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PRESENTATION

Justin Post - *BofA Merrill Lynch - Analyst*

We're going to go ahead and get started. I'm Justin Post, Senior Internet Analyst, Merrill Lynch, and we're very pleased to have Mark Okerstrom, the CFO of Expedia, with us today. I'll probably do Q&A for 30 minutes or so, and then we'll open it up to the floor for some questions.

So first off, really thank you for joining us today.

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

Great to be here.

QUESTIONS AND ANSWERS

Justin Post - *BofA Merrill Lynch - Analyst*

It's a really I think a good time to see you as we enter the peak of the summer travel season. The groundwork you lay before that really kind of sets the stage for the summer, so why don't we just start with some of your big initiatives this year -- or really since the fall when you had some issues back then -- but some of your big initiatives over the last 12 months that make you in good shape for the summer.

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

Sure. I think the good thing for us around 2014 is that a lot of the big initiatives are really what I would call business as usual. In the core OTA business over the course of the last number of years, we've really built world-class online marketing capabilities, we've built real test-and-learn processes around the new website platforms we've built on our leisure businesses. And with the rollout of Expedia Traveler Preference last year, we now have the scale of merchant and agency product.

And with that work largely behind us, 2014 is a year where really our core OTA business can really just execute on the basics. And it's really one of the first years we've had in a very long time where there isn't really a big massive initiative that we have to work on to make it work. A lot of the heavy lifting is behind us, and we can really start executing.

That said, in the core OTA business, there's probably two areas of I would say disproportionate focus versus, call it prior years. I think one is certainly mobile. We are continuing to invest aggressively in not only building just beautiful mobile apps and iPad apps, and building all of our products in responsive design so that it's adaptable to any form factor, we're also driving significant downloads and pushing harder in mobile web. At the beginning of last quarter, we had 125 million downloads across the business, and we're going to continue to push that harder.

Secondly, in terms of disproportionate focus, with Expedia Traveler Preference program actually rolled out in terms of converting a lot of the existing relationships that we had over to the Expedia Traveler Preference program, we can now shift more of our focus towards acquiring new hotels. And so versus 2013, that will be something that will be a broader theme in 2014. So that's the core OTA business.

I would say our corporate travel business, Egencia, is very focused on signing up new clients. They've got big names from Proctor & Gamble and Starbucks, big meaningful business, and they continue to gain share versus traditional players.

And then lastly, we're very thrilled with the progress Trivago is making. Their big focus in 2014 is really the US market, US and Canada. And we're very happy with the traction that they're making, and they're going to continue to push aggressively in those markets.

Justin Post - *BofA Merrill Lynch - Analyst*

A lot of Trivago ads out there.

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

You saw them.

Justin Post - *BofA Merrill Lynch - Analyst*

Yes, absolutely.

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

Good, it's working.

Justin Post - *BofA Merrill Lynch - Analyst*

Is the Company in better shape today than two years ago? And I guess you could define that less volatility or more able to adjust intraquarter if something's gone wrong. Maybe talk about the platforms today versus a few years ago and just the Company as a whole.

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

Well, I would say that we are in a better position. I would say that the Company has, to some extent, hardened. We had a lot of heavy lifting to do, which really started 2009/2010 period, around building these global technology platform, building global online marketing capabilities, building out Expedia Traveler Preference program. It's a lot of technology work, it's a lot of people work, it's a lot of business process work. And we're at a point now where we can just execute. And the teams are executing very well.

Now, we still have issues in around Hotwire, which continues to be a challenge and probably will be a challenge for us through much of this year. But aside from that, we feel good about where we are. The team's executing well. The recent addition to the family and Trivago is performing very well, and we feel like 2014's probably a better year than certainly 2011/2012 were.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. Just a follow up on Hotwire. How big is that? Can you help us frame that in our minds real quick, just if you say there's still some issues with it?

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

I would just say that the issues with Hotwire that we're going to see we saw in Q1, we're going to continue to see in Q2, is that last year at this time, they were in the middle of what I would call a competitive reset. They had -- Priceline introduced Express Deals product that was exact replica of

Hotwire, and lot of share from Hotwire essentially shifted to that. So until they lapped over that happening, they've got very difficult year-on-year comps.

Secondly, the car industry has consolidated. And again, that really happened Q4/Q1 following superstorm Sandy where we saw that crystalize. We don't see that changing in in the near term. So they've got some difficult comps in Q1 and Q2. And Q3 and Q4 for them is they're really focusing on putting some new initiatives in place and setting themselves up well for 2015.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. And how is the macroenvironment? You mentioned Hotwire faces challenges. I guess that's when you can't get any inventory. But how is the macroenvironment for you? And occupancy levels keep going up. Is that a challenge or is that a -- you're okay with it?

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

The good thing about our business is that with the exception of extreme peaks in the lodging cycle and overall travel market, and the extreme depths, generally we do really well. And that's because as ADRs go up, our economics get better. And as long as they're not too high, customers are still feeling good. It's generally a good economic cycle.

When things get bad, suppliers generally give us better discounts, better rates in inventory, and that stimulates more consumer behavior, and so we're generally hedged on that side, too.

Now, the question is when does it get too hot? Because when it gets too hot, what can happen is businesses like Hotwire get yielded out of inventory. Generally, when the business climate is hot, business travelers start to squeeze out the leisure travelers and it leaves less inventory.

I would say that we're not quite at that point yet, but we do see signs that the US market is hot. ADRs continue to be climbing. And we have seen some challenges generally with Hotwire getting the type of inventory that we generally like to see. But we're still in a spot where we feel we're in a good spot. The industry's in a healthy spot particularly in the US. Europe is stable to improving, and Asia is a little bit of a mixed bag.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay, got it. Thinking about Europe, it's obviously behind the US in penetration, and it's a fast-growing market. Where are we, and what would be the signs that they're kind of hitting a penetration cap as you think about that?

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

From our perspective, we feel like we're nowhere near the penetration cap. I think if you look at just overall consumer online penetration in Europe, it varies by market, but think of it in the 30s to 40s and 40s to 50s, depending on where you're talking about.

And if you compare that with a corporate, where we have the Egencia business that has no barriers in terms of computer PC access, no barriers in terms of broadband, those online penetration rates hit, call it 90% to 95%. So we feel like that is probably the real sort of max for online penetration, and we're nowhere near that in the US, let alone Europe, APAC, Latin America.

So from a macro perspective, we feel like there's no headwinds to online penetration continuing. I think mobile continues to catalyze that happening faster.

And then if you put yourself in our position as a player in that market, I would say that we're vastly underpenetrated in terms of our hotel count. Certainly if you look at the number of hotels that are listed on Trivago or TripAdvisor, or even our closest competitor, we've got lots of room to go to add hotels. If you look at our position in Google, for example, we've got lots of room to move up the rankings, and we continue to be able to do that as conversion enhances. And so we feel like we've got lots of room to grow.

And again for us, it comes down to really executing, and executing on some global platforms that in the grand scheme of things, certainly versus our next biggest competitor, are relatively new.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay, got it. And you mentioned mobile as a possible tailwind, but what are the challenges and opportunities with mobile for this space? I'll let you answer that before I do the follow up about the marketing, but go ahead.

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

I think the opportunities are incredibly interesting. And I would say that over the long term, we do see it as more of an opportunity than a challenge for us.

The opportunities are a numberful. One is that we certainly are seeing we believe to be incremental bookings coming through mobile devices -- these are same-day, next-day bookings -- of a higher proportion of our total bookings. And certainly we see with our overall bookings profile, we think this is business that used to be transient, walkup business largely to hotels, and we're getting that business directly.

Secondly, we think there's a big opportunity for global players that have a broad selection of product. That creates an opportunity because the real estate in the app world on the smartphone is less. And a one-stop-shop is generally more likely to get the download, more likely to be engaged with, so that's a good opportunity for us.

And thirdly, I would say that we think the economics, particularly in app, can be very attractive for us over the long term. You don't have to pay the Google tax for every transaction. You get them once, and they generally exhibit good, repeat loyal behavior.

So that's on the opportunity front. Again, we're up to 125 million downloads across Expedia, Inc., and we're making good progress.

Now the challenge is that right now, anyways, the conversion rates on mobile web, and the efficiencies in general search traffic into mobile, continue to be less attractive generally than what they are in desktop. Mostly this is because participants in search for mobile are often bidding on different economics. Some are bidding for transactions, some are bidding on downloads. Cross-device tracking is still very difficult.

We think over time that that's going to normalize. But I would say that's one of the near-term headwinds, just the deficiencies in conversion rates on the mobile web side are generally less attractive than what we experience on desktop.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. This might be more of a Google question, but it's also very relevant for you. Is traffic really different for you on mobile versus web? Like the ratio of search versus -- I know you can't give me specific verticals, but the ratios, are they really different on mobile?

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

Well, generally what's discussed in the industry is that there is a higher proportion of just search only activity in mobile that often completes later on desktop. And so the pure interim mobile conversion rates can be lower, just by virtue of the fact that you have leakage off of desktop.

So there is different -- there is definitely different user behavior. I think that user behavior is different depending on whether you're talking about smartphone or tablet. Tablet looks a little bit more like desktop. But yes, it's different.

Justin Post - *BofA Merrill Lynch - Analyst*

Is it more direct on mobile, because that would be a positive, I would think, for you and other OTAs.

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

It's certainly more direct in the sense that if you look at mobile holistically, you've got apps in there. And that is direct. Once you've got it, you've got it. And again, we like what we're seeing in the app world. To the extent that everything went app, that would be a fine thing for us.

And if you look at some emerging markets around the world, China for example, it has gone app. China is an app market now, and mobile web is not insignificant to that market. So, it's possible. Who knows where we'll go.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay, got it. One thing we've noticed, and I think everyone noticed who's followed the industry a while, is your room night growth has really improved over the last two or three years. And now I think it was mid-20s, 24%, I believe, last quarter. Quite a difference if you look back, and closing maybe the gap to your biggest competitor. But how do you think about that, and is there more room? Or what are the drivers, and I guess is there more room from there?

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

The drivers are a [couple-full]. One is I think there continues to be great tailwinds in our industry, just a shift of offline to online. And as we mix more of our business internationally, we benefit from that shift happening faster in those emerging markets than they are in the US. So I think there's a tailwind that generally exists in our industry that we can generally get a disproportionate benefit of as we mix from a more mature market like US to emerging markets like Asia, like Latin America, et cetera.

I think, though, secondly, and probably more importantly, the big driver for us has really been the technology replatforming work we've done. We have put ourselves in a position where we can now run 10, 15, 20, 50 different versions of the website at any one given time for both brand Expedia and Hotels.com. With the amount of traffic that we have visiting those properties, we can run tests simultaneously. We can get statistical significance on those tests faster than anyone else.

When we find something that works in the US, we can roll it out to the far flung regions of the world where we don't have as much traffic and get asymmetrical advantage over regional players in terms of just having better websites. And that drives better conversion rates. And better conversion rates drive better capabilities and online marketing, and that provides goodness.

As well as Expedia Traveler Preference has been a good help for us in having the agency hotel business and choice, which boosts conversion.

And then I think if you look at this last quarter, Travelocity, the addition of that to the platform helped us. I think it was about 300 basis points of growth.

But the good thing is is that we can actually point to why it's happening, and it's things that we're actually doing

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Justin Post - *BofA Merrill Lynch - Analyst*

Got it. That leads right into the next question, which was the Travelocity partnership. Are you happy with how it's rolled out? And the seasonality of that versus your core business, just so we can think about that quarterly -- because I don't think you broke it out last quarter on the revenue attack.

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

Yeah, I'd say generally we're very happy with how that went. I think where we're particularly happy is just how smoothly the integration went. I think it's a testament to the technology we've built. I think it's a testament to the team we've got in place across Expedia and brand Expedia and all of the support functions. And so we're very happy with the implementation. And Q1, as we said, it's early, but we are encouraged with the signs that we saw in terms of the actual performance of the partnership.

In terms of seasonality, at steady state it looks a lot like our brand Expedia business, both in terms of just the shape of the business from a product perspective and the shape of the year. And it's a little bit different, therefore, from Expedia, Inc. that has the media business in it that changes the dynamic a little bit.

2014 is an interesting year, though, from a seasonality perspective for Travelocity, though, because in Q1, we were ramping up the Travelocity business. And when you look at revenue for brand Expedia in Q1, that revenue is partially from bookings that happened in Q1, but also from bookings that happened, and we showed on the books in Q4 and Q3. So for Travelocity, you just don't have that revenue. So you'll see, actually, as we move through this year, a gap between gross bookings and revenue closing as we actually get to a normalized ratio between gross bookings and revenue. But other than that, it looks a lot like brand Expedia.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. It's currently going to help you this year with EBITDA growth, and then you'll lap it and people start worrying by the end of the year, I'm sure. Are there other big fish out there, partnerships, or other affiliate deals or things? I'm sure there's a lot of moving parts there. Do you see opportunity -- I know you can't call anything out, but --?

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

Yeah, we see opportunity. I think the process I described to you around the benefits we have of being a global scale player and being able to create great product and then rolling it out into different parts of the world is an advantage for us and our largest competitor. But it's a disadvantage for regional players. And I think Travelocity found that and they hadn't invested enough in technology.

I think if you look around the world, there are other pockets where there are regional players that still exist and I think are facing some of those challenges. And I think those are opportunities for us and them to get together and create a partnership that works for both of us. But it's a two sided negotiation. And as much as we'd like to do that, we've got to reach deals with other people. So I think there's opportunity, but there's nothing that we call out at the time.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay, got it. A couple more before we see if there's any out there. The tech platform build. It was a multiyear process. This is the year we're starting to see some leverage, and now it looks like you're investing in mobile and some other things again. Maybe comment on the benchmarking you do versus Priceline and how you look at that. And then are we back to a period where you're not getting any leverage on that line, or what are you thinking there?

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

We continue to be driving our business towards the target P&L that we laid out at the time of the TripAdvisor spinoff, which is leverage on cost of sale; leverage on G&A; technology and content growing in line with or slower than revenue; and sales and marketing deleveraging as we continue to push into international markets. I did make a comment on the last call about technology and content accelerating on a reported basis, but we're managing that on a cash basis, and largely that's a byproduct of capitalization rates changing.

So, we don't see a big technology investment cycle ahead of us. We continue to be driving towards that target P&L. And we feel good about our ability to metabolize what we would call investments, just within the context of that overall P&L. Things may bump around from quarter to quarter, but on a full-year basis, we still feel good about our ability to really leverage our fixed cost base.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. And then on the marketing, which seems to be not just Expedia, across the board got more aggressive starting around April. But looks everyone's spending quite a bit on marketing. I guess is there any end in sight? And then maybe you could break it down between growing internationally, which has lower -- or higher marketing spend, lower marketing margins, versus I guess organic things in the market that are pressuring it, whether it's TripAdvisor, Google, or competition.

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

Sure. So I'll call out just for a moment, for the Expedia, Inc. P&L, one of the biggest drivers on our sales and marketing deleverage over the course of 2013 and into Q1 of 2014 was the annualization of the Trivago acquisition. And Trivago is a business that has very light fixed costs, and so could afford to spend a significant amount of their revenue on sales and marketing and get good returns off of that. But that structurally puts some weight on our sales and marketing line item. We're now clean on that comp, but nonetheless, Trivago continues to grow faster than our overall business. So that can put drag on sales and marketing overall, even though that is an absolutely fantastic business.

So with that set aside, I would say for us that the biggest driver -- well, I would say there's two drivers, actually, to sales and marketing deleverage on the organic basis. One is that as our websites continue to improve conversion, we can simply afford to spend more in variable marketing channels, essentially keeping our ROIs constant, but marching our way up the Google rankings and getting more volume as we go. That may be causing disturbances in the broader marketplace, but from our perspective, we're able to actually drive similar same efficiencies. Paying higher CPCs, but actually our conversion rates offset that.

Justin Post - *BofA Merrill Lynch - Analyst*

Would that be flat marketing now as opposed to same margin versus lower margin, or are you making it up with other fixed costs?

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

Well, what happens is that if you look at all of our transactions, there's a portion of them that come from pay channels, online marketing channels, and a portion that come free. And our sales and marketing spend is based upon a blend of transactions over that. And so when our online marketing, we can spend more if this starts growing more quickly than the free traffic. And that's the driver.

So, again, that's sales and marketing deleverage, but that's good deleverage. That's us buying traffic and buying transactions that are accretive to us in converting those users into loyalty users.

The second big driver for us has been -- and will continue to be -- mix shift. And it's mix shift into largely just regions that are less efficient. When we look at our mature markets, as long as we continue to improve conversion, those markets generally stayed the same efficiency, or generally get more efficient over time. And we generally see that around the world, but as we're entering into new markets, and those markets are growing faster than our core market, it just results in deleverage.

So, we look at those drivers and we say the drivers of sales and marketing deleverage are good things. They're driving incremental variable profit over a fixed cost base. We're going to continue to do that. And we think it's a good thing. We think it's the right thing to do, particularly given the fact that we're now 4% of a $1.2 trillion business; we've got lots of room to grow.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. Why don't we move on to TripAdvisor and assisted book. I think Priceline has chosen to opt out of that for now, and they mentioned that on their earnings call. Where are you with that, and is it an opportunity or a challenge? How are you looking at it?

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

Well, Priceline is out, so as we can tell. TripAdvisor has got the product out with a couple of players, and we're not one of them.

I think for us, we have a pretty firm line around what turns a good customer acquisition channel into a just a, sort of a transactional front end. And we right now have viewed TripAdvisor just like we do Google. And certainly Trivago is a great source of traffic, and we can get customers to experience our product, they come back to us again and again.

To the extent that TripAdvisor wants to move further down that funnel and build something that looks like a booking made on TripAdvisor, fulfilled by some third party, that's a problem for us. It actually undermines the value proposition that TripAdvisor gives to us, and it undermines the relationship between us and our customer. And it simply would just make TripAdvisor a less interesting channel for us to the extent that that was the implementation.

We continue to be a big fan of TripAdvisor on their traditional model, and we have a good relationship with them. We are always in discussions with them around tests that they are doing. But right now, they've got the product launched and we're not in it.

Justin Post - *BofA Merrill Lynch - Analyst*

When we think about -- you hear news flow about big changes that someone's making in the channel on the front end, and people often worry about what's going to happen with bookings. On a big picture basis, if someone makes a big change, can you generally go to other channels -- maybe everything but Google -- but can you go to other channels and offset it? Is there enough everything's so small that you can offset things in general?

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

Yes and no. You can always offset things, but if you think you've got your marketing spend allocated perfectly, which it's never perfect but you think you've got it optimized across all of the channels, to the extent that one channel has distortion in it, you've got to do something in another channel that you actually thought was not optimal at the time.

So, it can create some disruption. I think a good example of this is the TripAdvisor transition to metasearch last year, which was disruptive. Everyone have to recalibrate their bidding algorithms. That takes time. Were we able to offset some volume through spending more in other channels? Yes, to some extent, but it still does create some disruption.

Justin Post - *BofA Merrill Lynch - Analyst*

And then we'll move over to Google, which obviously quite a large source of traffic in the industry. What has changed there that you can call out in the last 12 months? I know Carousel is across the top, but anything big going on there? And how is your relationship with the company? You're a huge advertiser, obviously.

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

I would say our relationship with Google on the advertising side is strong. They're a good partner of ours. And again, to the extent they continue to be a great customer acquisition channel for us, I think our relationship is going to continue to be great.

On the other side, we're obviously very wary of what they do because they are a dominant player in search and they control the top of the funnel on a big portion of the travel industry, and they continue to experiment in travel. And to the extent that they start preferencing their own products over third party products, that's something that really does concern us.

I would say over the course of the last 12 months or so, on the product front, I think you've seen them experiment with things like the Carousel. You've seen them working on enhancing the hotel price ad product, which is essentially their metasearch type product. I would say that nothing has caused a significant amount of disruption, in our eyes, to the industry. There's nothing that they've done so far that has really been game changing in travel. And it's been more evolutionary as opposed to revolutionary, and we continue to thrive.

The one area that does continue to be something that we're watching from an industry perspective is that they do continue to shrink the space available for free traffic through SEO. Now, what has happened generally is that that, and the algorithm changes they've done for organic search, has resulted in players with strong brands and good, legitimate businesses to essentially rise to the top.

And so for brands like Expedia and brands like Hotels.com, they continue to do very well in SEO, despite the fact that the real estate is, we think, starting to shrink. And we think that's because essentially the smaller, long-tailed players that were doing black hat, gray hat stuff, or just don't have a strong brand, are starting to get squeezed out. And I think the small form factor of the smartphone is actually catalyzing that even further.

So I think it's -- what Google's actually doing, even though a lot of their movement in the actual travel product is evolutionary, is they are I think reinforcing some this; the strong global players get stronger and the small players get weaker.

Justin Post - *BofA Merrill Lynch - Analyst*

So driving a little bit of the share shift by doing what they're doing. Got it. All right. Let's see, we have a question back here before I get into the balance sheet and other things.

Unidentified Audience Member

Could you talk a little bit about the Vacation Rental market and the impact of Airbnb on the industry? Along those lines, can you also talk about how your partnership with HomeAway is coming along?

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

Sure. Listen, we've got a lot of respect for what Airbnb is doing. They've opened up what we think is a new market. From the perspective of impact on our business, we haven't seen any. To be honest, I think that there is a possibility that that business could cannibalize some of the edges of the overall hotel business. But given our penetration into the overall hotel business, we don't see that as a particular headwind for us; certainly not in the near term.

I would say Vacation Rentals, as a product, is it's an interesting one, but it's an adjacency for us. We've got a ton of growth ahead of us in just our core hotel business. If you look at our overall hotel count of, call it just over 260,000 versus the number of hotels that are listed in Trivago or TripAdvisor which was between 750,000 and 850,000, we got a ton of room just to go into our core product.

And so we're not super focused on building that part of the business within Expedia, Inc., but it does create an exciting opportunity in what we're doing with HomeAway, which is allow them to do what they're so great at, and experiment with ways to bring that onto the brand Expedia website and see if there's a there-there for our Expedia customers. And to the extent that goes well and continues to go well, that's something we could build a broader partnership upon, but right now we're really in test-and-learn mode. You're welcome.

Justin Post - *BofA Merrill Lynch - Analyst*

We have one up here.

Unidentified Audience Member

How difficult will it be for you guys to expand the inventory of hotels? You mentioned a couple times that you're not feel [comfortable] you can focus on expanding hotel inventory, and obviously Priceline putting on a lot more inventory. What will it take for you guys to actually expand your international inventory?

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

There's a few things. One is manpower. We have a big market management sales force that's out there signing up hotels, and we continue to grow and build that team. And they've just got to get out there and talk to the hotels. So that's one. Last year, that team was very focused on converting hotels from the traditional merchant product to the Expedia Traveler Preference program. Now we can actually focus them on adding the hotels.

I would say secondly is it does create a need for us to make sure that we can seamlessly onboard hotels. Last year, we did a pretty significant reorganization where we took our lodging team that was formerly aligned with Hotels.com and put it with our brand Expedia team so that we could take those tech resources that had done an amazing job with the brand Expedia platform and have them focus on some of our supplier-facing systems, and they're doing that in 2014. So you've got to sign up the hotels, and then you've got to have enough throughput to get them contracted, to get them content produced, translated, et cetera, so we're working on that.

And then I would say the last thing is that we have, in certain emerging markets, made sure that over the course of the last year -- and we continue to do it through this year -- make sure that the economics that we're going to market with are really truly market economics. So that hoteliers really don't see economics as a big barrier to them doing business with us. And I would just say, so far we're seeing encouraging results. And it goes down to what we were talking about. It comes down to really just core execution. With ETP in place, there aren't really structural barriers to doing it; it's just really a matter of execution.

Justin Post - *BofA Merrill Lynch - Analyst*

It's cash season for Expedia where you get all your bookings, right?

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

Right.

Justin Post - *BofA Merrill Lynch - Analyst*

I don't think ETP is changing the model that much, so how are you guys thinking about deploying that leverage ratio? Any insights you could provide on the balance sheet?

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

Sure. I would just say that history is the best predictor of the future. We are comfortable with the shape of our balance sheet right now. We have traditionally, we think done a reasonably good job of spreading our capital allocation across acquisitions, across buybacks, and we've shrunk our share count over time. Last year we bought just over 9 million shares I think at an average price above $55. Year to date, we've bought back 1.7 million at the time of our last call.

And we're going to continue to, over a long period of time, continue to look for ways to return capital to shareholders through buybacks, as well as acquisitions, and then we do have our dividend as well. So, I would just say look at the past, and that should be a good predictor of the future.

Justin Post - *BofA Merrill Lynch - Analyst*

Let's move on to Trivago. Pretty big acquisition last year. I guess what have you learned since you've acquired it, and has the performance kind of met your expectations, exceeded? How are you doing with that?

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

I'd say, to take the last question first, we're very happy with the progress. I think some of the things that we have learned are about the Trivago business itself, but also about what we can do better in our core OTA business.

Trivago, in terms of its performance versus our expectations, I think we had a hope that that business could really thrive in the US, which was the big remaining market and a market that we felt like we were uniquely positioned to help them enter by stepping up with a couple of really big and important advertisers under their platform. And we're very pleased with the progress that we're seeing so far. So I think that was a pleasant surprise that the deal thesis actually is coming to fruition.

The business has just a fantastic formula of going into new countries and finding a formula that works and then ramping it up. And I think over the course of the last year or so, we've just seen them execute that very nicely around the world, and that's been very encouraging.

In terms of the other things we've learned that are more around the OTA business, I think that being able to watch the tremendous growth that Trivago has had, and being able to know very specifically where we think we are gaining or losing share by virtue of our growth rates in Trivago, I think it's a very good reminder to our online marketing teams when we tell them, hey, Trivago's growing 100% in country X; how fast are you growing in Trivago? It helps them be a little bit more aggressive, and it helps them be more effective in making sure that they're committing the resources they need to to that channel.

Justin Post - *BofA Merrill Lynch - Analyst*

Is it an offset to Google? Is that kind of part of the thinking? Like we can get traffic over here so we're less dependent on Google, or we've participated in a search this way? What's the big picture thinking on why you should [own that space]?

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

I think there's a few pieces of big picture thinking. I think, one, certainly to the extent you can diversify channels away from Google, that's a great thing. Secondly, to the extent you can, for our OTA business, harness a big pipe of demand in a market where you're relatively weak, like Europe, that's a good big picture benefit for our OTA business.

And then the other big picture benefit from Trivago is that by teaming up with us, they now have ready advertisers in absolutely any market they want to go into. And one of the barriers they had found is that if they wanted to enter into a new market, they've got to come to the US and they've got to convince Expedia to actually spend the resources to implement their systems and develop the bidding algorithms. And that can be a pretty big barrier entry to subskill players, and we've essentially removed that barrier for them.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. Just a couple more, if we don't have any audience. Just your challenges right now. It sounds like a lot of things are going well, but besides Hotwire, is it the front end that worries you, or is it the back end conversion, is it the supply? What are the things that you kind of think about most right now as far as challenges?

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

I think we -- listen; we're at the spot where we have our biggest focus on just making sure that we can execute the basics. And Dara and I are both very focused on making sure that everyone is very clear about what their role is, and that they're really just executing and not needing to think about the big thoughts or the next big project. So I would say just focusing on core execution is job number one.

Other things we worry about, I think Hotwire continues to be a challenge for us. We've got a great team in place, and we really believe in the strategies they're putting in place, but it's going to be a while before we can actually see whether those come to fruition.

And then just generally, we look at the overall travel industry. We look at how large it is. We look at how small we are relative to that. And I think we worry, hey, are we doing enough to take advantage of this opportunity? And we think there's probably more we can do, but we're comfortable just focusing on our execution right now.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. And then on the other side, biggest opportunities at getting your fair share in Europe. Are there some new countries in Asia, South America? What are your most -- bullish about right now?

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

That's a great question. I think we're pretty optimistic about our prospects in Europe. I think we're pretty optimistic about Trivago, generally. We're very thrilled with the progress. And I think we're pretty optimistic about the impact of mobile on our business. I think those are some key opportunities.

In the backdrop, too, which we don't speak a lot about, we do have the fifth largest corporate travel business in the world. And that team continues to execute really well and take share from the big traditional players. They keep getting stronger. Technology is at the center of it, which is core to what we do. And we think that's a huge opportunity for us going forward as well.

Justin Post - *BofA Merrill Lynch - Analyst*

Great. Well, out of time. We'll end on that. Thanks a lot for spending time with us, Mark.

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

Great. Thank you.