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EXPE - Q4 2018 Expedia Group Inc Earnings Call

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OVERVIEW:

EXPE reported 4Q18 YoverY revenue growth of 10%.

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PRESENTATION

Operator

Good day, and welcome to the Expedia Group Q4 2018 Earnings Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Mr. Michael Senno, Vice President of Investor Relations. Please go ahead, sir.

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

Good afternoon, and welcome to Expedia Group's financial results conference call for the fourth quarter and full year ended December 31, 2018. I'm pleased to be joined on the call today by Mark Okerstrom, Expedia Group's CEO and President; and Alan Pickerill, our CFO.

The following discussion including responses to your questions reflects management's views as of today, February 7, 2019 only. We do not undertake any obligation to update or revise this information.

As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate, we're optimistic that, or similar statements. Please refer to today's earnings release and the company's filings with the SEC for information about factors, which could cause our actual results to differ materially from these forward-looking statements.

You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's Investor Relations website at ir.expediagroup.com, and I encourage you to periodically visit our IR website for other important content, including today's earnings release.

Unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense excludes stock-based compensation and depreciation expense, and all comparisons on this call will be against our results for the comparable period of 2017.

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

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

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

Thanks, Michael. We were pleased with our overall financial performance for 2018. Not only did we deliver excellent financial results that exceeded our expectations, but we also moved into execution mode on the transformational strategy that we laid out at the beginning of the year.

As part of that strategy, we articulated 3 key themes: being locally relevant on a global basis, being customer-centric and speeding up the pace of execution and innovation across our platform. We entered 2019 with solid operational and financial momentum and an organization more focused and aligned than ever before. I'm truly excited about the opportunities ahead as we have only just begun harnessing the true power and potential of our platform.

For 2018, full year gross bookings grew 13%, reaching nearly $100 billion. We increased stayed room nights 13% and revenue was up 12%. Our solid execution on marketing optimization led to even faster profit growth, with adjusted EBITDA increasing 15% and adjusted earnings per share up 35%.

We delivered these results while at the same time making strategic investments in several key initiatives, including our cloud migration and accelerated pace of supply acquisition. On that note, our team added approximately 200,000 new properties to our core lodging platform in 2018, roughly double the amount added in 2017.

We ended the year with over 1 million total properties, including over 370,000 HomeAway listings now integrated into our core platform. We continue to make solid progress on our priority markets. While we still have more work to do both on the supply and product side to be truly locally relevant for customers in these markets, we saw positive signs as we moved through the year.

We expect to build on that momentum as we head into 2019, and we remain confident that as we drive deeper supply coverage, deliver a more locally relevant product and layer in brand and other marketing efforts to increase awareness, we can accelerate both the top and bottom line growth in these markets over a multiyear period. This focused market approach is now our standard international expansion strategy, and we plan to continue investing in the normal course of business.

HomeAway posted healthy financial results for the full year, with revenue increasing 29% and adjusted EBITDA up a robust 43%. Total online bookable listings increased 24% in 2018 to over 1.8 million, including over 1 million instantly bookable listings, which we think will provide a nice boost to conversion over time.

Given the attractive growth prospects, we plan to keep investing significantly in this business in 2019. That includes additional performance and brand marketing for HomeAway and VRBO as well as laying the groundwork to pursue the significant urban and international opportunities that we believe can unlock the next leg of growth for the business. We remain focused on positioning HomeAway and Expedia Group to capitalize on the significant long-term opportunity in the alternative accommodations space, and we believe we have a long runway of healthy top and bottom line growth ahead.

Egencia delivered solid results in 2018, growing gross bookings 14%, revenue 16% and adjusted EBITDA 13%. The sales team continues to sign new business at a healthy pace, and we're investing in customer service and product to further differentiate Egencia's offering. We're optimistic we can continue to take share in the managed corporate travel space while delivering attractive profit growth over the long term.

trivago is making nice progress on adjusting its strategic focus, posting strong profits for the second consecutive quarter. The team is executing well on its shift to better balance revenue and profit growth. And as outlined on their call yesterday, we expect trivago to carry its operating momentum into 2019.

Overall, our team achieved a lot in 2018, making solid progress on our transformation while delivering excellent results. I'm impressed with the high level of execution we exhibited across the company, and I'm optimistic we can carry that into 2019 and beyond. The travel market is as competitive and as dynamic as ever, but the opportunity is large. And we're confident that by continuing to execute our strategy, we can deliver exceptional products and services to our customers and create value for our partners, resulting in share gains, healthy growth and attractive returns for our shareholders for a long time to come.

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

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

Thanks, Mark. We finished the year with another strong quarter, growing gross bookings 11%, revenue 10% and adjusted EBITDA, 17%. Total lodging revenue grew 10% on stayed room night growth of 11%. Across our core OTA segment, growth in both lodging revenue and stayed room nights were essentially in line with Q3 as we continued to execute on appropriately balancing healthy, quality top line growth with profitability.

When analyzing room night growth, keep in mind that our focused international strategy involves building supply depth in key markets by pushing into secondary and tertiary destinations. As a result, we're adding smaller properties than we historically have, and alternative accommodations are a growing portion of our overall property mix. We expect that pattern to continue going forward, and therefore expect room night growth to be less correlated with property growth than in the past.

Based on what we've seen, we believe the increasing depth and breadth of our supply will drive better conversion and higher customer repeat rates, leading to improved marketing efficiency over time.

At HomeAway, gross bookings growth moderated to 15%. The deceleration was primarily due to slower international trends, headwinds in SEO and ADR growth continuing to normalize. HomeAway's revenue and stayed room nights each increased 20%.

Total advertising and media revenue increased 9% for the quarter. Our Media Solutions business continued to perform well, growing 28% in Q4, partially offset by declines at trivago.

Air revenue grew 18%, with tickets sold increasing 10% and revenue per ticket up 7%. We saw solid contributions from Brand Expedia and Egencia as well as some benefit from Expedia Partner Solutions' new partnership with Chase Ultimate Rewards. Similar to the prior few quarters, air revenue also included a modest benefit from the reclassification of distribution fees from contra revenue to cost of revenue. As a reminder, this change is neutral to profitability, and Q4 is the last quarter it impacts our results.

We continue to drive leverage in the overall P&L, delivering over 100 basis points of year-over-year adjusted EBITDA margin expansion in Q4. In the quarter, cost of revenue grew slightly slower than revenue. That includes continued impact from our cloud migration and the accounting change related to the reclassification of air distribution fees, which combined, contributed over 300 basis points to cost of revenue growth.

Total selling and marketing and direct selling and marketing expenses each increased 7%. Leverage on direct expenses was largely driven by the ongoing marketing rationalization efforts at trivago. Excluding trivago, direct selling and marketing expenses grew 14%. That was faster than the past few quarters due to increased spending at HomeAway and higher brand marketing investments across some of our core OTA brands.

Indirect selling and marketing growth decelerated in Q4 as we started to comp against the hiring ramp to support our supply initiative. Technology and content costs continued to deleverage, although growth came in a bit lower than expected at 16%. General and administrative expense growth further decelerated from the past few quarters, increasing 8%.

We also continued to leverage below the line in Q4, with depreciation expense up only 2% and net interest expense down year-over-year, while our adjusted tax rate came in at 24%. Those factors, along with a lower share count, led to strong adjusted earnings per share growth of 49%.

We expect adjusted EPS to grow faster than adjusted EBITDA again in 2019, as we continue to see leverage on our below-the-line items.

Excluding CapEx investments for our new headquarters, free cash flow grew 7% in 2018 to $1.3 billion. That came on top of 46% growth in free cash flow, excluding headquarters, in 2017. The shift in timing of a couple of significant payments benefited 2017 and negatively impacted 2018. Normalized for that timing shift, growth would have been more balanced across the 2 years and faster than adjusted EBITDA growth each year.

Our business continues to generate attractive free cash flow, and we see an opportunity to improve our free cash flow conversion in the coming years.

In terms of capital deployment, we returned nearly $1.1 billion of capital to our shareholders in 2018, primarily through share repurchases, along with our quarterly dividend. In total, we bought back 7.7 million shares for $903 million, our highest amount in any year since 2007. In addition, we deployed $186 million on acquisitions and strategic investments. Going forward, we intend to continue prudently balancing opportunistic M&A with returning capital to shareholders.

Turning to our financial expectations for 2019. We expect total adjusted EBITDA growth of 10% to 15%.

We expect the seasonality of our adjusted EBITDA growth to follow a similar pattern to 2018 with pressure on adjusted EBITDA in Q1 and the large majority of growth coming in the balance of the year. One factor to keep in mind is that Easter fully shifts into Q2 this year, creating a drag on consolidated first quarter stayed room nights, revenue and profit.

In addition, as a reminder, we invest in selling and marketing to drive bookings ahead of the busy travel season, with lodging revenue recognized at the time of the stay, which peaks in summer months. This trend will continue to be even more pronounced at HomeAway due to its longer booking windows, and we expect that to result in an increase in losses in Q1 for HomeAway this year compared to last.

For the full year at HomeAway, as Mark mentioned, we intend to continue investing back into the business, including brand and performance marketing to position HomeAway to capitalize on the significant long-term opportunity we see in alternative accommodations. We expect the increased investment levels to result in slower adjusted EBITDA growth for HomeAway in 2019, with the returns coming over time.

Turning to our expense expectations for 2019. We expect more significant deleverage in cost of sales compared to 2018. The key drivers are the increased investment in cloud, customer operations cost related to new deals at Expedia Partner Solutions and HomeAway's shift to become merchant of record on more of its transactions.

We also forecast tech and content expenses to deleverage due to higher cloud cost as well as continued investments in product enhancements and platform initiatives across the company.

In total, we currently expect cloud expenses to increase from $141 million in 2018 to around $250 million in 2019. Excluding cloud expenses, adjusted EBITDA growth would be approximately 400 basis points higher.

We project total selling and marketing expense to leverage again in 2019, mainly reflecting the cost rationalization efforts at trivago, which will have a bigger impact on the first half of the year. Excluding trivago, we will lap the marketing optimization benefits we recognized in 2018 as we move through the year.

Overall, we intend to maintain a balanced approach, strategically investing in both performance and brand marketing, where we see opportunities to drive good returns over time, while continuing to look for areas to optimize spend. Meanwhile, we expect solid leverage on the general and administrative cost line.

Looking below the line, while we continue to receive additional guidance related to the U.S. tax reform, we currently expect our adjusted tax rate to be in the low 20% range.

Overall, I'm pleased with our performance in 2018 and believe we're entering 2019 with good momentum, leaving us well positioned to deliver solid growth this year and for years to come.

With that, operator, we're ready to take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Mark Mahaney.

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

Mark, you talked about these 3 factors that were driving -- or maybe, Alan, the 3 factors that are driving that gross bookings deceleration. Could you just go through those again in a little bit more detail? One of those was slower international trends. And then one other big picture question, I always like the slides that you put out. And the one that shows this huge opportunity in the market, and one of the things that's glaring about that is how small your share is in EMEA, Asia Pacific and Latin America versus what you've been able to do in North America. Could you talk a little bit about how you can increase share? Is there a different strategy that you can use to increase share in those 3, in EMEA, Asia Pacific and Latin America? I know it's a broad question, but it's one of the interesting takeaways from those slides.

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

Yes, thanks, Mark. I'll have Alan answer the first one. I'll take the second part.

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

Yes. So As far as HomeAway's gross booking trends are concerned, I think the first thing I would just talk about is just level-setting on kind of what's happened with that business over the last 3 years. And when we bought the business, just remember that 100% of their business was essentially off-line gross bookings. And so we've gone through this transformation at HomeAway, turning it into a true travel e-commerce player and pulling gross bookings online. And so obviously, when you do that, you're going to have a tailwind associated with a book of business that previously had been booked off-line that's now being booked online. And that transformation has been quite successful, gotten us up to about $11.5 billion of online gross bookings for HomeAway in 2018 and shown pretty strong and healthy growth over that period. We did see some deceleration in 2018 as we went through the quarters, and I mentioned that as far as Q4's results are concerned. And I would just point out a few factors there. One is that the international business, we did some things last year that did pull gross bookings online, and we're comping over those things that we did while at the same time having international not be extreme focus for the team. International will be more of a next leg of growth for us along with urban. And so that's gone from something that did create a bit of a tailwind to something that's now not contributing that much growth to HomeAway's overall gross bookings.

The second factor is we do have SEO headwinds. And what I would say there is we stood up a proper search engine marketing team in the past years. They have done quite well and are driving significant growth and healthy growth in gross bookings. But at the same time, HomeAway is

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going through a period where they've got pressure on their SEO trends, and that's creating a headwind for them. This is something that all travel businesses have had to endure, I would say. HomeAway is coming through that at a later date than some of the other ones because of the transition of their business, but it is creating a headwind. The last thing I would just say is that the ADR contribution, historically, we had some periods where ADRs were a bigger contributor to gross bookings growth. That's because we had some larger properties coming online first, and those were coming on at high ADRs, and so it was driving a nice tailwind there. We still are seeing growth in ADRs, but it's moderated and not quite as big of a contributor. But overall, I would just say that we're looking for HomeAway to be a good, healthy grower over a long period of time. We're very happy with the transition that we've been through in the last 3 years. We think the market that the business is in is large and growing, and we've not even done anything really significant in the urban. We've not done anything very big in international. And we think those things will provide kind of the next phase of growth for HomeAway.

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

Yes. And then, Mark, in terms of our approach to international, it's really encapsulated in this first pillar of the 3-part transformational strategy we laid at the beginning of the year, which is this concept of being locally relevant on a global basis. We've been able to build up an incredibly strong position in the U.S. and in Canada and a few other markets around the world largely because we've delivered an incredible service, a service where everyone knows Expedia, Hotels.com, Orbitz, Travelocity are places where they can come, where they have all of the inventory in terms of lodging choices, increasingly alternative accommodations in the case of Expedia, cruise, car, activities, flights. You can find them all in one place. There's great content. It's in your local language. You can use your payment types. You pay us now or you can pay us later. And then if something goes wrong, we'll help you sort it out. And that's just an incredible customer experience. So for the U.S. customer, the Canadian customer, we're truly locally relevant. Outside of those countries, and again, a few others, we haven't concentrated on building incredible products. We've been -- up until 15 months ago, going with really much more of a landgrab strategy, where we're expanding simultaneously in 30 to 60 countries around the world, depending on what brand you're looking at. And even though we would have got there over a long period of time, it would have taken us a long period of time. So the approach now is really this focused strategy. We talked about the Wave 1 markets. And it's a focused strategy, making sure that we have incredibly easy-to-use websites that have great descriptions and photos, all translated into local tone of voice, promotional offers that talk about things that are locally relevant in a similar way that we do in the U.S. We've got all of the lodging and other inventory available on our sites. We've got local payment types. And then we layer on good marketing with locally relevant messages, both in performance marketing and brand channels. And that's the recipe for success. And we have seen again very encouraging results in our Wave 1 push. It's a multiyear journey when we prioritize these markets. But now based on the historic data that let as to pursue this strategy, based upon the results that we've seen so far with the progress in 2018, this is now business as usual. And we're just incredibly optimistic that, that now $1.7 trillion travel opportunity, based upon where we can go geographically, where we can go by segment across leisure, corporate, off-line travel agencies, powering airlines, et cetera, we're very comfortable that all of that, to us, it looks very addressable.

Operator

We'll take our next question from Eric Sheridan with UBS.

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

Maybe 2 if I can. Following up on there. As you continue to sort of ramp marketing investments behind the opportunity you see, can you talk about some of the experiences you've had about shifting in and out of different channels on the marketing side, definitely leaning in more on branded and direct? What does that for ROI for the platform over the medium to long term? That's number one. And then number two, I wanted to understand maybe some of the background or rationale behind the proposed or negotiation that's going on between yourselves and Liberty Media just so we can put that in the context of broader capital allocation.

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

Sure. So in terms of marketing investment, you know, I think we've spoken a fair bit about our marketing rationalization approach and what we were up to in 2018. And what we've done is essentially been able to get much more sophisticated in our ability to understand what type of marketing is truly incremental versus just shifting bookings from one channel to another. And also, trying to get much more granular in the way that we -- essentially by marketing, not only in performance marketing channels, but also in other channels like television and digital video. That has enabled us, I would say, just to get smarter in terms of understanding where we want to put our marketing dollars. I would just say that as we have done that, we have observed that in markets like the U.S., where we have an incredibly strong product, where our mobile applications are excellent, our customers find us, and in many cases, where we are less aggressive in certain performance marketing channels, our customers find us by either downloading our app through some of those placements or if they've already got the app, just booking on there. And you'll see we put a disclosure in our investor deck, which talks about our app transaction growth on Hotels.com and Brand Expedia, which is up 50% year-over-year in 2018. So we found that, again, in places where our product is excellent and where we are truly locally relevant that our customers find us, and it's allowing us to be much more efficient with our marketing spend. So the strategy going forward, again, is to build a great product in all of these focus markets and then follow up that with exactly the same strategy: performance marketing, again, in prudent levels to support the strategy and to support the growth; and then where we've got a truly best-in-class product, layering on more brand spend. With respect to Liberty, we did file an 8-K. I would just refer you to that. There's not a lot more that we can say at this time.

Operator

We'll take our next question from Kevin Kopelman with Cowen and Company.

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

Can you give us an update on the ad ROI environment? And also on room nights trends, as you comp against the ad spend rationalization last year, are you expecting to see nights accelerate? And then lastly, how will Easter impact the room nights in the first and second quarter?

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

Sure. So I'll take the first couple and then I'll have Alan talk to you about Easter. So in terms of ROIs, I'd say nothing remarkable for us. I mean, we have been, again, quite focused on optimization. And what that does is it allows you to drive essentially better ROIs. As you mentioned, there are some situations where we were driving room nights that were in some cases unprofitable because we were dealing with averages. And in those cases, some of those room nights go away and they get dispersed to the broader market. That has been a headwind on our room night growth in 2018. trivago itself has been a headwind on our room night growth certainly in the third quarter and fourth quarter as well, it was a headwind. In terms of whether that's going to result in acceleration, that's really hard for us to guide you on room nights. It's obviously a dynamic market. We just know that we've got a very clear strategy and focus and we hope to deliver very healthy room night growth and top line and bottom line growth over a long time to come. Alan, you want to talk about Easter?

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

Yes, just briefly, Kevin. Last year, we had talked about the impact we saw of Easter moving partially into Q1, and we said it was about 150 -- we estimated it to be about 150 basis point benefit to Q1. That would be the range of what we would still expect to see this year. The only thing I'll say, it's a bit of a nuance. But the impact is usually a larger impact to the first quarter because it's a smaller quarter in terms of total room nights and a slightly smaller impact on Q2 because it's a larger quarter. But that's the range to think about.

Operator

We'll take our next question from Justin Post with Merrill Lynch.

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

We go back to last year, it seemed like pretty conservative EBITDA guidance, and you've exceeded it, so congrats on that. Just wondering about this year's guide. It seems more aggressive with marketing leverage. And just wondering if you've added any cushion in there for potential Google changes or potential actions by your competitors after a lot of people really did pull back last year. And then, secondly, on the international bookings, I think you exited the year 11% growth. Maybe just give us some progress update on some of the new international markets and if you're seeing traction there and if there's a chance that could accelerate.

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

Thanks, Justin. This is Alan. So as far as guidance, I don't want to add too much color. I'd say just as regards how 2018 developed. Some of the things that turned out in our favor relative to our expectations coming into the year were trivago. Certainly, their full year performance compared to where we thought they were at the beginning of the year has quite improved. Cloud is a bit -- turned out to be a little bit lower than we had originally anticipated. We did have solid execution across the core OTA business, so that helped. Mark spoke a few minutes ago about the benefit that we saw from some of this marketing optimization provided some good tailwind. And we also just undertook to make sure that we had good fixed cost control and overhead control. So all of those helped and kind of explain the difference between where we started the year and our expectations and how we delivered. In terms of the guidance, going forward, I would say we feel comfortable with the 10% to 15% range. Some of the main factors in there are, of course, trivago. trivago's performance. They guided on their own, so you can take a look at the contribution they're expecting to provide. We do have a headwind associated with the increased investment in cloud spend. But we're expecting good, solid contribution across the core business. And I can't really get into like whether there were things in there factored into specific marketing channels or anything like that, but those are some of the main factors to think about.

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

Yes. And then in terms of international growth. Listen, I think one thing that we do expect to see in 2019 is we should see a larger contribution to our lodging revenue, essentially from the new properties that we added through 2018 because we were ramping them up through the year. Whether that's enough to actually drive acceleration in those markets, it's hard to tell. As a reminder, in a number of these international markets, we're much more reliant on performance marketing channels like trivago, like other metasearch players. And those players have, I think as you've seen with the trivago, have been in a position where, in some cases, qualified referrals have been down year-over-year. So that is a headwind that is disproportionately hitting those markets in terms of their growth. But the underlying fundamentals look strong. And absent those impacts, again, we would expect those markets to deliver a better contribution and significantly so in 2019 than they did in 2018.

Operator

We'll take our next question from Anthony DiClemente with Evercore.

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

I had a question about, in the slides. You talked about the headquarters and the CapEx spend, $425 million to $475 million in '19. Can you just talk about to what degree is that incremental versus '18 CapEx? And then, just had a question really about the macro outlook in Europe. I know others have asked about international. But some of your -- some of the traditional tour operators like Thomas Cook, for example, are calling for a tougher growth outlook. You haven't mentioned macro conditions in Europe and the expectations for '19. So any more color on the environment would be helpful there.

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

Great. Well, I'll take the latter and Alan will talk about the headquarters.

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

Yes, so I'll just give you some additional data points on the headquarters. Cumulatively, for the retrofit and the additional build through the end of 2018, we had spent just under $300 million. About $190 million of that was in 2018. So that will go up to, as you mentioned, a range of $425 million to $475 million in '19 and then a range of $135 million to $185 million in 2020. Total project in the neighborhood of $900 million, plus or minus.

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

And then in terms of the macro environment in Europe, I'd say there's a ton of uncertainty there. Certainly, we watched and heard Thomas Cook's results and some of their commentary. Bank of England has taken their growth outlook down. I think Germany has expressed similar concerns. We have seen a dropoff in U.K. flight bookings, both outbound as well as inbound. We expect this uncertainty around Brexit and just overall uncertainty in Europe. So I think we are cautious on Europe. The great thing with our business, though, is that first of all, we're a very global business, and so we're broadly diversified across all of these movements. Generally, people do continue to still travel in economic downturns. They often just take shorter trips. They stay closer to home. They do often trim their budgets. But if you look at how that has actually played out for us over history, and particularly if you look at 2008, 2009, one of the world's largest global financial crises ever, we actually had some of our strongest core profit growth across those years. And ultimately, what we see is essentially, we've got more unused capacity with our suppliers. They start discounting into our channels. Consumers get great deals. And maybe they change their travel patterns, but ultimately, they still take their trips. And so we're somewhat countercyclical. But I think again, the travel market exited 2018 in a very stable and healthy state, near record highs in occupancy, air tickets growing, ADRs still going up. But I think as we sit here right now, particularly as we look at Europe, there's a little bit more uncertainty in the air.

Operator

We'll take our next question from Lloyd Walmsley with Deutsche Bank.

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

Two, if I can. First, just can you guys perhaps give us an update on what percent of your business is direct versus acquired? I think it was about 2/3 direct at the Analyst Day you guys held in 2016. So I'm wondering if you can just give us an update there. And then, I guess, as you look to HomeAway and investment, how do you think about balancing marketing investment and the core business kind of ski and beach, whole home versus urban and international? It sounds like you're starting to think more about those markets, but it seems like there may be more competition there. So how do you think about the company's competitive advantage as you look to expand into those markets?

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

Yes, Lloyd, this is Alan. On your first question, you're right, we did, in an investor deck, investor presentation, give that roughly 2/3 presentation. And we were essentially, just for those that maybe haven't seen it, we were essentially indicating that roughly 2/3 of the business comes from direct/proprietary channels, including things like e-mail, loyalty programs, branded SEM, direct type-in, as examples. We don't have an update for you on that today. We continue to look for good balance in growing new customer acquisition through some of the paid search channels such as Google and other metasearch players, while at the same time providing great products and services so that those customers will repeat. And then as we've spoken about earlier, having a good mix of brand marketing so that we can drive direct traffic. So no update on the specific numbers today, but we look for growth in both.

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

Yes. And I would just add to that, too, is that as you might expect, we essentially have 2 offsetting factors going on here. As we optimize our marketing spend, we are shifting, in many cases, more of our traffic over to our direct proprietary channels. You can certainly see that with the apps stat that we disclosed, but at the same time, as we get more aggressive in going into some of these international markets, where we're less well-known. In those cases, we are really stepping on the gas in performance marketing channels, and that skews things the other way. So I would think about it as an overall formula of the U.S. and our core markets where we're locally relevant. Very, very strong direct proprietary channel bookings volume. In international markets, less so but always improving. And the playbook essentially is to make them all look like the U.S., and we track those metrics very closely in terms of repeat customer usage, new customers versus existing cost of customer acquisition, et cetera. And generally, we feel very good about the trends that we're seeing there. In terms of HomeAway, I think you used the word balance. We are absolutely going to balance. I think the HomeAway team has shown the ability to be very disciplined in their overall approach. Listen, the core resort and beach markets are highly important, and HomeAway is very strong there. And those are markets that we just have to continue to support and invest in. But also, those are markets where -- that are performing quite well. And so we have the capability to take profits from that part of the business and reinvest it in urban and reinvest it in international and essentially balance both of things quite appropriately. I would also say that part of HomeAway's urban and international expansion strategy is getting new property signed up on to the platform, and not only marketing them to VRBO and HomeAway customers, but also providing them to Expedia and Hotels.com, brands that have already strong urban demand and have strong international presence and then increasingly stronger international presence as we expand more around the world. So that's part of it as well. They're not doing this alone. They've got the power of the Expedia Group behind them.

Operator

We'll take our next question from Naved Khan with SunTrust.

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

A couple from me. How should we think about the growth in ADR versus revenue per night? I think in the past, you've talked about a disparity of maybe 200 to 400 basis points. And then if I just look at the international room night growth, the deceleration there, what drove that? And how we should reconcile that with your focus market and the growth in those markets?

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

Yes. So on the first one, Naved, we have spoken, as you said, of 200 to 400 basis point difference kind of expected in the rate of growth in revenue per room night relative to the rate of growth in ADRs. That has been the case for a while. We did see that narrow this quarter, which we were quite happy with. There's no major story there as far as a particular component. As we've discussed before, some of the things that impact that obviously are just our overall margins and our geographic mix. FX impacts can be in there. Loyalty -- the impact of our loyalty program, any couponing and refunds that we do play into that as well. But we were happy to see it kind of more on the narrow end this quarter, but no major change to the story. As far as the international room night deceleration, I would just point out 2 factors. One is, as I mentioned, HomeAway, and we did see decelerating bookings -- international bookings growth for HomeAway as we moved through the year. And you kind of start to see that impacting the room night growth. We had done some things last year to move a lot of the bookings online, and we did some platform migrations. That had an impact as well that we're comping over. The other bit is that trivago is an important channel for us internationally as well. And with their reset and the fact that their volumes are essentially down, their qualified referrals are down year-over-year, that has created a headwind for us in our room night growth. It became a headwind in Q3 and continued and was a bit more of a headwind in Q4. We do expect that to continue in the first half of 2019 as well. The important thing is that we've been able to pick some of that up through other channels, but that is having -- that is a net negative for us.

Operator

We'll take our next question from Brian Nowak with Morgan Stanley.

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

I have 2. Understanding you've been investing in the sales force for Wave 1, sort of increasing the supply in the new markets, can you just sort of talk to us about sort of the incremental step-up in the sales force investments as we go into 2019 to really capitalize on the next wave of the markets? How do you think about the dollar in investment headcount there? And the second one, just thought philosophically about ways to reaccelerate HomeAway overall growth. How do you think about potentially reducing consumer take rates or sort of making it more competitive and have more compelling offering for consumers to drive faster growth at HomeAway?

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

Brian, it's Alan. I'll take the first question, then Mark can handle the HomeAway question. Yes, so we did talk a lot last year in '18 about the investment that we needed for our Wave 1 and to add the supply. It was -- the supply gap in those markets was significant and required meaningful investment. We had talked about it being a $50 million range for that first push. And so at that time, we felt like it was appropriate to share the details. I think at this point, we've kind of fallen into, as Mark said earlier, kind of into a more of a business-as-usual mode. We do have some additional wave markets that we're going to focus on in 2019. We've been able to consider the investments required for that within kind of the envelope of the guidance that we gave. And so we're not inclined to detail out what that specific investment is this year.

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

And then in terms of reaccelerating HomeAway growth, it's really the playbook that we've laid out. Urban is a big opportunity for them. International is largely an untapped opportunity. They've just really got the bulk of the international products now on the new platform, which we talked about last quarter and they're working on optimizing those and honing their performance marketing capabilities in international markets. But importantly, now that they've got the business re-platformed in addition to just entering into new, call it, categories or new segments, urban and international, they are very focused on front-end customer innovation, developing much better user experiences and planning tools. I think you'll see an increased pace of that type of innovation roll out here as we move through 2019. And they're also working on making sure that they reach customers and that the investments that they're making in marketing are investments that really build the strength of some of the incredible brands that they've got in the portfolio. So I think you'll see a little bit more of that and more to come on that in 2019.

Operator

We'll take our next question from Justin Patterson with Raymond James.

Justin Tyler Patterson - *Raymond James & Associates, Inc., Research Division - Internet Analyst*

One on HomeAway. With the HomeAway business, you've taken a very measured pace toward listing inventory on Expedia. With over 1 million instantly bookable properties on the site now, how are you thinking about stepping up that integration and optimizing conversion? And then philosophically, is the consumer fee still the right approach for that business? Or are you open to considering other avenues?

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

Yes, thanks, Justin. So with 1 million instantly bookable properties, the opportunity is getting larger for us to do integration. I think you'll see us pick up the pace here as we move through 2019. That's certainly the plan. And then the goal is really to help customers pick between traditional accommodations and alternative accommodations and really solve the kind of search and navigation process. The teams have been working on that a lot. The 370,000 properties, it sounds like a lot. But in the grand scheme of the millions that are available and the millions that are on HomeAway, it's really a small -- it's a small number. So we've got enough on there to do testing. We're learning lots about the type of content you need to really merchandise whole homes well and how that's different from lodging. You're going to see that be an increased focus for us both on the full-line OTA businesses, like Brand Expedia, but also on Hotels.com as we move through 2019. But we're happy with what we see so far. I mean, when we have this inventory, it is absolutely a conversion grower. More selection is absolutely the right thing to do. You just got to find the right way to merchandise it. In terms of the monetization method. Again, we are in the position where we've got every monetization method on the planet and essentially in our menu of options. We have pure supplier pay commission. We've got consumer fee with very low credit card fee for the supplier side. We've got subscription plus consumer fee. And really, we're experimenting with all of those monetization methods to find out which works, which works for customers, which works for the different supply types, whether it's whole home, whether it's urban, whether it's property managed or by owner. And I suspect that you're going to continue to see us evolve that over time. We don't have the answer to what the exact right approach is at this point, but we suspect that it is an approach that is closer to what we have right now, which is really a menu of options that we can tailor to suit the needs of both customers that are shopping for a given market and the suppliers that are providing accommodations for those customers.

Operator

We'll take our next question from Deepak Mathivanan with Barclays.

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

You guys achieved good leverage in performance marketing last year through your own optimization efforts. Obviously, some of that is going to moderate in 2019. But at what point can we expect similar step-up benefit in the future? Or looking ahead, is it going to be more a continuous iteration? And then second question on the cloud spend. What should we expect the cadence to be this year? When do we have most of the assets fully migrated and the growth in expense should be in line with maybe revenue growth?

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

Yes, Deepak, so this is Alan. I would say on the marketing leverage, we are expecting to see leverage from trivago in 2019. As we lap the significant optimization that we did on the core business, those will be difficult comps. And so we don't think we'll see that same level of leverage in '19. So the core business is looking for opportunities to continue to optimize, looking for opportunities to continue to find non-incremental or highly inefficient spend. And so there are opportunities, but we don't expect it to provide the same level of tailwind in '19 that we saw in '18. As far as the cloud spend in '19, I don't want to give you kind of a quarterly cadence. I would say we just continue on somewhat of a routine path. We're scaling up. We have our fair bit of the shopping and booking traffic for the lodging stack in the cloud. We continue to scale that up. We've got additional components across air and the other lines of business to put into the cloud. It will just kind of continue to grow as we move through the year. If we go according to plan, then we'll have a good share of the compute in the cloud as of the end of 2019, but there will be more to move in 2020. And so by 2020, we won't quite yet be to just a normalized rate, but we'll be getting closer. And then I would imagine, without being too specific, when we get into 2021, we'll annualize the step-up in 2020 and be a lot closer to that, just normalized rate and growing with the business. I should say, too, though, that we are being -- we're trying to be very prudent and disciplined about the rollout to cloud. We test things very carefully. We'll roll things out and scale them back just to make sure that the customer experience is seamless and not disrupted. We also in 2018 undertook efforts to get a lot better and smarter about how to be efficient at deploying into the cloud, and that includes things like just making sure that you don't have duplicate instances spun up in the cloud, that you're spinning up your compute only for the time that you need it and then pulling it back, and other ways of making sure that we're being as efficient as we can. And I think we made some pretty good ground in that regard. I think we've got a better overall process in place now than we did it at the start of the year.

Operator

We'll take our next question from Stephen Ju with Crédit Suisse.

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

So stepping back a little bit, Mark. You just announced that you have 1 million properties on site with, call it, 630,000 hotels or so. So from a selection perspective, you're probably where your competitor was about 2 years ago. And I think at that point, they were through putting what seems like 2x the amount of room nights that you are now. So it seems like your booking dollars should be much higher. So can you talk about how cloud, marketing and other products will all kind of tie together for you to raise the purchase velocity among the users that you have now?

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

Yes, I agree with you. It should be much, much larger, and that is absolutely the goal. Listen, it's just a playbook. I mean, supply is just part of it. It's also about the overall product experience and the effectiveness of reaching customers. And that is the locally relevant on a global basis playbook. We're happy with the penetration that we have into our existing hotel base. We're watching very closely that penetration level as we add new properties. And we are happy with the increased level of penetration that we're seeing into the new properties as we ramp them up. But again, this is something that takes a little bit of time. Particularly if you take some of the European destinations, these are highly seasonal destinations. So as you build up your loyal repeat customer base, you may not see them again until a year later. And so it goes with the travel cycle. It's going to take a little bit of time. But again, we really like what we see. We think there's a ton of opportunity, and that went to Mark's question at the very beginning of this call. And our playbook works.

Operator

Ladies and gentlemen, at this time, we'll take our last question from Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

How much more did macro indicators factor into your guide? Or how much did you build a cushion into your EBITDA guide for macro factors? And then just on scaling HomeAway into urban and more international destinations. Do you ever think about signing up exclusive relationships with property managers to get their inventory?

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

Jed, it's Alan. I'll take the first one. Boy, it's tough to be super specific there. I would say that on balance, we're not -- we don't try to put ourselves in the position of being prognosticators of ultimate macro outcomes. We, of course, pay close attention to them, as you all do as well. And I think as Mark spoke about earlier, on the one hand, we've come through a period where the macro looked pretty good. The hotel industry, the airline industry, they're all posting numbers through 2018 that looked pretty good. But listen, there's lots of discussion about Brexit and the impact on Brexit -- from Brexit. There's weather impacts, there's trade rhetoric and trade war potential. And those are really difficult things for us to handicap. We give a 10% to 15% range to give us some room. But certainly, if things really went off the rails, we wouldn't be able to predict that.

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

Yes. I would just add, though, that we do have a highly variable cost structure. And so if top lines weaken, certainly, we've got a lot of discretionary spend items that we're able to pull the lever. And I would just go back to, again, the commentary around 2008, 2009. Yes, This business is very resilient and able to adapt. In terms of exclusivity, a great question, I think. We have never been big fans of exclusivity at the property level or at the building level or the property manager level. And the reason is this: when you've got hard assets that have utilization factors, it seldom ends up being the right economic outcome and it can prevent a platform like ours from being essentially unbiased in the way that we treat essentially all of our partners and unbiased in terms of the way that we always want to serve up the best product for our customers. So absolute exclusivity has never been something we're a huge fan of. It can be useful in very specific situations and situations where we have platforms that can drive a huge amount of demand and it makes sense. So we'll look at it selectively. But it's not -- it's never been really core to our strategy. And really, what we try to do is, generally speaking, is try to get unique offers. Things like upgrades or things -- in hotels, or things like special amenities or things like special rates or certain packages that not at the property level but actually at the operating level are a little bit more unique. And we feel like that generally is a good path to get a similar type benefits that you might get with exclusivity without really compromising some of the desire to be neutral. But again, we look at, and this is not really a core part of our strategy.

Operator

Thank you. Ladies and gentlemen, at this time, I would like to turn the floor back over to Mr. Mark Okerstrom for closing remarks.

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

Great. Thank you. Well, I just want to thank everyone for listening today and a big thanks to all of the Expedia Group employees around the world. Tons of hard work and great progress in 2018. I know you are as well, but I'm super excited about what we can do together in 2019 and beyond. Thank you.

Operator

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