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CORPORATE PARTICIPANTS

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

PRESENTATION

Unidentified Analyst

(inaudible) Citi's Internet sector specialist, and I'd like to welcome Expedia's Chief Financial Officer, Alan Pickerill, back to this year's conference.

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

Thank you.

Unidentified Analyst

Alan, thanks for joining us.

QUESTIONS AND ANSWERS

Unidentified Analyst

So let's start off with the 3 strategic themes that Mark outlined now almost 2 years ago. Can you give us an update on the progress with these initiatives and how you measure success?

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

Yes. I think the areas I'd focus on there, the first one is being locally relevant on a global basis. And the way to think about that is just it's really just our approach to growing the business internationally. And it's a focused approach where we're really saying, if you take an international market, how can you build the business up in that international market so that it's more like the business that we have in the U.S. And so what you're trying to do is do a gap analysis to start with, where you look at -- some the obvious things are supply gap. What's your supply gap there? What hotel supply is available in the market you don't yet have in the platform? But there's other factors, too, like just locally relevant content, local language. And language is not just about translation, but it's also about kind of local vernacular, if you will, about how to talk about neighborhoods, how to talk about areas of the region, things like that. Local payment methods is another one. And it's just really an effort, a focused effort to grow the business internationally. I think we're making good progress there.

The second one was around customer centricity. And I think it sounds a little bit obvious, but I think the company historically had a very high focus on things that we referred to as like traffic and transactions and conversion. And they're all actually good metrics to study and to try to improve as you move forward, but they're not that focused on the customer or the partner. And so I think there's are renewed focused on what are the things that we're doing as we build this business to improve the actual value proposition for customers and the actual value proposition for partners in such a way that they want to keep coming back to you again and again. So that's been a second area of focus.

The third area of focus, which is a little bit more recent, is to really try to leverage the scale and power of the full Expedia Group portfolio of assets. And just the history there is that we operated very much like a portfolio company. We had acquired a lot of these companies. We had -- we shared ideas among some of them, but we also -- and some technology, but we also -- it was also much more autonomous marketplace of ideas and friendly competition. And I think as we look at the global market opportunity, travel is a $1.7 trillion annual market. And for us to really look at how can we bring the full Expedia Group platform to play to compete in that market, I think, is important for us. So very, very good and focused areas of strategy for us and something that we think will help us build the business well for a long time.

Unidentified Analyst

Great. So just focusing on the locally relevant on a global basis theme. We've seen supply acquisitions ramp up quite a bit over the past 18 months with a focus on the priority markets. How would you assess the performance in those priority markets? And how much more work is there to do in these markets?

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

Yes. I mean I think we're happy with the approach. It's something where there are some obvious signals. We've talked about the fact that we've added now more than 40,000 properties globally to the platform every quarter for the last 6 quarters. That pace continues, if not it gets better going forward. The gap analysis that I spoke of earlier is one where we can see improvements in the product that we're putting together in each of these markets.

Having said that, there's still work to do. I don't think that in these markets, you would look and say, "Hey, all of these gaps have been completely closed." But the good news is that doing this effort on a focused basis has allowed us to really develop almost kind of a playbook around building the business globally. It's become business as usual for us. The end goal never changed. The end goal was always to figure out how could we really get much more share of that global market that I talked about than we had historically. We've got some big businesses in these markets, some good businesses in these markets. But we are still a very, very small part of the travel market in many regions around the world. And so the opportunity for us is still quite good, and we think having this focused approach is the way to get there.

Unidentified Analyst

Good. So one of your newer strategic themes you discussed on last earnings call was on leveraging the scale of the platform. That seems like a bit of a different approach than in the past. What's changing about how the company operates? And how should we think about the implications of these changes?

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

Yes. I think it's interesting. As I mentioned, we have these businesses operating largely autonomously, and in certain ways, they still are. We're very early in this journey. But there are -- this ties to efficiency and effectiveness. It ties to customer centricity. It ties to just bringing all the assets to bear.

And what I would say is there's -- in running the business the way we did historically, there is a lot of what we would think as probably unnecessary duplication of effort around the business. There are technologies that are developed in Brand Expedia and hotels.com, for example, that are striving for essentially the same results. But they're separate technologies. They're separate efforts. There are separate pods of engineers working on these things. And so we're really looking for ways that we can not have that duplication, that we can leverage the technology.

We've had a few examples. We've got -- for example, hotels.com migrated over to the Brand Expedia customer review platform. That's just one example. So historically, 2 separate teams working on 2 separate customer review platforms when, as it turns out, you can just have them working on one. And so the good news there is that then the engineers and the teams working on that for hotels.com can instead be redeployed against things that are more customer-centric about technology and features and products that actually improve the -- that customer value proposition. And so that's the effort.

And we're early, as I said, but there are -- we think there are many opportunities across the business where we can -- in fact, we know there are many opportunities across the business where we can leverage technology across multiple brands and, as I say, be more efficient, more effective and free up resources to work on the more value-added things.

Unidentified Analyst

Good. So just on the macro front, there's been more focused on the environment in the past few quarters, macro environment. How do you classify the current environment overall? And specifically, what are you seeing in Europe where there's been some more questions in some markets?

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

Yes. I think there's a few ways to look at this. I think macro -- if you just step back and say what's happening in travel, you can see that airplanes are still full. You can see that hotels still have high occupancy. You can still see that consumers love to travel, and there's no change in any of those things. And so you would step back and say, "Hey, that's a pretty healthy environment." I think that's the way we largely think about it.

There are a few factors at play that are probably worth keeping an eye on. I would say that things that could be around the edges. So for example, Brexit in the U.K. is an example where you can see as we got -- sorry, a little distracting, as we got closer to the initial deadline, you could see travel in and out of the U.K. subsiding. The -- another example of that is in Hong Kong, for example, where you see all the protests in Hong Kong. So you can see when something like that happens, you've got travel. You've got cancellations to the region. You've got an impact on bookings to not just Hong Kong, but to destinations in Asia where Hong Kong was the connecting city, things like that. So those things are things that we keep an eye on. Those things tend to be pretty temporary, and they tend to have an -- a near-term impact on a region or a location, but in the end don't really have anything to do with the long-term trajectory of the business or our opportunity going forward.

In terms of the lodging cycle, which a lot of people focus on, the lodging cycle has been up and to the right for a long time. Ever since we climbed out of the 2008-2009 time period, occupancy is rising. Rate's rising. I think there's a lot of questions in the lodging industry around where are we in that cycle and what does that mean. I think from our perspective, we would say we're well positioned there because even if there were a softening in the lodging environment, we've got a few tools that would be at least hedges for us, if not benefits, which are things like, a, if hotels need distribution more, then we tend to be a very good channel for that. We have tools like a product we call Accelerator that allows hotels to get up in the marketplace, to improve their sort order and get more volume and, around the edges, puts us in a better position in regards to our negotiations with our hotel partners. So I think as far as the lodging cycle, in particular, I think we're well positioned.

The last thing I would just throw in there is that the weather-related stuff. Everybody's paying attention to this Hurricane Dorian, which has been moving up the Eastern Seaboard. That is something, again, doesn't have anything to do with the long-term trajectory of our business, but the storm season is something to -- that we monitor and I think others monitor around what happens to travel in and around, how difficult is the storm season in 1 year versus the last year. It would be far too early to know if that really has a year or a major year-over-year impact. But it is something that we monitor and, I think, others that follow travel do as well.

Unidentified Analyst

Okay. It's helpful. So let's move over to marketing. Last year, Expedia and really the whole online travel industry went through a period of marketing optimization. Are you now comping over that and have seen deleverage on direct marketing over the past couple of quarters? How should we think about marketing trends going forward?

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

I think there's a couple of factors at play here. As you mentioned, we went through a period in 2018 where we were quite effective at rooting out marketing spend that was -- that we deem to be non-incremental. This is marketing spend. You can think of it as being like retargeting efforts where you're paying a marketing platform for traffic that, as it turns out, if you can test it, would have come back to you directly anyway. We rooted out some marketing spend that was highly inefficient at the way high end or difficult end of the efficiency curve in marketing spend and created a situation where we drove some pretty good leverage and selling and marketing in the core OTA business over the course of 2018, in particular, in Q2 and Q3. I think we're lapping over that. I think those channels are now normalized in a lot of ways. I think the -- they're dynamic. They're competitive. I mean those are things that have been true in online travel since I've been in the industry for almost 12 years, and they've been true since I joined and continue to be true today.

I think you also generally have competitors that are rational in their marketing spend and really looking at performance-based marketing as channels where we can find new customers. And then ultimately, the goal is to find that customer from Google or to find that customer off metasearch, bring them in, please them, delight them with the product and the service that you create and then get some of those customers to come back to you directly again and again. And that's the formula that we're looking to drive.

Unidentified Analyst

Great. I know investors are focused on room night growth. And given your international push and the potential for easier comps in the meta channel, how should investors think about room night growth in the second half of the year?

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

Yes. So we spoke a little bit about this on the second quarter call. I think that we were quite pleased with room night growth. I think across the first half of the year was 11% room night growth. We have many initiatives underway, which are designed to sustain and improve room night growth over time. I think as you look, in particular, at 2019, there's a few factors. There's a few puts and takes here. I think you -- the meta channel itself, just based on the comps, there's an easing of some of the comps, the difficult comps that we saw as the channel shifted and changed. Having said that, it's a super dynamic channel. And so there's also just the componentry of competitors looking at the channel and deciding how they want to play in that channel. There's the component of metasearch players changing their tools and tweaking their tools and advertisers needing to adjust. So I think that's a component as well.

The second piece I would say is just that we continue to make decisions in marketing in these channels on a channel-by-channel basis, the brand-by-brand basis and based on the geographies. So we're looking at these channels and saying, "What is the channel growing or shrinking? What's the competition doing? Are we losing, gaining, holding share?" And we're making decisions day-to-day and week-to-week about how to kind of compete in that marketplace. And we're trying to do a good job of balancing unit growth opportunity against the relative profitability of those room nights. And so that's a component of it as well.

But in the end, what we said on the call, and I can say again today, is that we -- while we were trying to drive sustained and improving room night growth, we are -- we're not expecting vast acceleration in our room night growth in the back half of the year. And so -- but we're going to try and drive as good a results as we can there.

Unidentified Analyst

Is there any way for us to think about trends in 3Q versus 4Q or other swing factors that could push you to the lower or higher end of your guidance range?

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

Yes. The -- so we were clear on our Q2 call that we expected the rate of EBITDA growth to be much more attractive in Q4 than in Q3.

There are a few components here that are at play. One is that we are lapping over very good leverage in selling and marketing that we saw in Q3 last year, which creates a tough comp for us there. We have this French digital services tax, which we spoke about, which has a retroactive component that takes it back to the 1st of January. We'll book all of that in the third quarter. So that's a particular headwind to our rate of EBITDA growth in third quarter. trivago is a component. trivago has spoken about how they expect -- I mean their comps just get quite tough in the back half of the year compared to the front half. But specifically, they spoke about expecting EBITDA to be down significantly in Q3 and for it to be weighted to

Q4. So that's a component as well. I would say, again, as I said earlier, it's too early to tell. But obviously something we'll monitor here is just the severity of the storms and the storm systems that come through in Q3 and whether that's better or worse on a relative basis to what happened in 2018.

Unidentified Analyst

So just to touch on revenue per room night. Last quarter, the trend in revenue per room night in ADR was in line for the first time in quite a while. What drove that? And how should investors think about it going forward?

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

Yes. So revenue per room night has been lagging ADR growth for a while, and the principal factor that -- the main factor over, say, the last 5 years has been related to our effort to adjust our take rates market-by-market, to make sure that we're in line with the competition, essentially in line with the competition there, especially as we attempted to go and accelerate the pace at which we were adding hotel properties to our system.

The other factors that are in there that create that gap are things like impact to foreign currency; impact of our loyalty programs, which is recorded as a contra revenue item; couponing; refunds. Those are all things that are at play in there that impact revenue per room night and don't impact the ADR.

Sometimes, those secondary factors that I mentioned kind of work for us. Sometimes, they work against us. It happened in Q2 that they all worked in our favor, and that's sort of to narrow that gap. In particular, the loyalty program is one where each quarter, we do an actuarial assessment of that, the points liability that we've got on the balance sheet. And that -- it's usually not a particularly large impact one way or another, but it did work in our favor in Q2. I think if you normalize for that, the gap between revenue per room night, ADR would have looked more similar to what we saw in Q1.

Going forward, we don't have specific guidance on it. But we -- I still expect there to be a gap of some kind, but I think it will be -- tend to be on the more narrow end of that range going forward.

Unidentified Analyst

Okay. Great. Just turning to the Vrbo. The gross bookings trends have slowed down quite a bit the last few quarters, and you said it's going to take a little bit of time to work through some of the headwinds. Can you give us a sense of what you need to do to improve the growth there?

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

Yes. There's a few things there. I think one is the SEO has been a tremendous headwind for us at Vrbo. The -- there's a component of that that's associated, which is what Google does, in monetizing traffic and attempting to move more free traffic to paid. That's -- I mean obviously we try to navigate it as best we can but it's, in a certain way, out of our control.

I think there's also components that are much more in our control and related to things like replatforming the business, trying to get to a global single platform, trying to rationalize a number of the brands that we have. And the team is hard at work at trying to work through all the tactical and technical things that you need to do to make sure that you build back some goodness on the SEO side. That will take some time and is something that -- but it's something that we think we can see improvement in over time.

We've got SEM challenge as well, in the sense that we're lapping over building up a true SEM practice at Vrbo. It's something that they historically, prior to being a true travel e-commerce player, didn't have any unit economics to really be effective at search engine marketing, and we've built up an effort there. And we're lapping over that. There's still opportunity there though, and the team is exploring those opportunities. And there are some green shoots there around where we can really put money to work to bring in customers.

So those are some of the things -- I think that the other factor is just that the alternative accommodation opportunity is large. It's global. It's one where Vrbo has principally historically been focused on the U.S. market and has some business internationally but not substantial. And so they'll continue to look at growing kind of in the urban and international space as well, which I think will be good.

Unidentified Analyst

Great. So you saw take rates improvement at Vrbo in 2Q. What's driving that? And do you expect to make any changes on the monetization side with Airbnb shifting to a commission-only model in some parts of the world?

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

Yes. So we -- I would, first and foremost, encourage folks to look at the take rate for Vrbo on a trailing 12-month basis. That works well to kind of smooth out any seasonality that you see there. If you look at it that way, it was 10.7%, I think, on a trailing 12-month basis at the end of Q2. That is an improvement over time. I think the team continues to look at monetization to test monetization and figure out the optimum outcome there. We're set up in such a way that we've got -- you talked about commission-only versus consumer, et cetera. We've got -- we can charge commission-only. We've got blended commission and consumer fee approaches. And so we're set up in a way that gives us tremendous amount of flexibility going forward. We can see how the industry evolves. We can test new approaches on our own. And I think it puts us in a pretty good position to evolve that as we go forward. But industry seems to be -- on a monetization front, seems to be kind of in the 10% to 15% envelope in alternative accommodations. So we're still at kind of the lower end of that. So that's something we'll continue to study and could provide us some opportunity going forward.

Unidentified Analyst

So you talked about expansion into urban and international destinations as 2 growth opportunities in alternative accommodations. Could you give us an update on what your strategy is there and how big of an investment that they require?

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

Yes. I think Vrbo historically -- the business has historically been focused principally in the U.S. and principally in real true vacation destinations, beach destinations, ski destinations, those types of things. And there is an opportunity here to expand more into urban, to expand more internationally. And we think Vrbo itself has a great opportunity to do that and had started some work around that. They've made some small acquisitions that give them some tools to operate more effectively in urban markets. As we've spoken about, they will -- Vrbo will be the champion brand, and they will begin to roll that out globally as we move forward. That'll take some time. We'll do that in a balanced way. We haven't sized up what that investment is per se, but we'll do it in an envelope of the P&L that we've got and balance the opportunity against the desire to also deliver healthy profits from profit growth. So that's kind of how we think about Vrbo on its own.

The second component that's important, though, is it's -- in alternative accommodations, Vrbo is not doing this by themselves. Hotels.com ran Expedia. They offer vacation rental that is signed up by our supply team in the core business directly, and the business -- this kind of ties back a little bit to what I was talking about before in terms of leveraging the scale of the Expedia Group assets. We can do some work together where hotels.com, Brand Expedia have extensive and impressive international footprints. They have historically done very, very well in urban destinations. And so we'll look to work together to make sure that we're getting after the alternative accommodations play on an Expedia Group basis and not just with Vrbo.

Unidentified Analyst

Let me shift gears a little bit toward your cloud transition. So you've now -- you're now a few years into the initiative. Can you give us a sense of where you are on the migration and how we should think about the cost trajectory in 2020 and beyond?

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

Yes. So we've been working on migrating to the cloud environment for the last several years. I think it's generally been going very, very well. I mean we're pleased with compute that we've got in the cloud. There's a whole bunch of obvious benefits that I won't ran through today, but it's around ideas like the speed with which you can deploy code, the speed with which you can do tests, the speed with which you can run your marketing algorithms, resiliency, latency all those things are much better in the cloud. We're -- this year, our big effort is associated with the lodging stack, and we expect to be largely done with that by the end of the year. That's progressing well. We've got other components like air that are in progress and other products that will continue into 2020.

I think from a cost perspective, we had said we expect about $250 million of spend on cloud this year. It's -- we continue to think it'll be in and around that. That ultimately depends on just how much compute you end up getting into the cloud by the end of the year. There will be more compute to move into the cloud in 2020. And so there'll be another step-up in 2020 for compute power, plus you'll be annualizing your ramp in 2019. I can't be too specific because there's still some work to be done. But I would expect that by the end of 2020, while there still may be a few things to move into the cloud, I think we should be substantially there. And at some point, after you ramp just the -- after you annualize the ramp of the spend, that would get into something that is much more just growing in line with the business over time, plus or minus pricing changes. And so that's how we're thinking about that moving forward.

Unidentified Analyst

And there should be some data center cost savings in both CapEx and OpEx as you migrate to the cloud, right? Can you frame up the savings opportunity and how much progress you've made on that?

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

Yes. So the way to think about it, you kind of split it between the CapEx and OpEx, as you said, that on the CapEx side, the data point that we've given is that in 2016, before we had started the migration, we spent $180 million on CapEx related to data center. In 2017, that went down to $50 million. We're slightly lower than that in 2018. So we've already seen that benefit, and that has had a lag on impact on depreciation. You've seen our depreciation expense growth has slowed substantially. In large part, that's related to the data center CapEx.

The second piece of that is actually just avoided cost. Before we decided to move into the cloud, we were on the cusp of deciding to build out another data center. And so when you build out a data center, I mean that's essentially hundreds of millions of dollars of assets that you put in these data centers. And that's -- that part's been avoided entirely. So that's the CapEx side.

On the OpEx side, we have operating expenses associated with running the data centers. You can think of them as being kind of sub-$200 million a year on a historic basis, split between cost of sales and tech and content, skewed towards cost of sales. That has come down in the years since we've made the decision to move to the cloud. There's still significant costs there because we're still kind of operating in an environment where we're maintaining the large parts of the data center and we're running in the cloud at the same time. As we get closer to being able to close down more significant components of the data center, we would start to see some more benefit there. But you can think of those expenses as being flat to down.

One more item I'll just mention that is related to kind of both of your questions on cloud is related to the fact that we are still fine-tuning the end state of just how much compute will be left in a data center. There will be a data center footprint available to us, and there may be some componentry of our total compute power that we find more effective and efficient in an on-prem data center than in the cloud. We're still fine-tuning those plans, and so it'll maybe be more around the margin. But those final plans will have an impact on the overall kind of remaining CapEx and remaining operating expense associated with the data center.

Unidentified Analyst

Okay. Great. So I just wanted to go shift gears a little bit over to the experiences segment. It's received a lot of attention over the past years so -- and still has relatively low online penetration relative to the other travel businesses. How's Expedia addressing this opportunity? And do you need to do M&A like some of your peers have done?

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

I think the experience or activities business, I think, is quite an interesting one. It's a large business. It's directly tied to travel. It's directly tied, by the way, to travel businesses that are multiproduct, which Brand Expedia is the only truly global multiproduct online travel company that there is today. We have a substantial activities business already. I mean it's over $500 million a year in gross bookings. It's growing nicely. It kind of gets a little bit hidden in the grand scheme of our $100 billion-plus gross bookings business, but it's a substantial business for us.

The history there is that it's been a challenging business because it was largely manual and off-line. You're dealing with a lot of activities providers that are mom-and-pop shops that don't have all of the technology that are challenging to -- can be challenging to work with in terms of getting supply loaded, et cetera. That has been changing as technology has improved. And so we're increasingly able to get automated supply acquisition. We're increasingly finding additional supply. We're signing agreements with providers that have good supply, and so I think that's been improving over time as -- and so we have high hopes for that, and we think we can do a better job.

And there's more opportunity in terms of cross-selling. We can do a better job. And there's opportunity in mobile. It's obviously a great mobile engagement opportunity for travel companies because you've already booked your travel. You're -- in many cases, you're already in market. And so maybe you're sitting by the pool or you're sitting at dinner and you're thinking, "Okay. What are we going to do tomorrow?" And you can get onto the Expedia app and find some interesting snorkeling trips or scuba trips or helicopter rides that you can just book right there. So it's really great from a mobile perspective.

As far as the -- whether we need to do M&A, I think -- so we are aware of and usually get to take a look at all of those businesses that are available and up for sale. We go through the normal process you would expect us to go through. I think we feel like we can build the business organically just fine, but we'll be opportunistic on the M&A side.

Unidentified Analyst

Great. So I just want to touch on free cash flow. As we look out over the next couple of years with spend on your new headquarters ramping down, can you help us frame the free cash flow opportunity?

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

I mean I think we -- we think it's an attractive opportunity. There's a few factors at play here. I would start just with EBITDA and profit growth. I think we want to make sure we've got the business generating healthy profits and profit growth we are today, and we -- we're striving to do that as we move forward. That's where it starts.

I think in terms of some of the other components, CapEx is one where, as you mentioned, we're moving through the process of building out our new Seattle headquarters. The CapEx associated with that will peak in 2019. There's still some that will be in 2020, but it will be substantially lower, provides a tailwind. We spoke about data center CapEx. That's a component as well.

We have the -- we do -- a part of our CapEx is capitalized software development cost, and it's actually a fairly big chunk of that. In periods where our tech and content spend has been elevated, that obviously gets elevated as well as the rate of capitalization doesn't fluctuate too significantly from year-to-year as our -- as we get more efficient in the business, as our tech and content spend is more muted compared to some of the historical trends, that can provide a tailwind as well.

I think those are the -- those are some of the main factors. I think -- listen, we get a good tailwind as everybody knows from our merchant hotel business. And as long as that's a healthy and growing business, that should continue. And so we expect to be in a position to -- especially if you look at this on a kind of past 5 years basis to forward 5 years basis, we would say we're in a good position to drive improving free cash flow and free cash flow conversion over that period.

Unidentified Analyst

Okay. So Expedia has historically been very acquisitive, but there's been less M&A activity since your HomeAway acquisition a few years ago. Based on where you sit now, and I know you touched on M&A a little bit, how are you thinking about your capital allocation strategy going forward?

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

I mean I think our capital allocation has been -- our strategy has been pretty steady, which is we want to -- we do want to shrink our share count over time, and we want to be opportunistic as regards to M&A. It has ebbed and flowed. We've had periods of time where we've been very active in M&A. And it's been a substantial use of capital, and our share repurchases may be slightly less in those periods. And then we've had periods of time where we haven't done much in the way of M&A, and we've done more in the way of share repurchase. I said on the Q2 call that based on what we can see today, that we would have a bias towards allocating capital to share repurchase, obviously depends on what some of the opportunities are in M&A. But we think -- and we think share repurchase can be a good -- and reducing the share count can be a good amplification of earnings growth over time, and so we would look to do that.

Unidentified Analyst

Great. I have 1 or 2 more questions, but I want to make sure the audience has an opportunity to ask of you if they have any. So if anybody in the crowd has a question, please make sure you press the talk button on the microphone. Do we have any questions from the crowd?

Unidentified Analyst

Just to follow up on the use of free cash flow. You guys stopped and (inaudible) CapEx kind of envelope steps down next year. How should we think about kind of your net cash position? And will you guys either deploy kind of all the excess cash flow, either through M&A or repurchase? I guess if you have a preference for either or if you want just further (inaudible) build cash (inaudible).

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

So I'll try to repeat the question just -- since he wasn't on mic. The -- I think the question is essentially kind of how do we think overall about to the balance sheet and our net cash position and whether they're subjectives to kind of deploy all excess cash versus not.

I think the short answer is that we -- we're not necessarily inclined to build up a cash position, that we do look-- because we have this merchant hotel business and we are working off the float of cash that we've collected from customers that we then pay to suppliers. We do go through exercises to kind of stress test our balance sheet and just make sure that we have good liquidity. We do that both in terms of how much cash is on hand. We do it in terms of a revolver that we've got available to access, which we never have. But we've got it available if we were to need it. So that's a component of it. So we're inclined to deploy that capital and to deploy the free cash flow. I won't sit here today and promise that every year, year in and year out, we'll deploy it all. But over the long term, we're not inclined to kind of build up that cash balance over a long period of time.

Unidentified Analyst

We have time for about one more question if anyone has one. Offer more -- one here.

Unidentified Analyst

I guess the culture, I guess the -- from the way that it was built, that every business was run independently historically. And it seems that you're talking about those overlaps when you're trying to get the brands to work together and leverage each other's works, whether it's in the tech stack or it's in the supply for some of the businesses inventory. Just wondering how far along you are in terms of being shifting that can -- and the culture, the way the company was functioning under former CEO and Barry Diller or the -- I guess maybe you could break the (inaudible).

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

Yes. The work, very early in this process. This is something that we've been looking at for the past year in terms of trying to look at how do we take better advantage of the scale and leveraging kind of the technology, the people, the business practices across the organization. There are a tremendous number of ideas. The mind shift in the company has definitely shifted. And I think employees are very energized by this idea. But we're very early.

Mark mentioned on the Q2 call that we are early in the process to even just look at the overall org design and make sure that we're set up to take advantage of this. Sometimes, the idea can be quite good. But the actual process of getting to what's the better technology, as an example, can be quite challenging. And so we're looking at the organization. We're very early in that process. But listen, I think the employees, management team, all of us are quite energized by this idea of really getting much more efficient and effective, I should say, in terms of using the technology across the company.

Unidentified Analyst

Looks like we're out of time. Thanks for your time today.

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

Thanks, everybody.
