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# EDITED TRANSCRIPT

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## CORPORATE PARTICIPANTS

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

## CONFERENCE CALL PARTICIPANTS

**Mike Olson** *Piper Jaffray & Co. - Analyst*

## PRESENTATION

**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Good morning, everyone. I am Mike Olson, and I cover online travel, digital media and video games at Piper. Today we are thrilled to have Mark Okerstrom from Expedia and there is a lot going on at Expedia right now. So we are going to just dive right into it.

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

Yes, absolutely.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

It has been an exciting last several months for the Company; acquisitions of Travelocity, Orbitz being announced. Maybe just first of all, can you talk about the strategy behind adding those into the Expedia portfolio? I have heard thoughts from investors on both sides of the equation as you might imagine. They add a lot of traffic but on the other side maybe they are OTAs that were too focused on air, too focused on domestic or something like that. How are you thinking about it?

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

Yes, great question. Well, I think for us, it is a continuation of the strategy that we have been pursuing for a very long time really since the beginning of Expedia Inc. We have always been multibrand. Our strategy is very clearly to own and empower the best travel brands that exist in the world and the acquisitions of Wotif, the acquisitions of Travelocity, what we've announced with Orbitz and actually recently with the Despedgar investment, all really along that vein. What we have found is that we have actually built some real competitive advantages, competitive advantages in the global scale of our technology platforms, competitive advantages in the global scale of our hotel supply footprint and as a result, it enables us to go when and acquire some of these iconic brands like Travelocity for example, one of the pioneers in online travel, businesses that have invested hundreds of millions if not billions of dollars in creating real brand loyalty and bring to those businesses better consumer experiences, modern technology platforms, better hotel supply.

And that's certainly the case with Travelocity, it's what we are doing with Wotif and in the case of Despegar, we are fortunate to have made an investment in Despegar that we announced this morning of \$270 million, under 20% ownership. We haven't disclosed the exact amount and we will be powering their hotel supply. Again it's all part of that same strategy.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Okay, got you. So one of the things along the lines of that strategy is you have said before that you think there's a lot of fish to fry in the core online travel bookings space and so maybe that's the reason why you have invested as much and things like some of the things your competitors have done like restaurant bookings or tours and attractions or things of that nature.



Is that how we should think about Expedia going forward? Is that you are focused on these core components of online travel, air, car rental, hotel, etc. and is that a big enough opportunity?

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

Well certainly we think it's a big opportunity, \$1.3 trillion, we just did over \$50 billion last year and we are one of the largest so we think we've got a very, very long way to go in the core business.

Listen, I think restaurants, activities, you name it, that can be a very good strategy and I think there's certainly opportunity for there to be different strategies by different players. Given the assets we have however, we think we've got a lot of runway ahead of us in air, in hotel, in car. We've got a big activities business that we already own it, we just have to build it and we think we've got a lot of runway ahead of us just given the fact that we are already multiproduct.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Okay, makes sense. Overall, kind of where we are in the space right now, there was a lot of concern over the last couple of quarters about Europe. The US seems to have been rocking and rolling here. How would you describe the current environment for just online travel overall? Again, US market has been strong, Europe seems okay but maybe not great. Are you seeing any pockets of weakness or conversely is there any point at which in certain markets like the US where if gets too strong you could see actually this kind of countercyclical effect that people always talk about?

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

Well I would say the overall environment remains pretty healthy. Certainly you see currency impacts on travel patterns and it's something that we mentioned on our Q4 call. We are seeing US travelers traveling more internationally. The world is on sale for Americans and conversely we are seeing less travel into the US internationally. For us, because about 50% of our business from a consumer standpoint is in the US and about 50% of our business from a destination standpoint is in the US, we are well-balanced and these effects basically counter each other. But overall it's a pretty healthy environment.

With respect to the US and the health of the industry, I think you can get to a point where it's just too hot and occupancy levels become too high. I don't think we're at that point yet. I think certainly we have seen some impact of higher occupancy rates, more confidence by hotel years in terms of the inventory that they've given Hotwire for example and that's a deeply discounted product. And I think that's something that a business that has struggled to get really attractive inventory at some time. But aside from that, we have not seen pressures associated with an extremely hot market. I think we are still in a very healthy space.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Okay, got you. As the US online travel remains strong, will that only result potentially in increased competition for various advertising channels? And I guess with booking.com continuing to spend on marketing with their domestic brand, should we expect increased pressure on sales and marketing or I guess has that uptick in aggressiveness in the last few quarters kind of now gotten us to a place where it's a more stable run rate?

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

Well I would say we haven't seen a significant change in the competitive intensity in the online environment for some time now. We are certainly spending more in online marketing than we have in the past but really it's a byproduct of us being able to spend more. Our conversion rates on our technology platforms are getting better. That means the expected value of a visitor is higher and as a result we are able to spend more to get more. But we haven't seen a big change in the competitive environment. It's competitive, it's always been very competitive. We face competitors



not only Priceline which everyone speaks about but from hotels directly, from airlines directly, from traditional travel agents etc. and I don't think that's going to change anytime soon.

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**Mike Olson** - Piper Jaffray & Co. - Analyst

Got you. Okay. Let's shift gears to another category, metasearch is clearly a fast-growing category. You have Trivago to participate in that. Generally is metasearch a good thing or a bad thing for the traditional OTAs? Is it maybe a positive because it provides another great source of traffic that has relatively maybe higher conversion than traditional search traffic or is it a negative because maybe allows consumers to more easily see hotel direct pricing right next to the OTA booking options?

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

Well I think net-net, we think it's a good thing and what we have learned over the years is that generally everything that a consumer likes is a good thing and we've just got to figure out how we best get a hold of that and best offer it. We are fortunate to as you call out on a majority position in Trivago, that's a business that is getting big, over \$400 million in revenue last year and growing very quickly, grew revenue 68% year-on-year after some pretty significant foreign-exchange headwinds.

So clearly it's resonating and it's working. For the OTAs that participate in Trivago, I would say that it's also a great thing, very qualified leads, customers when they come to an OTA website know what hotel they are searching for and they know what dates they are searching for and so conversion rates are nicely high and the market is efficient. So net-net, I think metasearch has been good for consumers, I think it has been good for OTAs and it's generally good for the travel environment.

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**Mike Olson** - Piper Jaffray & Co. - Analyst

Okay. And along those lines, TripAdvisor is doing a lot of things in that space as you guys are well aware. Expedia currently does not participate in TripAdvisor's Instant Book. Can you just talk about why that is? Is it an unfavorable kind of ROI proposition versus other sources of traffic or is TripAdvisor kind of getting too close to becoming an OTA with that type of offering?

I guess what could cause you to look at potentially participating longer-term? Would for example having the majority of the big hotel chains on board potentially impact your decision-making there?

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

Yes, listen, I don't think that having the hotel chains in the Instant Book product would change our view. I think it's a question as to whether the big hotel chains will all go in there and create -- get a third OTA. So that'll be interesting to watch over time.

For us it has really been about the product. We saw the way that TripAdvisor ultimately decided to implement the Instant Book product. It was a product that didn't have the characteristics of the marketing channel that we found to be particularly attractive in that it wasn't well branded. The traffic that we expected to get from that we didn't expect to have particularly attractive repeat economics and such we decided to not participate.

There's really no change on that front. I think for us to change our view on TripAdvisor we'd have to see a dramatic shift in the product.

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**Mike Olson** - Piper Jaffray & Co. - Analyst

Okay. One thing I wanted to ask about and then I'll open it up for some audience questions is on HomeAway. You have this great partnership with HomeAway. You kind of amped it up really in the last few quarters here, last few months. What kind of has driven the interest in having vacation rentals loaded right next to hotels? Was it Expedia users basically asking or did you simply just want a more comprehensive platform to offer?

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

Well we are always looking for new products, new features, new things that are interesting to our customers and vacation rentals I think are certainly with Airbnb increasing in PR buzz if not popularity. And we wanted to actually test and see whether the vacation rental property or product would actually resonate with our consumers. And that is basically it. It's as simple as that.

And I think to the extent that we can find situations where we can drive our visitors to vacation rental properties on a recurring basis in a way that is incremental to our existing business, in a way that improves conversion and doesn't hurt our unit economics, I think it's something that can be a very interesting opportunity for us but it's still pretty early.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Okay, yes let me ask actually one follow-up to that was has there been any push back from the traditional hotels that you are including vacation rentals? Do they see it as a competitive issue and I guess as HomeAway drives towards having more properties that are online bookable, do you expect that your HomeAway property count will kind of rise along with that?

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

Well I think taking the second question first I think to the extent that HomeAway is able to make more properties bookable, absolutely we would be thrilled to display them on the site and continue to put them into the broader tests that we are doing.

With respect to hotels, there really hasn't been push back. Generally our hotel partners are very happy when they get a good volume of business from us from regions where they can't get it themselves at attractive economics and they are a little bit less concerned about whether we are displaying vacation rentals on the side so no real push back yet. But again, it's still relatively small in terms of when we are displaying these properties.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Okay, got you. Are there any questions from the audience at this point? All right. I will keep rolling and then we'll poll back for more in a minute.

So I cover see Ctrip? I've been kind of watching the company's margins go from the mid-40s to sub zero over the last couple years. That market as you know remains extremely competitive. How would you describe your strategy there with eLong in the coming quarters assuming the market remains competitive from an inventory acquisition and discounting standpoint? Is that just at this point an all-out land grab and maybe don't worry about how much you lose in the meantime because it's going to be a huge opportunity at some point?

Yes, I think the other thing as I get a lot of questions about what Qunar is doing given they have a huge investor with Baidu that can throw some money into that equation as well as Alibaba getting into the space with Alitrip. So a lot of questions there but basically what is your thought on China?

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

Well, there are a lot of giants with a lot of deep pockets engaged in a pretty big battle in China right now. We are fortunate actually in eLong to have a great partner in Tencent who is one of the giants. So we are not in it alone. Tencent owns 15% of the eLong and we've got a good relationship with them.

In terms of our perspective on eLong, we did say on the call the Q4 call they had lost \$27 million in the fourth quarter. We expected quarterly losses to be that if not more. And so from a financial perspective, I think that lays out the path. Strategically the way we look at it though is we've got a

business that is in a nice position in a huge market, the Chinese travel market is over \$100 billion. It is growing very quickly, off-line to on-line is still in its early stages.

We've got a local operator there, Guangfu Cui, who is a very aggressive operator. He has got a great track record. It's a business that is very Kerry well-capitalized and it had over \$300 million in cash and again, we've got a great partner and Tencent alongside us.

So we are going to do what it takes to really make sure that for our shareholders we continue to do what we love to do which is create shareholder value and we will see what form that shapes or see what form that takes over the next year or two.

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**Mike Olson** - Piper Jaffray & Co. - Analyst

Okay. And then I guess maybe as it relates to Decolar, you were mentioning earlier \$270 million investment today. They are I believe the largest incumbent OTA in that region in Latin America. What are your goals for that region? Can you maybe talk about how some people may be thinking in the back of their heads could this end up being another eLong situation? Maybe talk about how Latin America market currently maybe is a little different from the China market?

And then I guess lastly, are there any other pockets of geographic areas that you feel you are under serving right now and there may be an opportunity for?

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

Sure. Well listen, we are very happy with the Despegar Decolar deal. We have been partners with them I think going back to 2002 and we are big fans of that management team and we are very happy to be able to take an equity interest in what is a really exciting company in a very exciting part of the world.

That part of the world is very different from China. Very very different. Firstly, Despegar, which operates as Decolar in some countries, is really the number one player. They have been around for a long time and have built a very solid position in Brazil and in Argentina and really most Latin America countries, a well-recognized brand. And really when you look around that region, they are the player to be reckoned with.

And so it's very different from China. You certainly don't have the big Internet giants in playing with their pawns and we're just fortunate to be able to be deeper partners with them, to provide our hotel inventory, to work more closely with them in terms of some of the things that we've learned in online marketing and product and just to develop that relationship over time.

Listen, in terms of other regions, the world is large, \$1.3 trillion travel industry, about 50% of our business is still in the US. We think over time that we should probably have 30% to 40% of our business in the US which means there's just tons of opportunity, Middle East, Southeast Asia, Eastern Europe, the rest of Latin America. It's really a big market. It's a market where global scale counts and we are fortunate to have global scale so there's lots of opportunity to be had.

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**Mike Olson** - Piper Jaffray & Co. - Analyst

Okay. One last poll for audience any audience questions? All right I will keep going.

One last one here. So this phenomenon or growth in same day bookings has been an interesting thing to watch, Hotel Tonight and Priceline Express deals. What are you guys doing in that space? Do see it as a real space? Again, is it somewhat of a countercyclical space like when occupancy is high enough, are hotels going to be providing these kind of last minute deals or what's your take on just same day deals?



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

Well, I think that same day deals are here to stay. I actually think they've been here for a long time but mobile has really opened up the opportunity to access that and give hotels the opportunity to be more effective in distributing that inventory last minute and filling up that hotel for the last room.

There has been some interesting innovations in the space. I think you find that in these big industries that anytime you have big incumbent players who are focused on big problems to solve, there is opportunities for smaller niche players to come in and carve out a special niche. That part of the market is not a huge part of the market in terms of just last-minute distressed hotel bookings.

But it is an interesting part of the market and we are certainly participating in it, both in terms of giving our hoteliers the tools to enable them to give us last-minute availability and last-minute discounts, often mobile-only rates. But also in our app and Web experiences, offering mobile-only rates, offering booking tonight type rates that are cordoned off in the app. So we are going to continue to test and see what the best way to present that to both consumers and suppliers are.

So it's an opportunity, it is not a massive opportunity but we are certainly going after it.

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**Mike Olson** - *Piper Jaffray & Co. - Analyst*

Okay, great. Well we will leave it there. Thanks a lot, Mark, for joining us and stick around in this room for LinkedIn. Thank you.

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

Thanks.

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