growth across our leisure business. We don't think
that's being driven by macro. Again, there's law of large numbers, comping over acquisitions, we've got teams that are focused on integration and not driving room night growth in the core business, but it's possible there could be a macro factor in there, but it's hard for us to isolate at this point.

Unidentified Audience Member: Could you talk a little bit about your relationships with the GDSs. Like, how much of your bookings still go through one of these engines, and how you see that develop, and also what kind of leverage you have that now, for instance, you moved Orbitz to multi-sourcing. What kind of cost leverage does that give to you?

Mark Okerstrom: Yeah, so we have got, I would characterize, as good relationships with the GDSs. We've got great partners in Sabre and Amadeus. You know, we really view the technology solutions that they provide to be additive to the overall ecosystem. Having them step in and help solve some of these heavy tech challenges with the airlines, for example, on our behalf, has been a great thing, and that's allowed us to essentially build our technology on top of them, and focus on what we're good at. So we think from where we stand right now, we're going to have long, fruitful relationships with them for a very long period of time.

You know, it is true that over the course of the last number of years, we have gone to multi-source with our GDSs, and that just gives us more flexibility, more redundancy, and can give us some cost advantages as we make sure that we're being as efficient as we can.

Unidentified Audience Member: Can you comment, in the future, how do view your (inaudible) channel like Google, or TripAdvisor? The importance in the future (inaudible).

Mark Okerstrom: Great, so I'm going to repeat the question, because I think your microphone was not on, which was how do we view customer acquisition channels going forward -- Google, TripAdvisor, versus some of maybe our more direct channels?

You know, listen, we're hopeful that these big customer acquisition channels -- Google, TripAdvisor, trivago, continue to grow and be very healthy sources of new customers for us. We're hopeful that Facebook continues to develop in that regard, and maybe they can create a new opportunity for growth for us, for new customer acquisitions. We are working with Facebook on their Chatbot project and again, it's early days, but we're hopeful.

So, you know, we love this formula that we have going right now, which is tap into high-growth channels, acquire a customer for the first time, give them amazing experience, sign them up for your loyalty program, and then have them come back to you directly, and we'd love for that to continue for the foreseeable future.

You know, I do think, though, at some point here, and I think we're probably closer to that in the U.S. than we are in other parts of the world. We're going to get to a spot where, really, our customer, our loyal customer base, is just so big that it's hard for us generate more incremental bookings from those new channels to make up for this great base of repeat customers, and you know, we're, to some extent, there with Hotels.com right now. They've got over two-thirds of their business comes from their Hotels.com loyalty members, it continues to grow, it's a very profitable program, but it's also a great program for travelers, and you know, we're hopeful that that continues to grow as well.
So, you know, in the near-term, I think customer acquisition channels are going to continue to be a great source of new customer for us. At some point here they'll slow down, and I think in the U.S., definitely before the rest of the world, where we're just significantly smaller.

Heath Terry: We've got time for one more question from the audience, if we have it.

Unidentified Audience Member: So maybe one place to finish on that -- China is obviously a market you guys have been in and out of, in various ways. Is there an opportunity there and maybe even more broadly, in Asia, that's going to be important for Expedia, or does that Priceline Ctrip relationship make China a bit locked up, at least for now?

Mark Okerstrom: Well, I think Asia is a huge opportunity for us. You know, even if you just look at Southeast Asia itself, it's a big market. And, you know, the population there, including Indonesia, we're looking at a Europe-sized place, and we're very significant there and growing very quickly. I think north Asia is more opportunity for us. We're doing particularly well in Japan right now. South Korea, big opportunities.

You know, I think China is a long-term opportunity. I actually don't see the Ctrip Priceline deal as being -- giving the Priceline Group a lock on that. I think Ctrip themselves are, you know, it's an amazing company and they're amazing competitors. I think the Priceline piece of that story is relatively small.

You know, we have our own relationship with Priceline where we're providing products to their outbound travelers as well. And then aside from that, we've also got a number of our brands are in China. Hotels.com has been in there for a very long period of time predominantly focused on outbound, but slowly but surely building a real business. We've got our Expedia Affiliate Network business is powering eLong, you know, they've got a relationship with Ctrip, Qunar, all the big players there, again, outbound. trivago is in there, brand Expedia just launched brand Expedia China. Egencia, our corporate travel business, is in there.

So you know, we take a very long-term view on China. You know, we think Ctrip is a force and we don't think we'll ever be close to being competitive with them, but we think we can carve out our little spot in that market over the course of the next five to ten years very nicely.

Heath Terry: Great. Mark, thanks so much for taking the time to join us.

Mark Okerstrom: Great to be here. Thank you.