CORPORATE PARTICIPANTS
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CONFERENCE CALL PARTICIPANTS
Kevin Campbell Kopelman Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

PRESENTATION
Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. So I think we're going to get started. So thanks, everyone, for being here at the 45th Annual Cowen TMT Conference in New York. I'm Kevin Kopelman. I cover online travel for Cowen. We're excited to welcome Mark Okerstrom, CFO of Expedia today, and also Elena Perron, Director of Investor Relations.

I think you all know Expedia. It's one of the largest travel companies in the world. We estimate that they'll generate about $90 billion of bookings this year, $10 billion in revenue and $1.8 billion EBITDA. Mark joined in 2006. He's been CFO since 2011.

Before that, you were at Bain and UBS. So welcome.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Thank you.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

I have a few questions here, but I encourage you all in the audience to please feel free to jump in. And we may or may not have a microphone going around, but I'll kick it off.

QUESTIONS AND ANSWERS
Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So just kind of big picture to start things out. Last year, Expedia celebrated 20-year anniversary since being founded inside of Microsoft. And now you've got 20,000 employees. How do you -- how should we be thinking about Expedia at year 25 and at year 30? And how do you -- what do you see as the company's kind of core driving vision?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. Well, listen, year 25, year 30, I think we'll be a lot bigger, a lot bigger. This is a massive industry, $1.3 trillion, $1.4 trillion industry. As you mentioned, we're one of the largest, if not the largest, by gross booking value. And here we are sitting with a 5% share. And we're the largest player. So just a ton of runway for us, lots of problems yet to be solved. And interestingly, we're solving it across the entire spectrum of the travel industry, whether it's corporate travel, whether it's leisure travel, whether it's groups business, whether it's advertising, whether it's transactional, whether it's hotel, air, rail, car, we really are tackling the whole part of the industry. And so 25-year, 30-year, we're going to be a lot bigger. I think the experience for travelers is going to be a lot better and we're super excited to continue the journey. And the mission really is and always has been to revolutionize of the travel industry through the power of technology, and that's what we're doing, and that's what we're going to continue to do.
Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So just kind of to jump in because you said we're getting all areas. You announced the Silver Rail acquisition. Can you just give us the background of your relationship with SilverRail, how you're going to incorporate or already are incorporating. And just more about that deal.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Sure. So we've known and been huge fans of the SilverRail team for a very long time. They have been quietly tackling one of the hardest problems in travel, which is essentially getting the big, in many cases nationally owned, rail carriers inventoried to the state that it could be online, so that we can standardize rail fares, standardize all of the availability information and ultimately serve it up in a way that either the rail company themselves can transact online or corporate travel firms, like Egencia, can serve it up in their business, or increasingly, online travel agencies like the ones that we own serve that up to their customers. We integrated SilverRail on to the Expedia U.K. point-of-sale last year. Early signs are very encouraging. And we felt like it was just the right time, the right time for SilverRail, the right time for Expedia, Inc. to come together. Rail is one of those opportunities not unlike air, which is a core piece of the overall travel market. It may not be the largest profit pool in the industry, but it is one of those lead purchases. It's a purchase where we believe we can go and acquire traffic which is not being highly bid on by other players and give us a real proprietary traffic stream on which that we can add on to hotels activities just like we do air today. And so that's the vision for it.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. Has that closed?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

It's not closed yet.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So just kind of taking the step back, you mentioned that you are actually the largest in terms of bookings today. What are you seeing in the travel environment as we are now officially in the summer season?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. So far, so good. The travel market overall seems very healthy. Overall, based upon the industry reports we look at and our own business, people are traveling as much as ever. The underlying unit economics continue to be healthy. Airfares continue to come down. That spurring more leisure travel. We do see certain isolated pockets of mostly just shifting travel patterns, laptop bans for flights out of the Middle East into the U.S., for example, depressing growth rates out of the Middle East into the U.S., not surprisingly, but they're traveling other places. But nothing that impacts our overall numbers. And we like what we see.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

And how do you think about, if the laptop ban were expanded and did impact Europe to U.S. flights, while it seems like maybe, maybe not off the table now. How would you think about that?
Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Listen, I think it's -- I think it'll be an irritation for a lot of people, a lot of business travelers, be a welcome change for some. Will it impact overall travel? I suspect not from a travel demand standpoint. It could impact travel patterns again, but I wouldn't anticipate that being a massive story for the travel industry generally.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. Hopefully, that's not -- hopefully, it's not going to happen. So okay. So kind of drilling in on the hotel business. One of the key drivers has been lodging supply. You've actually had some acceleration there. How are you thinking about the opportunity in terms of number of properties? How you manage that growth relative to the user base and what you're seeing there?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Well, actually, it's a huge opportunity that we're penetrating into. If you look at the trivago site, which is a good proxy for how many hotels are already transacting online, either on their own websites or an OTA or some other source, call it 1.2 million, 1.4 million properties that exist. And these are hotels where travelers are actually already staying. The demand and supply dynamics already exist, and we are simply penetrating into that opportunity. We've got 385,000 properties right now. And last year, we added, call it, between 70,000 and 80,000 new properties. The machine, if you will, is capable of adding those new properties. And ultimately, it's going to be question for us whether to accelerate that or whether we keep it at the same pace. As you called out, we are very mindful of making sure that we balance demand and supply and make sure that not only are we adding new properties that are incremental to the platform, but also we continue to deliver high-value bookings into our existing customer base. And so far, we've been able to manage that really well. Our penetration into our existing base continues to climb, and we're adding new properties. And I think it's all just encouraging. Also, it's a testament to how much runway there is ahead for us.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

If you had to pick out 1 of the 2, supply growth or increased penetration, what do you think is more important to long-term growth?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Oh boy, I mean, I think if you just look at the size of the opportunity, acquiring new properties is probably the answer. Again, the industry is massive. There's a ton of hotels that we don't have right now. There's volume going into them and it's just a matter of us bringing them on to the platform. But again, we have a huge business on 385,000 properties. That's going to be a big piece of it as well.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So can we just talk a little bit about Easter. And it's been a big topic. It hurts stays in Q1, helps in Q2, but maybe the opposite for bookings. And your competitor called it out. How should we be thinking about it just as it plays out in Q2?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. So you're right to call that out. We recognize revenue in room nights on a stay basis. This year, Easter shifted from Q1 to Q2. It was a headwind to stays in Q1. It'll be a tailwind in Q2. You can see some impact on booking volume, and that's because when people are on vacation, they aren't booking. But generally it's less of an acute impact than it is on stays, and that's because the booking activity is just generally much more even throughout the period. So you do lose a little bit of volume, but it's not as significant as on stays. So I think it'll be a factor. Whether it would be a significant factor for us in Q2, I wouldn't put it in the bucket of significant.
Okay. And I'm just going to kind of pause here and see if there's any questions from the audience.

Unidentified Analyst
A question on HomeAway. Can you give us some color on results on ROI you're seeing on increased direct investments there? Is it driving total OB? And then secondly, can you count on online bookings and how that proportion is increasing.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations
Yes, sure.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst
And if I can just repeat it for the webcast. The question is on HomeAway ROIs. And are the direct investments driving bookings? And then...

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations
The second question was around online booking trends. Yes. So with respect to ROIs on direct sales and marketing investments, we are ramping up significantly our efforts in that space. A lot of this is just being driven by the better monetization we have on the platform, both because we've added a traveler fee into the online bookings, but also because we've just become significantly better at converting on the platform, and that's because of the investments we've been making in product and technology and the great team that's there that actually knows how to build incredible product. And those 2 factors are enabling us to actually ramp up spend and actually get good returns. So I think the short answer is so far, so good. But as a reminder, we're still very much in the early stages of transitioning that business to a real steady-state e-commerce business. We're ramping up direct sales and marketing, but I think it'll be next year before you see us in more of a steady state because we're still putting in place some of the fundamental building blocks through this year. In terms of online bookings growth, we're happy with what we see. We, last quarter, saw bookings growth in the high 40% range, pretty consistent with what we'd seen in the prior year. And I think it's a testament to how attractive this category is, how powerful the HomeAway platform is. More and more bookings are coming online. One of the factors is as, I think, the overall volume on the platform is increasing, traffic is growing, we're adding more properties onto the platform, including ones that are off-line. But the online booking counts as of last quarter is up to 1.4 million properties. So all of these are tailwinds. And then add to that the fact that we're shifting activity that maybe would have happened off-platform, on-platform. We're doing that through a variety of means. One of which is we just offered a new insurance product, where when homeowners actually have transactions that book online, they get $1 million property protection, which has huge benefit for those owners. Secondly, as we are introducing some factors into our search results sort order ranking that essentially incent players to make sure that transactions happen online. And when they do happen online, they're rewarded with higher sort order results, and therefore, better bookings. And then on the traveler side, similar story, introduce the book with confidence guarantee, meaning that if you show up for a property and it's not as advertised or if you have problems with your damage deposit, HomeAway is going to step in and help you with that. And so the combination of carrot and stick is basically moving what used to be off-platform on-platform. And we think that the story is still yet to be told. There's a lot of runway left for HomeAway, and we're excited about it. And we absolutely think we'll hit our $350 million in 2018. And I think that's one milestone along the way.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst
Question there.
Unidentified Analyst

You’re asked a lot about capital returns, but curious about your sort of capital structure. How do you plan to get to your target leverage ratio? Why is that the right number? (inaudible) to go higher with leverage (inaudible) is driving more appreciative M&A.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Sure. So generally, what we said is that we like to operate at 2x or below gross debt-to-adjusted EBITDA. We’ll flex up to 2 to 3x for strategic reasons. But always with the intent that we’re going to take it down to 2x or below. We recently did this. We took leverage up while we were making some of these big acquisitions. And we’re down basically at our target number now. I think that leverage is just one piece of the puzzle for us. This is a business that generates a significant amount of free cash flow. We have ultimately been, I think, pretty good stewards of that free cash flow and generated a significant amount of value over time. But we do believe that we have just a significant amount of organic and inorganic opportunity for us long into the future that tends us to -- tends to lead us to be a little bit more conservative on the balance sheet just so that we can take those opportunities as we see it. We do value being investment grade, and so that’s obviously a consideration for us as well. But again, I think in terms of our capital allocation philosophy, look at what we’ve done in the past, and that should be pretty good indicator of what we’ll do in the future.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Yes.

Unidentified Analyst

I just had a question on ROI for advertising. And so when I look at the big, large competitors talking about seeing a reduction in ROI. I’d love to hear from you, kind of the reasons why you would not be subject to this same reduction in ROI today, given that you’re probably going through the similar channels..

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Yes. So the question is the competitor talking about reduction in ROI on ad spend. Why would you -- why would Expedia not be subject to the same reduction in ROI.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

So it’s hard for me to comment on the drivers for what they’re seeing. I would tell you that for us, we continue to be able to drive significant conversion benefits through our A/B testing philosophy, not unlike what they do. Perhaps we’re earlier on in that journey than they are. They’ve been doing it for a really long time and we’ve been doing it really in earnest for the last 4 or 5 years. We continue to be able to drive conversion benefits from adding new hotel properties. All of these things conspire to enable us to continue to drive strong growth at returns that have been pretty consistent for us over time. So I think I would just say that we’re happy with our ROIs. We don’t see a significant amount of pressure. And if not, I don’t know exactly why they would be seeing pressure.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So I’ll just -- I’ll jump in with a follow-up on HomeAway. Can you take a step back and talk about the vacation rental landscape? The opportunity as you see it, but also the competitive environment between Airbnb and Priceline in particular, which are also -- play in that?
Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Sure. Well, I think first of all, the industry is just a huge and still relatively underpenetrated industry. Total booking volume for the market in -- between the U.S. and Europe is somewhere around $100 billion, last numbers I saw, not including Asia, not including Latin America. That number is growing. I would suggest that it's growing faster than the overall hotel business, driven in part by what Airbnb is doing, what HomeAway is doing and in part by what the Priceline Group is doing. I think that the alternative accommodations space provides just, actually, an amazing value. And if you look at the typical family, the type of accommodation that they can get and the ease with which they can understand exactly what they will get is just so much better than what it is for hotel. To date, even the largest hotel chains, even in their own website, it's really hard to book connecting rooms. You have to pick up the phone and call someone. So if you've got family, it's just actually much easier to book a home. And you see what you're going to get, you know exactly what you're going to get, and you know your family's going to be together. And not only that, but it's usually a much better value than it is booking big suite or trying to buy -- trying to book some adjoining rooms. So that's one of the catalysts to driving this. I mean, a second catalyst is even when you move away from families and you move to the younger generation or anyone who is looking to save a buck and that maybe used to stay at a hostel, now, just having the availability of the shared accommodations or even just the built-for-purpose second home apartments, the value that you can get versus a hotel room is pretty stark. And one of the barriers to the world being made aware of this, historically, has been the fact that the economics of the hotel industry and the ultimate ease of booking and sophistication of the hotel industry made that an easier category to go online. And when you can go online and you can monetize well, you can afford to advertise, you can raise awareness and ultimately, the virtuous cycle of category growth emerges. And the alternative accommodations space is just probably 10 to 15 years behind. And Airbnb did the whole industry a great service to actually create a model to bring this online and to help generate awareness. I think that HomeAway has benefited from that general category awareness, and no doubt, booking.com has as well. And I think that all 3 of those players in the alternative accommodations space have a very, very long runway ahead of them.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

And where do you think we are in terms of the -- I guess, looking at the urban side of it, in terms of the regulatory environment developing or getting clarity there? And how important is that for HomeAway?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

So for HomeAway, they have a relatively low amount of their business that's done in urban centers. The vast majority is done in different, more rural locations or beach locations or mountain locations. So just a little bit less exposed to the headlines you read about New York or San Francisco. That said, when we think about the growth story of HomeAway, that's definitely the Act 2. Act 1 being, let's get the business they've got right now, transacting online. That's what we've got to do to deliver on our deal pieces. Act 2, being the upside case, is let's ultimately get HomeAway integrated onto Expedia, onto Hotels.com, where we do have that urban demand. That will enable us to sign up more of this urban inventory. And once we're able to sign it up, then we ramp up HomeAway's variable marketing capabilities that we're doing this year, they then, on their platform, will be able to develop and drive more urban demand as well. So I think the regulatory environment is something that we're certainly highly involved in, highly aware of. We don't view it as being, at least right now, a critical threat to HomeAway. But for us to have a thriving business, for Airbnb to have a thriving business, for Priceline Group to having a thriving business, we've got to get to a spot where ultimately, there's certainty on taxation, and in part by what the Priceline Group is doing. And we are working closely with municipalities around the world to help facilitate sort of the orderly resolution of this. And we're confident we will. I mean, the great thing about the vacation rentals industry and alternative accommodations is it's one of those categories that spurs economic activity in a city. It creates more alternatives for travelers to come to the city and stay. It's net positive economic activity. And because of that, I think we've got to work through issues on affordable housing. We've got to work through issues on either health and safety regulation. We've got to work through issues on taxation, collection and remittance. But all of this is workable. And I think it's in everyone's interest to work it out because there's real economic value here to be harnessed.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. And how do you think about the margin structure in vacation rentals, starting from a revenue take rate standpoint on down, as it compares to your hotel business and maybe your other businesses?
Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Well, I think in time, it looks remarkably similar to the hotel business. From a take rate perspective, this is a highly fragmented market, where intermediaries provide a huge amount of value. And in the travel industry, that generally translates pretty nicely to mid-teens take rate. And you can see that with the Priceline Group, and then you see that with Airbnb. I think there is scope for HomeAway to potentially move in that direction, and I think the rest of the items in the P&L, again, looks similar to what they look like in the hotel business. It's not a particularly tech-heavy business, unlike the air business, unlike the corporate travel business, unlike the rail business. And so you can drive strong returns. You can drive strong margins. And I think for HomeAway, the question for them in terms of the ultimate EBITDA margin is going to be not dissimilar to what our core OTA business is, which is ultimately, it comes down to how much do we decide to spend on direct sales and marketing and how much do we drive for growth versus margin? And I suspect they'll be driving for growth for a very long time to come.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Okay. I think we've got a question here.

Unidentified Analyst

Just firstly on the noncore OTA side. (inaudible) emphasize the (inaudible). Can you just actually size that (inaudible)? And then secondly, just (inaudible) to the managing of supply and demand by just adding inventories. But as you think about added inventory in tertiary market, what's the biggest barrier to adding that? Is it feet on the street? Or is it actually just making sure you have the demand (inaudible) that's coming on.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

And if I could just repeat that for the webcast. So the first question was on, I think, kind of your non -- really your nonglobal brands as a percentage of room nights. And the second one is on -- as you look at balance of supply and demand in lodging, what are the biggest barriers to adding supply in tertiary market?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. So when you add up the room night volume that's on Orbitz, Travelocity, What If, CheapTickets, essentially all of our recent more regional brand acquisitions, total room nights as a percentage of total would be sub-10%. And then on the second question around property acquisition, we really are looking to balance supply and demand. And in the secondary and tertiary markets, it's really everything we've got to get right to make sure that we can accelerate our pace of acquisition there. It comes down to understanding what the geographic representation of the areas, knowing the town name, knowing the neighborhoods, being able to know all the aliases of those neighborhoods, ultimately then acquiring the hotels that are in those neighborhoods, building content around them, both photos and descriptions; making online marketing campaigns live in metasearch and Google SEM; making sure that we've got the right landing pages. So it's really, call it, a manufacturing process. I think the great thing is, is we've been at it for probably 3 or 4 years, really getting those processes down pat. We're up to spot where last year, we added between 70,000 and 80,000 new properties. Some of those were in secondary and tertiary markets. We haven't been at it for as long as our biggest competitor, who is really great at this. It's their -- they've got a well-tuned machine. But we're getting there. And I think over the course of the next 3 to 5 years, you'll see us add significantly more inventory, a lot of that in secondary and tertiary markets. We know what to do, and it's just a matter of really honing and optimizing these processes over a period of time.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

There.
Unidentified Analyst

(inaudible)

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

On -- can you repeat the first part of that? Was it about...

Unidentified Analyst

(inaudible)

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Yes, so the geographic question about the impact of Brexit and percentage of room nights that are coming from London and other geopolitical...

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. Well, I'd just say no major destination is significant to us as a whole. I mean, the only thing that we've really called out in terms of quantifying impacts was at the time of the Paris attack. I think we cited about a 300 basis point impact in a particular quarter. But that was not just for Paris. In fact, what that was, was the global impact from ultimately, a fear factor that took hold for a couple of weeks, where following that attack, people were just fearful of traveling to big international destinations. New York was impacted, San Francisco, London, Munich, Frankfurt, I mean, you name it. So we're very diversified. I think the concern for us would be that to the extent that terrorist activity created a chilling effect overall and general fear of traveling specifically, I think that would be a headwind for us. We haven't seen that on a global basis. We certainly saw some of that on a country basis in France, although they've rebounded now as a destination. But I think that would be a negative. I mean, the positive on it though is that we're everywhere, and people travel. And so even if they stop going to New York or they stop going to San Francisco, they'll go somewhere. They'll go to Monterey or they'll go to Jersey Shore. May stay closer to home, but we've got hotels everywhere.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

(inaudible)

Unidentified Analyst

(inaudible) in England has (inaudible).

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Has rail search in England led to higher conversions?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Well, it's early to talk about conversion, but the thesis there is less about conversion and more about attach. We're happy so far with what we've seen on attach, and this is attaching largely hotel stays to rail bookings. It's early days, but our hope is that over time, that becomes a factor just
like air has for us, which is a proprietary stream of travelers who we know where they're going and to which we can offer, in many cases, deeply
discounted rates on a one-to-one basis in sort of a time-decoupled package.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Yes, let's talk about -- let's talk a little bit about trivago. I guess my first question, just from a high level, would be how do you think about trivago
as part of the -- kind of where it fits in, in the Expedia family.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. Well, we love trivago. We think it's a great business on a stand-alone basis. We always have. And we think it's just a great part of the Expedia
family. I mean, if you think about what Expedia is, we're half investment company and half operating company. I think on the investment side, I
think trivago's been an incredible partnership that's created a lot of value, not only for our shareholders, but we'd like to think that we've helped
trivago grow around the world as well by making them an attractive channel for our online travel agency assets and encouraging them to bid into
the trivago marketplace when they're expanding into new markets. It's a strategic asset for us. We think that having these businesses together
makes sense. Our brands had learned a fair bit from the trivago team just around brand marketing, and I think that's been helpful. It's very hard to
replicate exactly what trivago's doing for even those who know what they're doing. You can see from the inside, let alone someone who's trying
to do it from the outside. So I think we've helped each other, but that said, I think trivago is, listen, they would have been an amazing business
without being part of Expedia, Inc., and we're just thrilled to have them as part of the family.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Yes. And I guess to follow up on that in a segue on your own marketing mix, how do you think about -- one of the biggest stories with trivago has
been how effective they've been at leveraging TV, actually. And how do you -- how -- is there anything that you can emulate there? And how do
you think about performance advertising versus brand and television and for the Expedia brands?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. So for the core transactional brands, Expedia, Hotels.com, Orbitz, HomeAway, television has always been a part of their story, particularly here
in the U.S. but also internationally. We're not new to the game. I think Expedia and Hotels.com, particularly, if you'd have asked me 5 years ago, are
they best-in-class? We'd say, "Yes, they're best-in-class." Knowing what we now know about trivago, I'd say they're not best-in-class, think trivago's
best-in-class. But listen, they have gotten a lot more analytical about their spend, and that's in part through looking at what the trivago team's
been doing. And I think on a go-forward basis, brand television marketing's always going to be part of our marketing mix and be a big part of the
story.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

We're going there.

Unidentified Analyst

The recent announcement by IAG around charging extra fees and on people booking (inaudible).

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

The question is about IAG charging extra fees if it's booked through GDS. Does it impact Expedia's air business?
Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Well, it’s too early for us to tell what the impact on that’s going to be on us. Certainly, there is a potential impact on the GDSs, and this is a strategy where I think it is potentially placing more fees on consumers, and we think that’s generally a bad thing. But it’s something Lufthansa has had for a while. And I think at the end of the day, these things have a way of working themselves out. We are a significant large player in terms of bookers of air tickets, and I’m confident that over time, this is going to work ourselves -- work its way out and that it will reach -- if there is a new agreement to be reached, we’ll reach something that’s good for our consumers and good for the airlines as well. But again, it’s too early to say how this is going to actually impact our business idea. But I’d say at this point, not material.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So go back into the advertising mix a little bit. And you were talking about this earlier, but how do you approach ROIs when you’re budgeting? What do you think an appropriate ROI threshold is or should be?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

You think I’m going to answer that? You had to ask it anyway. Well, let me kind of answer a different question because that’s what the media people would tell me to do, which is we are obviously highly analytical in the way that we spend marketing spend. And we’re doing hundreds of billions of calculations every year to figure out really what is the expected value of this lead, and therefore, how much is I willing to pay for it. We take into account the profit that we want to make on the first transaction, and we also take into account the value of that customer when they come back to us directly in the future. And various channels have different characteristics between the degree of profitability today versus the probability of repeat in the future. And our ROI calculations take all of that into effect. You have a question?

Unidentified Analyst

(inaudible) bookings share changes (inaudible). On top of that, you guys (inaudible)

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Evolving over time.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

So U.S. hotel booking share between the Expedia, hotel direct, booking.com and others.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

So I’d say that as a general rule over the course of the last number of years, the 2 global OTAs have been gaining share in the overall market and at a pretty significant rate. We have certainly been gaining share. I wouldn’t be surprised if the Priceline Group is as well. That’s come at the expense of off-line. It’s come at the expense of, in many cases, hotel direct. And it’s come at the expense of smaller OTAs and affiliates. I think it’s something that is honestly likely going to continue. The competitive advantages that the large global OTAs have in terms of just their ability to do the types of digital marking, we’re speaking about their ability to run hundreds, if not thousands of versions of our website or applications at any one given time and truly determine what the best consumer experience is. Our ability to offer breadth of inventory versus a hotel direct website is a distinct advantage that. The advantage that we have with our rewards programs, the fact that you can stay at any hotel in your first 10 nights and then stay at a different night for a different hotel brand for your free stay. There’s so many just structural advantages in the model that tell me that if the market forces just continue to progress as they have been, the 2 big global OTAs will continue to gain share. Now that’s not to say that ultimately,
we can't have wonderful relationships with these chain hotels. And in fact, the relationships are broadening. Right now, for example, we are powering Marriott's vacation packages to have bundling their product with air. I think the results there have been very good. So there's ways that we can work together that are truly win-win ways. There are partners where we're actually powering the acquisition of members for their loyalty programs. And I think that as these relationships evolve, I think that ultimately, there's absolutely a win-win here. I think there's places where we can do great and there's places where they do very well. And I think that balance is -- it's working itself out right now.

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Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

A question over here.

Unidentified Analyst

(inaudible) the hotels (inaudible) you have deals, call it, on the hotel (inaudible).

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Are you get able to get better deals on the hotel when you bundle it with flights versus just hotel stand-alone?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Yes. So generally, our hotel partners will provide us with package rates. And what this enables them to do is essentially hide the rate at which they're actually selling the hotel because we bundle it together in a package. That allows them to keep rate integrity. At the same time, as fill rooms that would otherwise go unsold. Discounts that can range from 10% to 40% depending on time. It's one of those things that's just great for consumers and a great thing for our hotel partners as well.

Unidentified Analyst

You think a big advantage versus Priceline? Correct me if I'm wrong. (inaudible) bundling (inaudible).

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations

Absolutely. I think that's one of the core strategic advantages of brand Expedia is having all the products. And that manifests itself in probably 3 major ways. One is that we're able to bundle these things together and give consumers better deals. Secondly is one of the first things that people book is their flight. And as soon as they book their flight, we know exactly where they're staying. And that gives us marketing opportunities to them directly. And the third thing is that most of the money in this industry is made from consumers that come to your home page. It's not from the consumers that come through Google. And the more breadth of product that you have, the more likely it is that you're going to have more touch points with the customer and the more likely it is that you're going to create some real loyalty. It allows us to put multiproduct loyalty programs in place like we've got at brand Expedia that literally no one has. I think we're very, very early, to be honest, in the evolution of us really exploiting this competitive advantage. But over the course of the next 3 to 5 years, I think it's going to be big driver for the Expedia brand.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst

Again this is -- we'll get the last one here.
Unidentified Analyst
For many years, (inaudible) you guys. Where is the dynamic now in terms of (inaudible) evolving these (inaudible).

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst
So question is for many years, the hotels have tried to go around the OTAs. Where is that dynamic now today? And how do you see it evolving?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations
Well, about a year ago, the -- at least the industry chatter around this really ramped up, and part of this was the big hotel chains launching consumer advertising, encouraging the customers to not shop around and discounting rate on their own website for loyalty members in an effort to actually drive more direct bookings. It hasn't impacted our business. Our business continues to be exceptionally strong. Less than 0.5% of our consumers are actually typing in a given hotel chain's name. So they come to us because they don't know where they want to stay. And in fact, if they wanted to stay at one of the big chains, they'd probably be on their site already. So again, I think the conversation has amped up -- or it amped up about a year ago. The overall dynamic in terms of where consumers are actually shopping has not changed, which is, again, increasingly with the global OTAs. I think it's natural for the chains to want to drive more of their business direct. We'd like to have more of our business direct. We're not running an ad that says don't go to Google. Instead, we are optimizing our business, not unlike our biggest competitor, to actually harness the power of Google and use that as a great way to acquire new customers. And then when they come to our sites, give them an amazing experience so they come back to us directly. The analogy for the big chains is actually for them to harness our channel and become the best at acquiring new customers through the OTAs. And then when that customer comes and stays at your hotel, give them amazing experience so they come back to you. As a reminder to everyone here but also to the big chains, the competition is not between us and the chains. The competition is between the chains and the other chains. And the best way that, in our opinion, that they can win that war is to be great partners with us and to deliver great experiences to their guests.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst
Mark, if I can just kind of close it off here. You're invested in a lot of areas of travel. There's a lot going on at the company. What do you think is the most important success measure that we should focus on over the next few years?

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations
Well, for us, we've made no bones about it. I mean, we're driving for adjusted EBITDA dollar growth, free cash flow growth, adjusted EPS growth. And we're trying to basically be a business that is in the compounding game. I mean, we're just going to continue to get bigger and bigger and bigger and at pretty reliable growth rates all the while just investing in expanding the footprint of this business, which is already large but a small part of the overall travel industry. So I'd look at those bottom line metrics. And of course, room nights growth, I'd look at that, too.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - Director and Senior Research Analyst
Okay, thanks for being here, Mark.

Mark D. Okerstrom - Expedia, Inc. - CFO and EVP of Operations
Yes. Thanks.
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