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PRESENTATION

Operator

Good day, and welcome to the Expedia Group, Inc. Quarter 1 2020 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Michael Senno, Vice President of Investor Relations. Please go ahead, sir.

Michael Senno - *Expedia Group, Inc. - VP of IR*

Good afternoon, and welcome to Expedia Group's financial results conference call for the first quarter ended March 31, 2020. I'm pleased to be joined on the call today by our Vice Chairman and CEO, Peter Kern; and our CFO, Eric Hart. The following discussion, including responses to your questions, reflects management's views as of today, May 20, 2020, only. We do not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate, we are optimistic or confident that or similar statements.

Please refer to today's earnings 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 Investor Relations website at ir.expediagroup.com, and I encourage you to periodically visit our IR website for other important content, including today's earnings release. Unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense exclude stock-based compensation and all comparisons on this call will be against our results for the comparable period of 2019. Please note that depreciation expense is now reported in a separate line item, and prior periods have been restated to reflect this change.

Starting in the first quarter, we have updated our segment reporting to reflect our platform operating model and align our reporting with customer segments. Our new segments are: Retail, which includes our consumer-facing brands; B2B, which includes Expedia Partner Solutions and Egencia; trivago; and Corporate. Services provided by our technology platform and supply organizations are primarily allocated to the retail and B2B segments. Please see the 8-K we issued earlier this week for restated segment data for the prior 2 years. And with that, let me turn the call over to Peter.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Thanks very much, Michael, and good afternoon, everyone. I hope you are all safe wherever you are and your families and loved ones or likewise. Let me start by saying this is our first virtual earnings call. So if we have any technical difficulties, apologies in advance. And likewise, apologies that our Chairman will not be joining us. Eric and I will do our best to be as informative and transparent, but we may not be quite as quote worthy. So I hope you can live with that.

As for Eric and I, we are doing our first formal call today. And I want to first say that the company is lucky to have Eric in his seat as CFO. He's been with the company for quite a long time in a number of roles and has been a great partner for Barry and I as we set up on this journey late last year in trying to simplify and reorganize the company to be as effective as possible. And we're lucky to have him. And as for me, first of all, I'm grateful to the Board for their support for putting me in the role. I'm really excited about the opportunities ahead of us. I'm not crazy. I know it seems like an odd time to take on running a travel company, but the opportunities I saw, as Barry and I dug into the business, are just tremendous. And I think great things are ahead for us. And looking forward to telling you some more about that.

First off, I'd like to talk about COVID and our response to it. It goes without saying that as a company and as human beings, we are obviously keenly aware of the health and societal impact of the virus. And of course, that is the most important thing going on in the world. But the human side goes beyond that because many of our partners, people in the lodging business and the travel industry, are suffering mightily. And in addition to the health issues, we've got a lot of partners and friends with issues of their business survival, their jobs, et cetera, and we have been trying to do whatever we can to help however many people we can.

Our primary focus initially was, of course, on the health of our people and on our customers and our supply partners. We did everything we could to try to make that as easy on everyone as possible, though, of course, it was not easy on anybody. We saw enormous cancellation levels come in, as did the entire travel industry. We had customers stranded. We had supply partners who had all kinds of issues with cancellations and policy issues, and we were scrambling like everybody else. But our teams did tremendous work, I would say, on a number of fronts, not least of all trying to help the customers. I would just point out, we had levels of cancellations that were many multiples of our highest cancellation levels on any day ever experienced, and at the same time, at certain points, because of government closures and the inability for our teams to get to the office and our service people to get to the phone centers, we had as low as 30% of our available call center capabilities. So it was a real struggle. But our teams on the technology side did a great job of helping to solve that and quickly put in place a number of cancellation tools, self-cancel tools. We deployed our voice platform more widely and really helped a lot of people take the burden off of our customer service representatives. And frankly, installed in a very short time, a lot of great work that will pay huge dividends down the road for us.

We've also been working closely with our supply partners, and I would commend them all in working through a terrible, difficult time with us in trying to smooth the customer experience, make the policies work in an almost -- in a really unheard of time when no one knew exactly what to do.

We were not perfect. We certainly learned a lot from this. I don't think any company could have been prepared for this. And it is frustrating that we could not make every customer perfectly happy or service everybody at the speeds we wanted. But I think we learned a lot, and we will be in much, much better shape for the future. And as I say, we will reap a lot of benefit from what was done.

And finally, our other sort of immediate response to the virus was to raise additional capital. You all saw our announcement last month, we raised close to $4 billion of incremental capital, which we believe gives us ample resource to survive whatever might come from the virus.

I'm not going to belabor the first quarter. I know you've seen the numbers. Suffice it to say that the first couple of months, were looking pretty good. We were feeling quite good about the business. From a performance standpoint, we were installing a new cost plan to take out significant costs. And then the virus became quite real for us as it started to shut down the globe, and we, of course, suffered like everybody else as those shutdowns sort of dominoed through the globe. But as it spread, the numbers started to become less and less meaningful. And really, the response was the only thing that mattered. And so I would encourage you not to get terribly caught up in the noise of the first quarter, only that we were in a good spot before it happened. The virus has been painful. We'll talk a little bit about how much damage it did and where the trough was, but I'd encourage you not to focus too much on those numbers.

On the plus side, we had begun, as we mentioned in our last conversation at the end of last year, to make changes to simplify the company. We have done a large reorg of our tech capabilities and created a platform to serve both our consumer and business-to-business facing enterprises. And that work has been terrific. Our teams have done a great job. We are already starting to see significant benefit from that. And that's not just on the bottom line, on cost savings, but that's also just in capabilities. Our data teams have done remarkable work. And again, all of those things will be hugely powerful on the other side of this virus.

We were ahead of the game because we also, as I mentioned in February, began installing our plan to save on the cost side. You'll remember that this was a plan that went across the waterfront. It was people, real estate licenses, you name it. We were looking at every part of the business. And at the time, we've scoped that at about a $300 million to $500 million annualized savings. And all I would say about that is that since the virus hit, it obviously created even more urgency and focus in the organization. And I would say our ambition has increased significantly, and our speed has increased significantly. And let me just head off questions for later, we are not going to put a new number on it. We are focused on going as fast as we can and taking out as much as we can wherever excess exists. But we are not going to rescope that number for you this quarter. And when we know more, you will know more about the scale of that opportunity.

We also began pushing the organization to drive change as fast as it could. What we saw was, as everyone has seen, that our volumes have been significantly impacted. And we have had a history of being quite careful about changing technology, pushing technology changes through, as one would expect, with very high volumes and very high throughput all the time. But since we've had these lower levels of throughput, we felt the unique opportunity to try to push through significant technology change and things that might have taken months and months or years to push through and put them on an agenda to push them through much more quickly. So the company is just way more focused on changing, changing quickly and getting to the other side of a lot of what had been thorny technology issues as rapidly as we can.

We also, last week, announced that we were reorganizing our retail group. This is the next stage in our simplification. It's a big step for us. You all know that we have operated as brands for a long time. And beginning last week, we are operating as one retail-facing organization. We will have a marketing group that is focused entirely on marketing the whole suite of brands in the most effective way possible all over the globe. And we have a product and tech group on retail, which is focused entirely on building the best products, the best consumer interfaces and the best tools for our consumers that can be marketed down through the retail group. So we've taken down those boundaries. Again, we think there's efficiency there. But as much as there may be efficiency, we think there's this huge opportunity to have the product teams working together to build the best products, deploying them as widely as possible across our consumer-facing fronts. And we think that our marketing teams will have a great opportunity to stop competing with each other and start optimizing for the group of brands instead of for a single brand against another.

You'll note, as Michael said, that we've changed our segment reporting to reflect that our real view of things today is that there's a consumer-facing retail business, there's a B2B-facing business, and then there's the platform and the corporate organization that serves all of that. And I will say, for the record, we believe that all of those revenues and all those pockets of demand are equally valuable. We think both businesses filling gaps in the market. And we think that we can reach as the most demand possible by having those big chunks of business in retail and B2B to find all the demand all over the globe.

On the marketing point, I just want to amplify, you've heard a lot of conversation about direct customer relationships. It's a nice thing to say. We believe in it. But this is more than just an emphasis point. This is about building better products, doing better brand and direct marketing, better merchandising, which has not been a great strength of ours. And in general, using the data we have, which, again, had never been pulled together as a company and has only been together for the last few months to power our ability to do all of those things to understand our customer better, to serve them better, to serve up choices for them better, everything. So we believe we have huge opportunities on that front. And we equally believe that we've been overly reliant, and we've heard this before, on performance marketing. We've not been disciplined about it. We've chased unhealthy growth over the years. And Google and other performance marketing channels have tried to disintermediate us and we've made some not terribly smart choices along the way. We believe that this reset of the virus will give us an opportunity. I mean, we've been talking about this for a while that as we wade back into the marketplace, to be much more disciplined to only chase real growth, real valuable growth, healthy growth and not be stuck chasing performance marketing and entering into dis-economic auctions. So we intend to be much better about that. We intend to keep those customers longer. We intend to serve them better and keep those direct relationships going strong.

And finally, I'm sure you're all interested in the recent business trends. Like some of the other companies in our space, you probably heard that late March into April was the trough of the business. That is true for us. We saw gross bookings, new lodging bookings down about 85% year-on-year, which, of course, was terrible. And cancellations were extremely high. Since then, I'm pleased to say, though I would not get overly excited about it, that we've seen nice growth coming into May. And essentially, what we've seen is both growing out green shoots in the areas you would expect, places where movement has become possible, where people can now start to think about their summer holidays, et cetera, we see that very quickly when that happens. And cancellations have settled down. They're still at elevated levels, but they have stabilized. So the combination of those things has May looking considerably better than the trough. We're not making any predictions. We, of course, cannot control the virus. So we are merely adapting to it as it comes and trying to be smart about where the business is, what we can do to help the business along in places where it exists and be smart again about how we attract the demand that is out there.

I'd say it's important to keep in mind that because we have a global footprint and because we are essentially in every line of travel business that's significant, we get demand wherever it lives. So I know there's been a lot of questions about international versus domestic, local, regional, et cetera, the truth is we have a way to capture whatever demand is out there, wherever it exists in the world. And whether it is local, regional, domestic or international, we have a way to participate. So I would say we're well-hedged against however it comes back. And what we're seeing clearly is what you've been hearing that local, regional, domestic is certainly coming back stronger sooner. And I would just point out a bright spot for us has been Vrbo, where we have seen really markedly better performance, and that clearly seems to be around people who have been stuck in their city dwellings or wherever and are looking forward to being able to get away from those cities to some place for a vacation with their families this summer. And we're pleased to see the demand. It's clear that the Vrbo focus on the whole home experience is a real advantage over the competition right now. Vrbo is not big in cities. It's not big in rooms in other homes and those kinds of things. It is really a 4 wall whole home experience, and we've seen some really nice signal out of that vacation rental business.

So with that, I would pass it over to Eric and say thank you for your time. Again, don't get too focused on the quarterly numbers, I don't think they're meaningful. We are entirely internally focused right now trying to do the most good we can to both navigate the situation, help our customers, help our partners reignite their businesses, and most importantly, from our perspective, get our business right and our product right and our offerings right. So when we come out of this, as tried as it is, we will be stronger and better than we were before. So with that, Eric?

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Great. Thank you, Peter. I appreciate it and the kind words as well. So before I get started, I also wanted to echo Peter's comments around thanking the employees. It's a very stressful time. It's quite difficult. And I have seen heroic efforts across the organization to tackle some pretty difficult problems for fellow employees and customers and partners as well. So thank you to all those involved and that have really put in tons of effort in a very stressful time. And I just want to say thank you on behalf of myself and TLT and Peter and Barry as well. So thank you.

Coming into the year, and as I mentioned in Q1, driving margin expansion and improving unit economics were key priorities for us. And with COVID hitting, we moved with even more urgency on these efforts and took additional actions to further improve our cost structure and preserve capital in the near term. I want to tick through the major cost items, just to give you a sense for what we're seeing and some of the actions that we're taking.

So from an overhead perspective, the cost savings initiative that we started earlier this year is driving significant savings in overhead costs, and it's putting us on a path to reset our fixed cost basis. And then in addition to that, shifting to the platform operating model that Peter talked about really positions us to scale the business far more efficiently going forward. During COVID, we've made additional cost cuts to help preserve capital, but that's within the context of trying to reset the cost basis of our business.

From a cost of revenue standpoint, those are mostly variable or semi-variable expenses. So as you can imagine, as our volumes have decreased, there's a natural offset to those reduced volumes. We have unlocked significant cloud savings through optimization efforts, benefiting from centralizing the cloud management in our platform, which we've talked about last quarter. We've also made temporary changes to lower cloud costs as well during COVID and now expect cloud costs for 2020 to be well below 2019 levels for this year. We're also accelerating progress on virtual agent and self-service tools to make customer service more efficient. And if you take the cloud plus the customer service efficiencies, we do expect those to continue to contribute to better unit economics as volume comes back.

From a direct marketing standpoint, it's clearly our largest expense, and it's almost entirely variable. Starting in mid-March, we cut spend to nearly zero. Now as we started to see green shoots and as we expect the market to rebound and we start marketing efforts, we will remain very disciplined and run performance marketing channels at much higher ROIs going forward, as Peter mentioned.

Regarding cash burn, the headcount reduction that we've talked about previously as part of the overall cost plan, it also drives savings in capitalized labor. So that's incremental to the P&L benefit. In addition, we did defer several real estate capital projects and other nonessential CapEx to preserve liquidity. However, we recently restarted construction on our new headquarters, since it is more efficient to do so, and we now expect it to complete in the first half of 2021.

Across overhead, CapEx and interest expense, pro forma for the recent debt issuances, we expect our monthly cash usage during the COVID crisis to be below $275 million within the next couple of months. If COVID were to have a protracted impact, we do have additional cost levers that we can pull, and we will do so at the appropriate time.

Our Q1 results did not fully reflect this cost structure given the impact of COVID and timing of our cost initiatives. So a couple of specific areas I want to call out. Costs of revenues grew 28% due to a higher provision for bad debt related to future collection risk from the impact of COVID-19 on customers, as well as inorganic impact from Bodybuilding.com and higher cloud expenses. We recently sold Bodybuilding.com as part of our simplification effort and cloud savings, as I mentioned previously, those benefits will roll in through the year. Overhead costs were roughly flat in Q1 as the benefit from our cost savings initiative did not kick in until March. We expect overhead expenses to decline at a double-digit percent starting in Q2.

So turning to cash flow and the balance sheet. Free cash flow was negative $1 billion in Q1, primarily due to the use of cash for working capital. The working capital charge largely related to lower merchant account payables from the significant stayed room night decline late in the quarter, and an increase in prepaid assets, including deposits to fund future refunds. Deferred margin bookings increased modestly in the quarter due to an increase in Vrbo merchant bookings. In our typical seasonal pattern, deferred merchant bookings increase in the first half of the year as customers book travel and then decline in the second half of the year as more customers are staying and actually traveling.

This year started with a similar pattern through mid-to-late February, and then as new bookings dramatically declined and cancellations spiked in March, deferred merchant bookings declined significantly. This dynamic continued in April as customers canceled travel plans, mostly for near-term travel dates that were impacted by COVID-19. And as of the end of April, our total deferred merchant booking balance was $4.3 million, and excluding deferred loyalty, the balance was approximately $3.5 million.

As we manage through this near-term liquidity capital headwind, in addition to cost cuts, we've taken steps to preserve and bolster liquidity, we suspended share repurchases and dividends, and we also closed 2 transactions raising a total of nearly $4 billion in capital. The $1.2 billion preferred equity investments of Apollo and Silver Lake have a dividend that can be paid in kind the first 3 years as well as redemption options. We also issued a total of 8.4 million warrants as part of that transaction.

We also raised $2.75 billion in unsecured senior notes. The notes were issued in 2 tranches, one of which is callable after 2 years, we plan to use proceeds from this debt raise to repay the $750 million senior notes that mature in August.

Pro forma for these transactions, as of the end of April, our total cash balance was $6.5 billion. In addition to cash, across restricted cash, accounts receivable and prepaid and current assets, we held amounts covering 40% of outstanding deferred merchant bookings, excluding deferred loyalty. As travel begins to recover and booking trends rebound further, we expect to see immediate cash flow benefits from the merchant model, even with new booking levels well below 2019.

We believe our liquidity affords us flexibility to navigate a prolonged impact from COVID and position the company to be a leader as travel recovers. While we have a higher debt balance and pro forma leverage than we historically carried, we remain committed to investment-grade credit ratings and fully intend to work back toward our historical leverage levels as the business recovers. In addition to the $750 million notes due this year, we have a tranche of notes maturing in 2022, notes callable in 2022 and the borrowings under our revolver, all of which give us a lot of flexibility to quickly get on a path back to desired capital structure in the coming years.

Given the uncertain environment, we're not providing guidance for 2020. In the second quarter, we currently expect revenue declines to more closely mirror recent booking trends, and our adjusted EBITDA loss to be significantly higher than in Q1 as we'll have a full quarter of the global impact from COVID. While we remain optimistic that travel will bounce back, we know it could take time to return to prior levels. We're going to keep driving efficiencies, and we're going to position the business to operate faster and more effectively than the past, as Peter talked earlier. And when travel demand returns, we expect to emerge with better margins and be in position to drive the level of growth we planned for as we enter 2020.

Operator, we're ready to take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And we will take our first question from Mark Mahaney with RBC.

Mark Stephen F. Mahaney - *RBC Capital Markets, Research Division - MD & Lead Internet Research Analyst*

To the May was looking considerably better than the trough, I mean, can you try to quantify that for us? That would be helpful. And then secondly, you talk about taking a fresh look at the business, cutting back potentially on some performance-based marketing spend, Google spend. That's obviously been a key part of the OTA story, I don't know, for 2 decades. Your level of conviction that you can -- how you -- just talk about how you hedge against the possibility that the alternative marketing channels won't be as efficient as that. When do you think you'll really get visibility? I know this is a hard time to run marketing experiments in this environment. Is this something that is probably going to take you a year or more to really figure out how to better optimize your marketing if you really can, optimizing and away from performance marketing?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Sure. Thanks, Mark. So first of all, on May, no, I'm not going to give you much to quantify that, except to say that we've seen week-by-week improvement. Again, we are a many product business. So some businesses like Vrbo are considerably off the bottom. Others are more modestly off the bottom. All the assumptions and all the prognosticators about the comeback of travel locally recently, is it vacation rental or hotels? I think we're seeing improvement everywhere. We're seeing more marked improvement in vacation rental right now. And I would say we are fortunate in that we are relatively heavily weighted towards the U.S., and the U.S. is relatively stronger. But of course, there are places all over the world that are beginning to open up, be it parts of APAC, parts of EMEA, et cetera.

So I think we are seeing week-by-week improvement. It's encouraging, but we are still at greatly reduced levels. And the numbers candidly are not terribly meaningful right now. Directionally, they're meaningful, and they're hopeful. But the delta between minus 85% and minus some other big percent is not really terribly telling. I think the question will be how long does this sustain itself? Does it continue to grow? And frankly, do all of us do our part to make travel safe so that we don't end up with any future constraints that stop the improvement. So I think that's all I can really give you on May.

As far as the bigger cutting back marketing, OTA story. I recognize, as Google and others have pushed their way to disintermediate all of us, that has created challenges. I think there's also been challenges as we've all tried to continue to drive growth and weren't finding other ways to drive it as effectively. I would say the things that give me encouragement are, first of all, while we don't have the volumes to test it right now, we do have an opportunity of an entire reset because we've essentially gone to virtually no marketing. And as we wade back in, we're able to be more precise, be more constrained, watch and learn and grow into it and not just dive back in head first and spend back to the levels we were at.

I also think we have not done our job on a couple of fronts. One is, as I mentioned, as our own brands competed, whether that's broadly or locally, we were creating our own dynamics in the marketplace that I think we probably never fully understood. We are now an integrated marketing team, led by 2 great executives who will figure out how to make sure that we will spend appropriately and not be pushing price against ourselves.

Secondly, we've done precious little with all the data we have and all the merchandising capabilities we have, and we haven't done an exceptional job of retaining our customers and giving them reasons to want to come back directly to us, directly to our app, et cetera. It has been a growing area of business. We've done a good job. But if you think about not having all the data on your customers aligned in one place, not having the tools to tell them, "Hey, you went to Vegas last year at this time. Would you like to go to Vegas again?" We just have a lot we can do to continue to drive the business without the only idea being, how about we spend a little more in performance marketing.

So I think we have a lot of opportunity there. We've also seen that as we've gone to these very low levels of performance marketing, that our brand is quite effective. People come back looking for our brands because our brands have import. And we -- it's an imprecise science, but knowing what your brands can drive themselves without performance is an important part of this. So I think this lull will give us more insight into that as we climb out.

Operator

And our next question comes from Naved Khan with SunTrust.

Naved Ahmad Khan - *SunTrust Robinson Humphrey, Inc., Research Division - Analyst*

Just a couple of questions. Can you maybe talk a little bit about what the integrated marketing effort does in terms of the trade-off between growth versus just marketing more effectively and profitably? And then if I had to just think about the margins in the business over the medium-term or maybe longer-term and considering what you have done over the last several months in terms of this cost takeout and streamlining, where do you think margins can be in the business?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

So I'll let Eric take the second part of that. But I would say the tradeoff on marketing growth, it's one of the benefits of having this giant reset is we're not sitting there with a run rate number and saying, do we go for profit, do we go for growth, do we go for whatever. I think we're trying to just be smarter overall as we climb back into the market. And I think we want to clearly be focused. We have clearly said to the company, we will be focused on simplicity and profitability and efficiency, but that is not to say that we do not want to keep growing. We believe we can keep growing on a more profitable base and a more healthy way, retain customers more, have lifetime value increase, all those basic building blocks. So I think we're hopeful that we can drive both.

We certainly won't -- as I said, we won't be headlong into driving top line growth just for the hell of it. We will drive top line growth where we think it makes sense. And listen, it may turn out that as we get better and better at retaining customers and creating longer-term stickiness and lifetime value, that we will have yet another approach to performance marketing as we think about how many customers we keep for the long term. So these things are evolving, and we're going to no doubt run a lot. And all I can say is I'm not telling you it's so. I'm telling you what we're going to do, and you'll judge us on whether we deliver it or not. But that is the orientation of the company, and that is how we are going to approach the market.

And as for the margins, I'll let Eric talk about that. But I would just point out that a lot of the work we're doing is not only about efficiency. It's about unlocking real opportunities. So these data things, many of the things we have done and will do, that will unlock efficiency will also unlock opportunity on the top line, I believe.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. And then from a margin standpoint, listen, we're not giving guidance at this point, and that includes what the ultimate margin profile will look like. But we are going after every cost in the company in one form or another. And if you think about how the business was run historically, which was independent brands competing out in the marketplace, you can imagine that we were doing the same thing in multiple places in the organization. And there wasn't a lot of central management of areas that arguably should. So just to give you an example on the unit economic side, I talked a bit about it already, but we centralized the cloud management team, and especially given COVID, that team has ferociously gone after that expense. And I think the profile of that spend is materially different coming out the other side of COVID.

Customer service, we started the journey of using more technology to help solve questions from customers and delivering their needs. With COVID, we've accelerated that. We're putting real investment behind it. The teams are energized. We're seeing great returns from that. And customers really love it as well. Our NPS scores, when they engage with those tools, are quite positive too.

So to Peter's point, there's cost efficiencies, there's margin opportunities, and we're actually stepping up the customer experience at the same time. Peter has already talked about marketing, so I won't get into detail there. But on the fixed cost basis, we're still working through the plan. We've executed large parts of it. We continue to push that forward. And as we've gotten into COVID and just generally peeling the layers back, we just continue to find opportunities to work with vendors where we have multiple contracts to get to a single global contract and work through a lot of those details to push our costs lower and to be more efficient while we're doing it. We will come out the other side of this. We will be leaner. We will be more nimble, and we will, we believe, have more attractive and higher margins out the other side.

Operator

And our next question comes from Eric Sheridan with UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe a long-term question on supply. Peter, you mentioned sort of continuing to work with suppliers through this difficult period. What are some of the long-term goals about aligning your goals with supplier goals? And how do you see the supplier landscape evolving and what that might mean for the OTA business over the medium to long term? And then maybe a second part, historically, the OTAs have generally benefited from returns to normal from economic shocks as suppliers are looking to sort of fulfill yield and inventory. Do you expect that this time as well?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. Thanks, Eric. I'll sort of take that in reverse order. I think there's no reason to assume it won't be similar to historic events, and that suppliers, broadly defined, will look to platforms like ours to drive as much volume as they can to fill up their planes and hotels and everything else. I don't really have a view yet on how the market will shape up or shake out. I think it clearly depends on how long the virus persists, how deep it all goes and how things come back. But I do think, from our focus standpoint, there's a few areas that we're keen to collaborate better with our partners on. One is on the service end of things. Both Eric and I have talked about the opportunity to make the service side more seamless to improve the customer experience. Some of that is our own fault. Some of that has to do with how we interact with partners. And I think we've all learned a lot from that and can do better. So I hope we take the opportunity to do better. I also think this has been a time when we've been focused on how can we help our supply partners come back better from a product standpoint, from an offering standpoint, from a data and information standpoint to help our suppliers optimize their performance on our platforms and present themselves in the best way and take as much opportunity of the demand that is out there.

So I think we've used this downtime to work with lots of supply side partners in terms of just simple, basic things like you need better pictures, you don't have all your rates loaded. There's issues like that. I think we'll try to help everybody with that. I think we're going to build better tools to work better with our suppliers. And I believe we will build better tools for the customer. We know our suppliers want to upsell more. We know they want to make sure there's clarity around right now their safety practices, but in the future, other things. And we have to do as good a job as we can do to show all that, make the customer experience better and allow our suppliers to succeed more.

So I think between our improvements in data, our improvement in supply side tools, our improvement in consumer-facing tools, and look, that's all work we have to do still, but we are pushing it hard. I think we will -- we hope to help the entire industry come back as quickly as possible.

Operator

And we will take our next question from Deepak Mathivanan with Barclays.

Deepak Mathivanan - *Barclays Bank PLC, Research Division - Research Analyst*

Great. Two questions from us. So first, historically, Expedia has benefited being a full service OTA. Now coming out of COVID-19 shock, as we think about travel rebounding first to a more local or even regional basis, do you think you are a little bit of a disadvantage from a market standpoint, from a consumer awareness and recognition areas for certain Expedia brands, if we were in this, say, an intermediate phase, where air travel remains muted for a long time. And then I was going to ask second question about the retail was B2B business. Some of the B2B assets have been strong growth opportunities for you in the more recent few years, like particularly the partner solutions area. And as we come out of COVID, do you expect to see trajectory difference between retail and also the B2B assets?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Sure. Thank you, Deepak. Yes. I think on your first question, Expedia, I would argue, probably hasn't benefited as much as it could have from being a full service OTA. In fact, in the minds of many consumers, whether you're just -- who are just looking for a hotel, they might look at Expedia bookings, hotels.com, Travelocity as all quite similar opportunities. So I think we are doing a lot of work to try to differentiate our brands. That's why we brought our brand group together into one so that we could be more clear in terms of the brand proposition, the offering, how we express it to the public, et cetera. But I think being in the full service OTA business long-term is a great place to be.

For sure, air travel may be -- or international air travel may be more challenged, domestic, a little less, whatever. But I think over the long term, being really the only folks who took on full-service OTA as a real undertaking and has kept to it, and there's a lot of hairy stuff that goes on in providing all those services, gives brand Expedia a strong consumer proposition in the marketplace. Might it be a little slower because the air part doesn't come back as fast, maybe. But again, we're indifferent to which brand or which line of business can grow fast enough. We just want to power and allocate capital and resource and human resource the best we can to drive wherever the fastest pockets of growth are.

So in the near term, if that's domestic or local or Vrbo, we're going to drive that. But over the longer term, we believe each of our brands, at least that's currently constructed, we'll have an opportunity to succeed. And certainly, the full service OTA model will have an opportunity to succeed.

As far as the B2B business grows, it has, particularly our partner services business has enjoyed quite strong growth over the last few years. One of the main sort of underpinnings of our strategy longer term is getting our own teams away from the idea that retail is somehow better than B2B or one brand is more important than another brand. A $1 worth of profit, wherever it comes from, is $1 worth of profit. So we see the B2B model as a great opportunity to fill in pockets of demand and reach pockets of demand that we are not reaching or cannot reach through our retail brand. So that might be geographically focused, that might be offline travel agents, that's all kinds of things, frankly. And our B2B business, particularly that Partner Services business, has been very strong. We think it has tons of opportunity and can continue to be strong. There will no doubt, just like in the lodging and other businesses, there may be some shakeouts because business environment is tough, and some of our partners said we may not make it. I mentioned that in the beginning. There's a human cost to all of this business disruption. But we believe longer term, that our B2B business has lots of legs, is an important leg in our stool, and we will continue to drive it with as much energy and urgency as we drive our retail business.

Operator

Our next question comes from Justin Post with Bank of America.

Justin Post - *BofA Merrill Lynch, Research Division - MD*

A couple of quick questions. Maybe I'll start with a high level strategy. When you made your comments about becoming more efficient, are you thinking about maybe Expedia being a little smaller market share, but much higher margins? Or do you think you can have it all where you kind of maintain your share, but also get the margins up? I know you're not going to give us a target, but how are you thinking about that?

And then secondly, I'm just wondering, when you look back to last year, how inventory-constrained were you? Were there markets where you just didn't have any inventory availability? And going forward, do you think a lot of that would open up? And would you see -- start seeing some really good deals or maybe unique deals on Expedia?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. Sure. I don't believe we have to give up share to be more profitable. We will be -- if we were just at the same volumes as before, we would be much more profitable today than we were a year ago. Now my hope is that as we have that benefit, as we get more benefit even than we've gotten so far and as we improve our marketing efficiencies, our product efficiencies, conversion and everything else, that, in fact, we will be able to continue to grow certainly at pace to maintain and hopefully grow share and still be more relatively profitable. So I don't think it's a tradeoff. I think we have a lot of work to do on ourselves to get to the right place. But this isn't about, okay, everything has been optimized to the nth degree and now we're just deciding if we'd like to make an extra dollar and give up a dollar of revenue. I do not believe we are at that place or even close to that place. We have a ton of opportunity to be more efficient throughout the process, throughout the product, throughout our own internal operating features. And if we do all of that, that should give us more margin, more ability to invest in growth, whether that may not be performance marketing growth, that may be brand, that may be other tools, that may be merchandising and all kinds of things, but I believe there's no reason we should assume that one has to give up growth to get greater margins.

Now can it be bumpy? Well, is it a straight line from here to there? Probably not, but over the course of coming out of the virus and everything else, everything is going to be bumpy. So we believe we can play for both.

As far as the inventory question goes, I don't think we were inventory-constrained last year. I would say, though, that there's always opportunity and gaps, and this is as much an information question as it is just a cooperation question. So hotels very often may not have all their rates in every place. They may not have -- they may think they have a deal on offer, but it's only in one place, or they may have a deal on offer somewhere that gets into the wild and is offered in places they didn't intend it to. So I think our issue is not about not getting the inventory we want, but getting all of the opportunities that a supply side company has to win in our market. So if they have some rates for loyalty or something else where we're not participating, those are all opportunities. So I think we did not feel inventory-constrained as in we were bumping up against nothing to sell. I don't think that was the issue at all. I think it's really just our supply partners participating in every way they could. And going forward, can they get more out of our platform if we're giving them better information and they're responding more rapidly and everybody can take the best advantage of it that they can.

Operator

We will take our next question from Kevin Kopelman with Cowen.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Former VP*

I had a quick update, a quick follow-up question on working capital dynamics. Given May has been considerably better, has the working capital outflows stabilize at this point? And how do you see that playing out?

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. I'll take that one, Peter. So May is improved. We obviously aren't going into details on where that's falling quite yet. But I would say we're still in the -- I would think about it still being in the zone of we're in survival COVID mode, focused also on recovery. So we're still at a stage where we're still burning cash, if you will. Peter, anything that you would add to that? I mean, ultimately, I'm trying to get away from giving you specific numbers associated with it, but we're still off a very small base. We're seeing green shoots that ultimately gives us optimism to be able to push into marketing and getting confidence that consumers are coming back. I think those are all great things, but we're not out of the woods yet.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. I would just add, Kevin, when I say it's considerably better, it's obviously percentage improvement off a low number is considerably better, though not awesome. We'd rather have double and triple-digit improvements. So it's not -- better is better, and we're glad to see the trends. The working capital issue, obviously, has a lot to do with what's happening on cancellations, what's happening on the nature of the bookings and whether they're merchant or agency, et cetera, but -- and there have been some mix changes in the short term. But I would say, it's definitely improving. But for Eric and I and the company, we still are on fairly defensive posture as we watch it play out. And we're glad to have the incremental capital on the balance sheet to protect us.

Operator

And our next question comes from Lloyd Walmsley with Deutsche Bank.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Two questions, if I can. First, trivago suggested on their call that they expect paid search marketing to be structurally less competitive going forward. So curious, beyond your company-specific plans to increase ROI targets as kind of part of a broad brand consolidation, do you think there can be structural performance marketing advantages coming out of this across the broader OTA space? And then secondly, you talked about already starting to see the benefit of the tech reorg. I was wondering if you can just give us some examples of some things you've been able to achieve as we think about the abilities over time to continue to squeeze benefit out of that?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. So on the first point, I guess I would say that I certainly can't speak for the rest of the industry. It does seem logical to me that all of us in travel have been somewhat capital-constrained by the virus, in some cases, highly capital-constrained. And therefore, the robust performance marketing auction environment we saw before may take a while to come back because people just don't have the money for direct marketing. I don't know if that will be the case, but I could imagine that being the case and perhaps that is what trivago was speaking to.

Certainly, we will take our own discipline to it. We will do what's right for us. I'm sure everybody will do the same. But there could be a difference in the number of players and the available capital to invest in direct relationships in the nearer term for some of the other players and direct hotel and other kinds of players. So I guess that would be my perspective on that.

In terms of the benefit of the platform, honestly, they're a myriad and many of them are in the weeds. But Eric talked about the work our team has done across optimizing for cloud. We honestly had barely done anything to optimize for cloud before. It just wasn't an urgent push. The greater urgency was to move to the cloud. And we took a huge opportunity run by a team in our platform to drive a level of clinical approach to cloud that we just haven't had before. And that went across not just the platform but the entire enterprise. And the savings there are meaningful, really meaningful. So we're doing that across many things. That's kind of on the cost side. I mentioned on the data side, we probably have as much or more data than virtually anybody in the travel industry, but we've never compiled it in one place. So we had bunches of different data storage that's put aside that, that's not terribly efficient. And it means everybody is rotating on different data and learning on different data. But all our algorithms, all our learnings, all our stuff was against pockets of data instead of all of the data. So when you get all the data together and you simplify it and you standardize it, now everybody can use it. The algorithms and machine learning tools can learn much faster, and we can just apply it across a much broader breadth of our business more quickly.

So I think we're going to see a lot of those. They're really hard to put numbers on. They're not like, hey, we took these people and these people and these people and put them together and we saved 3 people and we took out a tool. Like those are -- that's simple math. And there are some opportunities that exist like that. We've obviously gotten after a lot of them. But I think that probably the bigger opportunity and the one that's hard to define is all of these unlocks that exist for us. And for a huge organization, we were complicated. We didn't make it easy on ourselves. We didn't make it easy to do things. And as I say, I believe there's great opportunity in the merchandising front, but we have work that's going on in earnest on our CRM tools. We have work that's going on around data. All those things have to happen to unlock that opportunity, but it's there and it's big, and we're going to get after it.

Operator

Our next question comes from Stephen Ju with Crédit Suisse.

Stephen D. Ju - *Crédit Suisse AG, Research Division - Director*

Commentary on merchandising better to your customers. Presumably, this means better cross-selling of products and packaged tours and things of that nature. But I think some of your consumers are used to shopping on Expedia in a certain way. So do you think this requires any sort of retraining or awareness marketing efforts to reeducate folks? Or do you think you will be able to just take advantage of existing behavior?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. I would kind of break that, Stephen, thank you for the question, into 2 bits, which is, one is we can just be stronger at the blocking and tackling. We can be better in our core product. We can be better in helping people find their way through our product. We talked a little bit about our voice platform. We even think there's opportunity for -- and that's been principally used as a service tool, but we think there may be opportunities to use the underlying technology there to help people through the buying journey, help them make the right decisions for them, potentially help upsell and so forth. So this isn't about necessarily reinvention. I mean our product should be as good as it can be, but this isn't about, hey, you're used to going on and entering a date and doing this, and now you're going to enter a dream and a place and something like that. I don't think it has to be reimagined. I think there's a lot of it that's just core functionality, creating great products that are really engaging with the customer and helpful for the customer in their journey.

So I think that's, at its core, what are our consumer offerings will be online. Merchandising, I think, is not necessarily a separate piece, but another piece, which is once you really understand your customer, once you understand their journey, you know where they've been on your site, what they've done, what they've bought before, what their predilections are in the future, you have a real opportunity to, I think, change the game for them, and that goes everything from letting them know about deals that are out there that might be interesting to them, whether that's through e-mail, text, whatever, all the kinds of usual CRM tools that exist in the world, and/or when they come to the site that the sort is particular to them or certain things are particular to them because you understand them and they've logged in and you know what they've done before. There's just lots of opportunity to do better there. And I think we're at the beginning of our journey, frankly, for that because until you could understand where the customer was and where they've been and have all the data in one place and everything else, it was really hard to do any of that. So we're -- maybe even before the early days, we do some of this, but it's hard for us to do. It's not efficient for us to do, and we have to get to a place where we can really do it at scale, the kind of scale we operate at. And I think we can drive a lot of business separate and apart from the core I go to Expedia and I type in my date and an airline. I think there's just a lot more out there for us.

Operator

At this time, I would like to now hand the call back over to management for any closing remarks.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. Well, thank you, everybody. I hope Eric and I covered as much territory as we could in an hour. Obviously, again, I think our first quarter numbers don't mean a whole lot. And frankly, our numbers for a while won't mean a whole lot. We've got a lot of work to do to come out of this in a great place. We think it's there for us, as you've heard. And that's what we're focused on. And we're honestly not trying to talk anybody into anything. We're just trying to focus on what we can affect, and you'll have to judge us by what we deliver. But in the meantime, we wish you all safe and happy and same time through the virus and be careful out there and wear a mask. And we look forward to talking to you again. Thank you.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Thank you, everyone.

Operator

This concludes today's call. Thank you for your participation. You may now disconnect.
