OVERVIEW:
Co. reported 3Q18 YoverY revenue growth of 10%.
GOOD DAY, AND WELCOME TO THE EXPEDIA GROUP Q3 2018 EARNINGS CONFERENCE CALL. TODAY'S CONFERENCE IS BEING RECORDED.

I'M PLEASED TO BE JOINED ON THE CALL TODAY BY MARK OKERSTROM, EXPEDIA GROUP'S CEO AND PRESIDENT; AND ALAN PICKERILL, OUR CFO.

THE FOLLOWING DISCUSSION, INCLUDING RESPONSES TO YOUR QUESTIONS, REFLECTS MANAGEMENT'S VIEWS AS OF TODAY, OCTOBER 25, 2018, ONLY. WE DO NOT UNDERTAKE ANY OBLIGATION TO UPDATE OR REVISE THIS INFORMATION.

AS ALWAYS, SOME OF THE STATEMENTS MADE ON TODAY'S CALL ARE FORWARD-LOOKING, TYPICALLY PRECEDED BY WORDS SUCH AS WE EXPECT, WE BELIEVE, WE ANTICIPATE, WE'RE OPTIMISTIC THAT OR SIMILAR STATEMENTS. PLEASE REFER TO TODAY'S PRESS RELEASE AND THE COMPANY'S FILINGS WITH THE SEC FOR INFORMATION ABOUT FACTORS WHICH COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THESE FORWARD-LOOKING STATEMENTS.
You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company’s Investor Relations website at ir.expediagroup.com, and I encourage you to periodically visit our IR website for other important content, including today’s earnings release.

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

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

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

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

Thanks, Michael. We continue to build on our operational and financial momentum in the third quarter, posting strong top and bottom line results. At the same time, our organization is focused on executing several key initiatives that underpin the 3 strategic themes I shared this time a year ago: being locally relevant on a global basis, being more customer-centric and speeding up the pace of execution and innovation. Though we are still in the early days of this journey, I’m pleased with our progress to date. We’re collaborating across the company more than ever, and the organization is aligned around clear objectives squarely aimed at unlocking the full potential of our global travel platform. As we continue to push forward on these strategic priorities, we’re optimistic that they will result in sustained growth and share gains in this massive travel market for a long time to come.

In the third quarter, we grew gross bookings 11% and revenue 10% year-over-year. Adjusted EBITDA increased a very strong 29%. Our brands are making nice strides optimizing direct marketing spend, balancing quality top line growth with profitability. That approach was evident in both our strong adjusted EBITDA growth and solid 13% increase in total lodging stayed room nights.

We continue to see very good execution on our supply acquisition efforts. We added 40,000 properties to our core global lodging platform in the third quarter, bringing our total property count to approximately 595,000, excluding HomeAway, a 46% increase compared to Q3 last year. Year-to-date, though the third -- through the third quarter, we’ve now acquired over 150,000 properties and remain on pace to directly acquire at least 180,000 new properties for the full year. We also integrated 100,000 additional HomeAway listings onto our global lodging platform for the quarter and now count over 895,000 total properties in our core lodging portfolio.

Our concerted efforts to push into our priority markets continue to show promise. We still have a lot of work to do, but we’re pleased with the progress. We continue to add properties and work through everything it takes to be locally relevant in these markets. In addition to adding properties, our teams are laser focused on refining our product by enhancing areas like language translation and localized content, all aimed at making sure we provide a great experience for customers in each and every market. As a reminder, this year is just the beginning of our new operating model calling for a much more focused approach to global expansion. We expect this new approach to drive better performance in the coming years as we improve our supply position and product in these initial markets and extend this strategy to other key geographies in 2019 and beyond.

HomeAway delivered strong results, posting more adjusted EBITDA in the third quarter than it did in all of last year. That’s a tribute to the tremendous progress the HomeAway team has made in transforming the business in the few years since our acquisition. As we prepare for the next phase of growth at HomeAway, we want to welcome the teams of Pillow and ApartmentJet to the Expedia Group family. We see the addition of these unique software platforms as a key step in establishing the foundation that will help embolden HomeAway and Expedia Group’s urban expansion efforts in the coming years. Overall, the HomeAway team is executing very well and is on track for a great 2018, and we see a long runway ahead in the growing alternative accommodation space.
Egencia continued its strong top line trajectory with gross bookings increasing 14% and revenue up 10% in the quarter. With a strong sales pipeline and leading product offering, we believe Egencia can continue to take share in the managed corporate travel market for many years to come.

trivago delivered a significant improvement in adjusted EBITDA on the third quarter as it executed on its operational shift to focus more on profitability and began to see slightly easier comps. The team is making good progress in adjusting its business model to reflect the new industry dynamics, and we’re optimistic trivago can continue to deliver performance improvements going forward.

In closing, we’re pleased with our execution and results to date, and I’m extremely impressed with how much our team has accomplished so far in 2018. While we still have a lot of work ahead, we’re confident that our new strategy, combined with rigorous execution, will translate into attractive growth for many years to come.

With that, I’ll turn it over to Alan.

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

Thanks, Mark. We delivered another strong quarter balancing solid top line trends with healthy growth in adjusted EBITDA. Total lodging revenue increased 12% on stayed room night growth of 13%. Excluding HomeAway, the gap in revenue per room night and average daily rate growth was on the higher end of the 200 to 400 basis point range that we've discussed, in part due to foreign-currency headwinds.

HomeAway posted solid 24% growth in gross bookings, a deceleration from last quarter, as we expected. Total HomeAway revenue increased 35% driven by over 50% growth in transaction revenue, while subscription revenue declined 18%. Combined with leverage on operating expenses, HomeAway posted a quarterly record $209 million in adjusted EBITDA, up 66% year-over-year.

With HomeAway’s transition to an e-commerce business nearly complete, the combination of longer booking windows and a high concentration of stayed room nights during the summer months will drive increased seasonality in the P&L. Given that, as a general rule of thumb, we expect HomeAway to see pressure on adjusted EBITDA in Q1 and Q4 of each year with solid profit generation in the second and third quarters. Overall, HomeAway is headed for strong revenue and profit growth in 2018, and we are focused on driving very healthy top and bottom line growth for a long time to come.

Total Advertising & Media revenue increased 1% for the quarter. Our Media Solutions business was up over 20%, mostly offset by the year-over-year decline at trivago.

Air revenue grew 11% on 6% growth in revenue per ticket and a 4% increase in air tickets sold. Air revenue growth continues to benefit from the reclassification of distribution fees from contra revenue to cost of revenue. As a reminder, this change is neutral to profitability, and Q4 will be the last quarter it impacts our results.

We again saw leverage on overall costs with adjusted expense growth decelerating across each category, resulting in nearly 400 basis points of year-over-year adjusted EBITDA margin expansion in the quarter.

In line with our expectations, cost of revenue grew slightly faster than revenue. Similar to the last few quarters, the deleverage is due to the aforementioned accounting change related to air distribution fees and higher cloud expenses, each of which added over 100 basis points to growth.

Our cloud migration is moving along nicely, and we continue to see some of the early operational benefits. As we discussed last quarter, we have improved our cost optimization capabilities and are judiciously scaling traffic on our cloud-based lodging stack to ensure a seamless customer experience. Based on our current trajectory, we now expect total cloud cost to be around $150 million in 2018 as we complete the lodging stack migration and shift focus to our air stack.

Total selling and marketing expenses increased 3%. Direct expenses were roughly flat in Q3 largely driven by the marketing rationalization efforts at trivago. Excluding trivago, direct selling and marketing expenses grew 6% as we continue to benefit from improved marketing efficiency. Looking
forward, we expect less direct selling and marketing leverage in the fourth quarter as we further lap the initial benefits from our optimization efforts and due to the seasonal timing of HomeAway marketing expenses. Indirect selling and marketing growth remains elevated due to increased headcount associated with our supply initiative. For the full year, we now expect total adjusted selling and marketing expenses to grow slower than revenue.

Technology and content expense grew 17% in the third quarter, primarily driven by investments in our e-commerce platform and continued product innovation.

General and administrative expenses increased 10% year-over-year, a further deceleration from the second quarter. We expect G&A cost growth to continue to slow in the fourth quarter. But given the year-to-date increase, we now expect general and administrative expenses to grow slightly faster than revenue for the full year. While specific initiatives can occasionally drive it higher, we continue to expect to deliver a nice leverage in G&A over the long term.

Depreciation expense was up 10% as growth continued to slow in part from the benefit of lower data center-related CapEx. Net interest expense decreased year-over-year, a further deceleration from the second quarter. We expect G&A cost growth to continue to slow in the fourth quarter. But given the year-to-date increase, we now expect general and administrative expenses to grow slightly faster than revenue for the full year. While specific initiatives can occasionally drive it higher, we continue to expect to deliver a nice leverage in G&A over the long term.

Turning to capital allocation. Year-to-date, we’ve returned a total of over $770 million to shareholders. That includes over $630 million in share repurchases, already our highest amount for any full year in over a decade. In addition, as Mark mentioned, we continue to opportunistically invest in strategic M&A with the acquisitions of Pillow and ApartmentJet. This is consistent with our approach to capital deployment, balancing attractive capital returns to shareholders through share repurchases and dividends with opportunistic M&A that complements our organic growth strategy.

Turning to our financial expectations for the year. We are increasing the low end of our guidance range and now expect consolidated adjusted EBITDA growth of 10% to 12% in 2018. As a reminder, that growth would be 200 to 300 basis points higher, excluding cloud.

Overall, we had a strong third quarter and are pleased with our performance to this point in the year. We believe the operational momentum we’re building, balanced by continued investments in key strategic initiatives, will drive sustained healthy growth over the long term.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question comes from Mark Mahaney with RBC Capital Markets.

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

I just want to drill down, please, just on the HomeAway business. Could you talk about the sustainability of the profit levels that you’ve achieved there and the sustainability of the revenue growth, the bookings growth there?

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

Yes, Mark. Thanks. This is Alan. Yes, on the margins, I think, first of all, it’s important to point out that the EBITDA margin for HomeAway should be viewed not really on a quarterly basis but much more on a full year or trailing 12-month basis. For instance, if you look at the full year 2017, it was about 22% margin. There’s just been -- through the transition, through the seasonality, there’s been a bit of variability quarter-to-quarter, so I would
really encourage you to look over a 12-month period. We are not optimizing for the margin for HomeAway as we're not for the margin percentages; we're not for the rest of the business. We prefer to take a balanced approach. We see a big global opportunity. HomeAway, in particular, has opportunities both here in the U.S. as well as in international markets. We want to make sure that we're making the right investments there to gain share and grow the business globally. At the same time, it's our philosophy that we should be able to do that while delivering healthy profits and profit growth. So we really are taking a balanced approach. I wouldn't put a pin in a particular margin number at the moment, but that's our philosophy looking forward.

**Operator**

And our next question comes from Kevin Kopelman with Cowen and Company.

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

Could you give us any, first, thoughts about how you're thinking about 29 EBITDA ahead of the planning process and any key things you want to call out there?

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

Sure. Kevin, you said 29. I think you meant '19 maybe?

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

2019.

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

2019, yes.

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

We've not finished our long long-range planning yet.

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

Just to be clear. No. Yes, this is Alan again. We are in the middle of the planning process. We don't have a lot of color to provide today as regards 2019. I would just reemphasize what I said in the prepared remarks, which is we are looking to build a business where we can have sustained healthy top and bottom line growth. We are looking at a global opportunity, and we're building a business in a way that to build it out globally, and we think we need to make appropriate investments in order to do that. But we think we can -- as I mentioned on the HomeAway answer, I would say the same here, we think we can have a balanced approach where we are making those appropriate investments and setting this business up for success over a very long period of time while at the same time delivering healthy profits and profit growth. And I think you can kind of see that so far in what we've delivered in 2018, and we would seek to continue to do that as we move forward.

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**Operator**

And our next question comes from Deepak Mathivanan with Barclays.
Just wanted to get some clarity around the full year 2018 guidance. Even if you assume the high end of the guidance, it implies EBITDA growth rates for Q4 sort of moderate. Other than seasonality and some of like the performance efficiency gains that's being moderating and also the piece that's associated with the HomeAway, anything else that's going on that we should think about? And what would be some of those factors?

Yes, Deepak. I think you got a few of them there. I think you’re right to point out even though we don’t guide quarterly, there is implied guidance for the Q4. We are expecting a more subdued performance in terms of adjusted EBITDA growth in Q4 relative to year-to-date in Q3. A couple of things I would point out. But just to emphasize, the HomeAway seasonality is an important factor. The fact is that they are more seasonal than the rest of our business. They drive tremendous room nights and revenue and profitability in Q3 and less so in the other quarters, in Q4 and Q1, as I mentioned in my script. The other bit is that we do have the full impact in Q4 of the lodging supply investments, tech investments, other things that we’ve kind of been scaling up as we move through 2018. That has an impact on Q4. And in a way, you could think of it as being an outsized impact just given the fact that it’s fully scaled up and Q4 is a seasonally lower adjusted EBITDA quarter. So I think those are the things to point out.

Okay. That’s helpful. Related to that, you have announced some new marketing programs like partnership with the UEFA Champions League. Is that something that we should expect in 4Q? Or is that going to be largely in 2019?

Deepak, it’s Mark. I’ll make my first -- answer my first question of the call, so thank you for giving me the opportunity. I think you see a little bit of that in Q4. It will be spread really throughout 2019. And it’s a 3-year deal, so it’ll continue on beyond.

Sure, Naved. So I think that the variation from Q2 to Q3 in room night growth would be nonmeaningful. I wouldn’t draw anything from it. I would say that, on balance, the metasearch channels, which are running slower and in some places, you saw with trivago yesterday, actually declining year-on-year, can have a disproportionate impact on our international room night growth certainly compared to our domestic. So I would call that out as a headwind even though it’s pretty consistent from quarter-to-quarter.

In terms of our focus markets, we continue to be very happy with the progress there. Overall, in those markets, room nights are growing nicely ahead of the overall average. We do have a number of those markets where we were starting from a decent position in terms of brand recognition...
where the numbers are looking very nice, particularly domestic room night growth showing very strong growth rates. And other markets where we are really starting from a lower base, things are little bit slower to get going. But all told, we are happy with what we're seeing, and I would just remind you, it's a multiyear journey. I mean, the first thing you see in these markets is picked up room night growth largely because you're entering new auctions for traffic that having more properties allows you to do. But really, the benefit here is producing a better customer product, and a better customer product produces better marketing efficiencies over time. So that's really the goal of this. And I think with respect to our wave 1 markets, we would expect to see more of that type of benefit in the second and third years.

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

Got it. That's very helpful. And then maybe a quick follow-up. I think in the last call, you guys talked about how you're able to use analytics to figure out where you don't need to necessarily bid for the traffic if it can come to you organically. How far along are you now in sort of honing that ability? And does it continue to sort of hurt on the margin just because you're still sort of going through the process? Or how should we be thinking about that?

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

Well, I'd say that it’s a journey. We continue to make solid progress. I think we originally started this work in the early days in Q3, Q4 of last year and really started to see some of the benefits show up in Q1. But I think it’s an ongoing level of sophistication. There were really 2 things that we’re doing here. One is trying to identify marketing spend that is truly nonincremental, meaning that if we didn’t spend it, we would see those bookings show up in cheaper channels such as direct type-in or mobile applications. So that’s goal number one. And in that respect, you really don’t see if you do it well an impact to the top line. It’s really just more efficient -- more efficiency in your sales and marketing line item. The second piece of this, though, is really getting much more granular in looking at what efficiencies are certain ad buys actually delivering or what returns on ad spend. And in those cases, if you find inefficient spend, it can be incremental, but it’s just inefficient. And when you pull the efficiencies out and actually pull your bids down, there can be an impact on your room night growth. And you can see some of that in our numbers, and I think that you could expect to see some of that going forward. But I think, again, we’ve developed a new capability here. I think it’s going to be something that we will continue to build on and refine over time.

Operator

And our next question comes from Jed Kelly with Oppenheimer.

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

Just with the HomeAway, the deceleration in bookings, is that more self-inflicted on the marketing or competition from other players in the space? And then on this morning’s acquisition, do you expect to get more of that longer extended stays such as over 30 days? And do you intend to make that inventory exclusive to Expedia? And how should be factor in the HomeAway’s growth for next year?

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

Yes. I mean, the deceleration, as I said in my remarks, was largely in line with what we expected for their gross bookings growth, I think. There are a few factors at play, one being that they are ramping -- excuse me, lapping over some of the -- the ramping up of their performance marketing that they did late last year. And just as they get further along that curve, the low-hanging fruit is more difficult to come by. I think the other bit is they do continue to optimize just generally in the marketing area, and trying to make sure that they’ve got the right balance between returns on marketing spend and unit growth. So those are a couple of key factors. In international, there are a couple of kind of nuanced factors. One was that they had implemented some product enhancements in international markets last year that drove a bunch of gross bookings online, and they’re coming over that. They also have, in the not-too-distant past, migrated some of the international business on to the common platform. And typically, what happens when you see that is a bit of a disruption in current trends until the team can kind of optimize on the new platform and...
get things back to status quo. So those are some of the factors. But our -- the opportunity for HomeAway is quite big, and it’s a long runway. So we continue to expect them to grow at healthy rates for quite a while.

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

And Jed, just on the new acquisitions, so just to give a little more color, we’re super excited about these 2 acquisitions that we made. Just great teams and really solid new platform capabilities that we’ve built. And essentially, what these technologies do is allow apartment-type or multifamily owners and managers or communities, essentially, have a central way to manage all the alternative accommodations rental activity that’s happening in the building and also allow them to rent out some of the hospitality suites that sometimes exist in these buildings, all in a way that can be tracked, and in a way that makes it quite easy for owners and managers to be compliant with whatever regulation is put in place over the years. And certainly, that’s a fast-moving area. I wouldn’t expect it to have any significant impact on length of stay or booking windows or really be a significant driver in the near term, 2019, of HomeAway booking volume. I think it’s a -- these are foundational investments that’s are going to build a platform on which that we can really start to build an urban business over time. But it is going to take some time.

And then in terms of exclusive or not, we haven’t commented yet, I think. It’s something that we’ll look at over time. Generally, what we have seen, though, is that exclusivity in these markets has not been often a good thing, so I think we’ll look at that very carefully.

Operator

And our next question comes from Lloyd Walmsley with Deutsche Bank.

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

I have 2, if I can. First, just on the direct marketing line, you saw another quarter of even better leverage. Obviously, a lot of that is coming from HomeAway or at least, you’re seeing a lot of EBITDA upside at HomeAway, a lot of leverage at trivago. So can you kind of give us a sense for how marketing efficiency trends are moving in the Core OTA business? And then secondly, I guess, going back to the focus markets for supply acquisition and localization, I think last quarter, you said you saw acceleration in bookings in terms of bookings and room nights stayed there. Are you still seeing that in those markets? And then, is there anything else you can share around repeat behavior in those markets that can give us comfort the strategy is on track?

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

Lloyd, it’s Alan. Yes, on your selling and marketing question, I think the color I would provide there is, obviously, it was a lot of leverage on the selling and marketing line in Q3. And as I said in my prepared remarks, the majority of that was driven by what you saw at trivago, so that’s the largest single impact if you’re thinking about direct selling and marketing relative to revenue growth. The other 2 healthy contributors there were HomeAway and then the Core OTA business. And I’m not going to size them up specifically, but the contributions were in that order with the second-biggest help coming from the HomeAway business and then Core OTA in third. So those were the 3 components.

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

And then, Lloyd, on the focus markets, what we saw was, essentially, after the step-up in growth rates from Q1 to Q2, we saw the markets sustain, essentially, the healthy growth rate that we saw. And there was a mix between the markets. Some of the markets did accelerate nicely. And I mentioned here, particularly in the domestic market, some of them were a little bit more challenged than others. In many cases because of things that were happening in the metasearch channel or other market-specific items, but we certainly have no question that this is the right direction. And just as a reminder, we’re doing this because we have seen very compelling evidence of a very high correlation between property coverage and repeat rate. It’s too early for us to give you any numbers in these particular markets. It’s always dependent on the actual travel cycle and repeat
cycle of the customers that we’re actually serving. But certainly, we have a long history of understanding this relationship, and we have no question that we will see stronger repeat rates as a result of this.

Operator
And our next question comes from Justin Post with Bank of America.

Akshay Bhatia - BofA Merrill Lynch, Research Division - Associate
This is Akshay Bhatia, on for Justin. When we talk about the hotel supply investments, what is the time line to get these focus countries up to scale that you’d be happy with? And then, when should we expect you to move on to the next set of focus countries? And will there be additional expense around that?

Mark D. Okerstrom - Expedia Group, Inc. - President, CEO & Director
Sure. So we are going to launch another effort next year, in 2019. We did have a pretty big step-up this year, and so we're lapping over that. And I wouldn't expect as big of a investment required in the next wave of markets. In a number of these markets, supply is not the biggest next thing to do. It may be some sort of product enhancement or translation or some sort of marketing effort, and it really depends from market to market. So we’re going to continue to do this, but again, I wouldn’t expect as large an investment as we saw in 2018. In terms of time line, it depends. I mean, generally, it depends upon how much inventory there is to acquire. So in very large markets, it could make -- take 2 to 3 years. In smaller markets where supply is less of a focus, we can get it done in 1. So it is really dependent as is all of the stuff on the specific market that we’re focused on becoming locally relevant in.

Operator
And our next question comes from Michael Olson with Piper Jaffray.

Michael Joseph Olson - Piper Jaffray Companies, Research Division - MD & Senior Research Analyst
You have a lot of fish to fry with international inventory growth, and now you’re just talking about an alternative accommodation growth. But how are you thinking about experiences and the potential area that could be an area of increased investment in 2019? And then second, Alan, I may have missed it, but you talked about trends for sales and marketing and G&A leverage or deleverage in Q4, but what about tech and content?

Mark D. Okerstrom - Expedia Group, Inc. - President, CEO & Director
So activities is absolutely in the frying pan with all of the other fish. We are pretty excited about the opportunity in activities. We’re not new to it. I gave you some numbers last quarter. It’s a big business. I think, obviously, mobile opens up a big opportunity. It has been one of those spaces as happens in this industry where suddenly, it has acquired or attracted a lot more attention and a lot more capital. So there’s certainly much more competition in the space than there has been historically. And there’s a lot of pretty exciting players out there that are doing interesting things. But for us, our focus is really about harnessing one of the big advantages that we have, which is we have an incredible install base of mobile applications, nearly 300 million across the portfolio. We have a multi-product offering, so we know where customers are going and can generally tell where they are. And we will be working on building out our set of activities inventory, so that we can deliver the perfect activity to the perfect customer at the right time. And that’s the goal. And we’ll be working on putting -- essentially, having execution follow that strategy over the course of the next several years, and we’re pretty excited about the possibilities there.
And then, Mike, on your question on tech and content, I would just say a couple of things. One is that we are forecasting a bit of an increase in the pace of growth in tech and content in Q4. And just given the year-to-date impact plus that fact, you obviously would end up with meaningful deleverage in tech and content this year relative to revenue growth. Some of that is due to some of the investments that we've talked about over the course of the year. But just from a pure forecasting perspective, that's what we're expecting.

Operator

And our next question comes from Tom White with D.A. Davidson.

Thomas Cauthorn White - D.A. Davidson & Co., Research Division - Senior VP & Senior Research Analyst

High-level one, you guys had another kind of nice quarter of year-over-year expansion of EBITDA margin in the Core OTA segment. How should we think about direction of those margins for Core OTA kind of over the long term? I realize there's a ton of puts and takes in there. But can margins expand further from here over time? Or in 5 years or so, are we kind of in the ballpark we're at now or lower?

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

Yes. As far as -- I would repeat some of the stuff I said earlier, which is we are not optimizing for margin. We've been pretty clear about that over time, and nothing has changed there. I think what's unique to 2018 and just the period that we're in is that we're finding this opportunity to eliminate marketing spend that's not incremental and/or that is highly inefficient. And that's having a meaningful impact on the EBITDA margins for Core OTA.

I think our general model still exists, which is we want to get leverage on our fixed cost. We think the business that we're in should allow for that. And if we're effective at running the business, we should be able to see that leverage in fixed overhead cost. Selling and marketing, looking forward, we will eventually kind of get through the goodness of this period. And at that point, I would expect the relationship of selling and marketing to normalize to something closer to historical averages and/or revenue growth. But it's a little hard to be specific on that particular line just because it's going to depend on the opportunities that are in front of us. We just need to make sure we're -- as long as there's returns on the selling and marketing in period or in the near term, then we're happy to continue spending there. And we're kind of optimizing there for global share gains at good returns.

Operator

Our next question comes from Ron Josey with JMP Securities.

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

Are you there, Ron?

Ronald Victor Josey - JMP Securities LLC, Research Division - MD and Senior Research Analyst

Oh, yes. Sorry about that. Can you hear me okay?

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

Yes.
Ronald Victor Josey - JMP Securities LLC, Research Division - MD and Senior Research Analyst

Oh, perfect. Great. So I just wanted to ask 2 questions. I think, Mark, you talked a little bit about this with repeat rates on the new hotels out there. But I wanted to ask about just the language translation and how you see that sort of impacting results as we head in the year 2 and maybe where you are on that. And then also, as it relates to just lodging and HomeAway, pretty big step-up on HomeAway properties on Expedia getting to around 300,000. Is this enough -- is this like the right number of properties? Or maybe you can start highlighting these more and more in the core Expedia product?

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

Sure. Well, so language translation is just one of so many things that you've got to get right. And in many cases, it's not just about translating perfectly into the language but really starting to use local, more colloquial tone of voice, and that's, in many cases, where the nuance is. But again, it's just one piece of it. You've got to have great marketing. You've got to have great landing pages and homepage content. And you've got to have your geography systems right, some payment types right. And of course, you've got to have translation in a format, or localized format, so it really feels like it's a local experience. And we're going through each of these wave markets and just making sure that, that is the case.

In terms of Away properties, yes, I think we're up to 300,000 Away properties on really the Core OTA brands right now. I think they are being highlighted. In many cases, it's really getting a lot smarter, although it's a muscle we're building around identifying those use cases where this type of inventory is highly valuable. Some obvious ones are large groups. We can present them with a large house, any sort of alternative accommodation in a period where there's high compression in terms of low availability for traditional lodging categories, for example. But again, it's still relatively early. And if you think about just the overall opportunity, it's significant. But 300,000 properties, if you compare it to the 1.8 million that HomeAway has or some of the larger numbers that we've heard our competitors talk about and you compare that number of units to the competitor or HomeAway's units compared to the gross booking opportunity, we're very much in the early stages here.

Ronald Victor Josey - JMP Securities LLC, Research Division - MD and Senior Research Analyst

That makes a lot of sense. And Mark, just as a quick follow-up. On the language translation, you talked about all those things that you needed to get right for it to work. Is this more of a wave 2, phase 2 event? Or I'm just curious where you are.

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

No, I mean, we're -- yes, we're -- we are doing it in the waves as we go. So it just completely -- it's part of a formula. And we're doing it in the wave 1 countries right now, and we'll move on and do it in the wave 2 countries.

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

Maybe to step back and have a bigger-picture question. I think the #1 issue we get from investors is sort of the way the travel funnel and the travel industry is sort of evolving. When you think out, Mark, over the next couple of years at the product innovation you're seeing from Google, the intent
from some of your hotel partners to get more direct traffic, your desire to get more direct traffic, shared accommodations, what are some of the investments you’re making? And how should investors think about the output of growth and share as you’re looking out multiple years? Because I think that's the big investor debate right now on the group.

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

Yes. Well, I think, first of all, we think that the overall opportunity we’re -- we were moving into remains very significant. You continue to have a massive industry. You've got offline-to-online trends. And yes, we hear, "Oh, is this industry fully penetrated?" The answer to that is not even close. I mean, if you look at where we are in the U.S., it's, call it, high 40s, 50% online penetration. It steps down from there the further you move away from, call it, Manhattan. And if you compare that with our corporate travel business, Egencia, where you’re in an environment where everyone has a device, everyone has broadband access, online penetration there is anywhere, depending on the client, high 80s or 90s. Because the reality is that as long as the experience is good, people don't really want to talk to a human. So we think that the offline-to-online opportunity is significant. And where we are investing to make sure that we continue to be the place where people go to for travel is in all of the places that you’ve heard us talk about.

We continue to have a huge opportunity from the geographic expansion standpoint. And just, again, to give you a sense of that, if you look at the number of alternative accommodations we've got and compare that to any of the huge numbers that the alternative accommodations competitors have mentioned, we just got a ton of room to go to put those properties on our platform. And by the way, they're already getting bookings. It's already online. We just have to add them. And that's just alternative accommodations. In the hotel space, we've also got significant opportunity. So geographic expansion is certainly one.

We sit on an incredible amount of data, and we've been working very hard on making sure that we are using that data to our full advantage, getting much more able to actually provide much more personalized results real-time, on the fly, through a lot of the work we've been doing in the machine learning and AI space. We've been investing in voice, and we just launched a new application with Google, essentially, to allow us to answer questions and make bookings on Google Assistant, making sure that wherever customers are, however they want to interact, we're part of that. We've been investing in all of the chatbot technology and are currently [inaudible], some countries in Asia doing significant volume through our chatbots on Line and other applications. So we are staying at the forefront of this industry. We think the opportunity is very significant. We watch very closely what others are doing in the industry, and we make sure that we're trying to ensure that we are 1 step ahead. And we think that's going to be a growth formula for us that can sustain us for a very, very long time to come.

Operator
And our next question comes from Mark May with Citi.

Mark Alan May - Citigroup Inc, Research Division - Director and Senior Analyst

Apologize if this has been asked already. But in terms of marketing and how you're thinking about the intensity of marketing going forward, it seems that there's the potential for the market dynamics to -- competitive dynamics to potentially get a little bit more competitive out there. Plus, on top of that, you guys are strategically focusing on some international markets and now beginning to lean in there. Just looking at it as a whole, should we be expecting maybe a bit more intensity on the marketing front going forward?

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

Yes, I -- it's hard to say at this point. I think, certainly, we have gotten much more sophisticated in understanding specifically what we're getting for our marketing dollars. And it feels like our other major competitor has done the same. So there has been, I think, a shift in context here that I think could continue for a long time to come. I think Alan made some comments around international markets that I think are important to keep in mind. But this is not expansion of international -- into international markets with irrational or exuberant or poorly returning marketing spend.
This is us applying the same disciplined approach into essentially new auctions that exist in metasearch channels or other performance marketing channels that, in the first early days of the market, can produce marketing deleverage because those markets are less efficient overall than our core markets. But over time, they get more efficient over time as well. So I think, for us, as we push internationally, you may see optically some pressure on that line item, but it's really just a mix shift issue. And the cohorts underneath continued to perform very well. So listen, I'm hopeful that we're in a world where the level of sophistication that we have just allows for there to be a new normal. And we're just focused on international expansion in a very responsible way that produces solid returns on our advertising spend.

Operator

And our next question comes from Brian Fitzgerald with Jefferies.

Brian Patrick Fitzgerald - Jefferies LLC, Research Division - MD & Senior Equity Research Analyst

In terms of the headcount that you're -- that you've added to address the hotel supply effort, can you give us some color on the dynamics you're seeing there in terms of productivity as you onboard new hires? Is there any limitation on the gains that you're yielding out of that productivity effort? And maybe will that change as you have to add new heads into further supply expansion next year in new geographies?

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

Sure. So we did hire up a significant amount of new heads. I think we talked about investment levels in the range of $50 million or so. We're pleased with the productivity so far. It does take individuals a while to ramp up. But once they ramp up, we've got a pretty good formula of getting them up and productive. Importantly, though, something that Alan mentioned is we've been also investing in our technical systems to actually help with the automation of a lot of the activity and really trying to drive much more productivity amongst this team and also looking at ways where we can significantly reduce the amount of human intervention that has to happen to either onboard a property or to actually manage a property going forward. So it's something that we're very focused on.

Those investments that we made in automation, along with the headcount, as Alan said, are -- they are a pressure on Q4 profitability simply because we didn't have those investments in Q4. And as it relates to the technology investments, Q4 can be a seasonally low capitalization rate, so can have artificial pressure as well. So I just wanted to highlight that for you as well. But really is, we are very much focused on productivity. And a lot of the things that we've learned as we've added new heads and we've invested more in automation are things that are going to help propel us to better and better efficiency as we roll this out around the world in wave 2 and beyond.

Operator

Our next question comes from Robert Coolbrith with Wells Fargo Securities.

Robert James Coolbrith - Wells Fargo Securities, LLC, Research Division - Associate Analyst

On the revised cloud guidance for '18, just wondering if you could talk a little bit about what's helped you come in under the initial guide on the hotel stack migration. And then on air, probably more computationally intensive, a bit less seasonal than hotel, is that migration more about performance and cost savings relative to the hotel migration? And is there anything about that migration that makes you a little more conservative as you approach the cost guide for 2019? I also just wanted to check on Egencia. It looked like a little bit of a slowdown in revenue there. Just wondering if you can give us an update, anything to call out there.
Alan R. Pickerill - Expedia Group, Inc. - Executive VP, CFO & Treasurer

Yes. Great, Rob. This is Alan. So on the cloud spend, there’s 2 main factors there at the moment. One is just the amount of compute that we move into the cloud, and that is largely in our control. So we, obviously, are trying to do this in a measured way. We’re trying to make sure that we test and learn, that we offer our customers a seamless experience. And that’s been part of that process all along, and that can lead to situations where you have either more than or less than the amount of compute moved over than you initially expected in a given period. The second component, which we have undertaken in 2018, has been key efforts just to make sure that we’re being as efficient as we can be. And I won’t go into the nitty-gritty details here, but you can imagine that as you’re moving compute into the cloud, there are things you can do to make sure that you’re not leaving compute or code in the cloud that’s not necessary, that if you’re spinning up the instances that you need in the cloud, that you’re taking them back down again when they’re no longer needed and trying to make sure that you just have good processes in place. And that has been a component this year as well. But as long as you’re doing that well, then really, the question is just about how much compute do you have in the cloud. And we’ll—the numbers I gave you for this year and for next year are based on our current estimates of how much of the compute will move into the cloud.

I don’t have a lot of information for you to think about it in terms of like the air stack versus the hotel stack. I mean, ultimately, we plan to move the vast majority of the compute into the cloud, and there will be both operational and customer benefits across all of the products. But the cost savings that we’ll compute and kind of, to the extent, share externally, I wouldn’t expect them to be product by product. We’ll look at that on an all-in basis.

As far as Egencia is concerned, no, there’s nothing I would point out there that’s a big story. There’s likely some FX impact this quarter that wasn’t there last quarter. We— it can be a little bit choppy in terms of the growth because it depends -- their top line growth depends on a combination of the business that they’re selling, the business that they’re implementing and then the share of wallet that they’re getting from their customers. And all of those play into the growth rate quarter-to-quarter. I would just remind you that even with the top line growth rates that we posted for Q3, it’s well in excess of what you would expect to see the travel industry growing at. So no big story there. I think you’ll just see that ebb and flow from time to time.

Operator

And our next question comes from Michael Millman with Millman Research Associates.

Michael Millman - Millman Research Associates - Research Analyst

Touching or tailoring this discussion, I guess, on disruptive technology, is it possible to break out the impact on the volume of sales and marketing and the cost of sales and marketing? And secondly, are the obvious names in the industry all at the same place or there’s some leaders and -- well, [close] some leaders?

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

And Mike, sorry, on the volume and cost of marketing, are you thinking about it in terms of the various marketing channels out there?

Michael Millman - Millman Research Associates - Research Analyst

No, I was thinking in terms of your total sales and marketing and the...
Michael Millman - Millman Research Associates - Research Analyst

No, just -- well, if you could do that, the more detail, the better. But that wasn’t -- I was more looking at it from 30,000 feet and in terms of what your total sales and marketing might become over time as this disruptive technology becomes better and more in place.

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

Got it. Got it. Well, I think, first of all, I think sales and marketing is always going to be a big part of our business. The industry remains massive, $1.6 trillion, and we're single digits of it. So we really do have a significant opportunity to expand. And part of having an amazing service like we do is being able to tell customers all about it. Now I do think that our increased sophistication in sales and marketing will allow us to do that more efficiently over time. I think that our focus on customer centricity and really building products that customers love to come back to and love to tell their friends about will help our marketing productivity and efficiency improve over time. I think mobile app and the investments we're making in mobile app will help as well. So I think there is a lot of opportunity for us to spend sales and marketing long into the future. But I do think on the margin, we should be able to get more efficient as we grow. And certainly, that’s a big focus for us.

Operator

And we have no further questioners in the queue at this time. I would now like to turn the conference over to Mark Okerstrom, President and CEO, for closing remarks.

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

Great. Well, I want to thank everyone again for listening today. And obviously, a big thank you to the entire Expedia Group team for another solid quarter of progress. Let’s end the year strong.

With that, I’ll turn it back to the operator.

Operator

Ladies and gentlemen, this concludes today’s conference. You may now disconnect.