PARTICIPANTS

Corporate Participants

Mark D. Okerstrom – Chief Financial Officer & Executive Vice President, Expedia, Inc.

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Great, so we'll go ahead and get started. Really excited to be able to welcome Mark Okerstrom, the CFO of Expedia, here with us today. Mark, thanks for taking the time, really appreciate it. I know this is always a busy time of year for you guys.

Mark D. Okerstrom, Chief Financial Officer & Executive Vice President

It's great to be here.

QUESTION AND ANSWER SECTION

<Q>: For people in the audience that primarily know Expedia through your Expedia.com brand or have used Hotels.com as possibly everybody in this room has at some point or another. What's the right way to think about Expedia as a company right now?

<A – Mark Okerstrom – Expedia, Inc.>: Well, I think as a company, the right way to think about it is, first of all, we are a leader in a absolutely huge industry. It's a trillion dollar industry, travel, with great tailwinds. If you look at online penetration around the world, even in the U.S., the most mature market's only 60%. And when we look at our corporate customers, the true potential of online penetration, technically up to 95%.

So it's a big industry with big tailwinds and we're a leader in it. And we approach it in a very deliberate way. We have a multi-brand strategy and we have, what we think, are really some of the leading brands in travel.

In the core leisure business, obviously, we have brand Expedia, which is really, in our view, the only remaining full service OTA that's truly global. And it's in 31 different countries around the world, re-platformed the business, it's on modern technology and really firing on all cylinders.

Hotels.com in over 70 countries around the world, standalone specialist. EAN, our private-label business. And that core business is really in just execution mode. I mean, it's heads down, execute, expand globally, world-class online marketing, great supply.

And then we've got these other longer-term brands that are out there addressing different parts of the market. We've got eLong, which is the number two OTA in China, and that's just a huge opportunity for us in the long term. You've got trivago, which is the leading hotel metasearch player predominantly in Europe growing at incredibly healthy rates and now coming into the U.S. And then you've got Egencia. Corporate travel's a third of this trillion dollar industry, and we've got the fifth largest player in there that really came out of nothing 10 years ago to really become the fifth largest player, and they're doing to corporate travel what Expedia did to leisure travel 10 years ago, and we think that's an incredibly exciting long-term bet for us.

<Q>: Yeah. I mean, you touched on this a little bit. I mean, we all tend to get bogged down in sort of the quarter-to-quarter metrics of ADRs and room nights and all of that. But I mean if you step back and look at the market as a whole, where is penetration in the U.S., in Europe, in Asia? How fast are those relative markets growing?

<A – Mark Okerstrom – Expedia, Inc.>: Yeah. So again, if you just look at the overall travel industry, it's about $1 trillion, a little bit north of that now, a third in the U.S., a third in Europe, about a third in A-Pac, Latin America combined.

Online penetration is, call it, 50% to 60% in the U.S., call it anywhere from 35% to 45% in Europe depending on the countries, and call it in the 20%s in most Asian and Latin American regions with some exceptions like South Korea which is very high. The overall travel industry usually grows at a clip that's slightly ahead of GDP. And then you've got this great offline to online tailwind that's happening around the world.

And the interesting thing is that one of the big barriers to online penetration historically has been PC penetration and broadband Internet penetration, and what we're finding in some of these emerging markets is mobile is essentially enabling leap-frogging of that.

So it's a huge industry with great tailwinds, and you look at a player like ourselves, 2013, we did around $40 billion of gross bookings, so that's 4% of that $1 trillion industry. We're the market leader. And even in the U.S. where we are the strongest and we're the strongest brand, we're still in the single-digits. So I think we're in the very early stages of the online revolution of the travel industry.

<Q>: Okay. You mentioned that in a lot of ways you guys are the only global full service OTA left. How do you think about those synergies that exist between the hotel, air, car rental package business that you've gotten. How's that changing with mobile?

<A – Mark Okerstrom – Expedia, Inc.>: Well, there's a couple of pieces of the synergy story that's part of the Expedia, Inc. family. Firstly and foremostly, with our selection of leading brands, and our breadth across brand Expedia with the packages product, Hotwire with opaque, standalone hotel, Egencia the corporate product. For a supplier who's looking to access the whole travel market globally, it's of tremendous value to in one conversation be able to hit really any pocket of the market they want to. So that's one big synergy with the Expedia, Inc. business.

As it relates to brand Expedia, and that's full service OTA opportunity, the interesting thing is that the bulk of the profits in this industry, it's been no secret has been hotel. So, therefore, you have a lot of competition in the hotel space. Metasearch players are going after it, big OTAs like ourselves are going after it. And it can be very expensive to acquire traffic in the hotel space, Google in metasearch, et cetera.

But what we have in brand Expedia is an incredible asset which is we have the air product. It's a product that has historically been less profitable across the industry for intermediaries. It's something that we've actually counterintuitively perhaps invested aggressively into building really state-of-the-art platforms. And that enables us to access a whole different source of traffic and then cross-sell that into hotel.

We're in the very early stages of the opportunity there. It's an opportunity that's really only now become available on the new Expedia platform. And we think when you take a travel experience that starts with air and you can, in many cases, bundle hotel and car and scuba trips in that same package, in many cases, a lot of those components are free and that's something that is an unparalleled consumer opportunity when you couple something, which is an unbeatable product, with the ability to tap into traffic that no one else can tap into. That creates a big opportunity.

<Q>: So you touched on customer acquisition. The last couple of years you've just seen dramatic changes in a lot of your primary channels, whether it's Google evolving their travel offering and travel search offering through Hotel Finder and some of the other products that they've tried to develop whether it's TripAdvisor and what they've been doing since spinning out from Expedia and evolving their market, Priceline buying Kayak and all of that. How do you think about customer acquisition both from just a strategic standpoint now with some of your own acquisitions like trivago but also from an economic standpoint?

<A – Mark Okerstrom – Expedia, Inc.>: Well, for us, the real strategy for a great customer acquisition starts with having a great product. Having websites that are easy to use, easy to navigate, having hotel and air and car inventory that has great availability and great prices. And when you start with a great product and that becomes the core focus of your brands. It enables you to convert traffic better than those people that are less focused or have not as an effective product. And that's really were we started with the re-platforming of Hotels.com, the re-platforming of brand Expedia, the rollout of the Expedia Traveler Preference Program, which opens the aperture to much broader supply inventory.

And now we're in a spot where we do have websites where conversion is getting better and better and better and better. That enabled us to be much more effective in variable marketing channels and be able to spend more and acquire more traffic. And really the game here is to bring customers to your product, give them a great experience and next time, come back to you for free or through a cheaper channel either through the mobile app or to your website directly. And again, it all starts with having a great product, and once you've got that, and world-class online marketing capabilities, then you start to become a little bit immune to some of the CTC inflation that could be happening in the other parts of the market, and you get that flywheel going essentially.

<Q>: And how does mobile change that? There are those of us who sort of or believe in the idea that mobile's going to drive some real consolidation and economic advantages for you, especially with the tie-in that you get with apps on all of these devices?

<A – Mark Okerstrom – Expedia, Inc.>: Well, like for everyone, it's still very early for us to really prove out the thesis. But we do have some encouraging signs and, of course, we do have the thesis that many people have that mobile will provide just a much more direct relationship with the customer, and that could bring customer efficiencies and all of the good things that can happen on the P&L as a result of that. But there are a few things that we can already see that are encouraging.

One is we do see a dramatically different booking profile in Western markets on the smartphone, a lot of same-day, next-day bookings, 50% to 70% of our bookings the last time we disclosed them on smartphone were for same-day, next-day. And that compares with an average booking window on a traditional OTA site five years ago would be much more like 30 days.

So we do think that at least some of this is incremental business that used to go from the Let's Go Europe guide to the telephone to the hotel or someone driving down the road and driving right up to the hotel is now coming through either our apps or some of the cool things we're doing, Hotels.com is doing, look forward to actually bringing the app right into the navigation system. So we think that that's an incremental opportunity.

And then, secondly, is we do believe that we do have some customer economics value, getting someone into the website and having them going to the app and having them repeat with you directly. We are seeing encouraging signs there. Again, it's still early and what we expect is that the first people to download the brand Expedia app are your most loyal customers. You might see that type of activity anyways. So it's difficult to see if that's a long-term trend but it is pretty exciting.

And then there's some other things out there that we can perceive that would be opportunities. Again, it's too early to tell if they'll come to fruition but with a multi-product business like brand Expedia, having the app downloaded, owning that trip allows us to do much more in-trip cross-selling of destination services type activities. And again, that's something down the road. But we think there's lots of things to be excited about in mobile and that's why we've invested so aggressively in building what we think are pretty amazing mobile experiences now.

<Q>: And so if you think about the last few years, almost everyone in travel's sole focus has been growing international hotels. When you look out over the next five years or the span of time that Expedia is investing towards, where are your investment priority?

<A – Mark Okerstrom – Expedia, Inc.>: International hotels.

<Q>: Thought that might be the answer.

<A – Mark Okerstrom – Expedia, Inc.>: No, I mean, listen, if you look at the opportunity, a third of this, the travel market is in the hotel and a much larger portion of the profit pool is in hotels. Again, you look at our penetrations versus the overall hotel market, even in the U.S., we're still single digits of the total hotel business. There's tons of room there. If you take a look at our overall penetration of the travel market again, call it, 4%. There's tons of headroom there. If you look at the number of hotels that we have listed or that are members of the Expedia platform, we've got 260,000. If you look on trivago right now, there's over 700,000. So, we've got tons of headroom on the supply side, tons of headroom on the demand side. And then within even the existing hotels that we already have, we're still nowhere near a headroom scenario where they would say, hey, you're too much of our volume.

So, we think that international hotels is going to continue to provide opportunity for our business for a very long time in the core OTA business, in the metasearch space with trivago, in the corporate travel business with Egencia. And again, I think we're in the early innings. We've got to execute, of course, and that's no small feat. But we think the opportunity is there and international hotel will be a big part of it five years from now.

<Q>: Yeah. A big part of your investment in international hotel has been Expedia Traveler Preference. What's your early learning around ETP as a product offering both from the hotel adoption side, as well as the consumer?

<A – Mark Okerstrom – Expedia, Inc.>: Well, we've been very pleased with it. Firstly, I think the hotel response has been very positive. We've had broad adoption on the platform. We've got over 45,000 hotels signed up as of the end of the year. The hotels that are part of the program are seeing great results. They're seeing an acceleration in their growth rates from before they were on the program to after of an average of about 10% so really 1,000 basis points of incremental growth they're seeing. So versus their peers, they seem to be gaining share and so that creates more adoption.

On the consumer side, listen, we recognize that in our existing business model, we have some embedded friction, which we were predominantly the merchant model. We had agency inventory that we got as part of Venere that was predominantly secondary and tertiary markets, not the big markets like London, New York, et cetera.

And now essentially, we've got that. So we've removed friction from the platform. We now have when consumers want to book the best merchant or agency, there's no barrier there. Suppliers that want to work with us, merchant and agency, we've got options there as well. And we're seeing again, really interesting metrics from the today standpoint but from a future standpoint, we really just think we've opened up the aperture and made more of the market addressable to us.

<Q>: No, that makes sense. When you look at the partnerships that you've signed this year, HomeAway, Travelocity, what kind of impact do those have on Expedia as a platform and how open are you to more or growing the platform through those kind of relationships?

<A – Mark Okerstrom – Expedia, Inc.>: Well, I think HomeAway is still very early days. We're in test and learn mode with them, so TBD on what that turns out to we think it could be a very interesting opportunity. And any time that we can offer something to our consumers that they want, that's going to be a good thing for us.

And that's a different scenario than the Travelocity scenario. The Travelocity scenario is really a testament to the technology platforms that we've built. We have taken what used to be the market leader in the U.S. and Canada and essentially provided them with an entirely new platform. Essentially that all of their U.S. traffic is now sitting on the brand Expedia platform and it is standing up and performing very well.

And, listen, I think the word platform is something that we've used in different contexts over the years. But really importantly, what we've built is a global travel platform. And with platforms, the more volume you can flow over them, good things happen. You become more relevant to suppliers. It allows you to have more demand to acquire new inventory. That makes you more attractive to your consumers.

And skill begets skill on this industry. So, we think the Travelocity deal is encouraging. We like what we see. Just a great job by our teams in executing on that. If there were more Travelocities out there, we'd be interested in talking about that and I think that's an opportunity for us going forward.

<Q>: Yeah. Now, that makes sense. We talked a little bit before about sort of mobile. I'd be really interested in kind of how you're seeing sort of mobile users engage differently with Expedia. You talked a little bit about sort of the shorter term booking window. But particularly from a perspective of the discovery on mobile, booking on desktop, is that something that you've seen? How widespread is that in terms of the way that consumers are interacting with you on various platforms?

<A – Mark Okerstrom – Expedia, Inc.>: Yeah. No, it's very real. It's difficult to measure precisely because cross platform tracking is yet to be perfected but it is very real. We definitely see shopping activity happen on mobile devices that we wouldn't have otherwise seen. Interestingly, when you run television advertisements, oftentimes, you can see some reaction in tablet traffic because people are sitting in front of their television with their tablet. So, we think it's an interesting opportunity just to create more engagement with the brand in a way that's much more convenient. And again, we think we're at the very early stages of what's possible.

<Q>: How do you think about Google, it's role in travel? Obviously, there's a huge source of traffic and big advertising partner from you. At the same time, they're also sort of building out products that at some level compete with what you're doing. Where do they sit?

<A – Mark Okerstrom – Expedia, Inc.>: Well, I think they're a great source of new customers for us and we're constantly trying to figure out how do we spend more with Google. I mean how do we get more volume with them, which is crazy, but that's exactly the beauty of the model they've built.

On the other hand, we look at them as a real dominant player and they have moved further down the funnel. They do look now like a metasearch player. The good news is that we're fine with metasearch traffic. It performs very well. We think that being a global player with great prices and great inventory lends ourselves to great performance in metasearch. And to the extent that Google stays in the advertising business, stays in the customer acquisition channel business and not the customer ownership business, I think we're having a very long and fruitful relationship. And so far from what we've seen, that's the direction that they're going.

But again, we watch it very closely. We do take some comfort in the fact that they've been at the travel space for a very long time. They've been at consumer products for a very long time. They haven't made a huge transformational change to the travel industry beyond the media business yet and nor in consumer products have they made a dramatic dent on the likes of Amazon's business, for example. So, we think that transactional businesses and Google can coexist harmoniously for a very long time, provided that they continue on the same path they're on.

<Q>: Yeah. So, on that metasearch front, you obviously now are pretty meaningful and now in trivago. What have you learned about metasearch as a business model and owning trivago? How do you think the market around sort of the line between OTA and metasearch changes over the next few years?

<A – Mark Okerstrom – Expedia, Inc.>: Well, it'll be interesting to watch and, obviously, there's lots of developments in the space as you watch what TripAdvisor is doing to evolve their model. We've learned a few things with trivago. One is the trivago product is amazing. And if you look at the trivago business in every major country they're operating, they're taking share from Google. They're taking share from every other metasearch player. They're growing faster at rates, much exceeding the rates of TripAdvisor globally. So, it's a great product that just gets traction and it resonates.

And they're very focused on hotel searching, not hotel bookings. And there's a reason for that, and the reason is that they believe they deliver the best value to consumers by showing always the full set of availability and always the lowest price. And the way they do that is by making sure that they are a free marketplace essentially, where everyone can come in and participate and consumers can go often and experiment things. And the economics works such that, listen, as long as the consumer comes back to trivago after, hey, the more they shop around, the better. So the media model actually works. Where things start to blur over into OTA land is when you start to talk about branded book and the almighty booking button on metasearch.

And to be honest, we are fine with that as an OTA. TripAdvisor does it and trivago does it. As long as that customer is ours, again, these are great customer acquisition channels. When they customer ownership channels, well, now we've got a problem. So, I think that's where the line gets cut is to the extent that trivago or TripAdvisor end up going all the way down the booking funnel, that could be fine as long as we own the customer, and that's very important to us. But we think that the metasearch model is fantastic. We think it resonates well with consumers. Trivago is executing very well. You're going to see a lot more of trivago in the U.S. this year, and we think it's a very exciting part of the Expedia story.

<Q>: So, we're starting to see a lot more of trivago from some of the television and brand campaigns that you're doing. How do you think about the effectiveness of television as a channel? What have you seen in some of the early experiments that you've done for trivago or even more historically with your hotels in Expedia brand?

<A – Mark Okerstrom – Expedia, Inc.>: Well, I would just say it's an evolving landscape very quickly. DDR hasn't changed the face of television advertising. And we think, if done correctly, it can be very effective. But you do have to take a pretty analytical approach to it and we find that where we do that, it can be very effective. But it's one of a complement of other marketing channels that you've got be in.

And the challenge with television advertising is it's not just how good is your creative and how good are your placements, it's how good are those in the context of what all of your competitors are doing. And there's a lot of action in television advertising in online travel right now. It really heated up in 2013. We expect it's going to heat up again in 2014. So, it's one of those channels that you've got to be pretty responsive and quick to react to. Unfortunately, it's not one of those channels that lends itself to quick reaction unlike the variable channel.

<Q>: Yeah. Yeah. So, we do have some microphones around the room. If anybody has a question, please feel free to raise your hand. We've got – grab the one in the back just to be efficient on the way up.

<Q>: How do you – in response to your question about owning the customer with regard to metasearch, how do you define owning the customer? So for example, if the customer information were to be taken by TripAdvisor and passed to you so that you both have it, does that constitute owning the customer the way that you define it?

<A – Mark Okerstrom – Expedia, Inc.>: That's probably a bit more detailed than I want to get into. I think the important thing for us is that when we buy traffic from a customer acquisition channel, the customer that ultimately lands on our site or that does business with us knows that they're doing business with Expedia. They are an Expedia customer in that we have their e-mail address, and we are able to give them updates on what's happening.

What we do know is that once the booking happens, we will be servicing that booking. And so it's very important that we have a direct relationship with the customer. And there's tons of areas of gray in and around the outside of it. But that's the fundamental principle for us.

<Q>: One here. [ph] Paul (25:49).

<Q>: Mark, can you address the Hotwire? Is it stabilized? Have you – is there more challenges ahead? What's going on with that?

<A – Mark Okerstrom – Expedia, Inc.>: Yeah, we're happy to say that Hotwire has, call it, found its footing. And we do expect that it will have a broadly stable 2014. We've got a great team at Hotwire now. A gentleman named Henrik Kjellberg who's been with us for I think 12 years. He used to run our Asia Pacific business and has just got a great track record is now here in San Francisco. And the great thing about Hotwire is that it is in the hotel space, which is where all the action is. And in the hotel space, one of the most important things is having great prices. And the opaque model lends itself to having better prices than anyone else. And Hotwire has a great brand.

So, the asset that is Hotwire is a pretty great asset, and Henrik and the team are going to be working on really reinvigorating that business to create once again the long-term growth trajectory that I think is befitting of the assets at Hotwire.

<Q>: Okay. Got a question in the back and then one in the middle.

<Q>: Mark, you just had a really impressive hotel room night growth this past quarter. Can you just kind of walk us through the drivers of that? Was it improvement at conversion? Was it traffic driven? And was there even more pronounced on a geographical basis or on a platform basis?

<A – Mark Okerstrom – Expedia, Inc.>: Sorry. Was the question around the hotel room night growth...

<Q>: Correct.

<A – Mark Okerstrom – Expedia, Inc.>: ...acceleration? Yeah. I would say it was pretty broad-based. Again, Q3 room night growth was 20%, Q4, it accelerated to 25%. That's on a comp of last Q4 of 33%, which is a record for the company. So, it's an acceleration on a pretty hard comp.

And I would just tell you on a business as large as ours, to get that type of acceleration, you've really got to feel it on a pretty broad basis. And that was really the commentary we gave on the call, that it wasn't just one thing, it was a lot of things working. It was good execution by the team on a sequential basis. It was a little bit of return to normality in the TripAdvisor channel, was a help as well. But it was pretty broad-based and I don't think there would be a particular region or brand that I could call out as being the single most important driver.

<Q>: Question in the middle.

<Q>: Thank you. You mentioned eLong as sort of one of your more interesting long-term options. Maybe I guess two questions there. One, what do you see as the sets of investments that you guys called out on the call, sort of what do those investments entail in eLong maybe in the first half of this year?

And second, how do you think about building a sustainable long-term differentiation in China that – it's an intensely competitive market on price right now. Is there a way out of that sort of spiral for the market?

<A – Mark Okerstrom – Expedia, Inc.>: Yeah. No, listen, there is absolutely a way out of that spiral but it's a long-term gain. China is a huge market right now. And in our business, he who owns the traffic and consumer ultimately wins the spoils and that's essentially what you see going on in China right now. Everyone really trying to own the consumer and build up the broadest consumer base that they can.

Obviously, Ctrip's starting from a great position as really the huge gorilla in the market. You've got Qunar is part of Baidu now. It's got their own angle. And eLong's angle has really been around focusing on being the best place to go for a hotel online, via mobile. And the position there and really where the investments are going in eLong is making sure that we have a differentiated hotel product, making sure that we have a differentiated mobile product because mobile is growing in China faster than it is really anywhere in the world and is a huge driver for that market.

And the way out for us and the way out from a very price-centric competitive situation is like it is for the rest of our business, really building the best products. And that's what eLong is very much focused on. It's a long road but it's worth it. China's a massive market and the real advantage that eLong has versus everyone else is that when rationality starts to emerge in that market, as China starts to develop even further and outbound travel becomes an even bigger part of that market, there's mother Expedia that has the best global hotel inventory in all the places where the Chinese travelers will want to go to and eLong has the benefit of the full economics of our business to harness that. So, we think it's a pretty interesting opportunity and we're willing to be patient.

<Q>: Mark, from a balance sheet perspective, how do you think about particularly as you see some of the impact of the transition with ETP, how do you think about the right level of cash on the balance sheet? You've obviously been very active in buying back your own stock in the past. Where are your thoughts on that now?

<A – Mark Okerstrom – Expedia, Inc.>: Well, I would say that we were carrying a little bit of extra cash. Just looking at the possible outflow of working capital associated with ETP. We do expect again there to be some working capital in 2014.

That said, we're a very well-capitalized business. We got $1 billion revolver, well over $1 billion in cash. We've got excess debt capacity. But when we look at the global opportunity ahead of us, we think that our returns are generally, over the long-term, better delivered through intelligent deployment of our capital across acquisitions, buyback, dividend versus just pure, over-the-top financial leverage.

So, we like to have the flexibility of a little bit extra cash. We think we've got a good track record of deploying capital not aggressively, but responsibly over the set of opportunities that we have ahead of us and we will look to continue to do that going forward.

Unverified Participant

Great, okay. Mark, I really appreciate your taking the time to join us. Thanks a lot.

Mark D. Okerstrom, Chief Financial Officer & Executive Vice President

Thanks, [ph] Jim (32:40). Great to be here. Thanks.