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EXPE - Q1 2019 Expedia Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q19 YoverY revenue growth of 7%.

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PRESENTATION

Operator

Good day, and welcome to the Expedia Group Q1 2019 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, 2019. I'm pleased to be joined on the call today by Mark Okerstrom, Expedia Group's CEO and President; and Alan Pickerill, our CFO.

The following discussion, including responses to your questions, reflects management's views as of today, May 2, 2019, 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 results -- 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 excludes stock-based compensation and depreciation expense. And all comparisons on this call will be against our results for the comparable period of 2018.

A reconciliation of adjusted EBITDA guidance to the closest corresponding GAAP measure is not provided because we are unable to predict the ultimate outcome of certain significant items without unreasonable efforts. These items include, but are not limited to, foreign exchange, returns on investment spending and acquisition-related or restructuring expenses. As such, the items that are excluded from our non-GAAP guidance are uncertain, depend on various factors and could have a material impact on GAAP results for the guidance period.

In addition, please note that starting this quarter, we have renamed the HomeAway reporting segment to Vrbo.

Finally, on April 15, Expedia Group entered into a definitive agreement to acquire Liberty Expedia Holdings in an all-stock transaction, which remains subject to approval by Liberty Expedia stockholders. With regard to the deal, we refer you to the Form S-4 filing made with the SEC yesterday. Note, we do not plan to take any questions related to this topic on today's call. Please refer to the information in the S-4 and the 8-K filings.

And with that, let me turn the call over to Mark.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Michael. We're pleased to come out of the gate strong in 2019 with robust profit growth and solid momentum. Now into the second year of our transformation, teams across Expedia Group are more aligned and collaborating more than ever as we execute against our key strategic themes: being customer-centric, being locally relevant on a global basis and speeding up the pace of innovation and execution.

With these strategic themes serving as the foundation, Q1 saw a continuation of the operating momentum we built through 2018 in our Core OTA segment. Q1 Core OTA room night growth was healthy and, adjusted for the Easter impact, was a bit faster than we saw in Q4. We have a playbook in place and execution is continuously improving. Focused geographic expansion supported by rapid customer and partner-centric user innovation, locally relevant content, broad inventory assortment at excellent prices and disciplined data-driven marketing and investments add up to a formula that we believe can deliver sustained share gains and balanced growth for a long time to come.

We remain pleased with our supply acquisition efforts, a key part of our playbook. Our elevated pace of new property acquisition continued in Q1 and we are on track to add a healthy number of new properties in 2019. We ended the first quarter with over 1.1 million properties on our core lodging platform, including approximately 460,000 integrated Vrbo listings as we continue to make progress unlocking the potential of our alternative accommodations inventory on our Core OTA brands.

As you have likely noticed, we refreshed the brand positioning of Vrbo. With high consumer awareness and brand loyalty, Vrbo is our strongest alternative accommodation brand and accounts for a majority of our U.S. business in the space. Vrbo will now be Expedia Group's primary global alternative accommodation brand and we intend to expand Vrbo to international markets in phases.

We spent the last several quarters laying the groundwork for this shift. Although we are confident in our direction, our streamlining of brands and platforms has put increased near-term pressure on SEO trends, which has contributed to the deceleration we have seen in Vrbo's gross bookings growth. Despite this near-term slowdown, consolidating the bulk of our efforts behind the Vrbo brand globally and operating on a unified, world-class e-commerce platform will allow us to maximize our potential in alternative accommodations in the coming years.

In addition to the refreshed brand, we launched several new product features, including Trip Boards, a customer-centric collaboration tool for family and friends traveling in groups. We also relaunched the mobile app to enhance the overall customer experience. We still have a lot of work to do, but these branding changes and new product features are all aimed at strengthening our competitive positioning over the long term. And we are optimistic that we can deliver healthy growth and remain a global leader in alternative accommodations for many years to come.

Egencia posted solid double-digit room night growth in the first quarter, although FX had a pronounced negative impact on gross bookings and revenue given Egencia's significant international mix. This strong room night growth reflects benefits from our supply acquisition efforts and enhancements in Egencia's product experience that are driving an encouraging increase in our hotel attach rate. Continued innovation at Egencia, combined with a robust customer pipeline, give us confidence that we will continue to gain share in the corporate travel market.

trivago continues to execute well on their marketing optimization efforts, delivering strong profits for the third consecutive quarter. As trivago discussed on its call yesterday, with its marketplace approaching stabilization and as they fully lap last year's changes and the team's plan to lean back into certain marketing channels, we expect them to return to revenue growth in the back half of the year and to deliver on their profit expectations in 2019.

All in, we're pleased with our Q1 results and happy with the progress we're making against our key strategic themes. The opportunity ahead of us is large and our potential enormous. While we still have a lot of work ahead, we're carrying excellent operating momentum, which we intend to build on as we move through 2019 and beyond.

With that, I'll turn it over to Alan.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP, CFO & Treasurer*

Thank you, Mark. Our 42% growth in adjusted EBITDA puts us on a good path early in the year. Excluding close to 300 basis points of negative FX to each, gross bookings grew 11% and revenue increased 7%. As expected, trends at trivago and the Easter shift negatively impacted revenue in the quarter. We expect revenue growth to accelerate in Q2 and remain healthy as we move through the year. Stayed room nights grew 9% in Q1 while FX drove ADR declines, resulting in total lodging revenue growth of 7%.

In our Core OTA segment, in addition to the healthy room night trends Mark noted, we also delivered solid adjusted EBITDA growth, especially notable given our usual first quarter seasonality. Our balanced approach to marketing, along with benefit from strong performance in our direct proprietary channels, is contributing to the solid top and bottom line trends over the past year, and our Core OTA business is on track for another strong year in 2019.

Vrbo bookings increased 5%. As Mark mentioned, the platform consolidation and brand streamlining related to making Vrbo our primary global alternative accommodation brand contributed to continued SEO headwinds. That, along with tough comps in performance marketing channels, were the primary drivers of the deceleration from Q4. We expect the slower gross bookings growth trends to persist in the near term as we work through these changes and lap the elevated performance marketing comps. We have good visibility on what we need to do to optimize our SEO profile on our new platform and expect Vrbo's gross bookings trends to improve later this year.

Revenue at Vrbo grew 14% in the quarter, with transaction revenue up approximately 25% and subscription revenue down 10%. As expected, adjusted EBITDA came in at negative $40 million given the seasonally light top line and higher marketing investments in Q1. We plan to invest behind the Vrbo brand globally in 2019 as we position the business to drive strong growth over the long term.

Total advertising and media revenue decreased 6% for the quarter, including approximately 500 basis points of negative foreign currency impact. Strong 23% growth from our Media Solutions business was more than offset by the declines at trivago.

Air revenue was up 3% in Q1 with tickets sold increasing 11%, partly offset by a 7% decline in revenue per ticket. New partnerships at Expedia Partner Solutions and solid performance of Brand Expedia drove the strong volume increases. The decline in revenue per ticket relates to the negative foreign currency impact, a shift in product mix and a reclassification of certain fees to other revenue.

On the expense side, we executed well on managing overhead costs in Q1 and saw a modest benefit from FX. While we anticipate adjusted expense growth will be above these levels going forward, we do expect to execute on the same formula, driving solid leverage on our fixed costs and strategically investing in marketing in order to deliver attractive profit growth.

Cost of revenue grew faster than revenue, as is our expectation for the full year. Increased customer service costs at Expedia Partner Solutions and higher cloud expenses accounted for the majority of the increase. We forecast cloud expense growth to accelerate as we move through the year given the comps to last year and continued progress on our migration. Our full year estimate for around $250 million in total cloud spend is unchanged.

Total selling and marketing expenses increased just 1% in the quarter. trivago drove the leverage in direct selling and marketing and also contributed to a decline in indirect costs. Excluding trivago, direct selling and marketing increased 11% due to higher spending at Vrbo and brand investments in our Core OTA brands. Indirect selling and marketing expenses, excluding trivago, were down 1%, reflecting a benefit from foreign currency and comping over last year's supply acquisition investments.

Technology and content costs grew 6%. We expect technology and content expense growth to pick up over the next few quarters and we continue to anticipate deleverage for the full year as cloud cost growth accelerates and we invest in product and platform enhancements.

General and administrative costs declined 4% overall and were down 2%, excluding trivago. We are tightly managing our general and administrative expenses and seeing nice operational efficiency. It's also worth noting that we benefited from a couple of nonrecurring items that impacted year-over-year comparisons. We expect modest general and administrative expense growth the next few quarters and remain on track to deliver solid leverage in 2019.

In general, we are taking a more disciplined approach to overhead expenses, which is comprised of the indirect selling and marketing, tech and content and general and administrative expense lines. Collectively, overhead was essentially flat in Q1, reflecting our focus on closely managing these costs. I noted a few factors that will result in overhead growth in the next few quarters such as higher cloud spend and product and platform investments, but we do intend to remain disciplined on fixed costs to make sure we deliver leverage on overhead this year and going forward as we scale the business.

Moving down the income statement. Depreciation expense increased 6% while interest expense was down year-over-year. Those factors, along with our strong adjusted EBITDA growth, led to a 41% improvement in Q1 adjusted EPS.

Last month, we were pleased to announce the deal to acquire Liberty Expedia Holdings which, in addition to simplifying our corporate structure and governance, will enable us to reduce our share count by 3.1 million shares. We see this as an efficient and attractive outcome that aligns with our goal of reducing our share count over time.

Overall, though it's still early in the year, we're off to a good start in 2019 and continue to expect adjusted EBITDA growth of 10% to 15% for the full year. We expect a combination of improving revenue trends, efficient strategic marketing investments and a disciplined approach to fixed cost to drive that growth. And we are confident that executing that same formula while progressing on our key strategic initiatives will leave us well positioned to deliver sustainable top and bottom line growth into the future.

Operator, we're ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Justin Post with Bank of America Merrill Lynch.

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

I'll ask 2. First, with Vrbo decelerating, how do you think you're doing in the category? Do you think the category has really decelerated and that's part of it? Or is it really company-specific issues?

And then secondly, a lot of questions out there about your hotel take rates with some of the bigger hotel deals. It looks like they were stable at 9% room night growth and 9% revenue growth ex FX, but could you talk about that? And do you expect any impact on your take rates in the back half?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Justin. Listen, with respect to Vrbo, not V-R-B-O, Vrbo's deceleration, yes, listen, I think it's largely company-specific factors. If you take a look at the place where we are actually focusing our effort, which is the Vrbo brand in the U.S., that business was up nicely double digits and growing healthily. And really, what's causing the deceleration is a combination of the brand streamlining we've been doing, the re-platforming we've been doing as well as just more difficult comps. So the underlying fundamentals of the business we think remain strong. 2019 is going to be one of these years though, until we get the SEO trends moving in the right direction from some -- following some of these re-platforming moves and we can really start investing much more aggressively on the urban opportunity, on the international opportunity, that we might just see some moderated growth rates here for a number of quarters and until we move to the back part of the year.

With respect to hotel take rates, listen, we have been very clear that with respect to particularly our large global chains, that we were done resetting our compensation rates. That is, in fact, the case. And I would just say that the overall dialogue with our global chain partners has just become significantly more constructive over the course of the last couple of years. I think that we have all recognized that we all play a unique role in this ecosystem. It turns out this Internet thing is here to stay and the big global marketplaces and platforms, of which Expedia Group and travel is kind of one of the biggest ones, we're here to stay. And we have a lot of value to create, but also our partners who deliver incredible customer services and unique products, they have a lot of value to bring, too. And so the dialogue has shifted away from us versus you and how do we redivide this pie towards how do we actually expand the pie? How do we actually create new sources of value and both participate in that in a way that is accretive to both of us? We're super pleased with the way that, that has gone with virtually all of our global chains. We're very pleased with the Marriott arrangement that we made. I think they are, too. And I'm hopeful that this is a sign of things to come across all of our global partnerships across all of our product categories.

Operator

Our next question comes from Mark Mahaney with RBC.

Mark Stephen F. Mahaney - *RBC Capital Markets, LLC, Research Division - MD and Analyst*

Okay. Two questions. One, just the usual one about geographic regions. I know last quarter you called out some -- a little bit of concern over Europe, especially in the U.K. Just give us an update there, please?

And then you also talked about revenue improvements in the back half of the year. You know that stuff always gets me going. You talked about -- is that more than just the comp issue related to the timing of Easter in Q2? Are there other reasons why revenue growth should accelerate or improve as we go through the back half of the year? Just lay those out.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. I'll take first one and then Alan will take the second one. On Europe, we did call out on our Q4 call that we were seeing some weakness in outbound U.K. travel and inbound U.K. travel. That really was something that was a theme for the quarter. I think as April unfolded, it was really hard to tell with the Easter timing. Certainly, as the Brexit date has been extended out, there are, anecdotally, reports of better economic activity in the U.K. and we're hopeful that will translate into better trends, but it was a factor in the quarter.

With respect to the rest of Europe, I would say, generally, it looks stable to us. There's always puts and takes from time to time, but it generally looks good. And I think we're going to get a good read here in May and June as we move into the high season, how things are generally looking out, but so far, so good.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP, CFO & Treasurer*

Yes. And Mark, on the reasons to think about revenue trends in the back half of the year, there's a couple of things that are very applicable to Q1 and the first half, and those include the impact of foreign currency. That becomes less of a headwind as we move through the year. Obviously, Easter is only a first half phenomenon. trivago, as they said and as we believe to be the case, they'll be on more normalized footing in terms of their revenue in the back half of the year. And so we expect to see easing impact on our revenue and obviously even some growth.

The other thing I'd say is just that the Core OTA business is performing quite well. We're pleased with the trajectory there. We do continue to do a lot of work around adding inventory and making sure that we're locally relevant. And we think that's going to start -- continue to have impact on the business and we're optimistic about that as well. So I mean, I think those are some of the factors.

Operator

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 couple, just following up on Justin's with Vrbo. When we think about the marketing investments you made starting in '17 through '18 and now, are you starting to see a yield or return on those investments? Or is the rebranding of the platform now and unifying it under one brand going to sort of hide or mask those improvements? And how should we think about those getting pushed out?

And then secondarily, it sounds like your expectation now is that business will stay relatively moderate through this year and recovering until the very end. When you strip out some of the headwinds you're seeing in the business, what do you think the underlying market and your business are growing ex the headwinds you're facing, so investors have a better sense of what we're trying to track back to in terms of a comp against the headwinds we see now?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Yes. Sure. I think the marketing investments that we made in '17 and '18 were largely in 2 primary buckets. One was really ramping up our performance marketing efforts as we transition the business from being a listings business to being a real transactional business. That created a great opportunity for us to really build best-in-class capabilities there. We're very pleased with the results that we've seen, but as we went into the first quarter, we started to lap really the big push there. And so that was a moderating factor on growth, but it is still a source of growth.

The other place was that we started to concentrate particularly our brand investments against the, at that time, the VRBO brand, now the Vrbo brand. And again, we saw really strong returns for those investments. And in fact, some of those investments were some of the rationale for us choosing Vrbo as the primary global brand. We were running one television campaign with essentially the same creative, one with Vrbo branding and one with HomeAway, and the Vrbo brand just performed multiples of the performance that we saw with the HomeAway version. And that, along with a bunch of consumer research globally, really drove us to pick that brand. And you can see the results that I mentioned earlier that we are seeing in the Vrbo brand, solid double-digit growth. And I think that's a testament to the marketing investments, but also just the whole consumer experience improvements that we've made in the Vrbo division generally. And really, the story here is that the things we've done to deprioritize certain brands, to consolidate platforms, both on the consumer side and also on the partner side, are masking some underlying strength and goodness in the core Vrbo brand.

I think in terms of what is the steady state for this business, this is a highly popular category. It's definitely growing faster than the overall industry. I think that Vrbo, at real steady state and certainly if we look at the trends that we see against the -- again, against the Vrbo brand here, should be able to grow gross bookings, I think, at multiples of the rates that it is right now. It may take us a while a little bit -- it takes a little while to get clear of that as we move through the year, again, because of these other factors, but we think this is a growth category, not only on Vrbo, but also as we move more of the inventory on to our Core OTA brands. We think this remains a very attractive category and a very attractive opportunity for us for a long time to come.

Operator

Our next question comes from Naved Khan with SunTrust.

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

Just a couple. I guess, on the Vrbo side, as you sort of consolidated the HomeAway and Vrbo just under Vrbo and lead with that, how do you address consumer retention and loyalty, those who might have been coming directly to HomeAway and now you're out, I guess, in a bigger fashion with Vrbo?

And then secondarily, maybe on just the Core OTA, how should we think about this gap between ADR versus revenue per night over the next 1 to 2 years?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Naved, on the customer retention question, our intention right now is not to shut down HomeAway, but rather just to focus a lot of our marketing and other innovative efforts on Vrbo. So the expectation is that the loyal customers of the HomeAway brand, of which there are many, will continue to enjoy that brand, but on margin, we'll take the bulk of the new customers against the Vrbo brand here in the U.S. and globally. And then, of course, as we get into this, we will probably look at ways where potentially we can incent customers, whether or not it's from HomeAway to Vrbo but certainly with respect to some of the other regional brands in international markets, really start to introduce them to the Vrbo brand in a way that is nonthreatening and gradually move them over.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP, CFO & Treasurer*

Yes. Naved, on the revenue per room night versus ADRs, I think the factors there are, as we've discussed before, loyalty is one. And loyalty costs are recorded as a contra revenue. And as long as our loyalty channel is growing faster than the rest of the business, that will be a net difference between revenue per room night and ADRs ongoing. FX is a component too, but we don't worry too much about that because it would come out in -- over time, in the wash. There are other factors in there that ebb and flow, things around customer refunds if there's particularly inclement weather. Again, those are things that tend to ebb and flow over time.

In terms of the core margins, I think the only things I'd mention is just that in terms of our global chain contracted margins, we are -- we feel like we are where we need to be and we're providing value for the rates that are being charged. We are constructive, as Mark mentioned earlier, with our partners and try to look for ways that we can add value there, but we don't expect big changes in our contracted rates with our global chain partners. In there too, there could be some mix factors over time. If we're growing in particular countries where the economics are different than they are for the rest of the business, that could have an impact as well, but that, again, should be generally around the edges. We've talked about a gap in the 200 to 400 basis point range. It's been a little bit narrower than that these last couple of quarters, but there's nothing really changed significantly in our thinking about that gap and how to think about it.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Yes. The only other thing I would add to that is we do have a couple of programs that we're seeing great traction on that could aid in our overall monetization and also aid our partners. One is the Accelerator program, where we're just getting significantly more sophisticated in providing our tools partners to essential -- our partners tools to essentially get higher placements in the sort order to drive more incremental volume where they want to get it, when they want to get it. And that is something that is getting increased traction. We're happy to see that. And of course, we do have our TravelAds product, which shows up in ad and media, which is also getting strong traction. And you can see that show up in our advertising and media revenue. But I think, as Alan said, I think we feel good about where we are in terms of our margin trajectory. There will be various puts and takes, but we think we're in a good spot.

Operator

Our next question comes from Brent Thill with Jefferies.

Brent John Thill - *Jefferies LLC, Research Division - Equity Analyst*

Alan, you mentioned a more disciplined approach in expenses. I'm just curious if you could give us a sense of kind of where you're seeing the greatest efficiency this year maybe where you didn't have that last year.

And for Mark, just to follow-up on Mahaney's question on Europe. In the quarter, was Europe worse than what you had expected? Or did it decelerate from what you saw in the fourth quarter? I'm just curious, the trajectory that Europe is on from your perspective.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP, CFO & Treasurer*

Yes, Brent. So on the first question, I think there's a couple of things to call out. One is that we are -- one of the things we're trying to do -- and a lot of our overhead costs are people, as I'm sure you're well aware -- is just to be very strategic and purposeful about where we're hiring, why we're hiring and make sure that's focused on the most strategic and value-add areas of the business.

At the same time, we are looking across Expedia Group and the teams, in fact, are looking across the company for opportunities where we can better leverage the technology and assets and get some efficiencies there as well. And I think we're starting to see some of that benefit as well. This was kind of a -- something that we started really focusing on late last year, and I think we're starting to see some benefit now.

We -- I was careful in the prepared remarks to say we don't expect the same level of growth that we saw in Q1 for the full year. We have some investments that we are making. We are doing some hiring. And so don't expect to see those same levels in the rest of the year, but we do expect to get leverage on fixed costs and overhead as we move forward.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

And on Europe, I'd say Europe was broadly in line with our expectations, grew broadly in line with the overall rest of the business. We did see nice growth in the domestic markets of most of the major markets, probably with the U.K. as an exemption. So that would be the one thing I would call out. But broadly, it was in line with our expectations and, like I said earlier, broadly stable from what we can tell.

Operator

Our next question comes from Kevin Kopelman with Cowen and Company.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

So I wanted to ask another question about your supplier relationships and take rates so -- on the air side. So can you talk about how you're approaching your dispute with United Airlines and what's going on there, and more generally with your air partners? And how do you expect those negotiations to impact your metrics and financials?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. So I think, listen, on the air side of things, it's really a tale of 2 cities. On one side, we've got some very strategic partners that, not unlike our global lodging partners over the last couple of years, have really started to work with us on a much more constructive basis, recognizing the value that we bring, the value that they bring and all of the different areas that we can work together to add more value. Honestly, that is probably where the majority of our U.S. carriers are at -- are, including the big ones, the competitors of United.

And to give you a sense of the breadth of places where we are working together, if you look at the traditional distribution business, the ticketing business, that has evolved significantly over the course of the last 5 years. Not only are we significantly larger than we've ever been, we've got huge audiences in the hundreds of millions of visitors and customers that we can showcase brands to and showcase products to, but increasingly it's become a very cost-efficient channel as consumer credit card fraud has become an issue, as automation and customer service has become an issue. And if you look at our major carriers, in many cases, we are driving billions and billions and billions and billions of dollars of revenue for them at the same time as doing it with lower fraud cost. In fact, on fraud protection, we're covering that for our partners. For customer service, we're covering that for our partners. And that can add up to tens, if not more than that, millions of dollars per carrier. We also have great partners like American Airlines where we're working on ways to actually help them reduce their customer service costs.

And again, this is just kind of the beginning of things. We're also working with, again, American Airlines on thinking about ways where we can be more creative around upselling from economy or basic economy up into higher fare classes. But if you look across Expedia Group, there is more. We've got -- our strategic partners are using our advertising platform to target specific customers, to showcase the unique differentiators that each of our carriers bring to bear. Air Canada has done some really incredible things on this front in conjunction with our MeSo or Media Solutions team. Our Expedia Partner Solutions business drives the hotel portion of many, if not most of the major carriers' dot com websites, including providing them with packaging technology. That's been a real area of value creation. And our Egencia business, fourth-largest corporate travel business in the world, has got preferred relationships with the likes of Delta, who's doing some super creative things around status matching, targeting meetings, business and being part of a preferred program.

The other new thing I would say is that over the last year or so as we transitioned really into more of a platform company, we found new ways to use our real-time review data to help our airline partners understand how they compare with their peers on customer service items, things like check-in experience, in-flight experience, in-flight entertainment, all of these things and enable our partners to drill down literally to the root level and understand how they're performing versus their peers. We've also started working with partners to help provide them with some of our forward-looking demand data for revenue management. And I think, honestly, we're just getting started.

So I think when you look at all of that and you think about what our more sophisticated players are doing in the airline space, I just think there's tons of opportunity for us to create value with United, with all of our other carriers. I think we're about 5 months out from contract expiration. We've always been very excited about having this type of discussion with United.

But listen, at the end of the day, this is a platform. It has market-level economics. And to the extent that United, for whatever reason, decides to go a different direction, no one of our carriers represents more than 1% of our revenue. We've got very strong relationships with our real lead carriers in the U.S. Our customers shop at Expedia because they're largely carrier-agnostic, and certainly we have a lot of experience with what happens when we have certain outages or not. So -- but when I look at the value that can be created by expanding the pie as opposed to focusing on dividing it, I think for both strategic and economic reasons, I would find it completely bewildering if United decided to not engage in that discussion. But at the end of the day, they've got to make their choice and we will just move on. And I think United's competitors would be very happy with the outcome, but I think it would be value-disruptive to both of us, and that's not a place where we particularly want to end up. And I suspect that they really, in their heart of hearts, probably don't want to end up there either.

Operator

Next question comes from Heath Terry with Goldman Sachs.

Heath Patrick Terry - *Goldman Sachs Group Inc., Research Division - MD*

Mark, just kind of curious, I mean, we're obviously in a moment in time as it relates to the way that many of the companies in the OTA space are creating marketing efficiency goals and the ROIs that they're trying to target within their advertising. We talked about it before. You guys have clearly been a beneficiary of this. We saw this obviously in trivago's numbers yesterday and your results today. Curious how -- if you have a view on how stable this environment that we're in is and to what extent having other competitors for keyword buys, retargeting buys, pulling back from the market has sort of benefited Expedia's profitability or growth and what your expectations for that are going forward.

And just on the merchant side of things, well, I completely understand and have seen in your numbers that the take rate or commission piece of this has been relatively stable. We've seen in prior negotiations, structural changes, things around pricing parity and last room night availability. I'm just curious to the extent that you can share with us or give us some direction whether or not you're seeing the hotel partners or Expedia pushing for certain structural changes within the operating agreements that you have with your hotel partners.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Yes. I think, Heath, on the marketing efficiency side, I wouldn't say that we are at steady state right now. I think we're currently benefiting from what has largely been a step change in our approach and some of our competitors' approach to marketing. And I think we will, as we move through the back part of this year, get to more normalized levels where we've got the non-incremental spend out. We understand with much more accuracy what our returns are and we can start to lean back in, in a more disciplined way.

So again, I think we're not quite there, but I think it's been a good benefit, I think, for all of us. Obviously, it has been a headwind on revenue because even inefficient marketing spend does generate some revenue. And we're looking forward to the back half of this year, not only for our Core OTA business, but also for trivago to essentially start from this new base and start really pushing into efficient, balanced growth on a much more regular basis, on a go-forward basis.

I think as it relates to our relationships with our big chain partners, there's nothing specifically that I would call out. I think, again, the general theme for us has been let's find new ways where we can tailor our arrangements to better match the value that ultimately these partners get from our channels. Let's find ways through programs like Accelerator, programs like TravelAds to give you more control around getting the volume when you need it. And I think beyond that, we are looking at other unique ways where we can work together, beyond just powering packages and doing other unique things that leverage our platform capabilities. But it's not really one thing. It's really -- we're really trying to be very flexible and tailor our approach on a strategic partner by strategic partner basis.

Operator

Our next question comes from Deepak Mathivanan with Barclays.

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

So first for Alan. Alan, regarding your comment on revenue acceleration in the back half, can we read the commentary as applicable to the room nights as well?

And then secondly, on Vrbo bookings growth, I realize the headwinds from comps and the SEO issues from brand consolidation, but is the benefit of online bookability penetration gains fully achieved at this time? And also, considering the scale of marketing investments, is it smaller compared to what you were doing at last year? Wondering about this kind of deceleration in the face of ongoing investments.

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP, CFO & Treasurer*

Yes, Deepak. On the room night, I mean, there are some -- definitely some connections between my comments on revenue and room nights. There are -- things like Easter being a first half issue is common to both. I think one thing we've talked about before is that from a room night growth perspective, trivago at meta generally and trivago specifically has been a reasonably meaningful headwind for us on room night growth as we've pulled back and as they've kind of reset the business. If that goes according to plan and they start to normalize in the back half of the year, get back to growth, and just by virtue of the comps that we have there, that should start to ease and we should see some benefit from that in the back half of the year. We will have lapped the -- a lot of the marketing optimization that we did in 2018. And so I think that can have an impact as well. So definitely some connection between the revenue and the room night trends that we'll be seeing there. And as I said before, we're quite happy with the core business. It continues to just basically hum along. And so we think that will be as good or better as we move forward.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

I mean, Deepak, on Vrbo, listen, the team, over the course of the last 3 years, has done just an exceptional job of getting a big book of offline business online. I think what you're seeing right now is getting to some of those harder yards associated with getting that offline and online starting to actually reach a flatter part of that penetration curve. I think that's absolutely happening. But again, the real story on gross bookings and online gross bookings deceleration has really been around these platform changes that we've made that has taken some of that business because it was offline and maybe we've lost it to other parts of the industry, and of course platform and brand streamlining as well. So that's really been the story.

And then in terms of marketing investments, I think we're still pleased with the return that we're seeing at the marketing -- with the marketing investments. I think the story there is, again, we're just lapping over something that went from 0 to 60 pretty quickly and now we're at cruising altitude.

Operator

Our next question comes from Anthony DiClemente with Evercore.

Anthony Joseph DiClemente - *Evercore ISI Institutional Equities, Research Division - Senior MD & Fundamental Research Analyst*

I had 2. How much of the performance or the strength that you saw in the quarter outside the U.S. is being driven by improvements as a result of the property supply growth and acquisition that you've embarked upon in Europe and other areas and any corresponding marketing around it? I'm just trying to get a sense for how much of the strength is sort of year 2 or that as opposed to better stability in the macro environment.

And then my other question is just in terms of Vrbo and the investments there. I know that you're trying to compete in urban and international and growing supply in urban and international. And so -- but just wondering, is the goal to drive consumer engagement with those newer listings primarily on Vrbo? Or to what degree are you thinking about integration of those listings on Expedia.com as well?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Thanks, Anthony. The new inventory that we've added is performing very nicely. I think, though, it's really just part of the overall formula, which is adding new inventory, making sure that inventory is actually selling through, through good, solid disciplined performance marketing and then having much more locally relevant user experiences, getting content right, getting translation right, making sure we've got local payments. So I think it's a combination of all of those things really starting, again, starting, we're still early stages here, starting to show some real promise in terms of better customer engagement and repeat rates and more efficient growth. And we're hopeful that we can just keep this going. As we mentioned last quarter, we really have rolled this effort into business as usual. We are targeting a broader set of markets here in 2019, in addition to continuing to improve in our initial wave 1 markets.

With respect to Vrbo in terms of where we're investing and the goals in terms of driving consumer engagement with alternative accommodations, I think it's really going to be a combo of driving Vrbo and expanding it globally as a really best-in-class single-product-type focused player and then also bringing that inventory onto our Core OTA brands. Our Core OTA brands have incredible urban demand already. In general, they've got very strong and actually strengthening international demand footprints. So I think in the initial stages when we add new properties -- alternative accommodations properties, having integration onto the Core OTA brands is going to be a big boost. But we have no question that Vrbo with their unique user experiences, their focus on family and friends, the collaboration tools that they're building that are truly unique and best-in-class, we have no question that Vrbo does have the potential to be a real strong growth driver and generate real strong customer loyalty in its own right, both here and the U.S. and then importantly, in international markets and really extend it back into the urban markets on its own.

Operator

Our next question comes from Lloyd Walmsley with Deutsche Bank.

Christopher Louis Kuntarich - *Deutsche Bank AG, Research Division - Research Associate*

Yes. This is Chris on for Lloyd. Maybe a few, if I can. We've seen some of your peers migrate away from the traveler fee model. Just curious how disruptive a change like that would be for Vrbo and if you think industry forces would really kind of move you in that direction.

And then we've seen a little bit of news lately that some of the hotel brands are starting to compete in the vacation rental space. And was just curious if that inventory is something you guys would expect to get on the platform and how those take rates would look relative to like your core lodging business.

And then maybe one on your Add-On Advantage product. I think it's been about a year since you guys have rolled it out. And I was just curious if you could give us an update on what markets that product is currently in, some of your early learnings there and maybe how we should be thinking about the program rolling out to additional markets and the potential integration of other products like vacation rental into it.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. On the traveler fee, Vrbo is in a fortunate position in that they've got the complete menu of monetization options between traveler fee plus subscription, traveler fee plus pay-per-booking, pure pay-per-booking model. And they're really looking at trying to find ways where they can match the monetization model with the inventory type, what the supplier is interested in doing, what consumers are willing to do. So I think any sort of migration to or from the traveler fee is something that essentially Vrbo is very well equipped to handle and is, in fact, driving a lot of these changes and testing itself across its own supply base.

In terms of the hotel brands competing in the VR space, certainly we have seen that. The recent announcement by Marriott is not particular -- it's new for them, but we have had other players, including Accor, be active in this space. I think it's super interesting. I think that the alternative accommodation space is one that is ripe for some degree of professionalization. If you look at the big hotel operating companies and chains, boy, they are really good at this stuff and really providing a great guest experience. So I think that, generally, it could be a really good thing for the industry to add this type of professionalization to the space. And I think we're very hopeful that we can help our partners as they develop these new inventory types just like we have with all of their other ones, help them to get them to market and get them in front of the right consumers and at the right time.

With respect to Add-On Advantage, it's live here in the U.S. It has been for a while. We have rolled it out to a number of international markets. It has been pretty darn successful here in the U.S. It's been moderately successful in other parts of the world. But getting this right is a combination of 2 important things. One is getting the product right. And the product is super compelling. Buy a product and then ultimately you can add other things to it over time. It incents people to essentially get these bundled deals. And then, of course, once they've got everything in one place, it's super easy to change and cancel. We can handle everything at once. We update itineraries. I mean, the value proposition is there and the product is really getting significantly better over time. But the second piece, of course, is merchandising and marketing. And that's where the team continues to experiment with Add-On Advantage and does that resonate with consumers in other parts of the world as much as it does in the U.S. But like everything, I mean, we are just continually testing. We're continually striving for better. We like what we see go far -- so far. We know the product is super compelling and we're just evolving the way that we market it over time.

Operator

Our next question comes from Brian Nowak with Morgan Stanley.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I have 2. You guys are a very data-driven company, sort of very analytical. I guess, could you sort of talk us through some of the main KPIs that you're watching in the markets where you've rolled out the new inventory and the new supply you've added over the last couple of years? Just so that investors would kind of get an understanding for your -- the merits of your investments sort of paying off. What are you watching and what are you seeing in these markets?

And then, Mark, can you talk to us about the way you think about loyalty, the importance of sort of investing in loyalty program to potentially build a stickier customer base?

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Sure. So as you can imagine, being a data-driven company, we just look at a ton of KPIs in terms of success, but let me just give you some highlights. Really, at the core of what we're trying to do here is be locally relevant. And locally relevant is a piece of customer centricity. So how do you measure that? Well, we take a look at customer repeat rates and try to understand, are we creating more sticky products with what we're doing in terms of everything, from inventory acquisition to being more locally relevant? We're looking at does adding more inventory give us access to new customers as we add essentially new destinations with real competitiveness, new keywords, new metasearch placements. We're taking a look at room night growth. And importantly, we're taking a look at domestic room night growth and saying, hey, are we actually driving incremental room nights? Or are we just shifting share amongst our partners? We're taking a look at marketing efficiencies. And importantly, we're also taking a look at, for the partners that we add, are we driving bookings to them? Are we becoming more relevant for them? So those are just some of the metrics that I would call out. I would say that, generally speaking, in all of these markets, the metrics are moving in the right direction. We're learning as we go. We don't get everything right, but it is a constant optimization effort. And as you can tell from us baking this into business as usual, this is absolutely the right way to go.

In terms of loyalty and the importance of building that, building a stickier customer base, listen, I'll just say that we're strong believers in the fact that the best loyalty program is an incredible product and that we are dead focused on providing a customer-centric product, a locally relevant product. And that is the core focus. But we do believe that our loyalty programs, the Hotels.com program, stay 10 nights, get one free, is super additive to that story. In addition to having a great product that Hotels.com does have, it adds that extra thing that is a real value and a real differentiator for them. And I think for the Expedia, the Brand Expedia program, the Orbucks program, also similar stories. They're very focused on building a great product, but again, that carrot of moving up the loyalty tiers and getting a bit better status with maybe a bit better treatment, a bit better amenities when you show up at the properties are all just little things that make the product just a little bit different, a little bit more differentiated and, ultimately, we believe can turn into better customer share of wallet and better customer retention over time.

Operator

Our final question will come from Stephen Ju with Credit Suisse.

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

So I wanted to dig in a little bit more on the SEO headwinds you called out for HomeAway from the brand consolidation. Our recollection from back when HomeAway was an independent company was that this was an issue that they had to navigate slowly. So are the headwinds you're calling out due, I guess, to a more rapid pace of brand consolidation you have put in, so at some point you just have to comp these? Or are you consolidating the sites one at a time into mainly Vrbo?

Alan R. Pickerill - *Expedia Group, Inc. - Executive VP, CFO & Treasurer*

Sure, Stephen. So I would say SEO headwinds for every player in the Internet have been a story for a long time. Google is absolutely taking free and moving it to paid and moving from paid to more qualified like they're doing in hotel ads products. What we've done with Vrbo though, of course, has been on top of that. And Vrbo and essentially HomeAway and all of the brands that they've had internationally, it's traditionally been actually quite dependent on SEO. And as we have consolidated platforms, it has changed essentially the linking structure of those brands and ultimately resulted in bigger headwinds for them.

In some cases, there are places where we can recapture this. I think in Vrbo, for example, the teams have got great playbooks in place. And even as Vrbo has changed platform structures, we're marching up. We're seeing good metrics and there are signs that things are moving in the right direction. But with some of these brands, some of these regional brands, it will be something where, by and large, we're just going to have to comp it and lap it over time. And we'll move past this. Again, we're a long-term player. We're very much focused on building great brands and building great customer relationships and growing them internationally. We're backing Vrbo as the primary brand and we're optimistic that Vrbo has got a long runway ahead of us and it will move past some of these transitional issues like we're seeing with SEO.

Operator

And at this time, I would like to turn the conference back to Mr. Mark Okerstrom for closing remarks.

Mark D. Okerstrom - *Expedia Group, Inc. - President, CEO & Director*

Great. Well, a big thanks to all of you for listening today. I especially want to thank all of the Expedia Group employees around the work -- around the world for your hard work this past quarter. I'm just incredibly impressed with the collaboration that's happening and the progress I'm seeing across the company. I'm just so excited about what we can achieve together. I look forward to speaking to all of you next quarter. And with that, we'll turn it back to the operator.

Operator

Thank you. Ladies and gentlemen, this concludes today's presentation. You may now disconnect.
