Co. reported 2014 YoY revenue growth of 21%.
CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day and welcome to the Expedia fourth-quarter 2014 earnings call. Today’s conference is being recorded. At this time I would like to turn the conference over to Alan Pickerill., Please go ahead.

Alan Pickerill  Expedia, Inc. - VP of IR

Thank you very much. Good afternoon, everybody. Welcome to Expedia, Inc.’s financial results conference call for the fourth quarter and full year ended December 31, 2014. I’m pleased to be joined on the call today by Dara Khosrowshahi, Expedia’s CEO and President, and Mark Okerstrom, our CFO and EVP of Operations.

The following discussion, including responses to you questions, reflects management’s view as of today, February 5, 2015 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, or similar statements. Please refer to today’s press release and the Company’s filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You'll find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release which is posted on the Company's IR website at ir.expediainc.com. I encourage you to periodically visit our investor relations site for important content, including today’s earnings release and an updated investor deck.
Finally, unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense, and technology and content expense exclude stock-based compensation and depreciation. And all comparisons on this call will be against our results for the comparable period of 2013.

With that I'll turn the call over to Dara.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Thanks, Alan. 2014 was a terrific year for Expedia, Inc. We delivered healthy top-line growth with gross bookings up 28% and revenue up 21% year on year. Room nights grew 26% for the year, air tickets were up 28%, and we grew our ad and media business including trivago by 50%.

At the same time, we made significant investments in areas that will position us for long-term growth, ramping up our hotel acquisition efforts, scaling our global technology platforms, and making key investments to drive growth at trivago. In total, we were able to balance our near-term profit objectives and long-term investment priorities and deliver full-year adjusted EBITDA growth of 17%. As we move into 2015, we would like to talk to you about four distinct businesses in our portfolio -- the core OTA group, eLong, trivago and Egencia, each of which has its own market opportunity, growth drivers, competitive dynamics and ultimately value-creation potential.

Our core OTA group is led by our two flagship global brands, Brand Expedia and Hotels.com, and also includes regional or segment brand leaders such as Hotwire, Venere and CarRentals.com, IAN, our affiliate business, and now Travelocity and Wotif. Over the past several years we've made significant investments and improved our execution across our online marketing platforms, customer-facing technology, and supplier-facing platforms. And while the work is never done, this business is performing well and we're seeing the benefits show up in our operating results.

On a combined basis, our core OTA business generated approximately $43 billion of gross bookings in 2014, up about 30% year on year. This growth is significantly faster than the industry and we believe we're gaining market share in every major geography.

Additionally we're finding key commercial deals and acquisitions that enable us to leverage our existing technology and operations infrastructure to amplify our growth, such as the deal to power and now own Travelocity, and the acquisition of Wotif. Our platforms and operational processes now allow us to acquire businesses, integrate them predictably and quickly, and realize meaningful synergies while creating improved experiences for our customers and our supply partners.

As the performance challenges we’ve seen at Hotwire demonstrate, bumps in the road will always arise in this highly competitive segment. However, we believe we’re executing well and are positioned better than ever.

Staying with the theme of challenges, eLong incurred a $27 million adjusted EBITDA loss in Q4 as the highly competitive environment that we talked about during our last call was more than true. We manage our 65% eLong stake independently, and eLong has its own capital, so we are not making trade-off investments in other businesses to fund eLong.

While we aren’t counting on the competitive environment getting any better in 2015, we know that the market opportunity in China is huge, we’re confident in the execution capabilities of the eLong team, and are very confident that we’re building real value there. As is true in any geography in which we compete, we aren’t dogmatic about our approach, and will drive towards one simple goal -- long-term value creation for Expedia shareholders.

Turning to trivago, we’ve owned a majority stake in trivago since March of 2013 and the business continues to grow at impressive rates. If you watch any TV at all in the US, you’ve no doubt seen the trivago guy pitching the site as an excellent place to find the ideal hotel at the best price.

On a standalone basis, for the full year, trivago generated revenue of over $410 million, up 68% year on year, and EBITDA $4 million. Note that this includes revenue from all the other Expedia, Inc. brands. Our focus for trivago has been on growing the top line rather than profitability, and we’ve been reinvesting profits from core markets at trivago to fund worldwide expansion. While we expect trivago to generate adjusted EBITDA growth in 2015, we will continue to trade off near-term profits for long-term value.
Turning to Egencia, we have a terrific corporate travel business here, which exceeded $5 billion of gross bookings in 2014. Egencia is growing at healthy rates, signing up new business at a fast pace, while integrating platforms and key acquisitions over time. With this business we're mostly focused on industry disruption, bringing more new products and services and better technology to corporate customers.

And although they remain much larger than Egencia, we see the big legacy players on their back foot trying to figure out how to deliver technology and tools to compete effectively with Egencia and other online offerings. We believe this business can grow nicely on an organic basis, but we'll continue to look opportunistically at acquisitions to accelerate growth and further scale the business over time.

In closing, let me say this: while we celebrate a job well done in 2014 we are by no means standing still. Our products and service, while better, have miles of improvement ahead of them. You won't find a single person across Expedia, Inc. who will tell you that we're executing to our full potential, but we're finally seeing the arc of the possible.

With that, I'll hand it to Mark.

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

Thanks, Dara. In the fourth quarter we again saw strong performance from our core OTA group, trivago and Egencia. And although profitability was negatively affected by sizable investments at eLong, negative FX trends and significant due diligence and other deal costs, we are happy to exit a terrific year with good momentum.

Top-line growth was driven this quarter by robust unit growth pretty much across the board. Room nights and air ticket growth helped drive gross bookings growth of 24%, or 27% excluding the impact of foreign currency, and revenue growth of 18%, or 22% excluding FX.

Hotel room night growth accelerated to 28% with healthy growth seen across all major geographies. Travelocity and Wotif together contributed around 5 percentage points to total room night growth. Room night economics, on the other hand, continued to be lower year over year, with revenue per room night down 10% on flat ADRs.

The impact from foreign currency was a larger driver this quarter than in prior periods and we estimate that the negative impact on our revenue per room night was roughly 5 percentage points, with a portion of this hedged off and recorded as other income.

The other main drivers of the decline in unit economics remain relatively consistent with prior periods. We continue to reduce our hotel margins to enable an accelerated global build out of hotel room inventory and availability. And we also continue to drive consumer engagement and repeat business through our loyalty programs, along with coupons and other incentives which are recorded as a reduction of revenue. We will continue to push these levers throughout 2015 and, as such, continue to expect revenue per room night to decline.

Air revenue grew 18% on ticket growth of 26%, partially offset by a decline in revenue per ticket of 6%. Air gross bookings and air revenue were helped against this quarter by Travelocity, which represented approximately 12 percentage points of the total ticket volume growth. Revenue per ticket was down, as expected, as a result of the renewal of certain airline deals earlier in the year. And we expect this pressure to continue into 2015 as we annualize these contracts.

Our advertising and media business, which is made up of trivago and our Media Solutions Group, has become quite large and is growing fast. For the quarter, advertising and media revenue grew 38% net of inter-Company amounts. We also saw healthy contributions from our car and insurance products.

On the expense side, we saw solid leverage this quarter in cost of revenue as the team continues to drive for global efficiencies in our customer operations platform and on reduced levels of fraud and chargebacks year over year. General and administrative expenses grew faster than revenue due primarily to over $8 million of deal cost, without which, the growth would have been more in line with previous quarters, and nicely leveraging versus revenue. The pace of growth of our technology and content expense was a little bit faster than the growth we saw in the third quarter.
Selling and marketing expense growth was also broadly consistent with prior quarters. Deleverage in selling and marketing versus revenue continues to be driven primarily by success in variable marketing channels as we continue to execute well and expand across the globe.

The net result in the quarter was adjusted EBITDA growth of 13% excluding eLong, and 3% on a consolidated basis. As I mentioned, our Q4 results were also impacted by negative FX trends, over $8 million of deal costs, and eLong losses, all of which exceeded our expectations at the time of our last call. Excluding these items, adjusted EBITDA growth for the full-year 2014 would have been at the top end of our guidance range.

You'll also notice $26 million of restructuring and related charges in Q4. These consist primarily of costs associated with the integration of our Wotif acquisition, but also include some other efficiency-related initiatives, including the migration of Venere business onto our Hotels.com platform, as well as platform consolidation in our CarRentals.com business and at Egencia.

We do expect $10 million to $15 million of additional restructuring costs in 2015, the majority of which you'll see in the first half of the year. Note that these expenses are excluded from adjusted EBITDA.

From a capital allocation perspective, 2014 was an active year. We delivered over $1 billion of free cash flow and allocated $561 million towards acquisitions, paid out $85 million in dividends, and repurchased 7 million shares for $537 million.

Now I'd like to spend some time on our financial expectations for 2015. Please note that our format for providing guidance is a little bit different this quarter. As Dara mentioned, the Chinese market remains highly competitive and dynamic. And because of this, we are not going to provide any specific adjusted EBITDA expectations for eLong for 2015.

Directionally, we think the adjusted EBITDA loss of $27 million that eLong reported in the fourth quarter is a good baseline. And we would expect the quarterly losses to be larger than this as we move through 2015. eLong is a well-capitalized NASDAQ listed company with a distinct public market valuation. And we would encourage you to value our eLong position and its impact on our consolidated results on a standalone basis.

For the rest of the business, excluding eLong, we are currently expecting adjusted EBITDA growth in the 10% to 15% range. Note that this includes an estimated negative impact from foreign exchange of roughly 5 percentage points at current rates.

Against a general backdrop of strength across our business, and our continuing efforts to balance near-term profits against investments to drive medium and long-term growth, I would call out the following regarding our expected performance in 2015. We are expecting a deceleration in revenue growth in 2015 on headwinds from lapping the Travelocity implementation, further impact from the reduction of our hotel margins, the negative impact of foreign currency, and the continued success of our loyalty programs. These are partially offset by the tailwind of adding the Wotif business.

On the expense side, while we continue to manage the business toward our target P&L, we are expecting elevated technology and content expense growth, especially in the first half of the year, as we digest recent acquisitions and invest behind further fortifying our core technology and infrastructure stack for the increased pace at which we have been building global scale. From a seasonality perspective, we are not expecting any meaningful adjusted EBITDA growth in the first quarter, and expect the bulk of our adjusted EBITDA dollar growth to come in the back half of the year. In terms of an effective tax rate, on a consolidated basis, we are expecting an elevated rate in 2015, primarily as a result of non-deductible losses that we are anticipating on the back of increased investment levels at eLong.

One final quick housekeeping item before we begin Q&A, As Dara mentioned, we plan to increasingly discuss our business in four distinct components. The core OTA group, eLong, trivago and Egencia. In this regard, we will break out the results of these four businesses beginning with the first quarter of 2015 so that our investors can have the appropriate level of visibility to be able to model a specific value, reflecting the unique opportunities and valuation considerations inherent in each business.

With that, let's move to Q&A. Operator, will you please remind participants how to ask questions?
QUESTIONS AND ANSWERS

Operator
(Operator Instructions)

Justin Post, Merrill Lynch.

Justin Post - BofA Merrill Lynch - Analyst

Great. Two questions. First, EBITDA guidance, 10% to 15% -- how much will the acquisitions of Wotif and the Travelocity deal help next year on your outlook? And then since it looks like you're pushing people looking at the four divisions separately, could you just go through the EBITDA for each group in 2014? Thank you.

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

Sure, Justin. Firstly, on guidance, again, I'd just remind everyone that the 10% to 15% does include about 500 basis points of FX headwind.

With respect to your specific question on acquisitions, a couple of things I would just note. We certainly are expecting to get a year-on-year helper from those acquisitions, but a lot of the numbers that are available publicly are probably not the best source to look at for the purposes of coming up with those estimates.

When we acquired Wotif that was a business that was facing some pretty significant challenges. It, again, is going to see pretty significant FX headwinds as we move through 2015.

And we're also in the middle of an integration. We don't expect to see a meaningful uptick in the performance of Wotif until we get that business onto our platform.

Now, we are making progress on that. We moved international traffic onto the Brand Expedia platform in January. We do expect to get the rest of the business onto the platform in the first half of 2015. But in the meantime, you've got a business that is undergoing a very significant restructuring on a base momentum that is declining and so you've got a bit of a headwind, certainly, versus what you have seen more publicly available.

Travelocity, we do think that there could be some upside there. It's very difficult for us to put a precise value on that for you right now. It's really going to depend on how effective we are in really marketing this business.

The Travelocity business didn't spend a lot of money on brand advertising in 2014. That is something that we're going to want to do, very likely, to reinvigorate that brand, which is a great brand. So, I think the acquisitions are going to be a tailwind but I wouldn't rely on public numbers.

Lastly I would just say that our philosophy is one where our EBITDA outcome is one of careful management and one of careful decisions around what upside we see and what investments do we have available to us to drive medium and long-term growth And so, although we do have some tailwinds from acquisitions, and we did have some last year from Travelocity, we are constantly looking at investments that we can make that respect the EBITDA guidance and the EBITDA targets that we set for ourself, but also set ourselves up for more sustained growth.

With respect to EBITDA, let me just go through the numbers for you. For eLong, the EBITDA for full-year 2014 was a $27 million loss. For the Egencia business it's $60 million. For trivago it's $4 million. And then you can back into the core OTA business with the rest.

Justin Post - BofA Merrill Lynch - Analyst

Thank you.
Operator
Naved Kahan, Cantor Fitzgerald.

Naved Khan - Cantor Fitzgerald - Analyst
Yes. Thanks for taking the question. A lot of macro concerns out of Europe as well as Russia. Can you guys speak to the business trends that you might be seeing in those markets? And then I have a follow-up.

Dara Khosrowshahi - Expedia, Inc. - President & CEO
Hi, Naved. We are certainly seeing, I'd say the most significant trend that we see in those markets is the foreign exchange trend. So, when you look at our revenue per room night, for example, revenue per room night for international was down significantly more on a year-on-year basis than domestic. Europe is a part of that but, frankly, Asia-Pacific is a part of that as well. The foreign exchange trends on a year-on-year basis are significant. And if nothing changes, and at this point we don't anticipate anything changing, will continue to be significant as we go through the year.

As far as the relative strength of the European market, et cetera, one trend that we have observed is that, due to the strength of the dollar, we're seeing a lower balance of European demand coming into the US because the US looks more expensive. In general, we are seeing stronger demand from the US to Europe. And I'd say, in general, across Europe and APAC, we are seeing a higher concentration of demand locally.

Now part of that is because we have better local supply and I think we've got better local marketing. But in general our domestic room night growth in most territories exceeds international room night growth. We think it's a good trend. It hurts ADRs and it hurts length of stay but we think it's a very positive factor in our growing business on a global basis.

Naved Khan - Cantor Fitzgerald - Analyst
Okay. That's helpful. And then just a follow up, now that you guys will be owning and operating Travelocity and Wotif, at Expedia what changes do you expect to make to the marketing and to audience reach?

Dara Khosrowshahi - Expedia, Inc. - President & CEO
I think it's a little bit too soon to make that call. What we have seen with Travelocity, for example, is that conversion rates for hotels for Travelocity on the Expedia platform are higher than the conversion rates that they had previously. It's a combination of the quality of supply and quality of product and technology that we have.

With Travelocity in-house, the Travelocity team will have the full profit dollars to invest in order to drive growth -- for example, in variable marketing. So, I think we will have the ability to invest more aggressively in variable markets. We haven't quite figured out exactly what our strategy is and how we set up the P&L for the long term but we certainly have that potential.

Wotif -- we're really in the middle of the integration, as we speak. We are going to take the Wotif site, put it on the Brand Expedia platform. But really it's head down working all that integration. Once we get it onto the Expedia platform, we see how it responds, we understand what the conversion rates are, et cetera, we'll start making marketing decisions. We're just not there yet.
Naved Khan - Cantor Fitzgerald - Analyst

That's helpful. And then just on Wotif, I understand the entities on the revenue side but what is the low-hanging fruit when you look at the cost synergies there?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

I think the low-hanging fruit is on the technology and platform side. We can put them on the Brand Expedia technology. They don't need to maintain a totally separate stack. We bring them all the benefits of the global tech stack that we have and the testing and learning that we're constantly doing. And the Expedia global tech stack benefits from the additional volume that Wotif brings to it.

I think another piece of low-hanging fruit is the supply. The Expedia, Hotels.com, et cetera, customer now is going to get access to the terrific Wotif supply in the Australian/New Zealand marketplace. And Wotif customers are going to have access to much better global supply for their outbound.

So we're really looking to get the best of both worlds on the technology side. And then, really, we're finding also lots and lots of talented people within the Wotif organization on the supply side, on the technology side. And we think bringing their talent together with our talents, you're going to have a net positive.

Naved Khan - Cantor Fitzgerald - Analyst

Thank you.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - Jefferies & Co. - Analyst

Thanks, guys. A couple questions. Have you seen any tangible impact on travel from the declining fuel prices? And based on your experience, when do you expect any potential savings to trickle down and start to impact travelers, if you have a point of view on that?

And then really quickly on the advertising side, the Captain Obvious campaign, quite successful. But off-line ad channels tend to be lower ROIs. And, so, now that you've anniversaried the launch a bit, can you give us some color in terms of impacts on new customer growth, retention, repeat rates, et cetera, from Captain Obvious?

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

Brian, just on the lower oil prices, we haven't seen any profound impact yet. I think it's going to take the airlines a while to actually put that through on average ticket prices. And it's doubtful they'll put it all through. And that would be one of the things that drove increased travel pattern.

The other thing is just more disposable income for consumers. We've seen estimates of anywhere from $500 to $1,000 extra in the pockets of the average American household. On the typical trip, a hotel stay part of that trip will be around $300. So, that could actually drive more volume and more consumer demand around the world. It's not something that again we've seen right now but we're optimistic that that could be a tailwind in 2015 perhaps to offset some of the headwinds we're seeing from FX. Dara, do you want to take the --?
Dara Khosrowshahi - Expedia, Inc. - President & CEO

As far as Captain Obvious goes, it's been a very successful campaign for us. And if you look at Hotels.com in general, the trend in room night growth for Hotels.com has been consistently positive and improving. Q4 room night stays for Hotels.com have been higher than they have been, really, all year this year and last year. So the trends at Hotels.com continue to be very strong. And the trends at Hotels.com domestically are very strong, as well.

And we see new customer acquisition growth, in general, increasing. And because of the Welcome Rewards program for Hotels.com, we see very strong repeat rates. Welcome Rewards now has over 15 million members on a worldwide basis. And essentially the Hotels.com model of bringing in new customers, introducing them to the Welcome Rewards program, serving them very well, and then keeping them and having them repeat is a formula that's working quite well for us, and it's something that we want to build on.

Brian Fitzgerald - Jefferies & Co. - Analyst

Great. Thanks, guys.

Operator

Eric Sheridan, UBS.

Eric Sheridan - UBS - Analyst

Thanks for taking the questions. Two bigger-picture strategic questions, one with respect to China. Obviously, understand the point that eLong is a separate entity and you're not necessarily giving it capital today. But how do you think about the role eLong might be able to play if the market in China consolidated and how you could redeploy that capital into other areas of the business if that opportunity presented itself versus the opportunity for eLong as a standalone entity long term?

And second one you've obviously done a fair bit of acquisitions over the last 18 months in the OTA space broadly, with Wotif and Travelocity. What do you think the pathway forward is to do more acquisitions in the OTA space, especially to leverage on some of the technology investments you made over the last couple of years? Thanks, guys.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure. As far as eLong goes and redeploying capital, et cetera, we're not short on capital. This is a business that throws off $1 billion of free cash flow. eLong has plenty of capital, they've got over $300 million in cash. And the reason why we say we're not trading off eLong investments against other investments is because we don't have to.

We will disclose them to you. And from our standpoint, we're very confident of the eLong team. They have built a big business there. And we think that eLong will be very accretive for Expedia shareholders over a period of time. And we're just heads down on maximizing that value from a long-term perspective.

As far as acquisitions go, acquisitions are a part of our game plan. We've had a number of acquisitions over the years. And I would say that our technology platforms now, and our operating practices now, are at a different level where we are good at, and have a very strong practice at, bringing in and consolidating acquisitions and realizing synergies.

We have our hands full with Wotif and Travelocity. But the travel market is enormous. It's a $1.3 trillion travel market. We're one of the biggest players out there with only $50 billion, less than 5% of that market.
And we do think that consolidation is going to continue. We think that the big global players in general are going to gain share. And we will look for consolidation opportunities if they make sense for our shareholders, and if they give us a higher return than buying back our own stock.

Eric Sheridan - UBS - Analyst
All right. Thanks so much.

Operator
Ross Sandler, Deutsche Bank.

Ross Sandler - Deutsche Bank - Analyst
Thanks, guys. Just on the guidance question, maybe not talking about the contribution from Wotif, Travelocity, but can we just talk about what is baked in, in terms of organic growth in the core franchise relative to the 18% or, call it, mid teens ex Travelocity in 2014?

And then a question on the unit efficiencies. Given the trends with revenue per room night, and then the marketing spend that’s flowing through trivago, is the right way to look at the growth rate of marketing or direct marketing relative to your room night growth? Or how do we think about the rate of marketing deleverage, how much of that is trivago versus some of the contra revenue items you mentioned versus just industry dynamic? Thanks.

Mark Okerstrom - Expedia, Inc. - EVP of Operations & CFO
Sure. On guidance, I would say that I would think about our guidance as being largely an organic story. Again, we will get some helpers for those acquisitions. But, again, we got harder headwinds this year just lapping over the Travelocity acquisition. So, the guidance I would take is really representing strength in the core of the business and not a lot of net help from anything other than that.

With respect to unit trends and sales and marketing deleverage, again, we are deleveraging sales and marketing essentially for what we think are really great reasons, which are really two major drivers. One is that we’re just having much more success in variable marketing channels as we continue to improve the conversion on our websites. We just get much better at that on a global basis. And, of course, no matter how efficient those channels are, they’re always going to be more expensive than free, which is what the direct type in traffic is. So, when we’re driving growth through other channels, which we are right now, you’re going to continue to see deleverage on the P&L there.

And, secondly, it’s just global expansion, and of course that’s happening across all of our brands. We continue to push into international markets on a more aggressive basis. And those markets, even though themselves get more efficient over time, they are generally less efficient than our core domestic market. So, those are the big drivers.

Trivago is certainly a piece of it. But I think now you’ll see in 2015 we are completely clear of that acquisition. So we’ve got clean comps. And that wasn’t the case for all of 2014. We had a tougher comp in Q1. They’re going to continue to be a driver but, really, it’s the core business that’s driving a lot of that story, now that we’re annualizing over the trivago acquisition.

In terms of how to look at it, I think looking at direct sales and marketing, per room night is a decent way to look at it. A lot of our marketing spend does go against our hotel business. I think you’ll be able to back into a number that at least approximates what you think trivago spends on marketing. You could back out an estimate on that. But I think that could give you a reasonable way to look at it on a go-forward basis.
Dara Khosrowshahi - Expedia, Inc. - President & CEO

And I think in general on trivago, as far as its effect on the P&L goes, trivago tends to run sales and marketing as a percentage of revenue much higher than the core business, and tends to have significantly lower overhead cost of sales costs on the core business.

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

Yes.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

So you can play around with that kind of modeling.

Ross Sandler - Deutsche Bank - Analyst

Great. Thanks, guys.

Operator

Douglas Anmuth, JPMorgan.

Binum Bornan - JPMorgan - Analyst

Hi, good afternoon, everyone. Thanks for taking the question. This is [Binum Bornan] on for Doug. We were wondering if you could provide more color on the big gap between the 28% hotel and room nights growth and the 15% hotel revenue growth. Obviously FX is part of it but could you help maybe walk us down from 28% to 15%. And how much of that was maybe going to supply and promotions, and if you expect that to continue. Thanks.

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

Sure. By and large, the biggest driver there was foreign exchange trends, about 500 basis points of that 1,000 basis point or 1,300 basis point delta came from that impact. I'll say a portion of that is hedged off and it fits in our other income item. But if you're looking at just hotel revenue it's not in that number.

The other drivers are just very consistent what we spoke about on prior quarters. One is that we continue to adjust our hotel margins to make sure that we're just competitive for local market conditions. And that's pretty important for us as we continue to aggressively build our hotel count and really drive for great rates and availability with our hotel partners.

Secondly is the impact of our loyalty programs. And Dara mentioned the Hotels.com Welcome Rewards program. Been very successful. More and more of the Hotels.com business is really coming from that repeat loyal user base.

It's nicely efficient for us on an adjusted EBITDA basis. But in our P&L it's shown as a contra revenue item as opposed to sales and marketing, so that puts pressure on the metric, as well. And then also in, call it, that bucket of loyalty is couponing and discounting that we do from time to time.

Binum Bornan - JPMorgan - Analyst

Thanks very much. Best of luck.
Operator
Michael Millman, Millman Research Associates.

Michael Millman - Millman Research Associates - Analyst
Thank you. I want to go back a little bit regarding the currency on actual travel. Could you talk about the numbers in terms of profitability or revenues from maybe more US traveling to Europe? Europe staying in Europe? What this might also mean in terms of places like Russia that has poor currency situation? Any help would be very beneficial in quantifying some of these.

Dara Khosrowshahi - Expedia, Inc. - President & CEO
Sure. And I think I’ll try to be helpful but there are so many crossovers in general and currencies. Now we’re close to, I think, 70 countries. I don’t know how many currencies we operate in. There is no simple answer. But I’m going to try a simple answer to your question.

In general, the volumes that we see, the strength of volumes from the US to the international markets -- and US is about 50% of our volume -- is offsetting the weakness of international markets coming to the US. In general, those two are offsetting in big picture terms.

We are seeing significant negative headwinds on foreign exchange. And we’re seeing, for example, average daily rates this year being negative because of foreign exchange. That’s a translation of these foreign currencies to US dollars.

And, in general, we’re seeing more domestic travel on a worldwide basis. So, our Russian volumes are more staying within Russia. In almost every single country we’re seeing more travel locally.

Part of this is because of our expanding supply and becoming more relevant to local customers. And part of it, we believe, are because of all the uncertainty around currency movements, et cetera. Currency is going to be a pretty significant headwind for us for the year. We’ve baked it into our numbers, so to speak, but we know it’ll be a challenge.

Michael Millman - Millman Research Associates - Analyst
So, I assume that US hotel stays, more profitable for you than a Europe hotel stay. If the numbers may cancel out, does the bottom line cancel out?

Dara Khosrowshahi - Expedia, Inc. - President & CEO
I would generalize in that international hotel stay is the most valuable because it tends to have longer length of stays, it tends to have lower cancellation rates. On a year-on-year basis, you’re right, because of the dollar, a US stay this year is going to be stronger than an international stay. And it’s that foreign exchange that’s putting a lot of pressure on some of those international stays, which is a headwind. That is a net headwind and it’s going to hurt our finances going into 2015 but we’ve worked it into our forecasts.

Michael Millman - Millman Research Associates - Analyst
And switching to the oil prices, are there some places that the economy’s been hurt so badly that it’s affecting travel?
Mark Okerstrom - Expedia, Inc. - EVP of Operations & CFO

One spot where we are starting to see signs of the impact of oil prices, we think, is in the Nordic region. And we've got a pretty big business in the Nordics under our Egencia business and we can see some signs of weakness there. And then certainly are Hotels.com business has got a really big presence in the Nordics.

So far their volumes look decent but the Norwegian currency has just taken a pretty significant hit recently. So, on an actual dollar basis, it looks a lot worse. That can persist for only some time before you start to see some impact on leisure travel.

So, we're starting to see some signs. We can't exactly tie it to oil and gas. There's certainly some FX issues there. But certainly there's something there.

Michael Millman - Millman Research Associates - Analyst

Thank you.

Operator
Ron Josey, JMP Securities.

Andrew Boone - JMP Securities - Analyst

Hi, guys. Thanks for taking my question. This is Andrew Boone on for Ron. Just a quick question on Wotif. How long do you expect it to take to implement new Expedia's new booking tool at Wotif? I know you guys said 1H, but any more clarification there. And then just wondering if you guys are planning on continuing to charge a booking fee. Thanks.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure. As far as implementation goes, we're going to move ever gradually. For example, if you perform an international search on Wotif, that is already being powered by the Expedia technology platform. We're making the front end technology implementation as we speak. But more importantly we're also integrating the supply platform and recontracting with some of the Wotif hotels

So, it'll be sometime in the first half. My guess it will be sometime in the second quarter. We can't be more exact than that.

As far as booking fees, et cetera, we haven't made final plans there, so nothing to speak of at this point.

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

I would just add a quick point that if you just look back to the Travelocity implementation, as well, that once we get the business onto the new platform, there's also a period of optimization that you go through in sales and marketing just on the site, as well. And that optimization process will continue even through the second half of 2015. So, just keep that in mind, as well.

Dara Khosrowshahi - Expedia, Inc. - President & CEO

And when Mark was talking about the technology costs, for example, we're essentially paying double technology costs right now. We're integrating the Wotif technology, at the same time the Wotif stack is up and running. So, that relates to some of the trends that Mark talked about in his guidance.
Andrew Boone - JMP Securities - Analyst

Great. Thank you.

Operator

Mark Mahaney, RBC Capital.

Rohit Kulkarni - RBC Capital Markets - Analyst

Great. Thank you. This is Rohit Kulkarni filling in for Mark. Just a big picture. Can you talk about how you are viewing your auxiliary or octagonal travel opportunities, be it vacation rentals or any new services, incremental services to travelers or hotels? And as a sub question, can you provide any updates or color around how your Home Away relationship is progressing?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

Sure. I’ll tell you, Rohit, we’re very focused on our base business and we have more than enough on our plate. And we’re very comfortable that the businesses that we’re in now, the core OTA business, the corporate business, the Wotif business, eLong and China, all have very long runways ahead of them. So, right now we’re pretty squarely focused dead ahead on the businesses at hand.

Now, we are testing and learning. So, for example we’re certainly testing and learning with Home Away. We’re getting more and more bookable properties onto Expedia. We’re giving the Home Away inventory more exposure. And at this point, we don’t have a final call on what it means but it looks like the inventory is certainly attractive, and it does look like a certain segment of our population and customer base likes that inventory and appreciates our showing them that inventory.

Now, at the same time, one area that we are working on, and I think getting much better at, is to upsell various parts of travel to our customers. So, when a customer comes in to buy an Expedia air ticket, I think we’re getting much better about upselling a car or upselling destination services, ground transport to the customer, ticket to a theme park, et cetera.

So, all of these other travel opportunities, many of them are opportunities that we are servicing now. And our focus is how can we cross-sell those customers more stuff, because those cross-sells typically are very high margins because we don’t have to reacquire those customers through third-party channels. We certainly want to cast our net wider but it’s within the set of products that we’re offering now, and we’re seeing very good experience there. Our attach-type revenue growth for us is really at record highs and we think there’s much more to go.

Rohit Kulkarni - RBC Capital Markets - Analyst

Okay. And if I could ask one more. Any view on -- a lot of market cap is created in the private markets and the sharing economy space -- uber, [air, b&b] in particular. Do you have any view on whether you view them over the long term over the next two, three years as a potential partner or something that you would need to have a product in that particular space?

Dara Khosrowshahi - Expedia, Inc. - President & CEO

I think we will look to partner up for that product at this point. Obviously things may change we may have different viewpoint. But, for example, Home Away is an example of, while it’s not sharing product, to some extent, it is rental product, it’s people sharing in one way.
And we are testing and learning actively and have 160,000 or so Home Away properties now offered on Expedia, and understanding what the best treatment of that kind of inventory is. So, we will be actively testing and learning. We think it will continue to be a complement of our services and we'll look to build those partnerships over time.

**Rohit Kulkarni - RBC Capital Markets - Analyst**

Okay. Thanks a lot, Dara.

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**Operator**

Kevin Kopelman, Cowen and Company.

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

Hi. Thanks. First, could you talk a little bit more about your investment supply? It looks like you added, I think, ex eLong, maybe about 7,000 hotels this quarter and 5,000 last quarter. Is that a pace that you are happy with? And what do you expect that to look like going forward?

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

Sure. We continue to, I would say, accelerate our acquisition of hotels, so you did observe an uptick. When you look overall in a year-on-year basis, we, ex eLong, for example, increased our supply base by a little over 10%, which is not as fast as our room night growth so we're sending more concentrated supply into our set of hotels. I think if you look forward to 2015, we do expect the year-on-year pace for new hotels added to the system to accelerate.

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

Okay. Thanks. And then just to follow up on the previous question, I think it was about vacation rental, just to clarify, you are saying you would rather partner in vacation rentals, in general, than build it out yourselves.

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

Listen, I think it's too soon to tell. Really, what we're working on right now is building up our core hotel inventory. And, in general, we will look to augment that inventory and partner up with additional inventory that creates value for our customers.

If we find that there's a particular inventory type that's highly attractive, that we should secure directly, we'll look to do that but at this point it's not a core part of our strategy.

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

And I’d just say, Kevin, too, that we have, over the last number of years, actually done some direct contracting in vacation rentals around ski and beach destinations. And of course we're concentrating that in areas where it's professionally managed online bookable. And, really, the only change to the story here is that we are testing with stuff that's a little bit more by owner. And to the extent it works, we've got expertise in being able to market that on our websites.
Thank you.

Operator
(Operator Instructions)

There are no further questions at this time.

Alan Pickerill - Expedia, Inc. - VP of IR
All right. Let’s wrap it up. Thanks, everybody, for joining the call today. The replay will be available on the IR site shortly. Dara, any final closing comments?

Dara Khosrowshahi - Expedia, Inc. - President & CEO
No. Just thank you for joining us, and a big thanks to the Expedia Inc. family for a really good year. And a big welcome to the Travelocity, Wotif group, et cetera. We’re really excited about building these brands and building these assets with you. Thank you.

Alan Pickerill - Expedia, Inc. - VP of IR
Thank you.

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

Operator
Ladies and gentlemen, this does conclude today’s conference. We thank you for your participation.