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EXPE - Expedia Inc at RBC Capital Markets Technology, Internet, Media & Telecommunications Conference

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CORPORATE PARTICIPANTS

Mark Okerstrom *Expedia, Inc. - CFO & EVP of Operations*

PRESENTATION

Unidentified Participant

We're thrilled to have Mark Okerstrom, the CFO of Expedia. I'll ask a couple of questions, I'll leave a few minutes for Q&A, and then there is a breakout right after this. So, the first question to you should be the same one that we posed to the CEO of Priceline, which is what impact will a Trump presidency have on Expedia and online travel?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Great question. First of all, bookings from New York and LA into Toronto have just gone through the roof. We are setting up a refugee program.

Unidentified Participant

Mark is Canadian, in case you didn't know that.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

In all seriousness, I think it's very possible that there could be a more business friendly environment on the tax front for example, repatriation opportunities, perhaps some clarity on corporate tax policy. So, I think there is a possibility of that. On the flip side of that and I think as Dara has said, to the extent that this translates into a more insular United States, I think that could be a negative for our business. I think we are a business that is really supportive of an open world where everyone travels around freely and shares ideas and to the extent we're not in that environment, I think that could be a negative for us.

Unidentified Participant

I'm tempted to do a poll of the room, but I won't. And then this is almost the same thing, I was going to ask you for your current macro view of the global travel market. So, let's leave aside any political uncertainty and who knows if that probably lasted for an hour at most maybe. So travel market conditions, I think you talked about them pretty positively in your earnings call, I think Priceline did too, is that right? And there's always a little volatility, but maybe the level of macro volatility whether that's currency, terrorism events, currently is a little on the lower side than what you normally face.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think that generally we view the overall travel market as constructive and I think if you compare where we are versus where we were in Q2 or certainly in Q4 of last year right after the Paris attacks, we feel incrementally better. I think that said, as always there's pockets of strength and weakness in the world. I think on the strength side, Southern Europe is really strong for us this summer. On the weakness side, Latin America was suffering with Zika and other political issues. So there's always puts and takes, but generally I think we're incrementally more constructive. I think if you look at the commentary from the big lodging players for example, the airlines, I think there's probably an incremental note of caution on a forward-looking basis. But aside from that, I think we continue to feel very constructive.



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Unidentified Participant

Let's talk about the room night growth trends a little bit and it just seems like a year ago room night growth trends were really improving and accelerating and leave aside whether or not you run faster or slower than Priceline, just intrinsically your room night growth trends have really improved. First half of this year there's all this lumpiness because of the comps, but we get out of that and we're still kind of at very like 11% growth in room nights in this last quarter so that seems lower than it should be. What's the problem?

Mark Okerstrom - Expedia, Inc. - CFO & EVP of Operations

The good news is we think the problems are behind us and the problems really boil down to a couple of things for us that really got resolved in the second quarter. We had network and data center instability issues. We really had teams focused on the Orbitz integration work and not focused on test and learn velocity around the properties and that has an impact on the business. And we got the teams back focused on core execution, we got the network and infrastructure issues resolved towards the end of the second quarter. It takes a while for these things to work themselves out.

However, in our reported numbers, you've got people who are making bookings during the second quarter for stays in July and August that shows up in our financial results, but it's really just a hangover from the second quarter. Underlying those trends, however, what we said on our call was that we did see accelerating trends on a booked basis if we move through the quarter and in September for example stayed room nights were back up to 14%. So, we feel like we are back to core execution. Is there room to do even better? Absolutely and we'll be working to do that through the back part of the year and certainly into 2017.

Unidentified Participant

What would be a healthy room night growth number?

Mark Okerstrom - Expedia, Inc. - CFO & EVP of Operations

We always hate to put a number out there. Better than 12%, better than 11%, I think 14% was on the road to healthy.

Unidentified Participant

I know you haven't talked at all about 2017 EBITDA growth outlook so here's the question. The guidance you gave for this year was 8% to 13% organic growth and you said you'd probably come in somewhere in the middle of that. And as we think about 2017, what would be the major factors that would cause the growth next year to be better than that? What could cause the growth outlook to be stronger than that?

Mark Okerstrom - Expedia, Inc. - CFO & EVP of Operations

Listen, I think we had some challenges in the middle part of this year and I think that was certainly a factor and next year I expect we're going to be back to core execution and we won't have some of this volatility that we've had this year. And I think the big question marks then become in a business that has got so much runway ahead of it, how much do you invest in the year and how much do you drop to the bottom line in the core OTA business; which is Brand Expedia, Hotels.com, et cetera. Secondly is how fast and how successful does the HomeAway transition become and how much of that upside do we drop through to the bottom line in 2017 versus flowing through to 2018. And then I think we've got trivago out there as well, which is a factor. So, again we'll do what we usually do. We'll give you guidance around what we expect on our next call, but those are some of the factors to consider. And as a reminder, our guidance was on an all-in basis 35% to 45%. On the last call we said we are currently forecasting results to be approaching the midpoint of that. The 8% to 13% was the core OTA business guidance that we gave at the beginning of the year.



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Unidentified Participant

And for the full year in that [8% to 13% range] (corrected by company after the call), where do you come in? What does your guidance imply for that?

Mark Okerstrom - Expedia, Inc. - CFO & EVP of Operations

What we said is that we expect to get more of our bottom line performance from recent acquisitions than from the core business.

Unidentified Participant

Does the Away transition and the progress that you've had in it this year mean that it's a materially greater source of EBITDA growth next year whether or not you choose to reinvest it in the business?

Mark Okerstrom - Expedia, Inc. - CFO & EVP of Operations

Listen, I think there is a potential there. That said, Q3 was a somewhat anomalous quarter. It was a quarter where we had essentially the full power of the subscription revenue before it starts to roll off to a lower subscription rate we'll start to see next quarter and that will continue into 2017. We haven't yet fully ramped up sales and marketing, we haven't yet ramped up our tech and product spends. All of that stuff is going to be happening here in the fourth quarter and then into 2017. So, I think that business has the capability to deliver very, very significant adjusted EBITDA contribution to Expedia Inc. and we don't quite know yet. We're not really ready to talk about what that will be for 2017 and we remain very focused on the \$350 million adjusted EBITDA target we set up for 2018.

Unidentified Participant

Orbitz integration, just some color or commentary on that, how well that's progressing versus your plan?

Mark Okerstrom - Expedia, Inc. - CFO & EVP of Operations

It continues to progress very well. We're largely complete with the integration. There are still pieces of the business that are on the legacy Orbitz platforms. They are Orbitz Partner Network clients, these are generally big banks were Orbitz was powering their tech platforms and travel infrastructure, there's going to be a longer transition tail to that. But really the core business is now on Expedia platforms. What we said once we had got a lot of that work done was that the \$75 million synergy number that we gave originally that we felt there was meaningful upside to that.

We are seeing that and we should hit run rate from a cost synergy perspective here towards the end of Q4. I think the only caveat to all of this is that we did during the transition shed a number of Orbitz for Business customers that didn't make the journey over to the Egencia platform. We did shed a few Orbitz Partner Network customers where we felt like it wasn't profitable business for us to do. And we also didn't replicate some of the unique functionality that was on the Orbitz site on the Brand Expedia platform immediately and that put pressure on topline growth rates and once we annualize those, things should be back to business as normal on the topline as well.

Unidentified Participant

Let me get back to HomeAway because this is I think one of the biggest and one of the top two focuses of investors on the stock. So just bring us up to speed a little bit more on the adoption of the consumer fee, the online bookability of the properties that are on there with that transition is like, and when should we expect that inventory to begin to be integrated on to the Expedia site?

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Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

We are live with the traveler fee really across the vast majority of the platform right now. We launched the traveler fee in the United States in February and so something to keep in mind as we model it out into 2017. Those comps will get clean again towards the end of February in the first quarter. We then launched it in Europe starting in June, so far the results have been very positive. We were modeling a reduction in conversion rates associated with that. We have said that actually conversion rates are now at a point where they're up year-on-year so progress is good.

We've got well north of a million properties that are now online bookable on the platform and we are dead focused on really getting ourselves in the spot where HomeAway is completely and fully a transactional business and we're well on our way to do that. The integration point what we are doing is that in the fourth quarter here we do have some partners, which we are piloting the integration technology that we built, and what we'll be doing is putting initially some instantly bookable inventory on Brand Expedia and Hotels.com and the leisure brands. We'll be testing that to see how it performs and then the idea was that we would broaden that out to 2017.

Unidentified Participant

Do you have any way of guessing what kind of impact you'll see on conversion rates from that? Would you start off with any working assumptions?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

We generally would assume them to be conversion positive. When we had the partnership with HomeAway, which was quite a light partnership, so very different tech integration. There was a partnership with Brand Expedia and HomeAway and generally what we saw was that adding the vacation rental inventory in the right destinations obviously was conversion positive. It makes sense, there's more selection, higher likelihood of you having something that a consumer will like. But really it comes down to how do you present it, where do you present it, to what type of customers. People with more than four guests for example you might present it, for those that aren't you might not, and these are the things we'll be testing. But generally we would view it as a conversion positive.

Unidentified Participant

You said a million properties are online bookable now and remind us out of how many?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

So, we have not disclosed the total property count. In fact we're just way less focused on that. What we're really focused on is growing the online bookable property count.

Unidentified Participant

The percentage that are online bookable now, is that the vast majority of them, anything like that?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Yes.

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Unidentified Participant

Let me ask you one broad question about alternative accommodations. Do you think that these have expanded the overall leisure travel market?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think so, but I just don't know and the reason I say I think so is that the category just continues to grow incredibly quickly. We look at the results at HomeAway continues to really be a strong desire for this type of inventory and yet we look at our overall hotel business and we really don't see an impact on it. So from our perspective, we see continued interest in hotel and we see new interest in vacation rental properties. Now whether or not that means more people are traveling, I'm not sure that's the case; but certainly from our perspective, we don't see a cannibalistic effect at least so far on our platform.

Unidentified Participant

Probably been better able to meet demand in peak times?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think it's certainly part of that. We had called out I think starting a couple years ago some of the things that we had seen during compression periods; Pope comes to New York, Dreamforce was one of the things we called out. Again this year in Dreamforce, what we saw was we actually had abundant hotel inventory really throughout and before the event and our room night growth was very healthy and that compares to if you rewound back about three years ago, the city was sold out and we wouldn't have availability. So yes, I think there is more inventory there in compression periods so generally that's been a great thing for us.

Unidentified Participant

Any quick comments you'd make on trivago? You're not commenting about it going forwards, but in terms of the level of profitability you're seeing at your leading markets there or your most mature markets there?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Firstly for legal and regulatory reasons, there's not much I can say about trivago. I think on the profitability front, we did make some disclosures in our March investor presentation so I would refer you to that. We were super happy with trivago's progress again in the third quarter, grew revenue 57% and that was \$276 million of revenue. So, they're doing what they were doing well on a big base.

Unidentified Participant

Let's switch and talk about your marketing channels. So Google as a marketing channel for you, have you had any material diversification away from Google in your performance marketing channels?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

We have. trivago certainly has become a much bigger part of the story I think for us and then really across the travel industry, but Google continues to be a great partner for us. I think there is obviously pressure that they are creating on the free traffic side of things and we obviously watch them very closely in those regards. But on the paid side, again they are innovative, we work very closely with them, we're pleased with our performance in their channels.



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Unidentified Participant

Is Facebook anything beyond just experimental ad spend?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think in the grand scheme of our last year \$2.7 billion of direct sales and marketing spend, it's definitely in the experimental bucket in that context. That said, I think from a relationship standpoint we are working very closely with them both in terms of trying to help them develop and test out new ways to develop marketing channels that truly are delivering travel intent for us which is ultimately what we need. We're partnering with them on the chatbot projects that they're working on. So, the relationship is great and we're really hopeful that they can build a meaningful marketing channel for us. We've got lots of marketing dollars to spend and we're looking for big channels that are growing quickly.

Unidentified Participant

I'm sure they are hopeful too, but I wonder since they really can't get at consumer intent, I think the only real way to get consumers is through retargeting. Do you think there is anything more they can do besides retargeting?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think there's a possibility. Their audience is huge and I think with that type of audience, the amount of contextual information that they have, the fact that they are in people's pockets all the time and people are constantly on the platform, I'm very hopeful they will be able to find something.

Unidentified Participant

Instant Book, when is this thing? When are you able to go into Instant Book? Do you know?

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I haven't read the contract so I can't comment on their contract. But what I can tell you is that I think as has always been the case to the extent that TripAdvisor creates a marketing channel that has attractive economics, that has great conversion characteristics, that is fully branded, and is of the type that we like in marketing channels; I think that's something we'd be interested in talking to them about.

Unidentified Participant

And such a non-answer which is great.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Saving it for the Credit Suisse conference. I'm joking--

Unidentified Participant

Let me get the agenda for next year. I would imagine that TripAdvisor and Instant Book is probably at the margin less interesting for you given all the reasonable success you've had with trivago. How's that for a statement?

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Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

We don't really see it that way to be honest. We view them as independent channels and I think even though we're incredibly happy with trivago as a channel, we would very much like to see TripAdvisor grow and offer marketing channels that we can harness attractive demand for.

Unidentified Participant

Just talk about the relationship with the hotels? Let me just fill out a couple of bearish thoughts, which is one of the reasons you've had room night growth decelerate is that you had more exposure to major hotel chains in the US. So maybe that's a crimping of your demand, maybe Booking.com there in the US at the Skift conference saying they think they're gaining share in the US market, they kind of confirmed that. It's hard to know, but it seems like they put a lot of money into this market, they're doing better. So just maybe talk about both of those issues. Hotels kind of taking away share from you and Booking.com in the US taking away share.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think on the hotel front, first of all we have not seen an impact of what they're doing on our business and we've taken a look at markets that are chain heavy where we see significant discounting by the chains on their own websites compared with markets that are similar, but don't have that high a mix. We really have seen no impact on our overall conversion rates or our overall volumes from that. What we have seen is that not surprisingly in a marketplace where there are consumers that shop around, consumers that appreciate great value and great prices; our consumers aren't choosing those hotels that don't give our consumers great prices. In fact they're choosing ones that prefer to give better prices and more competitive prices and as a result, a number of the hotel chains and individual hotels within those chains that are not offering our consumers best value are losing share in the channel.

That we do see. And I think if you look at just the businesses we're in, we're just in very different businesses. The amount of selection that we offer is unrivaled. We have member only discount rates in thousands and thousands of hotels. And in these chains, the maximum number of hotels in any of these chains is well less than 10,000 compared to our 321,000 properties. So, I think it's just that we are a different animal and so we don't like the message that they're sending out there, we don't like them not giving our consumers the very best prices; but we are constructive that we'll be able to work through this. We are having a number of discussions with a number of chain hotels around how we can better work together and one great example of that is the deal that we did with Red Lion Hotels where we are helping them sign up new loyalty members.

You give our customers a great rate, we sign them up to the loyalty program and the hope for Red Lion is that those customers then become loyal customers of Red Lion as opposed to Best Western or one of these other chains and they come back to them direct the next time around. We are totally thrilled to be exploring this dimension with chain hotels and the dialogs are very constructive. With respect to Booking.com and Priceline, we have just got a ton of respect for the way that business has executed for a very long period of time. I don't see a real difference in the competitive dynamic between the two of us. I think that again they're a great competitor and I think we are a great competitor as well. They've got and they've been in the US for a very long time. It wouldn't surprise me that the base of their hotel business in the US having an exclusive position in TripAdvisor Instant Book for a while has helped them gain share.

But when we look at the strength of our US business, we continue to gain share as well. So could they be growing faster than us in the US? I think it's possible. Could we be growing faster than them in Europe? I think that's also very possible. I think we're both really bringing businesses that used to be largely regional businesses up to global scale and we welcome them as a competitor and generally what I'd say is that our own results have been historically a product of our own execution and nothing that they have done and I expect that to continue into the future.



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Unidentified Participant

We did our own survey work and we saw that Booking.com seemed to be gaining share in US, but not at your expense. It seemed to be at the expense of some of the direct hotel channels ironically. Anybody want to ask a question? We only got a minute left. I should have given people a bit more of a warning.

QUESTIONS AND ANSWERS**Unidentified Audience Member**

(inaudible - microphone inaccessible)

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

We haven't disclosed that. No, we haven't spoken about the overall gross bookings number that are happening on line. It is something we're thinking about, talking about a little bit more in 2017 so have to wait for just a little bit. I would just say in terms of the overall sales and marketing picture, that's a business that is increasingly going to look like an OTA, a hotel-only OTA and so I would think about that from a modeling perspective again over the long term.

Unidentified Participant

One last question. At the back, did you have one?

Unidentified Audience Member

(inaudible - microphone inaccessible)

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

I think we're capable of building a huge amazing business in HomeAway and our experience in the online travel sector would suggest that there is room for at least a couple really well executing players. We look at the \$30 billion valuation of Airbnb and that looks to us like a great opportunity and even if we got half the way there, I'd be happy. But what I do see is great traction at HomeAway and we very much like what we see.

Unidentified Participant

We're wrapping up the session and there's a breakout right after this. Mark Okerstrom, CFO of Expedia, thank you very much.

Mark Okerstrom - *Expedia, Inc. - CFO & EVP of Operations*

Thanks.



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