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# EDITED TRANSCRIPT

EXPE - Expedia, Inc. at Deutsche Bank Technology Conference

EVENT DATE/TIME: SEPTEMBER 10, 2013 / 11:50PM GMT



## CORPORATE PARTICIPANTS

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

## PRESENTATION

**Ross Sandler** - *Deutsche Bank - Analyst*

My name is Ross Sandler, head of Deutsche Bank's Consumer Internet Research Team, and we're very excited to have Expedia here today. So what we're going to do is a quick Q&A. And please feel free to submit questions using [yorn.com/de](http://yorn.com/de) and then just find the Expedia page and you can submit your questions that way. So Dara, thanks for coming.

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

Good to be here.

## QUESTIONS AND ANSWERS

**Ross Sandler** - *Deutsche Bank - Analyst*

We've got a lot of ground to cover. I'll try to keep it pretty quick in terms of the questions, but I thought we'd start with Travelocity, and then maybe talk about the second quarter in kind of progress sense, and then back up and talk about the whole space.

So, on the recent news on Travelocity, focus right, or kind of industry third party data's got them doing around \$7 billion or \$8 billion in bookings in 2012, I believe. So can we talk about what percentage of that will be subject to this agreement? I know there's a portion that's carved out, their affiliate business, and there's a portion that you're going to be managing. And then there's also supply that goes through Travelocity directly that won't go through this agreement or it won't go through as a licensing. So can you just give us some color on how this deal came together and what the basic structure is?

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

Sure. The deal covers the Travelocity US and Canadian business. Travelocity also has part of its business as a last minute dot com business, which is primarily European business and the UK, et cetera. So that business is not included in the marketing agreement that we announced. And the Travelocity private label business is not included either. They power a number of private label sites. So really what we're talking about is the Travelocity North American/Canadian sites that we are going to power.

It's important to keep in mind that Travelocity will be still a totally independent business. The Travelocity marketing teams are going to market as they do now. We will essentially power the supply through our supply base. So whatever does go through Travelocity, the dot com site, post-integration, the Canadian site, will go through our supply infrastructure, and we'll essentially power the website as well.

And I think for Travelocity, we're hopeful that they will have a better product, it will be lower cost for them. For us it will allow us to amortize the investments that we have made in our technology infrastructure, which has improved pretty significantly, to amortize that investment and gain a return on it from a long-term perspective. So we think it can be a win-win, and we're looking forward to getting going.

**Ross Sandler** - *Deutsche Bank - Analyst*

And just in terms of timing, how heavy is the technology integration process, or is this something that isn't that labor intensive to get set up?

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

Nothing is easy on the internet at scale, so we're working through that right now as we speak with the Travelocity teams. And I think by the time we announce our Q3 earnings, we'll have more of an integration plan, and we'll be able to talk about, more specifically about the timing, any integration costs that may affect us. But we have more planning to do before we get specific.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Okay. And from what we understand, around 20% to 30% of Travelocity's bookings are on the hotel side. Does that seem like a realistic ballpark number? And are there any economics on the non-hotel portion of this deal?

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

Because the businesses are separate and have been separate, the amount of data interchange between the two companies has been relatively limited. So we look at the industry data just like you do.

The industry data would suggest that the hotel portion of Travelocity's business is smaller than the hotel portion of brand Expedia's business, for example. Is that because of the Travelocity brand is known as more as an air brand than a hotel brand? Is it the product? Is it the supply? I think those are issues that we'll have to answer as we get closer to the integration point.

But our goal would be to grow their hotel volume. They do have air volume. They've got package volume as well. And we think that with a good marketing agreement, again, it can be a win-win across the products.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Without getting into specifics, are the [either] economics or the rev share agreements on the hotel side similar to what you guys would see across other large partners like a Kayak or a Groupon or some of these large volume partners that you have, or is this completely different?

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

It's a different animal in that let's say a Kayak agreement, those are more call it B-generation type businesses. We own the customer data, that Expedia owns the customer data. But the Travelocity market agreement is very different in that Travelocity is controlling marketing and they own the customer data. We don't get customer data, et cetera. So it's a different kind of a marketing agreement than a Groupon and/or a Kayak.

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**Ross Sandler** - *Deutsche Bank - Analyst*

And the economics?

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

We'll have more to say later about the economics.



**Ross Sandler** - *Deutsche Bank - Analyst*

Thought I'd try, at least. How would you-- so the last question Travelocity. How is this going to impact Expedia's ability to be more competitive, or you obviously picked up a lot of scale here with regard to your positioning in the US and with regard to supplier relationships or supplier agreements?

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

Well, we think it improves our supply position. I think that our suppliers in general look to us to generate volume for them. And the more volume we generate the greater growth that we have. And the more brands that are generating that volume, I think we become more valuable for our supply partners.

The marketing management team that we have has really good relationships with the suppliers, too. So I think some of the suppliers are happy in that they'll expect more volume from us, and also the marketing management teams that we have on the ground are very professional, easy to work with, et cetera.

So the early take from our supply partners is that they're pretty happy about our marketing relationship with Travelocity. And they're asking the same questions. When is it going to happen? What can I expect? And again, once we figure out detailed integration plans, we'll have more to tell them as well.

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**Ross Sandler** - *Deutsche Bank - Analyst*

We have one question on the slide here related to Travelocity. But the question is, will Travelocity be able to market against you, for example on Trip or on Google, on supply that you bring to them through this deal, or are there provisions that insulate you from them marketing against you?

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

No. Travelocity, we expect Travelocity to market-- no one really markets against the other player. The marketing teams are going to be independent. We will have-- we will see Travelocity on the marketing side as we see today, which is we see what they do on TripAdvisor, we see what they do on variable channels. That's not going to change on a go-forward basis.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Okay. If we shift the conversation to I guess the second quarter and developments since. But there were a number of different items that you guys noted on the call, so maybe we can go through a few of these one at a time in terms of what happened in the quarter, and then kind of where we are in terms of fixing some of these issues.

First is TripAdvisor. Our data suggests that you guys have kind of revitalized that channel to some degree on the expedia.com side. So is that the case? And can you talk about what your overall philosophy is on Trip through this Meta transition kind of before and after?

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

Sure. The general effect of the Meta transition, just to go through that first, is that the amount of traffic that we get from TripAdvisor as a channel has gone down substantially, because you had a model which was a multiple window popup model that automatically sent traffic over to us to a model, which is a Meta model, send substantially less traffic.



The traffic that's coming to us from TripAdvisor is substantially more qualified, though. That consumer is saying that they are interested in that particular hotel at that price with that specific availability on our brand. So we see conversion rates from TripAdvisor traffic onto the Meta model being in excess of where they were.

What we had not seen is that the increase in conversion rate wasn't enough to offset the decrease in traffic that was coming from TripAdvisor when TripAdvisor moved from the Meta model. And the net was pretty significantly negative for us at the time.

We optimized against every single channel. And what we try to do is maximize revenue at ROI targets for -- and we have ROI targets for TripAdvisor, for the different channels that we have. And we are in the middle of an activity now. So we are now collecting data. What are the hotels that convert? What are the response rates as far as the volume that we receive from TripAdvisor based on if we show up number three, number two, number one, or down on the list? And based on that data, we are in the process of trying to maximize revenue at our ROI targets.

We had talked in Q2 that we had seen some early encouraging results that things were getting less bad and we want to continue along that front. And hopefully in Q3 we'll have better news to tell you than we had in Q2.

But this is just an optimization process for us. And any time that you have a significant displacement, you got to throw big data sets away and you've got to build up data. And we're in the middle of that testing and learning and building up that data.

The only other factor that I would give you a watch-out on is that the-- most of the observations about where we show up on TripAdvisor one way or the other, tend to cover the head volume. Most people look at the first page or the second page. They'll be looking in the US, et cetera.

Trip is a very, very strong tail business. We obviously are-- we view them as a very important channel. We're dedicated to that channel. We want to grow that channel. But I wouldn't necessarily come to full conclusions based on looking at a couple of pages.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Understood. And if you look at the 2Q unit growth drop off versus kind of the prior trajectory -- and you can parse that US versus International -- how much of that deceleration do you think was from Trip versus some of the other factors we can--?

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

I think Trip had the biggest impact on the quarter. Trip, I wouldn't call it the biggest impact. Trip had moved over fully to the Meta model in the US for about a month. So we had about a month's worth of effect. We didn't have a full quarter effect. They had moved to Europe, so the change in Europe was in advance of the change in the US, so we felt more of an effect in Europe. But Trip was a factor.

eLong room-night growth slowing down a bit was a factor. Hotwire was a factor. So there were a number of factors that came together. I think the room-night growth number was still a decent growth number, and it's-- hopefully we'll be able to grow room nights on a go-forward basis at profitability levels that we find acceptable.

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**Ross Sandler** - *Deutsche Bank - Analyst*

And you mentioned the eLong issue in 2Q. So was that just the Qunar/eLong dispute, and has that been fully remedied at this point so we're kind of back on track as far as eLong is concerned, or is it something in addition to that?



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

The most significant factor were the issues between eLong and Qunar that affected eLong's growth. eLong has resolved those issues. Although I would stress that the Chinese internet market is very volatile market, so what's true today may not be true a week from now.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Got it.

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

We'll see.

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**Ross Sandler** - *Deutsche Bank - Analyst*

And then Trivago, it seemed like this was more of a margin impact than any, in any kind of topline issue. But what's the overall strategy? Are you guys happy with the performance to date? And you made this conscious decision to kind of double down the marketing spend in the US, so what's the overall philosophy on what you want to do with Trivago?

And I think if we back up to last quarter, or maybe it was two quarters ago, you had given the \$25 million ballpark EBITDA contribution for Trivago for full year. Is that still on plan or part of the plan?

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

We haven't updated the guidance one way or the other as far as Trivago, what we talked about Trivago.

Talking about the shape of the P&L in Trivago, Trivago typically spends the majority of their marketing spend, which is substantial in the first half of the year. There is some spend in Q3. In the second half of the year, the spend is typically less aggressive than the first half of the year. So the vast majority, if not all, of Trivago's profits are going to come in the second half versus the first half. That's going to affect our P&L, the shape of the P&L. And certainly that's a factor in what we told investors to expect in the second half of the year.

As far as the strategy for Trivago goes is Trivago is the top European travel brand in three out of the big five markets in Europe. It is gaining share very, very quickly in Europe. It is a hotel-only product in a very large market, and expanding quite aggressively outside of Europe in the US and Canada, going to the Asia Pacific markets, et cetera.

This is a management team that has raised I believe a grand total of \$1 million since it was founded. So this is not a team that's going out and spending money willy-nilly. It's a very, very disciplined team. And they have expanded into markets in quite a disciplined manner. Spending brand spend, seeing what the response is, and then either pulling back or changing creative or spending more based on the volume response that they're seeing.

So what you saw in the US is a formula that they have perfected over a number of years. They saw an opportunity. We as a company are not a company that guides by the quarter, because we don't want to manage our business by the quarter. So if we make decisions that change our trajectory on a quarterly basis, we'll make that decision with a perfectly clear conscience, and deliver on a long-term and annual basis when we tell you we're going to deliver.

So Trivago, so far it's been great. The team continues to execute at a high level, and we're very, very happy to see the tracking in the US, and we hope to continue to see that tracking.



**Ross Sandler** - *Deutsche Bank - Analyst*

And you guys also mentioned, it's kind of related to this topic, but there was this crowding out issue around the amount of large travel brands now doing TV in the US market. You've got booking.com, you've got Trivago. You potentially have TripAdvisor at some point. So do you think this is going to be something that we're going to have to endure for the foreseeable future? How do you I guess rise above some of the noise? How do you change your creative, or do you not need to?

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

I think in the end of last year and Q1, we said that the US was going to be quite competitive. And we were-- we said it quite assertively to our investors, and it's been true. And I do think that this year, when you have new brands coming in and spending at the levels that Booking have spent, Trivago has spent, in the multiple millions of dollars, that is going to affect the share of voice of the incumbents. And we have had that effect, us and some of the direct traffic coming from some of the brands, but the biggest effect with hotels.com.

So, there's going to be an anniversary effect. Next year, you're not going to have as much new money coming into the US because there aren't that many new entrants out there. So it's going to be more business as usual. So we're hoping that the effect that we felt with hotels.com, that will be muted going forward.

At the same time, we are looking at our operating practices. We're certainly going to look at our brand spend, the creative. And otherwise making sure that the everyday business is being executed at the very high level that we know that we can execute at.

The great news with hotels.com is the core product is a very strong product. It's converting well. The welcome rewards loyalty program is I think the best loyalty program out there. Very simple, easy to understand, and quite a global product. So the core of the product, even though the competitive activity has ratcheted up, the core of the product remains quite strong, and it's something we can build on.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Last question on the 2Q topic, but Hotwire. So clearly this has been a reset year for Hotwire, and you've recently changed management out, I think, and looked at changing the strategy. So what's the overall plan to get Hotwire back on track, and what kind of timeline do you think we can expect to see in terms of that regrowing at some point?

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

I think this certainly is a reset year for Hotwire. And the weakness that we talked about in Q1 definitely continued into Q2, if not gotten a bit worse. We're at the circumstance now where at least the news on Hotwire isn't getting worse. Things have stabilized. We think we understand the trends of the business better.

There are factors that are affecting Hotwire that are macro factors. In general, when you are in a recovery mode, the opaque channels tend to-- the inventory in the opaque channel tends to suffer a bit. Recent consolidation in the rental car business, that's a big piece of Hotwire. And then we have seen increased competition from Priceline and Express Deals, which is essentially a copycat product.

We do have Henrik Kjellberg, who came from our EAN business, now working with the Hotwire team. And I think you're going to see a couple things. One is you will see I'd say a stronger competitive response against Priceline. We haven't had to compete directly. There are better ways to compete directly, and I think you'll see better tactical management there.



I also think that the Hotwire product does tend to be deep discount, does tend to be more last minute. I think the perfect mobile product. And we think that mobile can be a very big opportunity Hotwire, but Hotwire does need to pivot some of its [def] spend, some of its design, to be a stronger mobile product. And that's definitely something that the Hotwire team is focused on now.

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**Ross Sandler** - *Deutsche Bank - Analyst*

So I'm going to step into this section on just the whole space. We've got a few here that are actually related to questions I have. But one question here is any reason why you're not moving faster to an agency model? And the question I would ask on top of that is the ETP program, how are these agreements structured compared to, on the supply side, compared to legacy Expedia agreements? Are there agency and merchant take rates? Is it consolidated take rate? Any color on how that works?

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

So we're going, essentially the speed that we're rolling out agency is based on how many hotels we sign up and how many hotels we can convert over, because there's some technology work to get them over to the ETP platform. As of Q2, we signed up 30,000 hotels, and around 70% of them were live on ETP. You're just going to see that increase quarter by quarter.

We have a number of big brands who are participating. Marriott's participating, Hilton's participating, and we think brand participation will continue to increase going into next year.

Otherwise, we're going to let the consumer lead. The consumer, we believe that the consumer patterns that we see indicate that the ETP product is a better product than just merchant product. And we're going to leave it up to the consumer to decide whether they want to go agency or whether they want to go merchant.

As far as our economics and our deals with the hotels, I don't want to comment on specifics other than our core is let the consumer decide. We don't want to have an agenda to say, well, we wanted the consumer to do a merchant transaction because it's more profitable, or the other way. We think if you build a better consumer product, long term you're going to win.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Got it, okay. And then we've got one here around just commission rates in general. Commissions for OTs are relatively high. Do you expect pressure over time? I guess how would you characterize negotiations that you're having today versus maybe two years ago, given your comments on the competitive dynamics picking up in the space?

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

I guess I take issue with the comment that commissions are relatively high for OTs. These suppliers are getting access to a global audience. We are spending, as my investors remind me many a time, hundreds of millions of dollars on technology in order to get consumers to our sites. We are spending over a billion dollars in marketing in order to get consumers to our sites. And our hotel partners don't need to spend a nickel upfront in order to have access to this incredible growing audience, which is only going to grow with mobile as well.

So we think it's a great prospect. We think-- there's one price. You don't have to pay a-- there aren't little costs along the way, a consolidator. You don't have to pay a GDS, et cetera. There's one overall price, and we take care of everything. So we think it's a great deal.

As far as our margins on a go-forward basis, as we roll out our hotel partners through ETP, one economic value that we have to take into account is that on an agency transaction, the hotel is going to have to take a credit card fee. And our merchant transaction, we take that fee as well.

It's kind of anyone's guess as to what the balance between agency is merchant is going to be, so there's a negotiation. There's the, hey, what do we think the balance between the two is going to be? And in general, we try to keep our hotel partners neutral. And anytime there's a negotiation, you're going to look at what market rates are, what the size is, how much value you're bringing in to play. So on a global basis, we're going to be competitive, and I think these ETP renegotiations factor all that in.

I think the other factor I look at is that we are-- we have very strong participation from the large chains. Our margins with our chain partners tend to be lower than our margins with independents. And to the extent that we see share go to ETP hotels, which it does, to the extent that a significant number of ETP hotels are chains, you might see margin pressure. But we think overall, these are all good factors, and that we're building a business that's growing, we're building a bigger repeat base, and we think it's a worthwhile investment.

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**Ross Sandler** - *Deutsche Bank - Analyst*

I wanted to shift over to the marketing efficiencies. So if we kind of back track to last year, coming into 2012, you guys were on the back of the technology platform upgrade for Expedia. And in the first half of '12, you saw big unit acceleration and very little marketing growth, if you look at like direct marketing dollars year on year. Then you go to back half, you kind of spent against that efficiency. So marketing spend was growing I think 25% or so. Unit growth accelerated again.

So this year, it's kind of been the inverse where you had continued investment in marketing, and you've had a couple of these issues that have caused unit growth to decelerate in the first half.

The challenge I think we have with looking at the guidance is when we get to the back half, how does that trajectory kind of balance out? Is it going to be similar unit efficiency per marketing dollar, if you kind of strip out the Trivago impact? Is that kind of how you're managing the business, and is that what gives you the confidence that mid-single digits EBITDA growth is the right number for this year?

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

So there are a number of factors that come into play there. The marketing-- the sales and marketing growth that you saw in the first half of last year was at more modest levels because brand Expedia hadn't rolled over a significant amount of its site onto the new platform. And so we were relatively conservative in our marketing spend because we want an ROI on that spend, and we didn't want to spend a bunch of money on a product that wasn't the best product that we thought it could be.

Once we rolled over the, more of the Expedia platform onto the new platform, we have seen the customer experience getting better, we've seen conversion in general getting better. And if conversion gets better, not-- your volume grows, but it allows you to spend more in a variable channel such as Google, such as TripAdvisor, et cetera. And we did spend more in those variable channels.

If you spend more in those variable channels, you also get more traffic, often at non-linear levels. So what you've had is more traffic in an expensive channel with more conversion as well. So you've seen the revenue acceleration that you saw, and you saw pressure on sales and marketing. All great news, because the core is you've got a product that's converting better. And that story is largely playing out going through this year.

In the first half of the year, there are a couple of new factors that came in. One is especially in the second quarter, we spent much more aggressively at Trivago and eLong. Those were around the \$13 million number between on a year-on-year basis that we talked about. And we didn't get in-quarter return for that. That's a long-term investment, and we think it's absolutely the right thing to do.

The second factor is that the businesses that we felt pressure on, Hotwire, and also we talked about some direct traffic pressure with hotels.com, those channels and businesses tend to be quite efficient from a sales and marketing standpoint. So a decrease or slowdown in dollar growth there affects your EBITDA more because you are not gaining that traffic. You're not paying a Google for that traffic, or you're not paying a TripAdvisor for that traffic or another player. So those factors really affected our first half. And our first half was not something that we are 100% pleased with, but we think we made the right decisions there.



When you look at the second half, the Trivago marketing spend changes in the second half of the year. And we hope to see less surprises on an operational front, which will allow us to deliver both balanced topline and bottom line growth. And the sales and marketing comps get easier in that you will be copying aggressive sales and marketing spend scenario with Expedia against a similarly aggressive scenario last year. So I think all those factors are going to combine into what we told you as far as what to expect for the full year.

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**Ross Sandler** - *Deutsche Bank - Analyst*

And then one more, and please, if you have a question, raise your hand and we can get to that next. We'll be up here with the mike. As it relates to the long-term model, so if we go back to kind of the TripAdvisor spend, you guys did the slide presentation. This was late '11, I believe. And you had just kind of these trajectories of leverage or deleverage for the OpEx lines, and cost of revenue was leveraging. Basically everything was kind of in line to leveraging except for sales and marketing, which was going to be the investment area.

And you have since acquired Trivago and VIA, but if we kind of just start comping through those, is there any reason to believe that that long-term trajectory with most lines leveraging, and maybe sales and marketing kind of flat to delevering, shouldn't play out here?

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

No, I think you should separate Trivago to some extent, because we're going to optimize Trivago based on that P&L. But I think the story is largely intact.

I think the only potential difference between what we told you then and what we see going forward is that our R&D spend, cash R&D spend, should largely follow that pattern. But from a P&L standpoint, you're going to have some depreciation that's going to come into the P&L. So from an accounting P&L standpoint, it might be a little bit delayed. But otherwise, that game plan is the game plan that we've been executing against, and it's-- we expect it to be largely intact.

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**Unidentified Audience Member**

Do you feel like your US OT hotel share, market share there has stabilized, you can defend that against Priceline's onslaught? And even thinks you can get market share gain back? What are you doing to defend that market share?

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

We've been gaining share in the US hotel market and the US OTA hotel market for some period of time. And our growth rate, room-night growth rate in the US is above where it was 2, 3 years ago.

And if you look at the US, the US is our largest market, and we're around 6% share of the US hotel market. So this is the beautiful thing about the travel market. This is a trillion dollar marketplace. Even in our core market, we have 6% share, wherein there's plenty of room to go around. Lots of competitors can not only compete in, but can thrive in this marketplace.

And just as we see booking.com being aggressive in the US markets, we're going to be aggressive in Europe and Latin America, Asia Pacific. And I think we hope to have a combination of a strong US business that continues to grow profitably, and even faster growth outside of the US.

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**Ross Sandler** - *Deutsche Bank - Analyst*

So I've got one more. If anybody has another question, raise your hand. So there's been a lot of discussion about Meta and just the Meta Channel in general. Not just because Trip is shifting to Meta, but because Kayak had this big ascendancy, and you have a bunch of startups doing this. And that channel appears to be growing faster than kind of domestic OTA in general.



But do you view that that-- these kind of front door businesses that maybe have control over their users, and are growing fast, do you view this as a risk longer term, or is it just too small of a channel to really be material to your core Expedia and hotels.com?

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

Meta is a big channel and growing really quickly, which is why we wanted to partner up with the Trivago founders. So we think it's a great product, it's an attractive product. Meta in general has been gaining more audience share than any other channel out there. It's not just OTAs; it's any other channel out there. And there are lots of channels for us.

What we want to be able to accomplish with Meta search is to be able to grow our revenue inside the Meta search channel at ROIs that we find acceptable. In other words, we don't have to lose money; we can make money on that channel. And we want to have that channel be a significant channel for new customer acquisition. We look at our channels based on ROI, but we also look at what percentage of those customers in a channel come back direct to our various sites.

If you have-- if you are in a position to be able to invest at acceptable ROIs, and grow in these channel-acceptable ROIs, and you're seeing those channels as new customer acquisitions, then Meta growing can be great. And again, the Meta Channel can grow and thrive, and we can grow and thrive with them as partners.

And we think that's the ecosystem that we see now. Could change, but at this point, it's an ecosystem that we think is healthy for the Meta player, and it's healthy for the OTA player.

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**Ross Sandler** - *Deutsche Bank - Analyst*

One last question would be on your Europe business. So from what we calculate, it's around one-fifth the size of booking.com in terms of either units or bookings on the hotel side. And it's a growth area for you, it's a focus area. So with Trivago and with ETP, kind of what's the roadmap for accelerating your agenda in Europe?

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

Well I think number one comes sites that are converting well, and both Expedia sites and the hotels.com site are converting very well. And then it's testing and learning against the various channels there. So we expect our spend in Google in Europe to go up. We expect our spend in Trivago in Europe going up, and Kayak and all the various channels going up. And what we hope to see is that kind of repeat customer coming back.

The second part of that is to improve our supply position in Europe as well, where booking.com does have an advantage over us.

So I think we're kind of part one of the game of getting the front end of the product working. And I think hopefully we'll transition into part two, which is moving forward both on the demand and supply side of the equation.

We're seeing nice growth there. We're certainly not hitting any ceilings. And again, we think that we can grow in Europe and booking.com can grow in Europe as the online pie keeps increasing. When you add mobile to that, it becomes an even more exciting opportunity. So we're pretty optimistic about the future in Europe.

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**Ross Sandler** - *Deutsche Bank - Analyst*

Great. I have to wrap there. Thanks a lot, Dara.



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

Thank you.

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