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PRESENTATION

Justin Post - *BofA Merrill Lynch - Analyst*

Hello, everyone. We're wrapping up the morning sessions here, really appreciate everyone in the room. I'm Justin Post, senior Internet analyst here at Bank of America Merrill Lynch, and we are very pleased to have CFO of Expedia, Mark Okerstrom who is going to do some Q&A with me for probably 20 minutes to 25 minutes. We'll open it up for questions in the audience, and we'll go ahead and get started.

Of course, Expedia has got a lot of balls in the air. So it should be a very interesting conversation. Thanks for being here, Mark.

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

Yes, great to be here.

Justin Post - *BofA Merrill Lynch - Analyst*

I don't know, if you want to start off with any introductory comments or anything or I should just give --.

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

Dive in.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. We'll jump right in.

So tons of changes for Expedia, I've followed the Company for 10 years and really has become a much broader platform. So maybe we'll just start with a general question, how would you characterize Expedia's position in the industry today versus say, two or three years ago and anything you want to say about going forward?

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

Sure. Well, one thing is the same, which is we're still incredibly tiny in a absolutely huge industry, which is a remarkable thing that there were $50 billion of gross bookings last year in a $1.3 trillion industry. So this got tons of runway ahead of us. What has changed, however, is that over the course of really the last three to five years, we've really set ourselves on a track where we have all of the assets in place in terms of great global online marketing, well converting tech platforms, supplier offering in terms of merchant and agency hotel that now we're truly in a position where we can just execute into that opportunity and really that has been the focus for us over the course of really the last couple of years, and I think that's going to continue to be the focus going forward.

We've also been able to because we've got the platform built, as you mentioned, step on the gas a little bit. Step on the gas on the demand side by bringing in such iconic brands as Wotif down in Australia, Travelocity here in the US, put them on the platform and supercharge, I would say, the consumer side of the platform and then also step on the gas in terms of our hotel acquisition bringing more suppliers onto the platform with last quarter, we did 14,000 property additions versus about 7,000 the quarter before. So, we're a different company, but it's a good spot to be in and we're humbled but optimistic about the opportunity we have.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. If you think about offering the agency model, which you had to give out some take rate points that was probably a carefully thought-out decision or getting the tech platform right, which is a four or five year process (multiple speakers) how long, you think about it. With those two things combined like big changes or there was one more important and was there anything else we're missing as far as the transformation maybe?

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

In this business, it's never just one thing. It's always a bunch of things and for us, there was essentially a grander plan, if you will, around transforming a legacy -- regionally organized organization with legacy tech platforms in a truly global organization. So definitely, the supply side of things was very important, definitely the tech re-platforming was very important, but so was just building our sophistication around online marketing and creating fantastic global online marketing programs, and then also importantly being able to stitch together all of those activities in a sort of operational type way. So it's kind of everything.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. When I think about last quarter, I'm going to round a little bit, but around 30% room night growth and around 15% hotel revenue growth just to generalize. So obviously, the room night growth has really improved since three, four years ago. But the revenue room night growth gap, can you think about how that might converge over time and will it over time?

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

So there is three major drivers of the gap. One is foreign exchange, most of the foreign exchange is translation. There is a little bit of real loss, it's actually hedged off. So, let's just back out foreign exchange for a second. Who knows what that will do over time? The second factor has been the impact of our loyalty programs, the biggest one is the Hotels.com rewards program, book 10 nights get one free. It's been a hugely successful program. It is a contra-revenue item, so it shows up as a revenue headwind, but from an EBITDA perspective we love it.

So that leaves the third factor, which is really our hotel take rates and we have been on a journey over the course, the last call it two and half years, starting with the introduction of Expedia Traveler Preference Program, which was again us introducing agency hotel really alongside merchant hotel to give consumers the choice, where we've been, I would say just restructuring the way that we do business with our hotels from a spot where we used to be high price for everyone because we are mighty Expedia and if you want to do business with us you got to pay to the new model which is, hey, we just charge the market standard rate, we're not a price leader, we're not undercutting, we're just the market standard rate and come on on and try in really frictionless way and if you like what you see, we'll give you lots of opportunities to spend more with us to get more, similar to the Google way, spend more to get more.

Again, we're two and half years into that. I would say that in most major markets around the world that model has been implemented. There is still some work to do through the back part of this year and then I think we're probably 18 months to 24 months before we're looking at, call it, clean comps on that activity.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. As -- incredibly busy, I think probably more notes we've written on your acquisitions and divestitures than any other company in the last six months. I mean these are material stuff going on. So what you've been most busy on and kind of just what are you thinking, I mean the way you divested from China and you've doubled down in the US, if you think about Orbitz versus [CheapTickets], but talk a little bit about the strategy, what's going into it and are there more things to come down the road, opportunities I guess?

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

Sure. I have been busy, it's good to be back in the US after a little bit of time in China. There is basically two themes that have driven the recent activity. On one side and I lump Travelocity, Wotif, our Despegar investment, Orbitz transaction, those all belong to one deal pieces, which is once you've got the platform working putting more volume on the platform, it becomes an incredibly value-creating opportunity. And all of those deals are in that vein.

China is a very different situation and we were very happy with our position in China to the extent that we were one of really the only global e-commerce players that had a meaningful position in the domestic Chinese player, but our strategic intent with eLong was always really focused on three things. One was we wanted to make sure that we continue to have access to, as a global OTA, the outbound Chinese traveler. Two is we wanted to make sure that we've always had access to hotel inventory in China for the inbound traveler, and third is that we believe that there was a very high probability that at some point the domestic Chinese market could become a very attractive travel market.

We, as I think everyone has observed that the domestic Chinese travel market had become a very fiercely competitive market and a market which was at least in the near term not particularly attractive. We were very confident in the eLong management team. We really through a relationship we've had with the Ctrip team for some time, felt like there is a deal to be done here, which achieved our strategic objectives and helped the Ctrip team really bolster their position as a leader in China, and that was the thesis of this deal. We still have great access to the outbound traveler, we've got a great access to inbound hotel inventory and we think that Ctrip is now in a fantastic position to execute very effectively in the Chinese market.

Justin Post - *BofA Merrill Lynch - Analyst*

Can you give us some more detail on the inventory access in and outbound?

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

We're not going to get into a ton of detail, I would just say that we were going to continue to have access to the outbound market through a host of leading Chinese travel brands and we're going to have access to we think is the best domestic Chinese inventory out there.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. I guess, you have more to come on that.

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

Yes.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. And then Orbitz, I think you did a call on -- we all kind of know the strategic rationale, but high level strategic rationale and do you have any update on what's going on with the approval process or timing on that?

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

Again, the strategic rationale for the Orbitz transaction was again a set of -- we've got a platform that works incredibly well. We also recognize that Orbitz has built a lot of stuff that is very good as well and bringing those business together and being in a spot where you can get the best of both worlds is just potential great value creation opportunity. So that's really the thesis, it's nothing more fancy than that.

In terms of the process, we did [get a set of questions] from the Department of Justice, we are working with them to answer all of their questions. We are putting a lot of data in their hands and really helping, I think that group regulators really understand the travel market and understand it for what it is and really understand Expedia. Expedia is a business which is really in all aspects of the travel market, whether it's managed corporate travel, we're in it with Egencia; whether it's offline travel, we power offline travel agencies around the world through Expedia Affiliate Network business in our travel agent program with Brand Expedia; whether it's just pure offline by a call center or online or unmanaged business travel in addition to just pure OTA segment, we're everywhere. So, we've been working with them to help explain the market and what Expedia is to them.

We continue to expect that the transaction will close likely in the back half of the year and beyond that we don't really have a ton of information to share. The Orbitz shareholders did approve the transaction, so that threshold is passed and really it is just regulatory approval waiting on at this point.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. Anything you want to add on Wotif, it seems really interesting as (inaudible), but I think maybe people have thought it would be more accretive this year, but just talk a little bit about how that's progressing.

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

We're making great progress. The Wotif businesses is on the Brand Expedia platform. Most of the suppliers have now transitioned on to the Expedia, Inc. supply platform, there is still a little bit of work to do. We've got Asia Web Direct which is one of the brands, putting that on the Hotels.com platform, so that platform consolidation work is largely complete and really for the next six months, it's going to be around optimizing that site. And again the strategic rationale there is, you have a really iconic brand in Australia. I mean people use Wotif as a verb when they're talking about booking a hotel, they say, I'm gonna Wotif a hotel, I mean it's really an iconic brand, it has tremendous loyalty and its customers and it was our belief that if we could take that loyal customer base and offer them a simply better product, then we could really catalyze that business and it's way too early to tell, but we still feel very optimistic about our ability to do that.

In terms of it being more accretive or less accretive, again, we're not a management team who generally produces financial results by accident. We're not dropping everything incremental through to the bottom line. We have a huge opportunity ahead of us. We have a portfolio of assets and we're always making investment decisions around where we can best put a dollar to work to generate the best return. And so we think that Wotif transaction is going to be great, but we're not guiding to saying that that's going to drop right through to adjusted EBITDA.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay, let's go around this topic. Let's talk about it, I think there are some questions out there. You did guide, one of the few companies in my space that guides the full year. So I believe it's 10% to 15% for the year for EBITDA and with all the transactions and new companies maybe just talk about the first half versus the second half and how the shape of the year is in your guidance plan.

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

Yes. So again, we guided to 10% to 15% full year adjusted EBITDA growth for the whole business, excluding eLong and now you can really exclude eLong, not just the mental exercise any more, it's actually in reality. We also said that we expected the vast majority of dollar adjusted EBITDA

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growth to come in the back half of the year and I was at a conference a couple of weeks ago and I clarified that at Expedia, the vast majority means about 70% to 90%. So I'm looking at you when I'm saying this. So when you do the math what that means and what Q1 means, it implies something for Q2 and we don't believe that the current consensus reflects the outcome of that math.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. Is there unusual things that are different this year that you'd like to call out when -- [which is driving] that math?

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

Largely, it's the seasonality of our business and when you have a growing business and you're spending sales and marketing dollars against gross bookings and you're recognizing revenue at the time of stay, you can basically have just some mismatches in timing of variable spends and actually the revenue that it generates. We also mentioned there was some shifting of marketing spend between Q1 and Q2 for trivago for example, those few drivers, but absolutely nothing out of the ordinary, we're not taking any extraordinarily risky bets, it's just sort of the way it is. We don't manage the business by quarter, we don't guide by quarter except maybe this way and we continue to feel good about the prospects.

Justin Post - *BofA Merrill Lynch - Analyst*

I feel like maybe some marketing spend in 3Q is being shifted to 2Q and the industry is that maybe because you're going more offline, is that part of what's going on or (multiple speakers)?

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

No, I wouldn't necessarily say that I mean, we -- the Q2 booking season is incredibly active and that lead up into the summer months as some of our busiest booking activity. So that's completely normal. The other thing I would just keep in mind too is the foreign exchange headwind is particularly acute in Q2. So it's another factor.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. Let's talk about the margins of the industry and then Expedia specifically. I think we're all looking for a reason to believe that the marketing margin pressure could level off or go the other way at some point, whether it's through direct access to mobile, but not hearing it from really anyone in the industry. So talk about the state of marketing in OTAs and is this something we should just think about, it's going to be ongoing for quite a while.

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

It's probably not you want to hear, but we hope it is ongoing for a long period of time because what's driving that for us is that, we continue to find through better conversion on our platforms, adding more properties, opportunities to increase our volume in online marketing channels, the opportunities to expand globally in ways that are profitable for us, it results in mix shift, certainly all of the online marketing channels that I'm aware of and all of the spend that we do internationally and offline or online is more expensive than free, which is our other channel, which is just [direct type].

So when we have been generally deleveraging on direct sales and marketing, it's because we are basically expanding and growing volume again in a profitable way, and that puts optical pressure on the P&L but again, this is all good stuff for us.

Justin Post - *BofA Merrill Lynch - Analyst*

Got it. Let's move a little bit over to trivago, it's been an acquisition -- it's about two years now?

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

Yes, it was in March of 2013.

Justin Post - *BofA Merrill Lynch - Analyst*

Just talk about the progress of the company and I think you've now disclosed margins, so we know they were kind of close to zero last year. How you think about the long-term margin opportunity of the business?

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

We're very happy with trivago. We did that acquisition we believe that they had a model that was pretty special. We believe that they had a management team who was exceptional, and then all of those things have really panned out. In terms of progress since the transaction, one of the core pieces of the deal pieces was not only the trivago was a great business on a stand-alone basis, but that we could help them expand globally. We could essentially make markets for them in the US and Australia and Canada and Latin America, all these other places where they aspire to be. And that they could through their great knowledge of their own channel help us understand how to be better third-party arm's length bidders and trivago and I think all of those things have come true. Their progress in the US has been exceptional. The US was their largest market by revenue last quarter and they continue to, as you now have seen watching television find great pockets of advertising opportunity that's driving positive returns.

The strategy that we are operating trivago under is you take the mature markets, the Germany, UK, France, Italy, Spain, for example, take those markets, which are markets that are growing at healthy levels with attractive margin profiles, I think, big travel media company type margin profiles. And take that profit and put it into growing new markets and of course, putting that money in is ROI positive activity. It may not have the in-year payoff -- the calendar year payoff that everyone would like to see, but we still continue to find ways to take from mature markets and invest in ROI positive investments around the world, I mean we hope that continues for a while.

Justin Post - *BofA Merrill Lynch - Analyst*

So in the mature markets, it's obviously more profitable. Is there an end game we could think about where you kind hit the whole world in ex-China, I guess like five years, seven years from now, or the new markets will look like those existing markets?

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

Still I think -- listen, I think this is a business, again, it's in the hotel part of the market, which is where really the bulk of the profits are. So that's a different prospect and someone like a KAYAK for example, which has been traditionally more air heavy. So if you look around and look for businesses that could be models for trivago could look like I think you've got to look at TripAdvisor and pre-instant book, and I think that's a -- the least a TripAdvisor CPC business is a good analog.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. And what are outside of offline spend and going to countries, what are their big initiatives on the product side, anything to highlight?

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

We continue to be very focused on mobile. Brand Expedia has in the last six months or so added activities, had a mobile app. The activities business is basically now on the new platform and we're super excited about what we can do with that business. And so that's one. Mobile -- just adding products in mobile. We're very focused on the supply side of the business, improving the tools that our suppliers use, improving reviews, for example.

So we've introduced a new product feature that does real-time reviews. One of the big complaints that hoteliers have is, gee, I like these reviews, but I get them after the fact it's too late for me to actually have an impact. So we've introduced something called real-time reviews where when you check into your hotel room, we'll send you an email and ultimately it'll be a push notification, this is a simple question, are you happy with your room and if you say no, you can provide some more information that immediately goes to the hotel front desk and they have the opportunity to respond and they absolutely love it. So the new tech platforms we have are enabling us to do all sorts of things that we weren't able to do before and the list is long.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. I'm going to ask one more and then we'll see if there's questions out there, but the loyalty program I find very interesting, certainly not all your competitors are doing and some feel it's not economical, I don't know what the right amount you're giving to consumer, but we can kind of guess what the take rate difference versus the room nights, but is that a difference, is that something like an asset within the company, people should be thinking about like not as big as Prime obviously but something that is really building and what do you do to measure the effectiveness of the results there?

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

It is something people should take seriously. It's been a fantastic program for us, the Hotels.com program. The Expedia program is still relatively nascent, it's rolled out in the US. They're working on rolling it out to the other parts of the world. So the biggest piece is the Hotels.com rewards program. Again, that's a program where you stay 10 nights and you get one free. So if everyone basically redeemed their points it would be a tantamount to basically a 10% discount. So just do the math on that front.

We find that loyalty members generally have a higher propensity to come direct to Hotels.com not go through more expensive channels, we find that they have a higher propensity to just spend more with Hotels.com, higher share of wallet. And overall, it's been a fantastic program and I think you can see that in terms of that continuing to be a headwind on revenue per room night on adjusted EBITDA basis, which is fantastic.

Justin Post - *BofA Merrill Lynch - Analyst*

So you make it up another lines like on the marketing line.

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

Exactly. Internally, we look at it, like sales and marketing.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay, got it. All right. Any other major customer initiatives this year that we should be thinking about besides obviously, the marketing spend and the loyalty program? I guess, the product side is another area, but things this year for the summer travel season that coming up your head.

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

I think it's going to be a continuation of what you've seen, I mean we've got 50 to 100 different versions of the Expedia website running right now, they're testing and learning, trying to figure out what new features work and I think you're just going to continue to see a rapid innovation, I mean as a reminder, with literally hundreds of millions of visitors every month. I mean we have the scale to test new features and get the statistical significance on which of those features are actually better than our status quo, really faster than anyone else in this industry and so you're just going to continue to see the velocity of new product releases, some of them, you won't notice, some of them you will.

One of the things that we have been actually very focused on from a product perspective is just getting much better in the way that we cross-sell different products. We have a huge asset in Brand Expedia in essentially the air shoppers that they have a lot of people start the travel search with the flight search on Expedia and what we want to do is get just much better and offering them different products and you will see a lot of the things that we've been doing recently have been around that vein, cross selling hotels, cross selling cars, you can end up having these phenomenal deals where if you book this hotel on your way to Vegas, you're flight is for free and that's very compelling. I think we're just at the early stages of that and I think the rest of the year, you are going to continue to see a lot of innovation in that area.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. I do want to cover capital and macro environment for this year. But before I do that, I just want to see if there is questions out in the audience. A lot of people, but not a lot of questions.

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

You're doing good job questioning.

Justin Post - *BofA Merrill Lynch - Analyst*

I guess so.

So why don't we start with the macro environment, I believe, one of your competitors out there said, you're looking pretty, pretty solid this year, obviously, I think people were somewhat happy with the guidance through April, but in the room night growth in the industry. So how do you see that the macro environment for travel and maybe a side note on the risk side, are your occupancy level starting to become a problem?

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

Again, I would agree. I think that Europe is looking healthy, I think overall on a general basis, there are certainly pockets of some weakness, but the global travel industry looks to be very healthy and really what's happening in Europe is that, Europe is essentially on sale for Americans and [so you've got] a lot of Americans taking trips to Europe. At the same time, the US has just got a lot more expensive for Europeans, so they're staying closer to home, and that's actually helping to lift occupancy rates and ADRs etcetera and volumes in the European market. The US market continues to look very good. Last quarter, we posted domestic room night growth of 23% year-over-year, which is pretty remarkable in an industry that's not growing that fast at all. But we do see healthy environments. I'm sure fuel prices are helping, we are seeing some signs of average ticket prices moderating or in some places coming down and that's just stimulating consumer activity. So generally, I would say it's been a very healthy market for us.

Justin Post - *BofA Merrill Lynch - Analyst*

And what happens when you have full hotels that I mean do they pick on the online channels for sure, how do those negotiations work?

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

I would say on a -- generally, we've got good relationships with all of our hotel partners and it sometimes they're feeling particularly good and sometimes we're feeling particularly good and we're hopeful that we've developed a long-term relationship with these partners through a number of cycles, where we continue to have very healthy relationships. That said, when they feel really good about themselves, discussions around economics can be a little bit harder and I think this is a part of the business.

We do see -- definitely, something we started seeing a couple of years ago in our opaque channel predominantly Hotwire, suppliers pulling inventory out of that deeply discounted channel and that was something that hurt Hotwire and we haven't really seen that behavior reverse itself in any meaningful way. So we do see it in again those deeply discounted channels, but we're not seeing inventory issues necessarily with the broader retail OTA business.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. And has the shift to agency helped at all with the hotel relationships? I mean obviously, it's adding supply, but some of the bigger ones, has it helped at all?

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

It's helped in that -- it has created an opportunity for Expedia to continue to have a very attractive growth rates and opportunities for the big hotel companies to access our channel and access very high growing channel, I mean those hotels that have signed up on the Expedia Traveler Preference Program have generally seen great increases in volumes. They generally have been able to take share from hotels that have not signed up for the program. And so just like for the independent hotels, we think Expedia Traveler Preference has been a great program for the chain hotels as well.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. We'll save capital allocation for last, but let's talk about marketing. We do follow trip and a lot of controversies there and maybe even, you'll see a buy button coming out of Google in the second half. So maybe just talked about your current state with how you're thinking about Instabook and how you're thinking about the buy button down the road?

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

So we haven't really changed anything with relation to the instant book product. It's not something that is appealing to us, it's not strategically or economically of interest and we hope that TripAdvisor is successful in whatever they do and can build out a nice business for themselves with some smaller players perhaps, but it's not a marketing channel that we're interested in. We continue to very much enjoy participating in their core metasearch product and our hope is that's a product that continues to grow and deliver great leads. So no change on that front, we expect a book button on Google just like with TripAdvisor, instant book it's hard for us to comment on it until we actually see the product and what it looks like.

Justin Post - *BofA Merrill Lynch - Analyst*

You can find it on mobile, you look hard, I think?

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

In the travel space for example which is a different prospect. Remember that the book now button works in travel when you've already got the passport information and the name information loaded into a profile. And Google would have to basically build out that functionality, otherwise you can't really do a one click book. OTAs are obviously in a great position to do a one click book and we continue to do much better and smoothing the check-out path as we call it. So, we don't know exactly what -- if Google will really try to roll out that product in travel.

I would though remind you that ourselves and Priceline are one of Google's largest customers, each of us, they do a great business in the travel industry. If you take the transaction volume that they do in travel -- that they drive in travel, I bet you they're making as much if not more than anyone else on that traffic. And so I think with that in mind, it's hard for us to think that they want to get into a world where they also have 12,000 call center agents who are there to answer calls of people who don't necessarily like their hotel. We think they are probably best served to stay in the media business, and certainly that's consistent with what they've done so far.

Justin Post - *BofA Merrill Lynch - Analyst*

I was going to ask you about the customer service side of the equation. It seems maybe that some companies out there might underestimate, do you think that is just a core value proposition for the consumer?

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

Absolutely. I mean, travel is a very, very messy business. It's messy and consumer shop for a hotel and it's not what they thought it was going to be, maybe they changed their mind, they want to call someone and we take a lot of those calls, we have about 12,000 call center agents answering calls and I think now in 36 different languages, calls from consumers in over 70 countries, it's incredibly messy business. And then of course when a customer wants to change the hotel they're staying in, then there is all the back office processes of actually changing the transaction flows and boy, that's messy business.

We've built our capabilities in that front really over the last 15 to 20 years, it's hard stuff, it's expensive stuff, you can see our tax spend [over $600 million] a year in tax spend, it's a big number and I think that people think that is for nothing or mistaking, it goes into actually solving a lot of that mess and making for great experience for our customers.

Justin Post - *BofA Merrill Lynch - Analyst*

All right. I don't see any question out there. So, we'll -- we have one here.

QUESTIONS AND ANSWERS

Unidentified Audience Member

You made an investment earlier this year and late last year in Latin America. Where is Latin American evolution of online travel relative to some of the other geographies and what was the motivation for that investment?

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

So, we did make an investment in a company called Decolar, which operates in really all of the Latin American companies either under the brand name Decolar, as they do in Brazil or Despegar. We took a minority position in Decolar, under 20% and at that time, we also entered into a broad commercial cooperation agreement, which really put us in a position to power their outbound hotel volume. It also gives us the opportunity to access their Latin American hotel volume.

Latin America is still in a relatively early stages obviously some countries in better spots than others. Think about online as being call it in the [20s]. So significant room to go, Despegar is the clear leader. I mean, they -- if you look at just branded or unbranded awareness in most major countries in Latin America, they're just head to shoulders above everyone else. We spoke about the messy business of travel in Latin America, it's super, super messy and that team is just dead focused on solving that mess and we're absolutely thrilled with the partnership.

Justin Post - *BofA Merrill Lynch - Analyst*

Okay. Lets wrap it up with capital structure. We continue to appreciate all the disclosure, the guidance and dividends and buybacks you're doing. And also, we've done a lot work on SPC and it seems like travel does lots of that, so I appreciate all that stuff, but how do you think about returning cash to shareholders, is there a target leverage ratio and are you a little extended right now with all the acquisitions going on maybe (multiple speakers)?

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

Sure. I think generally with respect to capital allocation, we've always tried to strike a balance between our dividend which is historically been around at 1% yield, the buyback activity that we've done, the acquisitions obviously that we've done, what we do from quarter-to-quarter or year-to-year is going to depend on what we've done on other buckets of possible capital allocation and I think that's been the case in the past and that will be the case in the future. We won't tell you what we're going to do until it's done basically.

In terms of being over extended, listen, we actually feel pretty good. We just realized obviously a nice amount of proceeds from the eLong transaction. We just completed a Eurobond offering for EUR650 million at great, great coupon, 2.5% which is great, great money, if you can get it.

Justin Post - *BofA Merrill Lynch - Analyst*

I think, you're right, 7% or 8% or 9% coupons in the past.

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

Yes in the past, for sure. So it's a great time to access the European capital markets and we are thrilled to do that.

So we feel good about our capital structure. In terms of target leverage ratios (inaudible) generally, we feel in the business can very comfortably operate between 2 times and 3 times leverage. We generally like to operate at 2 times or below and if we do go above 2 times, generally it's with the intention that we will work down to below 2 times over time. We'd like to have a good buffer, we'd like to have financial flexibility to do something like an Orbitz transaction when those opportunities present themselves. And just given the huge opportunity ahead of us, we think we can generate very strong returns without resort to dramatic financial engineering maneuvers.

Justin Post - *BofA Merrill Lynch - Analyst*

I still remember the dog's breakfast recession quarter from --.

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

No one remembers that. That is -- no one remembers that except for the ratings agencies, few them still remember that.

Justin Post - *BofA Merrill Lynch - Analyst*

Quite a big difference from the [trending here]. Really appreciate you coming today and thanks for spending time with us.

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

Yes, thanks very much. Great, thanks. Thank you.