OVERVIEW:
EXPE reported 1Q14 results.
CORPORATE PARTICIPANTS
Alan Pickerill  Expedia Inc - VP of IR
Dara Khosrowshahi  Expedia Inc - CEO & President
Mark Okerstrom  Expedia Inc - CFO

CONFERENCE CALL PARTICIPANTS
Justin Post  BofA Merrill Lynch - Analyst
Naved Khan  Jefferies & Company - Analyst
Ross Sandler  Deutsche Bank - Analyst
Tom White  Macquarie Research - Analyst
Douglas Anmuth  JPMorgan - Analyst
Eric Sheridan  UBS - Analyst
Mark Mahaney  RBC Capital Markets - Analyst
Ron Josey  JMP Securities - Analyst
Michael Millman  Millman Research Associates - Analyst
Andrew Connor  Piper Jaffray - Analyst
Brian Nowak  SIG - Analyst
Kevin Kopelman  Cowen and Company - Analyst

PRESENTATION
Operator

Good afternoon, ladies and gentlemen. Thank you for standing by. Welcome to the Expedia Q1 2014 earnings call.

(Operator Instructions)

This conference is being recorded today. And at this time I would like to turn conference over to Alan Pickerill, Vice President, Investor Relations. Please go ahead sir.

Alan Pickerill  -  Expedia Inc  -  VP of IR

Thank you. Good afternoon, and welcome to Expedia Inc’s financial results conference call for the first quarter ended March 31, 2014. Pleased to be joined on the call today by Dara Khosrowshahi, Expedia’s CEO and President, and Mark Okerstrom, our CFO.

The following discussion, including responses to your questions, reflects management’s views as of today, May 1, 2014 only. We do not undertake any obligation to update or revise this information.

As always, some of the statements on made on today’s call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate, or similar statements. Please refer to today’s press release and the Company’s filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.
You'll find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company’s IR website at ir.expediainc.com. I encourage you to periodically visit our Investor Relations site for important content, including today’s earnings release.

Finally, unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense, technology and content expense, exclude stock-based compensation and depreciation expense, and all comparisons on this call will be against our results for the comparable period of 2013. With that, let me turn the call over to Dara.

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

Thanks, Alan. We’re pleased with a solid first quarter performance and a good start to the year. From a geographic perspective, revenue growth was healthy across all the major regions. Outsize gross booking growth of 29% was driven by a continued strong performance at most of our major brands, in addition to the gross bookings generated through the Travelocity implementation.

From a brand perspective, Brand Expedia continue to deliver strong top-line performance, despite tougher comps, as it continues driving innovation on its new technology platform. Hotels.com had healthy gross bookings growth and launched their new, largest ever integrated US brand campaign called Captain Obvious, which is off to a good start, obviously, otherwise I wouldn't mention it on this call.

Hotels.com's loyalty program, Welcome Awards, continues to do very well, with an increasing number of members driving a higher mix of gross bookings.

Egencia and (technical difficulties) and private label business also posted good results for the quarter. Near-term results continue to be challenging for Hotwire, but we are investing aggressively in growing our mobile channels, improving our supply in analytical capabilities, and are confident that the team is executing on the right plan that will get the business back to growth.

Just a quick update on the Travelocity implementation. The rollout has been going well, and the early results are encouraging. Travelocity Canada just launched this week, and the teams will continue to enhance and optimize the sites to improve conversion and add a few remaining products. Overall the speed of this implementation and the success we have seen is strong evidence of the strength of our execution, technology, and teamwork.

From a product perspective, we saw healthy hotel room night growth, essentially consistent with the growth we posted in the fourth quarter, with a positive impact from Travelocity largely offset by the shift of Easter into Q2. We’re pleased to see continued healthy growth in Brand Expedia’s air ticket volume. The team continues to improve across selling capabilities so that we can put air ticket bookers into hotel rooms and rental cars, and we believe there’s a lot more potential here.

We continue to build a big advertising and media business through both Trivago and our Media Solutions Group, which sells advertising for our global OTA brands. Trivago revenue was up over 80% year on year on a standalone basis, and we expect the team to continue with their aggressive global expansion efforts and heavy brand advertising.

Media Solutions grew revenue 26% for the quarter and saw ongoing strength from their Travel Ads product which allows hotel partners better exposure in our marketplace. In fact, hotels that have participated have seen an improvement in room night growth of as much as 20% using this product.

We are also ramping up media sales for Travelocity sites and we believe this represents an attractive media opportunity for advertisers. Advertising and media represent a high-growth high-margin business with low capital requirements, and we are excited about the opportunity and pleased with our progress.

In terms of innovation, as we move past our focus on platform migration, we’re getting into a product and technology rhythm of test and learn as part of our regular operations. And while the results will be most visible on our customer-facing front ends like the new Expedia.com responsive
homepage or the award-winning Hotels.com app, we are executing across all aspects of our business, from using automation to scale our marketing platforms and financial systems to improving our connectivity and tool sets to make it easier for our hotel partners to work with us, to increasing our air and hotel search query speeds, to continuously improve our APIs for our private label and affiliate partners.

All of this is dedicated to building the very best search and booking machine for our travel customers and supply partners wherever they are, however they want to connect. We continue to see incredible opportunities in this large global and competitive industry, and our teams are all up for the challenge. Mark?

Mark Okerstrom - Expedia Inc - CFO

Thanks, Dara. Overall the results for first quarter were slightly better than we had expected for both revenue and expenses. Disciplined expense growth and cost of revenue, technology, and content, and general and administrative expenses again allowed us to invest aggressively in selling and marketing to drive solid top-line trends and deliver slight adjusted EBITDA growth in a quarter that we had originally expected to be down year over year.

In hotel, room night growth of 24% consisted of domestic growth of 20% and international growth of 27%. Travelocity added just under three percentage points of room night growth, the majority of which we estimate was offset by the shift of Easter into the second quarter. And note that the Travelocity bookings were 100% US, and as such had a disproportionate impact on our domestic trends.

Revenue per room night was down 10% year over year in the first quarter, driven primarily by the same three factors we have been discussing now for while: expansion of our supply portfolio, including efforts to rollout ETP, improve inventory availability, and adjust margins to come for specific market conditions; growth of our loyalty programs, along with discounting and couponing; and lastly, overall geographic mix as we continue to build scale in international markets where unit economics and margins are lower.

Note that all of these efforts are specifically designed to improve our customer experience through broader selection and choice, as well is competitive prices in order to increase the likelihood that travelers will return to our brands as loyal customers, driving unit growth, scale, and efficiencies over the long term.

Advertising and media revenue grew 116% in the first quarter, adding over $50 million of revenue with Trivago driving most of this growth along with the strong performance from Media Solutions. Air revenue grew 28% on ticket growth of 30%, with solid performance in both domestic and international markets.

Growth in both gross bookings and air revenue was amplified this quarter as we scaled up the Travelocity site, which accounted for 18 percentage points of ticket volume growth, again with a disproportionate impact on our domestic trends. Excluding Travelocity, the air business grew both ticket volume and revenue at healthy rates, similar to those we posted in the fourth quarter of last year.

We were pleased to deliver a quarter where expense growth was in line with our target P&L, leverage and cost of revenue, and G&A deleverage, and selling and marketing as we grow the business globally and take share in key markets, and technology and content growing in line with to slower than revenue. Note that technology and content expense did grow a bit faster in Q1 than we had seen for the prior couple of quarters.

Looking forward, though we continue to keep a close eye on our overall cash spend in this category, we do expect to see an acceleration in the growth of our reported tech and content spend over the next few quarters, due primarily to lower rates of capitalization, certain technology investments for some of our growth brands like Trivago and eLong, as well as incrementally more difficult expense comps.

Regarding depreciation, we expect to see dollar growth in a sequential basis, similar to what we saw in the first quarter, for the remainder of 2014. As a reminder, although we have structured the business to drive towards a targeted P&L shape on an annualized basis, we don’t expect to see it every single quarter.
Before moving to our full-year financial expectations, I would like to cover a couple of quick housekeeping items. This quarter we revised our presentation of operating expenses in the Discussion of Results section of our earnings release. Specifically, we have presented the expense line items there excluding both stock-based compensation, and now depreciation.

In this manner, the discussion of expenses is consistent with our adjusted EBITDA profitability metric. We included depreciation expense in total as a separate item with the applicable explanation of growth. Note that the GAAP income statement was not affected.

Secondly, you’ll note that our effective tax rates on both the GAAP and adjusted basis were a bit anomalous this quarter. The GAAP effective rate was driven primarily by certain foreign losses for which we do not recognize a tax benefit, along with a revaluation of some deferred tax balances.

The effective rate on adjusted net income was on the high side, also due to the foreign losses. The year-over-year comparison for both measures was also impacted by some items in the first quarter of 2013, which we described last year. Although difficult to predict with precision, we are expecting our full-year effective tax rate to be around 25%.

Turning to our financial expectations for 2014. We continue to expect full-year adjusted EBITDA to grow in the range of 13% to 16%, with the vast majority of the dollar growth generated in the back half of the year. With that, let’s move to Q&A. Operator, will you please remind participants how to queue up for questions?

**QUESTIONS AND ANSWERS**

**Operator**

(Operator Instructions)

Justin Post with Bank of America Merrill Lynch.

**Justin Post - BofA Merrill Lynch - Analyst**

Great, thank you. A couple questions. I don’t know if you called it out, but maybe you could call out the Travelocity contribution to total bookings. I am sorry if I missed that.

And then Dara, a bigger picture question. Several years of technology investment in the platform, where are you with that now? Do think you have closed the gap versus peers?

And then as far as managing during the quarter, do you have better visibility now and are able to make adjustments more on the fly, so maybe less surprises? Pretty consistent results this quarter with last quarter? Thank you.

**Mark Okerstrom - Expedia Inc - CFO**

Sure. So on Travelocity, we didn’t disclose the gross bookings number. It did add just under 3 percentage points of global room night growth and about 18 percentage points of air ticket growth. So it should help you approximate the number, and I would just remind you that Travelocity has a heavier air bookings mix. So there would be a disproportionate impact on gross bookings relative to revenue.
In terms of our investment in our technology platform, listen, we are very happy about where we are as far as our technology capabilities go. Across the board as a Company, and I think as I mentioned in my remarks, the parts of that you see are the websites themselves, but our investment has gone much deeper into the core platforms.

And I think at this point we are at a place where we can continue to roll out new feature sets, whether there customer-facing feature sets, (inaudible)-facing feature sets, et cetera, while at the same time continuing to make the kinds of platform investments, reinvest in our platforms so that we don't get into the situation that, frankly, we got into five years ago. I think we are at a very, very good place here.

There are parts of the business that are still really aggressively investing in technology. Trivago is increasing their investment. Egencia as it integrates in VIA continues to pretty aggressively invest in technology, and appropriately, but I think we have seen the result that we have seen on our consumer sites. We are encouraged, and our execution is getting consistently better across the board. I do think that you are seeing it in the results.

The results have improved, and as you said, the results in general have gotten more predictable. We are sometimes subject to the vagaries of the market, if there are significant changes in the competitive environment et cetera, but we do feel like we have a lot more tools at our disposal.

And the business is feeling much more like business as usual, which as far as I'm concerned is great. And I would say our confidence as a team in our ability to execute is much higher now than it was two, three years ago.

Justin Post - BofA Merrill Lynch - Analyst

I appreciate it. Thank you.

Dara Khosrowshahi - Expedia Inc - CEO & President

You bet. Next question.

Operator

Naved Khan with Cantor Fitzgerald.

Naved Khan - Jefferies & Company - Analyst

Yes, thanks. Just on your room night growth, Dara can you give us some color on room night growth for different geographies between EMEA and Asia-Pac? And then as for the total properties you had, it seems like you added 30,000 properties in the last quarter alone. Is that a [run rate] we expect to see for some quarters going forward?

Dara Khosrowshahi - Expedia Inc - CEO & President

Yes, as long as the room night growth goes, the room night growth was pretty consistent, as it was last quarter, and that US room night growth was quite solid. It was aided by Travelocity coming into the mix.

EMEA room night growth continued to be healthy, and then Asia Pacific room night growth was at very strong levels, along with Latin America, as well. So we aren't seeing any significant changes one way or the other as far as the room night volumes and where they're coming from. It's pretty predictable, and we're really happy to see the strength that we are seeing domestically as well as internationally, as well.
As far as our -- the total number of properties that we have added, a fair amount of those properties were coming in from eLong. We’re integrating the eLong inventory into our mainline inventory, and we will continue to do so. We are in general losing hotels on the GDS side and adding them onto our ETP and other platforms.

We do expect that this year the contribution that we are getting from new hotels added to the system is going to increase significantly on a year-on-year basis. So I think you will see that as the year goes by. We think that new hotel adds are going to be a bigger part of our business going forward, and we like where we started all those early.

Naved Khan - Jefferies & Company - Analyst

And in terms of the dynamics of hotels dropping on the GDS side and being added more on the ETP side, are these the same properties, or can you speak to that a little bit?

Dara Khosrowshahi - Expedia Inc - CEO & President

I think it depends. We often see our big GDS producers, we are able to go to them and offer up much stronger merchandising capabilities, packaging capabilities, et cetera. So very often we are moving them over from the GDS over to our systems, and it’s a big win for the hotels, and obviously it’s a big win for us.

Naved Khan - Jefferies & Company - Analyst

Great, thanks.

Dara Khosrowshahi - Expedia Inc - CEO & President

You’re welcome. Next question.

Operator

Ross Sandler with Deutsche Bank.

Ross Sandler - Deutsche Bank - Analyst

Thanks, guys. Just a follow-up on the room night growth. So the 24% average and 20% domestic. Can you give us a little color on, as you mentioned a 3-point benefit from Travelocity and the 3-point headwind from Easter. But we also are comping the slowdown from Hotwire from the beginning of last year. Can you give us a little more color on maybe at the brand level, what is outperforming or underperforming the prior trend line, given the easy comp with Hotwire. Thanks.

Dara Khosrowshahi - Expedia Inc - CEO & President

Sure. The two biggest factors were the ones we called out, Travelocity and Easter offsetting themselves. From a brand perspective, I would say quarter to quarter, pretty consistent trends this quarter to what we saw last quarter across the portfolio.

I think that the Hotwire comp will get incrementally easier as we move from Q1 into Q2, and really won’t get purely clean until Q3. So that’s a bit of a headwind for us.
And then the other headwind to keep in mind, although trends continue to be very strong at Brand Expedia, is that we were ramping up on the new packages platform last year in Q1 and into Q2. So that’s an incremental headwind as well. But I think the important message is that broadly speaking, trends were consistent this quarter to what we saw in the prior quarter across the portfolio.

**Ross Sandler** - Deutsche Bank - Analyst

And then as we look into 2Q, you’ve got the swing factor of Easter now benefiting the second quarter. That could be 3 to 6 points potentially, and the easy comp with Hotwire. So you could see a much more meaningful re-acceleration, potentially north of 30% in the second quarter, is that the right way to think about it?

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

I would say that Hotwire is actually a headwind for us until Q3. It’s was -- performance was, I would say, on the way down in Q1 and continued into Q2, and actually some of the bigger challenges we saw were in fact in Q2. And so whether that and Easter completely offset each other or not, not sure, but we wouldn’t expect a net good guy in Q2.

And then I would just remind you what we said, or what I said on the last call with respect to Q2, which was that we, despite the fact that the Street’s expectations were higher than ours, we broadly hit our bottom-line objectives for Q2, with the exception of some incremental investments in eLong and Trivago that we made and we called up $13 million on a year-on-year basis. And those are brands that we continue to invest in.

So we don’t expect that Q2 is a particularly easy comp for us on the bottom line. I think we do have some easier volume comps, just given the Trip Advisor transition that started really dropping in, in the second quarter.

**Ross Sandler** - Deutsche Bank - Analyst

Okay, and I can squeeze one more, sorry. But the Trip Advisor spend in the quarter, I don’t think you guys broke it out. What was that?

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

We are not going to break out our spend by channel broadly. You can see that in general our sales and marketing spend overall was up significantly on a year-on-year basis, and our strategy has been to invest aggressively in variable channels. So you can come to your own conclusions as a relates to Trip Advisor, but we are not going to be breaking out channel specifically.

**Mark Okerstrom** - Expedia Inc - CFO

Ross, just specifically on the disclosure this quarter, effective and into the future Trip Advisor is no longer going to be treated as a related party for financial disclosure purposes. And this is a result of the ownership and governance changes that we saw in late 2012 and in through 2013.

**Ross Sandler** - Deutsche Bank - Analyst

Thanks, guys.

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

Next question.
Operator
Tom White with Macquarie.

Tom White - Macquarie Research - Analyst
Great. Thanks for taking my question. My question is on Travelocity, and I realize it's still a little bit early since the implementation, but relative to their marketing activity, I'm just wondering do you guys have any visibility there, are you in touch with them about their marketing strategies or objectives or timing? Would their willingness to spend marketing dollars in a given period impact your appetite to do so in any way? Thanks.

Dara Khosrowshahi - Expedia Inc - CEO & President
We are -- Travelocity is very much an independent entity as a relates to their marketing spend. So we have very little visibility into what their marketing strategy is. Obviously, we talk to them, but it is a real third-party relationship. And so we see the effect of their marketing spend after the fact. After they spent it, we will see more visitors, we will see more transactions, or not. So really, we do have some limited visibility there.

So far the implementation has been going well. So far we hear from Travelocity that they are happy. And obviously our technology platform and our supply base seems to be converting quite well for them. But other than that, we have quite limited visibility into what is going on there.

Tom White - Macquarie Research - Analyst
Great, thank you.

Dara Khosrowshahi - Expedia Inc - CEO & President
You're welcome. Next question.

Operator
Douglas Anmuth with JPMorgan.

Douglas Anmuth - JPMorgan - Analyst
Great. Thanks for taking the question. Just wanted to ask a couple things. First, just on ETP, if you could update us on the progress there. And I may have missed it, but if you could talk more about the uptick that those properties are seeing in terms of room nights and how you are managing the incremental demand there, just as hotels want to increasingly shift over.

And then second question, just regarding Room 77 with Google. If you could comment on how you’re thinking about that partnership from the competitive perspective, but then also perhaps, of course, as you are seeing, to be investing in Room 77 as well. Thanks.

Mark Okerstrom - Expedia Inc - CFO
Great. Thanks Doug. For ETP, it's really transitioned into business as usual for us, and has really transitioned into our primary form of contracting new hotels and our primary form of relationships. 2013 was a year where we transitioned a whole lot of new relationships over to -- or existing relationships over to the ETP contract. And I think we ended the year with about 45,000 hotels live.
And really in 2014, it's just about, as new contracts come up for renewal, putting hotels on those contracts and as we sign up new hotels putting them on the ETP platform. I would say broadly speaking, for our consumers and for our suppliers, ETP has been and we expect will continue to be, a huge success. It's really removed a lot of the barriers that we historically had with going with a pure merchant model, barriers that consumers felt, barriers that suppliers felt, and really have opened up our platform.

Specifically, just in terms of some of the impacts that ETP has driven to our business, really best shown through the growth in our non-eLong agency room nights. Last quarter we disclosed that the room night mix for, again, non-eLong hotel collector agency room nights was over 15%, and growing at rates over 100% year on year. And we actually saw metrics broadly consistent with that in the first quarter of this year as well.

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

As far as our investment in Room 77, the investment that we did have in Room 77 was pretty small in the grand scheme of things. So we don't have any particular insights as to that acquisition and discussions that happened behind the scenes and/or Google strategy. If you level up a bit, Google has been investing in their hotel search experience for some period of time in the HBA product as well as their other mobile products.

So their investment in Room 77 and the team there certainly make sense from a thematic standpoint, in that Room 77 had, we feel, built a nice travel search product, a nice hotel search product. It fits along that theme as far as Google’s investments go.

As long as we are able to work in partnership with Google, and are able to competitively bid for their travel search volume, not just hotel search volume, we think we can continue to build our partnership with Google. And at least so far we don’t see any reason why we won’t be able to be competitive in the very large Google marketplace on a go-forward basis.

**Douglas Anmuth - JPMorgan - Analyst**

Great. Thanks guys.

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

You're welcome. Next question.

**Operator**

Eric Sheridan with UBS.

**Eric Sheridan - UBS - Analyst**

Sure. Thanks for taking the question. I guess now that you’ve had some time with the partnership with Travelocity, I want to understand if there was any update on the way in which you think the run rate benefit to EBITDA might be, once you have a 12 full months of full implementation, if not this year but further beyond? And second question on the guidance, with EBITDA coming in slightly better than the way you had talked about Q1, curious about maintaining the guidance at the 13% to 16%, and what we might be looking for on the investment side for the rest of the year? Thanks.

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

Thanks, Eric. With respect to Travelocity, we are not giving an update. It’s really just too early for us, for one. Secondly, is on the last call I went through a number of the unknowns, if you will, around where that lands. Implementation I think is better known now than it truly was at the time.
of our last call, but what they spend on sales and marketing and the ultimate conversion of the websites are still an unknown for us. So we have no update.

Our full-year guidance does include our expectations for Travelocity. Our next year guidance will include our expectations for Travelocity. And with the exception of some incremental disclosures that we will make similar to what we did this quarter around the impact on some operating metrics to help the investment community and our shareholders understand what is happening with the core business. We don't plan to give specific disclosures around Travelocity, similar to the way we treat our own owned main brands.

With respect to our full-year guidance, listen. All I would say is that Q1 is a relatively tiny quarter for us, particularly on an adjusted EBITDA and net income level. And so a slight beat versus our expectations results in a de minimus change to our full-year outlook. And certainly, we, at this point are not -- not changed our outlook on the business, and our guidance remains the same.

Eric Sheridan  - UBS - Analyst

Great. Thanks, guys.

Dara Khosrowshahi  - Expedia Inc - CEO & President

You're welcome.

Operator

Mark Mahaney with RBC Capital Markets.

Mark Mahaney  - RBC Capital Markets - Analyst

Thanks. Two questions, please. I want to follow up on Doug's question. And maybe, there was some commentary or controversy intra-quarter about Google and hotel product finder. If you would just comment a little bit more on whether you think there's any of the things that Google is doing with hotel product finder is changing the economics, unit economics, for online travel agencies?

And then secondly, could you talk big picture about alternative accommodations? And I know you've got a -- you have been working on an implementation with HomeAway. Your thoughts on, if they have changed at all, on how interesting that market could be to Expedia over the next three to five years? Thank you.

Dara Khosrowshahi  - Expedia Inc - CEO & President

Thanks. As far as Google's hotel product finder, listen, they are -- Google is constantly testing and learning. And they are making all kinds of changes. Now obviously because of the market share that they have, any changes that they make can have significant downstream effects on partners of their's, such as ourselves. I'd say the greatest worry that we have with Google in general is not specific to hotel product finder, but is in general with the amount of space that they give to other third-party sites, such as ourselves, both on paid and unpaid basis, relative to the amount of space that they give internally.

And in markets where they're dominant, which are many markets, this can be a real issue for anyone -- any website that really wants to have any kind of share on the web. That said, we have a partnership with them, we build our partnership with them. They are -- and as they make changes, we adjust.
And because of the status of our technology, et cetera, we are able to adjust back faster. So this quarter we haven’t seen anything material that changes our trends overall that we haven’t talked to you about previously.

As far as alternative accommodations go, we are early in the partnership with HomeAway. We are very hopeful in the partnership with HomeAway. And right now we are working collaboratively to optimize the pilot going forward.

There’s some technology work that they have to do and we have to do in order to essentially connect more of their hotels into our system. Right now there’s a minority of their hotels—not hotels, properties that are bookable that we can book through Expedia, and the work that is being done both by their teams and our teams is to essentially wire up more of their properties. As we wire up more of those properties I think we will have a better sense as to how big alternative accommodations can be. But at this point, we are optimistic.

**Mark Mahaney** - RBC Capital Markets - Analyst
Thank you, Dara.

**Dara Khosrowshahi** - Expedia Inc - CEO & President
You’re welcome. Next question.

**Operator**
Ron Josey with JMP Securities.

**Ron Josey** - JMP Securities - Analyst
Great. Thanks for thanks for taking the questions. Mark, I just want to follow-up. I think you said first quarter results were better than you all had expected, both on revenue and expenses. And on the revenue side, I was just curious was the better-than-expected due to Travelocity, or just a better overall travel environment? And then a quick follow-up. Thank you.

**Mark Okerstrom** - Expedia Inc - CFO
Yes. I would say broadly across the board we saw strength in the business. I think Travelocity is, as you probably gather, from our remarks pretty tough for us to forecast. So that was a bit of it. But broadly, the businesses performed a little bit better than our expectations.

Brand Expedia we knew was comping over, or starting to lap over the launch of the package product. And that continue to grow at healthy rates, notwithstanding the tougher comp. So it was broadly felt.

With respect to the overall travel environment, it is hard for us to perceive the overall macro trends just given the fact that we operate in a segment of the market which is growing faster than the overall market and we think that we’re taking share in the segment.

But broadly from what we see and read, which is similar to what you can get access to, the travel market remains pretty healthy in the US. Europe continues to be, I would say, stable to improving. A-Pac and Latin America are a mixed bag. But broadly we’d say it’s a healthy travel environment.
Dara Khosrowshahi - Expedia Inc - CEO & President

Yes, and I guess Ron, putting it the other way. When you look at last year, we had some pretty difficult headwinds with Hotels.com and Hotwire. There were negative surprises that we had to scramble to recover from, and I think in the second half of the year we recovered from them pretty effectively.

And so far this quarter has been a pretty boring quarter as far as surprises go, which we are quite happy about. If the trends continue on a go-forward basis, I think we're set up for a pretty good year.

I think that we're going to see lots of competition on the brand marketing side, especially for the summer bookings season. So we are certainly prepared for that. But so far, so good. But it's just one quarter, and we have a long year ahead of us.

Ron Josey - JMP Securities - Analyst

Great. Thank you very much.

Dara Khosrowshahi - Expedia Inc - CEO & President

You're welcome.

Operator

Michael Millman with Millman Research Associates.

Michael Millman - Millman Research Associates - Analyst

Following up on the HomeAway. Are you seeing any pushback from [Airbnb] for hotels and/or regulators regarding that business? And secondly, you put out, or at least Expedia put out, a survey for what's expected Memorial Day, air up 5%.

I was wondering if you could also give us what you expect European rooms to be up. And what you expect rental car prices to be up in US and Europe. And related, are you seeing any changes in rental car availability in the US for the second quarter? Thank you.

Dara Khosrowshahi - Expedia Inc - CEO & President

Absolutely. As far as HomeAway goes, we haven't seen any pushback from our hotel partners or regulators. I know that there is been a significant amount of controversy around Airbnb and regulators there. I think HomeAway has been in business for a much longer time. And from, at least what I am aware of and what we are aware of, has their regulatory marks right on target and hasn't seen any significant push one way or the other.

So for now we are quite happy with the partnership. And we hope to build that partnership. We think that complementing our hotel inventory with vacation rental inventory is only going to be good for consumers, and that is really our goal, is when a consumer searches for Orlando, to give them the most complete set of listings possible. And we think HomeAway adds to that and adds to the consumer experience.

As far as our -- the surveys et cetera, those surveys are largely consumer-oriented in order to get consumers looking and booking for travel. As it relates to earnings and financial performances, we typically don't make those predictions.
I'd say the general prediction, or general observation, that I would make is that the travel business on a global basis, there are ups and downs obviously locally, but travel business has recovered nicely. Most of the airlines that are reporting, the hoteliers that are reporting, the car rental companies that are reporting are doing well. And we are doing well with them in partnership with them.

As far as car goes, in general we're seeing our car trends improve on a year-on-year basis. Q1 was better than Q4. We are seeing the suppliers try to up prices a little bit on the car side, and with some success. And in general we are seeing pretty good trends on the car side, at least as it relates to our brands, go.

**Michael Millman - Millman Research Associates - Analyst**

When you say pretty good, you mean good demand, lots of availability?

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

I would say good demand, good availability, good transaction trends.

**Michael Millman - Millman Research Associates - Analyst**

Thank you.

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

You're welcome. Next question.

**Operator**

Mike Olson with Piper Jaffray.

**Andrew Connor - Piper Jaffray - Analyst**

Hello, there. This is Andrew Connor on for Mike. Dara, I know you guys have had a lot of success with mobile. Your rankings in the App Store are very good. Are you guys able to give a mobile bookings penetration number? And then had just a quick follow-up. Thanks.

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

In general, as far as a mobile penetration goes for the brands who are active in mobile, we have in excess of 20% of our transactions on mobile. Hotwire is actually trending up very, very significantly, over 30%. So I'd say the penetration numbers and the trend numbers in mobile our good across the board and are improving across the board.

We are very, very happy with the quality of our apps. We continue to drive app downloads aggressively. And we are interested in driving our mobile app business, as well as our mobile web business, on a global basis. And so far mobile has been a very nice tailwind for us.

**Andrew Connor - Piper Jaffray - Analyst**

Have you guys seen the behavior shift toward longer lead times?
Dara Khosrowshahi - Expedia Inc - CEO & President

At this point mobile still continues to be largely a last-minute type of activity. Not all last minute, but last minute is a very significant part of our mobile activity, continues to be. Tablet looks a lot like the PC. So tablet is certainly not last minute, but the handset continues to be fairly last-minute focused.

Andrew Connor - Piper Jaffray - Analyst

Okay. Thanks a lot.

Dara Khosrowshahi - Expedia Inc - CEO & President

You’re welcome. Next question.

Operator

Brian Nowak with SIG.

Brian Nowak - SIG - Analyst

Thanks. I had two questions. First one. Dara, I know in the past you have talked about Hotwire stabilizing this year. It sounds like there's still a little bit of work to do at Hotwire. Can you give us an update on how to think about Hotwire for the year? And when you say stable, do you mean flat, or is still more work to do to keep that booking or revenue trajectory from declining this year?

Mark Okerstrom - Expedia Inc - CFO

Yes, Brian. I will take that one. Hotwire essentially experienced through Q1 and Q2 of last year what we would call a reset. It was a reset towards the new reality of a car industry that is more consolidated, new competitive reality with a large competitor introducing a comparable product.

Since that reset, if you will, the business has stabilized and they are working towards implementing a strategy that we think is very sound. And you can see it with some of the mobile numbers that Dara shared with you. But it still faces difficult year-on-year comps until Q3.

So it was down last quarter, it was down year on year this quarter. We would expect to see something similar but easing in the second quarter. And then things will start to look a little bit better on Q3 and Q4. And on a full-year basis, what we've said is we are not counting on Hotwire to contribute to our EBITDA growth story.

Brian Nowak - SIG - Analyst

Got it. And then the one other one I had is, any help on how much of the sales and marketing growth came from the Travelocity rev share payment?

Mark Okerstrom - Expedia Inc - CFO

We haven't disclosed that but the bulk of the sales and marketing growth continues to come from our core businesses plus Trivago. Trivago, again you have seen and we have disclosed on and inorganic basis, they added about 800 basis points to our sales and marketing growth. So that was
a big driver. Travelocity was a factor, but then our core businesses, brand Expedia and Hotels.com on their new technology platforms are spending aggressively, really funded by the discipline we've got around our overall cost base.

---

**Brian Nowak** - SIG - Analyst

Great, thank you so much.

---

**Operator**

Kevin Kopelman of Cowen and Company.

---

**Kevin Kopelman** - Cowen and Company - Analyst

Hi, thanks a lot. Just a follow-up on Travelocity. You mentioned that it contributed 3% to room night. Given that it's the first quarter, how fully ramped is that? I know you are just rolling out in Canada now. Should we expect that contribution to be similar next quarter?

---

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

Yes. The hotel path was live for the majority of the first quarter. We implemented that through the end of the fourth quarter. There was some optimization in the first quarter. That's going to continue actually throughout the year.

So it is hard for me to know for sure whether that's a good proxy. I would call your attention, though, to the fact that in a ramping business, we do see a disproportionate impact on gross bookings than we do on revenue or stayed room nights, which is the room nights we report. And therefore the 3% possibly could be on the lower side, again to the extent we were able to have those stays, and they will happen over the course of subsequent quarters.

---

**Kevin Kopelman** - Cowen and Company - Analyst

Great, thanks. And then on advertising expense, you talked about competition and brand advertising. Can you give us any more color on how you're thinking about advertising expense growth for the rest of the year?

---

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

As far as our advertising expense growth, I think what you will see is pretty similar to what you really saw last year and the last couple of quarters. From a timing perspective in Q1, typically we spend up very aggressively, and some of the revenue comes in Q2. And this year, it will be, call it augmented, by Easter and the timing of Easter.

But in general, all of our brands are aggressively marketing in the variable channels. We're growing our brand marketing as well. The variable channels, in general, are less efficient than the other direct channels. So we do expect to continue to see sales and marketing grow higher than revenue, especially with Trivago being part of the family.

All that sales and marketing activity we think is net profitable overall. And we have also talked about the financial model where we use leverage of our fixed cost, et cetera to be able to deliver profit growth, even as we are aggressively investing in sales and marketing. So that formula continues, at least for the first quarter of the year, and hopefully it is something that we can deliver for you for the foreseeable future.
Kevin Kopelman - Cowen and Company - Analyst
Okay. Thanks a lot.

Dara Khosrowshahi - Expedia Inc - CEO & President
You're welcome.

Operator
There are no further questions at this time. I would now like to turn the conference back to Alan Pickerill for closing remarks.

Alan Pickerill - Expedia Inc - VP of IR
Okay, yes. Thanks everybody for your interest in Expedia and for joining us on the call today. A replay will be up on the IR site shortly. Dara, any closing remarks?

Dara Khosrowshahi - Expedia Inc - CEO & President
No. Just thanks everyone for joining, and thank you to the Expedia Inc employees for a good start to the year, and we've got lots of work ahead of us. But looking forward to talking to you next quarter.

Operator
Thank you, sir. Ladies and gentlemen, this concludes the Expedia Q1 2014 earnings call. Thank you very much for your participation, and at this time you may now disconnect.