OVERVIEW:
Co. reported 3Q14 results.
Corporate Participants

Alan Pickerill Expedia, Inc. - VP of IR
Dara Khosrowshahi Expedia, Inc. - President & CEO
Mark Okerstrom Expedia, Inc. - EVP & CFO

Conference Call Participants

Justin Post BofA Merrill Lynch - Analyst
Naveed Khan Cantor Fitzgerald - Analyst
Mark Mahaney RBC Capital Markets - Analyst
Brian Fitzgerald Jefferies & Co. - Analyst
Eric Sheridan UBS - Analyst
Mike Olson Piper Jaffray & Co. - Analyst
Tom White Macquarie Research - Analyst
Douglas Anmuth JPMorgan - Analyst
Dean Prissman Credit Suisse - Analyst
Ron Josey JMP Securities - Analyst
Ross Sandler Deutsche Bank - Analyst
Michael Millman Millman Research Assoc. - Analyst
Ken Sena Evercore Partners - Analyst
Manish Hemrajani Oppenheimer - Analyst
Kevin Kopelman Cowen and Company - Analyst
Ansel Parikh Stifel Nicolaus - Analyst

Presentation

Operator

Good day and welcome to the Expedia Q3 2014 earnings conference call. Today's conference is being recorded. At this time I would like to turn the conference over to Alan Pickerill, Vice President of Investor Relations. Please go ahead, sir.

Alan Pickerill - Expedia, Inc. - VP of IR

Thanks, Tina. Good afternoon, everybody, and welcome to Expedia, Inc.'s financial results conference call for the third quarter ended September 30, 2014. I am 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, October 30, 2014 only. We do not undertake any obligation to update or revise this information.

As always, some of the statement 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 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 IR website at IR.ExpediaInc.com. I encourage you to periodically visit our Investor Relations site for important content including today’s earnings release and an updated investor deck.

Finally, unless otherwise stated, all references to cost of revenues, selling and marketing expense, general and administrative expense and 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, I will turn the call over to Dara.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Thanks, Alan. The third quarter was another good one for Expedia in what is turning out to be a very good year. Gross bookings growth of 29% and revenue growth of 22% continue the healthy top-line trends that we have seen throughout 2014. Strong fixed cost discipline allowed us to invest aggressively in selling and marketing while continuing to grow the bottom line with adjusted EBITDA up 20% and adjusted earnings per share up 35% year-on-year.

As a group, our core OTA transactional businesses continue to perform well on a global basis with brand Expedia and Hotels.com delivering strong top- and bottom-line growth, augmented by our Travelocity marketing agreement.

We continue to invest aggressively in expanding our trivago brand worldwide and are very encouraged with the scale and growth that we are seeing in the US, Canada, Australia, and certain Asia-Pacific markets such as Hong Kong, Taiwan, and Singapore.

Trivago growth also helps our core OTA growth. While TripAdvisor is our largest meta-search partner overall, trivago continues to gain share and deliver more clicks to brand Expedia than TripAdvisor did in the third quarter. As such, we anticipate continued investment in share gains for trivago for the balance of the year.

The market in China continues to be very dynamic and fiercely competitive, with a number of players making significant and increasing investments. This has led to challenges and competitive headwinds for eLong, which has been aggressively competing and generally taking share over the past number of years.

As such, the plan is to increase investments there, which we expect to lead to increased losses for eLong beginning in the fourth quarter and into 2015. We intend to build a big business in what is expected to become the largest travel market in the world and we believe our investments there will lead to substantial value creation for our shareholders over the long-term.

Meanwhile, Egencia is in full execution mode, scaling nicely, signing new business at an unprecedented pace, investing in innovation, and moving via clients onto its online platform.

What we are seeing environment is a healthy overall travel market along with ongoing competitive intensity worldwide and share generally accruing to the bigger global players who can compete aggressively across marketing channels, attract new travelers, and deliver in a way that creates a significant base of loyal customers.

We are seeing strong growth in variable channels where the cost to acquire customers continues to increase. We have also increased spend on brand advertising across our brands in a space that is quite competitive with key players pushing hard to get their brand message heard by travelers around the globe.

These dynamics put pressure on our overall marketing efficiencies, but we feel good about our ability to continue to profitably gain share on a global basis through best-in-class consumer experiences and ever-broadening travel supply.
In terms of our overall hotel business, we continue to see healthy trends in room night revenue growth. As we mentioned last quarter, we continue to ramp up hiring in our hotel supply organization and are seeing excellent results in terms of the revenue contribution from newly added hotels, up nearly threefold year-over-year.

From a technology perspective, work is ongoing to improve supplier-facing tools so that we can increase engagement with hotels and at the same time improve their self-service capabilities. We believe that combining a bigger team with better technology should help us grow our hotel business over the long term.

Overall 2014 is shaping up to be a good year for Expedia. We’ve made a lot of progress in the last few years, but competition is not sitting still and we know that there’s a lot of work ahead of us. We have a good strategy in some very clear focus areas that we think will continue to drive growth and create value over time.

These include focusing on our core technology and conversion improvements, continuing to build out our global hotel supply and making the right investments to do so, leaning in on marketing to drive traffic and downloads investing in key long-term growth markets such as China, building a big media and advertising business, and lastly, employing smart capital allocation that includes opportunistic M&A and share repurchases to augment organic growth.

Each of these factors adds up incrementally to a strong business that we believe can deliver balanced and sustainable long-term growth through a constantly improving search and booking experience for travelers, both leisure and corporate, all over the world. With that, I will hand it to Mark.

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

Thanks, Dara. Hotel revenue growth of 21% year-over-year was driven primarily by room night growth of 24%. Domestic room night growth was also 24%, consistent with the rate of growth posted in Q2, while international growth decelerated to 24%. The deceleration of international room night growth is explained entirely by trends in China. And excluding eLong, international roommate growth was essentially consistent quarter to quarter.

Travelocity again added about 4 percentage points of growth to global room nights. Aided by almost 5 percentage points of growth in average daily rates this quarter, revenue per room night was down 2% year-over-year. The gap between ADR growth and the revenue per room night decline remained pretty consistent with the second quarter. Decreases in our room night unit economics continue to be driven primarily by inventory expansion efforts and the impact of our loyalty programs and discounting.

Our advertising and media business, which is made up of trivago and our MediaSolutions Group, has become quite large and has delivered just about $450 million of net revenue on a trailing 12-month basis. For the quarter, advertising and media revenue grew 29% net of intercompany amounts. On a standalone basis, trivago grew revenue a healthy 50% year-over-year.

Air revenue grew 21% on ticket growth of 30% and a decline in revenue per ticket of 7%. Air gross bookings and air revenue were helped again this quarter by Travelocity, which represented 18 percentage points of the total ticket volume growth.

Revenue per ticket was down after the renewal of certain airline deals and we expect this trend to continue in Q4 and into 2015. We also saw nice contributions from our car and insurance products.

On the expense side we saw solid leverage this quarter in cost of revenue and general and administrative expenses, with each growing at rates nicely lower than revenue. Cost of revenue benefited from increased automation and continued scale of our global customer operations and support platform as well as favorable trends in merchant credit card fees as more of our hotel business moves to agency and on reduced levels of fraud and charge backs year-over-year.

The pace of growth of our technology and content expense was consistent with that of the second quarter and a bit lower than we expected. In the fourth quarter we do expect a faster rate of growth.
Selling and marketing expenses grew faster than revenue as we compete aggressively on a global basis and as we ramp up our supply teams to accelerate hotel acquisition. For expenses overall, I would also remind you that we have a difficult comp this year for incentive compensation in both Q3 and Q4. The net result was a healthy 20% growth in adjusted EBITDA for the quarter.

Briefly you will notice that our effective tax rate was lower this quarter, driven primarily by the release of tax reserves after the expiration of the statute of limitations for certain federal tax years. We continue to expect an effective tax rate of around 25% in future quarters.

From a capital allocation perspective, we repurchased 1.5 million shares since our last earnings call, bringing our total year-to-date to 6.5 million shares for $492 million or approximately $75.30 per share.

Our trailing 12-month free cash flow totaled $1 billion, which has allowed us to return substantial capital to our shareholders while also allocating capital for global growth. This is a key strength of the Company and one we intend to continue to take advantage of.

Turning to our financial expectations for 2014, we continue to expect full-year adjusted EBITDA to grow in the range of 16% to 19%. Our year-to-date performance has been quite strong and we plan to invest into this strength in the fourth quarter.

Our core OTA transactional businesses and Egencia continue to perform well and our expectations for their Q4 performance have not changed dramatically. For eLong and trivago, given the investments we have described, we now expect their combined adjusted EBITDA contribution to be down by roughly $15 million to $20 million year over year in the fourth quarter, a more significant investment than we had contemplated on our second-quarter call.

Given the huge opportunity in front of us, the dynamic and highly competitive nature of the industry, and the clear long-term benefits of size and global scale, we believe that we are effectively balancing the delivery of near-term profits against the strategic objective of investing in the business to fuel long-term growth.

Our current expectations assume no change in foreign exchange rates, which at current levels represent a headwind for adjusted EBITDA growth in Q4 relative to our prior guidance. To be clear, our guidance does not include any financial impact from the pending acquisition of Wotif. We will build those factors in after the transaction closes and expect to include the impact from Wotif in our 2015 guidance on our Q4 call.

I would note, however, that if the transaction closes in the fourth quarter, between transaction fees and the impact of purchase accounting, we would expect a small but negative impact to adjusted EBITDA in the quarter. With that, let’s move to Q&A. Operator, will you please remind participants how to line up for questions?

**QUESTIONS AND ANSWERS**

Operator

(Operator Instructions). Justin Post, Merrill Lynch.

Justin Post - BofA Merrill Lynch - Analyst

A couple questions. First maybe you could comment a little bit about the travel environment in Europe. People are wondering about potentially a market slowdown on a macro front and then just overall travel conditions there.

And also in your press release you talked about growing loyalty programs and couponing. Does that mostly apply to China or are there other areas that you’re getting pretty aggressive with those programs? Thank you.
Sure. Thanks, Justin. As far as Europe goes, we haven't observed I would say a big macro move in the environment. Obviously with the euro getting weaker compared to the US dollar -- and it's not just unique to the euro, it's also common to a lot of other currencies out there -- the strength of the dollar is going to be a headwind for us in a number of these markets.

And as Mark mentioned it's going to be a headwind for Q4, at least as we compare to where we were in Q2. So I think when we look at Europe, the first thing that we look at is the strength of the euro. Some airlines are dealing with strikes and labor issues, but we have -- through our industry we have seen lots of unrest in different parts of the world. And because we do have a global scope, the business doesn't seem to move significantly as a result of local issues. But we will watch Europe.

Obviously the economy there is not as strong as we would like it to be and most companies would like it to be, but we haven't observed any significant macro trends there.

As far as your question on loyalty, I would say there are two significant factors there. One is eLong, which has been couponing for some period of time, continues to coupon aggressively especially on mobile and a higher and higher percentage of their traffic is going on mobile as well.

And then the second in general is -- has to do with Hotels.com and also Expedia to some extent in that a higher percentage of Hotels.com's bookings especially, are rolling over members who are Welcome Rewards members.

And the Welcome Rewards cost is kind of an upfront cost that we recognize and the benefit that we get is that we have higher repeat rates and typically Welcome Rewards members come to us direct versus other channels. So the benefit is delayed while the cost is recognized upfront. And as a higher percentage of our bookings come over Welcome Rewards it's a wonderful thing, but essentially we are building a long-term asset of loyal customers and paying for it upfront.

So that's another factor as far as what we talked about with our loyalty programs as well. I would say the last factor when we talk about discounting is that we are in general pricing more aggressively on Hotwire. This is in good macro environment opaque channels and opaque supply in general takes a step back and the Hotwire team has elected essentially to move some of their margins over to their customers. And we are seeing some pretty interesting trends there and I do think that that is something that is going to continue.

Great, thank you for taking my question.

Thank you for taking the question. Just a quick clarification on trivago growing faster versus TripAdvisor. Can you talk about the ROI you are getting on trivago and how it compares with TripAdvisor?
Dara Khosrowshahi - Expedia, Inc. - President & CEO

Yes, I'd say the ROIs are roughly comparable. We've been able to -- the EI brands in general I think are growing share within the trivago marketplace. Trivago is growing a lot of share as far as overall traffic to, call it, travel websites. And the good news is that we are able to get this growth within the trivago marketplace at ROIs that are good and they are roughly comparable with ROIs that we look in general for the meta channel.

Naveed Khan - Cantor Fitzgerald - Analyst

Great. And then sticking with meta, can you talk a little bit about Google Hotel Finder? And what do you see there in terms of opportunity as a channel as well as maybe a threat as they launch limited offers?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

You know, as far as Google Hotel Finder goes, we are seeing increased traffic coming through Google Hotel Finder. It is clearly getting more exposure and in general I think that the product continues to improve. And Google has invested in it, will continue to invest in it.

I think from our standpoint we are happy to play in any market that Google puts out there. And I think over a long period of time we have proven an ability to get our fair share in the Google marketplaces, whether it’s a bid at marketplace, whether it’s CPC, whether it’s SEO. And I think the same will be true of Hotel Finder as well.

I think Google in general is introducing a number of technologies, retargeting technologies, not just against Hotel Finder but other parts of their site. We are experimenting with them and we are seeing some potential wins there. And we will continue to work with Google to kind of create win-win situations where we can spend more and make more.

Naveed Khan - Cantor Fitzgerald - Analyst

Great, thanks.

Operator

Mark Mahaney, RBC Capital Markets.

Mark Mahaney - RBC Capital Markets - Analyst

Dara, a picture question for you. There’s a three-year trend here, maybe four years of deleveraging marketing costs for Expedia, but Priceline, Orbitz, really across the board. How do you think this all plays out? I assume that sales and marketing as a percentage of revenue isn’t going to keep rising forever or maybe it will.

Are there one or two trigger points or things that could either happen -- I don’t know if it’s technology solutions or -- I don’t know, what would it be the with cause those marketing costs to finally kind of normalize out? And do you think that’s realistic in the next two to three years? Thanks a lot.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

I think it’s a great question and it’s something that we talk about a ton here. I think one of the significant factors as it relates to our specific P&L is that marketing and -- sales and marketing efficiency will continue to have headwinds against it as long as we are aggressively growing our international points-of-sale.
And we intend to continue to aggressively grow our international points-of-sale. We don't think we are close even to midstream there. We have a very, very strong position domestically but -- and we are improving in Europe. We are improving in Asia Pacific. We are improving in Latin America. But we are talking years and years of continued investment and growth, and growth.

So as long as we are able to find more pockets internationally to grow, in general that growth will come at higher cost than domestic and will hurt our sales and marketing percentage as a percentage of revenue.

Now if you look at each of those countries themselves, in general as our different points of sale mature, they do tend to get more efficient on a sales and marketing front. But then we typically take a good amount of that sales and marketing and then we reinvest it in a new country or we invest more aggressively in a country that is less mature.

So we think that formula is going to continue for some period of time. And the formula that we do have is that we combine that -- the pressure on sales and marketing with very disciplined structure on the fixed costs.

And for a long period of time, and I think it will continue, we are going to leverage our fixed costs, our cost of sales, our G&A, even technology at this point so that we can afford to make those marketing investments and we can afford to keep growing the bottom line, cash flow, earnings per share, etc.

We think as long as we can do that, we will be a share gainer in what is an enormous industry. So at this point, while we ask ourselves the same question, it's not a matter of life and death. This is a growth formula and so far it's working for us.

Mark Mahaney - RBC Capital Markets - Analyst

Okay, just a quick follow-up on China. It sounds like that's maybe at the margin picked up as an investment area of focus for you. Maybe that market is becoming more competitive, maybe not. But could you maybe just remind us about how material China is? And then how would you describe that market in terms of its competitive intensity? Is there something you are seeing that makes you think it's a more attractive market, therefore more investments, or more competitive markets and therefore more investments? Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

I think what we have observed in the China market are a couple of factors. One is that with the advent of mobile, China is going online and it's going mobile very, very fast.

The overall market is growing very quickly and as a result of those two factors, going online fast, going mobile fast, and in general travel being a very, very big category, it is a very attractive category for companies to invest in. And we have seen more investment coming in from not just Ctrip, who is our primary competitor, but other players in the meta-search category.

There was news for example that Alibaba is launching a site as well. So it's an attractive category. It's a big category that's going online fast. And as a result, we are seeing more capital come into the marketplace. And we built a very nice, big business with eLong with a really, really strong management team and our plan is to keep investing behind them.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

Mark, just with respect to mix, if you look back over the course of -- and they haven't announced yet. But if you look over the course of the last number of quarters as a percentage of revenue, they've been in and around 3% or 4%. So a relatively small part of revenue for us.
Mark Mahaney - RBC Capital Markets - Analyst

Thanks, Mark.

Operator

Brian Fitzgerald, Jefferies & Co.

Brian Fitzgerald - Jefferies & Co. - Analyst

Thanks, guys. Two quick questions. In September you expanded your partnership with HomeAway. In general, what level of interest are you seeing towards vacation rentals from travelers? Is it all incremental demand or is there some degree of cannibalization going on there versus regular hotel bookings?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure, as far as HomeAway goes, we have been slowly turning on exposure to HomeAway inventory. And more recently as HomeAway piped in more inventory into brand Expedia, we have kind of increased exposure to our customer segment. So I will be able to answer that question much better over the next couple of quarters.

In general, we are seeing interest. I would say it's interesting interest, it's not huge, but it's certainly interesting. There is a cross sell going on. There is some cannibalization. I would say that our instinct is that it's net positive, but it's too early to tell. So if you ask me the same question next quarter, I will probably have a better answer.

Brian Fitzgerald - Jefferies & Co. - Analyst

Very good. Thanks, Dara.

Operator

Eric Sheridan, UBS.

Eric Sheridan - UBS - Analyst

Thanks for taking the question. I guess, Dara, first, I wanted to know if we can get an update on your thinking about Trip instant booking, thinking about that is another distribution channel through that marketing vehicle in terms of generating leads going forward and how you think the industry might evolve their view about that.

And then, Mark, maybe the second question. You quantified the impact from investments in Q4, but I don't think you quantified the impact from FX. I didn't know if you could give us a little bit of guidance there on what the dollar amount of the FX impact will be. Thanks.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Thanks, Eric. I will start with Trip instant booking in that our thinking pretty much remains the same as far as trip instant booking goes. Obviously Trip is a big partner of ours, so we are interested in what they're doing generally.
We decided not to participate in instant booking because we didn’t think that it was in our strategic interest to do so and certainly we didn’t think it was profitable enough short-term to do something that wasn’t necessarily strategically interesting for us.

So as we’ve seen instant book develop, we haven’t seen -- we haven’t kind of changed our position and at this point we don’t think that we’ll change our position. We are anticipating some headwinds on the top-line because of that.

As TripAdvisor rolls out instant book more expansively we will have less access to TripAdvisor clicks, so to speak. But we certainly think that is manageable and in general TripAdvisor is one of our less profitable channels. So we think that the bottom line is going to be quite manageable even if TripAdvisor expands instant booking significantly. Mark, do you want to take on the other one?

Mark Okerstrom  -  Expedia, Inc. -  EVP & CFO

Absolutely, Eric. With respect to FX, at the current rates we think there’s somewhere around 300 to 400 basis point impact on Q4 adjusted EBITDA growth.

Mike Olson  -  Piper Jaffray & Co.  -  Analyst

Good afternoon. More specifically on China, can you give us a sense for what increased investment in eLong will look like? Would this potentially include both increased couponing and higher marketing spend or is it more increased expense on mobile development or all of the above?

Dara Khosrowshahi  -  Expedia, Inc.  -  President & CEO

I would say it is more all the above. And the China market is moving very fast. It’s quite entrepreneurial and at this point it is a battle across multiple fronts. Couponing is prevalent there. Everyone is -- the mobile penetration is moving very fast, so everyone is developing aggressively for mobile and marketing aggressively with mobile as well.

And also, we are aggressively investing on a technology and supply front. So it is a multi-front investment and we are quite confident that the eLong team can build value there.

Mike Olson  -  Piper Jaffray & Co.  -  Analyst

Then I get the sense that you guys believe there is enough fish to fry in the core travel market without really expanding into a lot of other peripheral areas like tourist attractions or restaurants, etc. Is that true or how would you describe how narrow or broad your focus is?

Dara Khosrowshahi  -  Expedia, Inc.  -  President & CEO

Yes, listen, this is a $1 trillion global marketplace and Mark and I are never bored, as is anyone here. We have got plenty to do. We think as a company we are executing better, but we think we can execute much better going forward and we think as a result staying focused on what we are doing now is going to give us plenty of opportunity and it’s going to keep us pretty darn busy.
Mark Okerstrom - Expedia, Inc. - EVP & CFO

I would just add that with respect to tourist attractions we've actually got a decent sized business. We call it our local expert business. It is a large business. It's something that we will be increasingly focusing on and it's something we think that mobile creates a specific opportunity on.

So I think you might hear more about that business in the coming years. It's something that we've got already in-house and it's something we can build nicely organically.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Yes, we have moved over that business onto some of the newer technology platforms that we had previously moved our hotel business, air business, etc. And we are very optimistic about the increased capabilities that we can build there. So it's an existing business. We are not getting into a new business. We've got a strong management team there and we think there's plenty of organic growth in that category.

Mike Olson - Piper Jaffray & Co. - Analyst

Okay, thank you.

Operator

Tom White, Macquarie.

Tom White - Macquarie Research - Analyst

Great, thanks for taking my question. I think in the prepared remarks you mentioned strong growth in all variable channels but costs to acquire were kind of increasing. I was hoping maybe you could just give us a little bit more color.

Are there particular channels where you are seeing the biggest pressure or is it kind of across the board? And then also, I'm not sure if you gave any sort of updated metrics on the rollout of ETP, but any update there? Thanks.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

In general as far as the variable channels go, the two most significant variable channels that we have are Google, SEM, and meta-search. And in general we are seeing CPCs, or cost per click, in both of those channels increase on a year-over-year basis.

Some of it is because ADRs are increasing, so as ADRs increase in general you're going to see CPC increase. But some of it we believe is because of increased competition. We are seeing more of a supplier direct presence in some of those channels that we had seen in the past, but the good news is that we are still able to innovate, we are still able to optimize in those channels and in general grow those channels, but it is getting more expensive.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

And with respect to ETP, as a reminder, it has really become business as usual for us. We continue to see great traction and a positive response from both consumers and suppliers. We are up to well north of 50,000 hotels that are now on the program and it's growing nicely.

We recently signed up Choice Hotels on the ETP deal. And there's very few of the major chains that are not participating. Most of them, and certainly the vast majority of the large ones, are involved in the program. And again, we continue to be very happy with what we see there.
Thank you.

Douglas Anmuth, JPMorgan.

Great, thanks for taking the question. Two things. Dara, you talked about trivago and just how important a channel it has become. Can you just talk more -- how much further you will be able to push things there? Just trying to understand if you realized kind of a lot of benefits early on as you brought it into the fold and whether you can still stay on the same kind of trajectory there in terms of helping the rest of the business.

Then secondly, also as you move closer to lapping Travelocity, can you talk about how you think about the growth from that vehicle going forward? Thanks.

Sure, as far as trivago goes, when we originally acquired trivago, I would say that our share in the trivago marketplace was lower than our natural share in other meta-marketplaces. And I think as we have optimized against the trivago marketplace, and it's been a really good marketplace to allocate capital into even if it were third-party, we've been able to grow our share inside the marketplace.

And then the trivago team has been very aggressively investing in marketing and building that brand on a global basis and doing it successfully. And I think at this point they have moved from, call it, their core European -- their European core nicely into North America and are now experimenting in markets in Asia Pacific, markets in Latin America, etc., that are pretty interesting markets and we are starting to see some pretty good trends in.

Obviously as trivago is getting bigger they are not going to be able to grow at quite the growth rates that we have seen historically. But we do anticipate that trivago is going to be a nice growth driver for us over the next couple of years.

I think the other factor with trivago as well is that one of their fastest-growing markets has been the North American and Canadian markets and those markets in which our inventory is really, really strong and our brands a really strong. So that has helped our share within the trivago marketplace as well. So Mark, do you want to take the other question?

Yes, Doug, on Travelocity, obviously we got a nice boost from adding that business into our P&L this year and that will create a more difficult comp for us next year. However, as a reminder, Q1 of this year was a partial quarter, so we still will have some baked in benefit going into 2015.

And also just as a reminder, the Travelocity business is on the brand Expedia platform, and that's a platform that continues to innovate and the Travelocity business will be a recipient of the year-on-year gains that brand Expedia has been able to consistently turn out on that platform.

So we continue to think that that can be a growth business and we will obviously bake in our expectations for that business into our 2015 guidance which we'll give you the next call.
Okay, thanks, guys.

Dean Prissman, Credit Suisse.

Thanks for taking the questions. So looking at the 500 basis points of year-over-year growth for ADRs, can you share some color on how much of this relates to broad cyclical strength in the lodging industry versus what sounds like a smaller contribution to room nights from eLong?

And then separately, with regard to your CapEx spend, how should we think about the mix in terms of growth versus maintenance? And then looking out over the next 12 to 18 months, can you talk about some of the key initiatives that are nearing completion versus some that are more nascent? Thank you.

I would say as far as the 500 basis points of ADR growth, I would say the majority of that ADR growth was related to call it core ADR growth. That is the cyclical recovery that we have seen in the hotel sector. Obviously FX on a go-forward basis is going to be a headwind there, especially in the European, Latin American and some of the Asian markets.

So my guess is ADRs for Q4 are going to come down, at least for us, in US dollar terms compared to where they were in Q3. There was some mix shift with eLong but the majority of it was kind of core global ADRs.

And with respect to CapEx, the biggest portion of our CapEx is capitalized software development. And the portion that we capitalize is generally all around new features and innovation as opposed to pure maintenance.

So the big picture answer is that most of the CapEx is around new products. It's mostly about innovation. And really with respect to big initiatives that might be nearing completion, we have largely moved this business away from big initiatives. The brand Expedia replatforming is largely done. ETP has been rolled out.

And really we are in a spot now where the things we are working on are a lot of small things that together add up to nice conversion benefits. And so, we don't expect there to be a significant roll off of anything in the future that would slow down the trajectory we are on right now in terms of our tech and content expenses on a cash basis, which have an impact on CapEx.

And just adding to something that Mark said, our businesses operate on lots and lots of different platforms. And those platforms, different parts of those platforms or different platforms age over a period of time and we are constantly revitalizing different platforms that affect different parts of the business.
And what we don’t want to get into is a situation where we were five or six years ago where we were really under investing and had a bunch of catch-up to do. And I think of this point we’ve got the right kind of balance of as we see a platform that needs to be revitalized, we can make that investment without it causing huge shifts in our technology spend or CapEx in general. It's a much more healthy spot to be.

Dean Prissman - Credit Suisse - Analyst

Great, thank you.

Operator

Ron Josey, JMP Securities.

Ron Josey - JMP Securities - Analyst

Great, thanks for taking the question. Two, please. Maybe a follow-up on Travelocity. Could you provide any update on maybe pushing -- or I guess the partnership between two companies, maybe there's any additional insight on what Travelocity is planning on the marketing spend to help plan the overall business?

Then separately, Dara, I think you commented that very healthy travel environment, ADRs are up, I think occupancy is close to record highs. So I'm wondering if this is among the best macro environments you have been at least here domestically. And is this one of the reasons why maybe the AMR and other airlines provided lower overall -- are suppliers pushing back on pricing I guess is the question? Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

I'd say on Travelocity as far as an update on the partnership, I would say the Travelocity team and our teams are working closely. We don't control the Travelocity marketing plan. They've got a very, very strong marketing team there. And in general they continue to build their brand, which is a very strong brand.

And they are developing really the variable channels, which have become more available to them now that they have a platform that is -- that can convert well and a supply base that is kind of a best-of-breed supply base, especially in North America.

That said, we don't have, I would say, very significant visibility into their plans or spend. It's a separate company. They are a competitor of sorts with us. So there is a bit of a Chinese wall there and as a result we would have a hard time giving you real insight into what their plans are for Q4 or for 2015.

As far as the travel environment goes, I have a relatively -- we've been here for a long time but I feel like I've got a short memory. But this is a pretty darn strong environment and it's strong broadly. And the strength is also augmented by the fact that there is very little supply coming into the marketplace.

You don't hear much about increased supply for certainly the domestic airlines and in general hotel supply growth, which trails kind of -- it's cyclically slow other than a couple of markets. New York was an exception, for example, last year. Hotel supply growth has been muted as well.

So that creates a very, very strong environment for our supply partners and it's a great tailwind for us as well as far as ADRs go. So I think it's an environment we can have win wins. I do think that in strong environments intermediaries like us have to work harder because suppliers have -- the alternatives for suppliers improve.
And I think as a company we know we have to get better. There are certain parts of our business, the opaque parts of our business, for example hotwire or the package parts of our business that take a bit of a nick as far as the quality of the inventory goes or the quality of the discounts.

But it is unquestionably good for the retail part of the business and the retail part of the business is growing very, very nicely. So all in all when we look at an environment, we are happy about the environment and frankly we don’t want it to change.

Ron Josey - JMP Securities - Analyst

Thank you very much.

Operator

Ross Sandler, Deutsche Bank.

Ross Sandler - Deutsche Bank - Analyst

Great, guys. I had two questions. Mark, so if we look at the advertising and other line up 29% versus last quarter, 54%, I guess that explains the shift of clicks within trivago to Expedia properties. So how do we think about that going forward? Is that a one-time step up or will it continue to kind of creep higher?

And I think you called out 50% gross revenue growth for trivago. Can you just remind us how that compared with prior periods on a gross basis? And then looking into 4Q, what kind of domestic room night growth do you think we can expect to see in the fourth quarter? That’s it, thank you.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

Sure, so the advertising and other line up 29% versus last quarter 54%. There was little bit of a slowdown in our ad and media growth, our ad and media business, the MediaSolutions business. But there certainly was a continuation of share gains by particularly brand Expedia and Hotels.com in trivago.

I think the teams are continuing to look for ways to gain more share in trivago. And I would just say generally that trivago is a channel that really reflects what’s happening in the broader industry, which is the global players are generally taking share from the smaller players. So it’s hard for me to look into a crystal ball and tell you whether share gains will continue forever, but I do think that that is a very real possibility.

In terms of the sequential growth rate in trivago, we said on the last call that it had been growing broadly in line in the second quarter as it had since the time of the acquisition. So this is a bit of a slowdown from that, certainly something we are anticipating largely because they were lapping over a pretty aggressive push into the US through 2013.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Euro weakness is also going to obviously affect trivago growth.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

Yes, definitely as well. With respect to room night growth outlook for Q4, we are not going to give a guide on the overall room night growth trends, but I think if you take a look at the past number of quarters and you normalize for Easter and you normalize for some slowdown we saw in eLong this quarter, it has been pretty consistent.
Ross Sandler - Deutsche Bank - Analyst

Great. Thanks, guys.

Operator

Michael Millman, Millman Research Associates.

Michael Millman - Millman Research Assoc. - Analyst

Thank you. I have two questions. First, I was looking at – or to what extent are you seeing any travel changes related to Ebola or terrorism in terms of where people are going or where they are not going or how they are going or when they are going? And then I have a question on US car rental.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure, as far as Ebola, terrorism, etc., goes – we do see local changes in travel patterns as a result of local events. So for example, Russian ADRs came down with trouble there. The Hong Kong market has softened a bit as a result of the troubles there or the protests. And travel to West Africa is down on a year-on-year basis as well.

So we certainly see local effects. It is tough at this point to suss out whether there has been a global effect with Ebola. We have done some analysis but honestly we haven’t spent much time on it. So while Ebola might be having some effect, we don’t think that it is a significant effect and if it were significant it would be something that we bring up in this call. We just don’t see it yet. It could change if the news gets worse, but at this point there’s not a big macro effect that we are observing.

Michael Millman - Millman Research Assoc. - Analyst

Just to follow on that question, when you are seeing these changes, Hong Kong, Russia, West Africa, are people traveling – having alternative plans or staying locked in their bedrooms?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

It’s tough to tell. I’d say the local people maybe are staying more in their bedrooms, but there’s always some place exciting to travel to. In general the price of getting to destinations, flights other than the US has come down. It’s become quite available with low-cost carriers to the general public. So it’s our feeling that the demand just shifts from one market to the other and doesn’t suffer in a significant way on an overall basis.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

On car, I would just say generally in the overall US environment particularly no real change to the story. Fleets remain tight. Access to inventory remains a bit of a challenge and I think that’s something that we are certainly expecting to continue, just given the consolidation that we’ve seen in that industry.

With respect to our performance in car, we have seen some very nice results. Brand Expedia putting the car business on the new technology platform has really helped us out there and they are seeing great trends. Obviously the addition of the Travelocity business and to a lesser extent the Auto Escape business, our recent acquisition, has helped us.
RPDs are relatively flat year-on-year, slight growth primarily on mix. And we are seeing some revenue margin pressure principally with respect to mix shift away from the Hotwire opaque business and some more discounting there as well. So I think overall it’s a healthy story for us, but the challenges remain in the US car-rental industry more broadly.

Michael Millman - Millman Research Assoc. - Analyst
Thank you.

Operator
Ken Sena, Evercore.

Ken Sena - Evercore Partners - Analyst
So just going back to the comparison of TripAdvisor versus trivago and the fact that you're seeing more clicks from trivago, is there anything -- having worked with both companies now for as long as you have, that you can maybe provide to us as far as the consumer experience that's being provided on each of those platforms that might be leading to that higher conversion and those additional clicks? Thank you.

Dara Khosrowshahi - Expedia, Inc. - President & CEO
As far as clicks go, the volume of clicks isn't dependent on conversion. That's the volume of clicks that essentially click off that a trivago will send us or a TripAdvisor will send us, but it certainly wasn't a comment on conversion.

I would say in general, while this isn't a comment on consumer experience, trivago traffic tends to be more domestic-based and TripAdvisor has a greater international mix of customers, which makes some sense. One of the strengths of TripAdvisor is their reviews, etc. So maybe if you are flying off to France and you're looking for someplace to stay in the south of France, TripAdvisor can certainly add a lot of value there.

Trivago seems to add very significant value for the price-cautious consumer who wants to find -- kind of a power user who wants to find the absolute best pricing and availability out there. So maybe that's a reflection of the mix. Both products are very, very strong products and both products continue to grow and take increasing share of travel search.

Ken Sena - Evercore Partners - Analyst
Thank you.

Operator
Manish Hemrajani, Oppenheimer.

Manish Hemrajani - Oppenheimer - Analyst
Thanks, good quarter, guys. Can you talk about mobile here a bit? What was mobile's share of total bookings and any color you can provide geographically, where you're seeing better traction with mobile? Also how do conversion rates stack up on mobile versus desktop?
Dara Khosrowshahi - Expedia, Inc. - President & CEO

Yes, as far as mobile share goes, in previous calls we talked about mobile being I’d say around 20% of room nights across our various brands. And that share continues to grow as our mobile channels I’d say across the board are growing faster than our desktop channels. And that’s both in terms of traffic and in terms of room nights as well.

On the conversion rates on mobile, that’s not something that we talk about for competitive reasons, but certainly we see in mobile, as you would expect, very significant last minute activity. We also see significantly shorter length of stay, again to be expected.

In general while mobile is a very, very nice growth story for us, our ability to acquire customers across mobile channels profitably is challenged. So mobile I would say is a revenue, is a great revenue tailwind and is a sales and marketing headwind for us.

But one thing that we are seeing that is very encouraging is that the pattern of use from mobile bookers on our apps, etc., is very, very strong. These are really good products that we are introducing and innovating and Hotwire has won a bunch of prizes for their product. Brand Expedia introduced a great new mobile app experience, etc. And the various brands are also launching on wearables.

So our ability to invest and innovate I think creates an advantage for us and as a result of that we think over a long period of time mobile is going to be a very, very significant opportunity for us.

I would say internationally what I have said applies internationally everywhere. China in particular is seeing a higher percentage of mobile adoption than I would say elsewhere in the world and a very high percentage of that mobile activity is on apps versus mobile web.

Manish Hemrajani - Oppenheimer - Analyst

Great. Thanks for that.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - Cowen and Company - Analyst

Thanks, just a quick one, hotel supply. Can you just give us some color on what kind of hotels and which geographies your new investments are having the biggest impact in in terms of your hotel supply investment? Thanks.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

Sure. Happy to, Kevin. I would say that we are adding hotel supply everywhere. We are still very much at the early stage here. But again, just for context, this quarter we ended with about 365,000 properties including eLong. And if you compare that to the 700,000 or 800,000 or even more that’s on trivago or TripAdvisor, there’s just a ton of headroom left.

We think there's headroom and pretty significant headroom still remaining in the US. For example, one of our most mature markets in secondary and tertiary markets. We think there’s a big opportunity for us in Europe, particularly the Expedia traveler preference program has certainly opened that up for us.

So we are adding everywhere and I would expect that the pace of acquisition is only going to increase from here. And I think as Dara said, this year year-to-date we’ve got three times the amount of revenue from new hotels than we did last year. So the results of what we are doing seem to be working and we are going to continue on the path that we are on right now.
Kevin Kopelman - Cowen and Company - Analyst

Thank you.

Operator

Scott Devitt, Stifel.

Ansel Parikh - Stifel Nicolaus - Analyst

This is Ansel Parikh in for Scott Devitt. I just had a quick question regarding Travelocity. Previously you guys kind of provided the contribution, the percentage contribution Travelocity provided to total room nights growth. I was just wondering if you could give that out this quarter.

Mark Okerstrom - Expedia, Inc. - EVP & CFO

Sure, it was about 400 basis points again this quarter.

Ansel Parikh - Stifel Nicolaus - Analyst

All right, great. Thanks a lot.

Operator

We have no further questions in the queue at this time.

Alan Pickerill - Expedia, Inc. - VP of IR

Okay. Thanks, everybody, for joining the call. Dara, do you have any closing remarks?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

No, just good -- thank you to the Expedia, Inc. worldwide employee base. We had another good quarter and let’s keep our eyes on the ball and let’s keep executing. Thanks, everyone, for joining us.

Operator

That concludes today’s conference. We thank you for your participation.