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EXPE - Q2 2014 Expedia Inc Earnings Call

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PRESENTATION

Operator

Good day, everyone, and welcome to today's Expedia Q2 2014 earnings conference. Just a reminder, today's call is being recorded. And at this time it is my pleasure to turn the conference over to Alan Pickerill. Please go ahead, sir.

Alan Pickerill - *Expedia, Inc. - VP of IR*

Thanks, Lori. Good afternoon, everyone, and welcome to Expedia, Inc.'s financial results conference call for the second quarter ended June 30, 2014. Pleased to be joined on our call today by Dara Khosrowshahi, Expedia's CEO and President, and Mark Okerstrom, our CFO.

The following discussion, including responses to your questions, reflects management's views as of today, July 31, 2014, only. We do not undertake any obligation to update or revise this information. As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements.

Please refer to today's press release and the Company's filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release which is posted on the Company's IR website at IR. ExpediaInc.com. I encourage you to periodically visit our Investor Relations site for important content including today's earnings release.

Finally, unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense exclude stock-based compensation and depreciation expense. And all comparisons on this call will be against our results for the comparable period of 2013. With that let me turn the call over to Dara.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Thanks, Alan. Q2 was an excellent quarter for our Company. We drove top-line trends above our expectations and through disciplined control of our fixed costs saw a good majority of that outperformance drop to the bottom line. While Easter timing helped and soft top-line comps flattered our results year on year, I couldn't be more pleased with how the teams are executing and about the strong results that we are seeing as a result.

From a brand perspective we saw strong performance pretty much across the board. Brand Expedia and Hotels.com continue to perform very well, the Travelocity implementation went smoothly and that business is performing better than we had expected, amplifying both top-line and bottom-line growth rates.

Trivago continued with heavy investment in selling and marketing driving ongoing revenue strength as that brand continues its global expansion. Egencia continues to drive for share gains with its disruptive approach and superior customer value proposition. We have seen some additional downside from Hotwire and the team continues to work hard to put their new strategy into action and to get the business positioned again for future growth.

From a product perspective our strong hotel room night growth benefited from the continued ramping of the Travelocity business and the tailwind from Easter shifting into the second quarter this year.

In addition, acquisition of new hotel supply continued at a faster pace with our global hotel count, including eLong's inventory in China up almost 50% year on year. We set aggressive targets for revenue from newly acquired hotels this year and the team is delivering against those plans.

We also have a very positive story around our car rental business on Brand Expedia this quarter. We shifted the complete car path to the new platform and saw very strong nearly immediate improvements in conversion of volume trends. The team will continue to test and learn on the car platform to drive additional improvements and we're optimistic about the potential.

We believe this is another strong proof point of the technology advantages gained through investments that we've made over the past years.

In addition, we recently completed the acquisition of the Auto Escape Group which is made up of two European car rental brands, Auto Escape and Car del Mar. This business will join our CarRentals.com team and we expect the acquisition to help our efforts to drive growth in our global car rental business.

From a geo perspective we saw solid growth in all of our major regions, international bookings growth of 21% and international revenue growth of 30% reflect good near-term results against the backdrop of an excellent long-term opportunity.

And in early July we announced the agreement to acquire Wotif, a leading online travel agency In Australia. This deal fits squarely into our stated objectives of driving international growth and aggressively growing our hotel business.

According to Euromonitor estimates the Australian retail travel market is roughly $32 billion in annual travel bookings -- gross bookings, while the overall hotel market in Australia is around 15% -- $15 billion per year with about 36% estimated to be online. So the market itself is quite attractive not to mention the opportunity for inbound and outbound travel in the region.

Now regarding Wotif specifically, since it is a public Company you can see a lot of details about their history and recent trends in their public filings. But our deal is currently under regulatory review and Wotif still needs shareholder approval of the transaction.

So, while we can say that we are looking forward to welcoming Wotif to the Expedia family, we are limited in what we can share about any specific future plans. We expect the deal to close in the fourth quarter of this year and we should be able to share more at a later date.

Again thanks to the team for all of the hard work so far this year. We are seeing a very competitive summer booking season as we move through Q3 and we are not resting on our Q2 laurels. We know that we have a ton of work ahead of us but we feel good about our ability to deliver as we enter the second half of the year.

With that let me turn the call to Mark for some brief comments on the financials and then we will open it up for Q&A.

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

Thanks, Dara. Financial results for the second quarter were quite a bit better than we had expected. Over the past couple of years we worked very hard to position the business to have strong discipline in our fixed cost to fund aggressive investments in selling and marketing. In this structure revenue outperformance tends to have strong flow through to profitability and that is exactly what we saw this quarter.

In hotel revenue growth of 23% year over year was driven primarily by room night growth of 28%. Domestic room night growth was 24% and international growth was 31%, both about 4 percentage points faster than in Q1. Travelocity added just over 4 percentage points to global room night growth versus just under 3 percentage points in the first quarter and we estimate that Easter provided a tailwind of around 150 basis points.

Aided by 2 percentage point of growth in average daily rates this quarter, revenue per room night was down 4% year over year. Notably this quarter the revenue per room night decline was driven primarily by inventory expansion efforts and the impact of our loyalty programs and discounting with no real impact from the international mix component that we've been noting for a while.

We believe that global size and scale drive real competitive advantages in online travel and, given the size of the global opportunity ahead of us, we will be happy to continue to trade unit economics for greater volume over the long term.

Q2 is our first completely clean comp on the trivago acquisition and this quarter we posted growth in advertising and media revenue of 54% on continued strength for trivago and our media solutions group. And on a gross basis, including intercompany revenue, trivago grew revenue robustly at similar rates to what we've seen since we made the acquisition. Trivago continues to grow in importance as a traffic acquisition channel for travel advertisers across the globe.

Importantly, our own online travel brands are finding trivago to be an excellent source of leads and are happy to participate in the significant clip volume growth that trivago is generating. Note that as trivago gets larger and as we lap the aggressive push into the US in the back half of 2013, we do expect to see deceleration in the rate of top-line growth for trivago in the back half of this year.

Air revenue grew 22% on ticket growth of 28%. Both gross bookings and revenue continue to be helped this quarter from the Travelocity book of business which represented 18 percentage points of total ticket volume growth.

On the expense we saw solid leverage this quarter in cost of revenue and general and administrative expenses with each growing at rates nicely lower than revenue. As expected we did see a sequential increase in the pace of growth of our technology and content expense and we expect to see that accelerating trend continue as we move through the rest of the year.

Overall these expense trends were right in line with our target P&L and gave us ample room for selling and marketing investments which grew just a bit faster than revenue in the quarter. The net result was an expansion in our Q2 adjusted EBITDA margin which, although a nice result, is not something we are solving for on a recurring basis.

From a capital allocation perspective we repurchased 3 million shares since our last earnings call, bringing our year-to-date total to 5 million shares for $362 million or approximately $72 per share. We are also happy to announce today a quarterly dividend of $0.18 per share representing an increase of 20%.

Turning to our financial expectations for 2014, we now expect full-year adjusted EBITDA to grow in the range of 16% to 19%. With the benefit of the strong Q2 outperformance we have decided to make some additional discrete investments in the back half of the year, pushing down the pedal a bit on selling and marketing and adding staff to our supply organization to drive an accelerated pace of hotel supply acquisition.

With that let's move to Q&A. Operator, will you please remind participants how to queue up for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Mahaney, RBC Capital Markets.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thanks, it really seems like fundamentals are inflicting up. And I assume a lot of that is due to just improved execution at the Company. But, Dara, would you call out any other broader trends, factors, increasing impact of mobile changes in consumer patterns, behaviors or [suppliership] -- something else other than better execution which is boosting these results? Thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Thanks, Mark. One is that the travel business, as you know, it's a healthy business to be in, it is a healthy category to be in. Travel spend in general is growing nicely faster than GDP and then we have got the online tailwind behind us. And then we have been growing pretty aggressively internationally, as you know.

So you kind of have three tailwinds behind you. You are in a good category, more is going online and mobile is accelerating and for us international remains a great opportunity that is very, very underpenetrated.

As far as the particulars of our execution, I'd point out a couple of things. And I would say that -- listen, Mark, this is an execution ground game and you have teams here executing quite well.

A couple of things that I'd point out is one is Hotels.com is really coming on strong for us. That team is executing very well. That Captain Obvious campaign in the US is doing well. The website is converting at a higher rate than it has been in the past and that is the result of good work on the product and technology side.

And I think one area that we don't talk to a lot is that the Welcome Rewards program, which is the simplest program out there, you buy 10 rooms you get one free, is really building up a core of consumers who are loyal to the Hotels.com brand, and display behavior, repeat behavior that is pretty exceptional as far as how often they repeat and what channels they repeat through.

So you have -- now as you are increasing that supply base the initial investments in Welcome Rewards is negative, but then the repeat rate turns to positive over a period of time and Welcome Rewards is really starting to scale which I think is helping us out.

Brand Expedia I think continues to execute well. It has been a consistent story. And I think one area that we are seeing with Brand Expedia, you see the air volumes are now positive.

But we are now able to -- increasingly able to upsell our customers into multiple transactions, buying more than one item at a time, which is particularly profitable for Brand Expedia because we have got to sell a consumer wants. And your revenue per consumer as a result goes higher and you only have a single marketing cost against that. So I think that is a second factor.

Than a third factor for us is hotel supply. We have -- we spent the last couple of years getting our systems into shape, getting our processes into shape, getting better ETP machine up and we stepped on the gas as far as hotel acquisition and we are seeing greater revenue -- significantly greater revenue from new hotel acquisition this year than we did last year.

I'd add to that a couple of macro factors which is Easter and then Travelocity being part of the family. So when you put all those factors together you get a pretty good result and it is a result that we are quite happy with.

Mark Mahaney - *RBC Capital Markets - Analyst*

Thank you, Dara, for the detail. And congrats.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Justin Post, Merrill Lynch.

Justin Post - *BofA Merrill Lynch - Analyst*

Thank you, in your prepared remarks you mentioned a lot about competitive dynamics and we know marketing spend is up in the industry. Can you tell us how you are able to maybe offset the competition? Are you improving your ROI on your spend or moving up the search ranking results and maybe better place on mobile? Talk a little bit about that.

And then also on the competitive front, TripAdvisor with their InstaBook, I don't think you are directly participating. But your thoughts around that and do you see that maybe as a competitive headwind? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Well, I think the competitive dynamics that we have seen in the business has been pretty consistent over the last year or two, especially -- and I think you ratcheted up especially with booking.com and TripAdvisor spending dollars off-line where they hadn't in the past.

So you are in a situation where there are more voices competing for the consumer attention and you just have to execute better than you have in the past and we have invested pretty aggressively in technology, product, etc. And I think it is those investments that are helping us compete in this marketplace.

In general we are seeing the price of reaching the online consumer, in particular, increasing on a year-on-year basis. Prices in general are higher. We are able to offset some of that with conversion improvements, etc., and leveraging the fixed cost base of the business. But in the online channels we see things getting more expensive, not less expensive.

The teams are consistently looking for pockets of demand that we don't have a lot of competition in and sometimes you find those pockets and you invest in those pockets. We are also quite interested in some of the newer social channels, Facebook, Twitter, etc., to see whether we can drive volume at reasonable prices. And I would say we have some limited success there, chiefly because those areas haven't scaled. But we are very, very interested in scaling them.

As far as trip instant book, that is a product that has been out there for a couple of quarters now. We are not participating in the product, it is not a channel that is of interest to us. I don't see that changing. And at this point we don't really see any effect on our business as you can tell by the room night growth, etc.

Justin Post - *BofA Merrill Lynch - Analyst*

Great, thanks a lot, Dara.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Ron Josey, JMP Securities.

Ron Josey - *JMP Securities - Analyst*

Just a real quick question on hotel growth and clearly things are going very well, Dara, with what you were saying. But I wanted to ask about the progress in cross-selling I guess Travelocity's business. Maybe that is more air centric to hotels. I think that was something that was an opportunity that you all mentioned prior. Thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, I think we are pleased with both the hotel performance and the package performance for Travelocity. We are not -- we don't control the marketing spend there, but in general hotel and package performance have been quite good. I would say overall Travelocity performance is pretty good and we are pleased with the results.

Ron Josey - *JMP Securities - Analyst*

Great, thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Mike Olson, Piper Jaffray.

Mike Olson - *Piper Jaffray - Analyst*

Some of the other players in the online travel ecosystem are getting more aggressive in peripheral areas beyond travel bookings, obviously like restaurant, event and attraction bookings. What are just your general thoughts about the opportunities in those peripheral markets, your potential participation there?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Well, I think the travel market in general is a pretty big broad market. And there is plenty of product to offer and market to our consumers. In particular if you look at Expedia, Expedia is really the only global multi-product broad online travel agency out there left, the only one that is really trying to build a global presence.

It is a challenge to build a global presence across a number of product -- air, package, hotel, car, destination services, etc., and we believe that we are just getting started. We are investing in it very, very aggressively. And so, we think we have got a pretty broad remit already. And at this point we are not looking to broaden it further. We want to get much, much better at what we do and we think that we've got a long way to go there. And really that is what we are focused on.

Mike Olson - *Piper Jaffray - Analyst*

All right, thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Eric Sheridan, UBS.

Eric Sheridan - *UBS Securities - Analyst*

Maybe about the implied guidance for the back part of the year and the comment around marketing dollars and sales force investments. Wonder if we can get any more granularity about what those dollars might be used to invest in. And then sort of how we should be looking for pay off on those investments as we exit 2014 and move into 2015? Thanks, guys.

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

Sure. Will I think we've put ourselves in the position over the course of the last number of years that by and large the investment cycle in call it the platform, the websites, etc., the rollout of the Expedia traveler preference program -- largely that big investment cycle is behind us and that is in steady-state now.

And what we are focused on it now is really driving more volume over the platform and we do that by driving more aggressive sales and marketing on the consumer side and on the supply-side by signing up more hotels and really trying to drive as much volume into those new hotels as we can.

So the investments that we are going to be making are really to those ends -- reaching new pockets of consumers, screaming a little bit louder to get their attention, and on the supply-side signing up new hotels really around the world.

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If you look at our total hotel count at just over 300,000 and compare that with the number of hotels listed on TripAdvisor or trivago which is 700,000 or 800,000, there's just tons of room left for us. And so, we are going to be putting those dollars to work to continue to penetrate into both the consumer side and the supply-side of the platform.

The payoff for those I think is a little bit more predictable and a little bit more short-term than certainly large re-platforming efforts. But it is not all in year, it does build a long-term asset, some of it flows through in period. But also a big portion of it will flow through to future years, 2015 and beyond.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

All right, next question, operator.

Operator

Michael Millman, Millman Research.

Michael Millman - *Millman Research - Analyst*

Could you talk a little bit more about ETP? In particular the signings you are getting, are those typically new client hotels or are they existing? And is there a difference in terms of choosing where they came from, agency or merchant, between the new and existing?

And also on the rental cars I was wondering if you could talk a little bit more about -- you indicated that (technical difficulty) integrated, how that's actually working out. If indeed you are seeing some of these suppliers want to get more involved in understanding your platform.

And then what the availability of cars has been for Hotwire and what the pricing looks like in the second quarter. And to what extent all the recalls have affected the industry. Sorry for this long message.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

No problem, Michael, thanks for the question. As far as ETP and sign-ups that we are getting, I would say in general, because we have a very significant call it base of hotels out there, the majority of the ETP sign-ups, so to speak, are hotels that are already in the fold.

I think those hotels, they see a couple of things which is higher conversion from consumers when they are given choice and often average length of stay can increase because consumers don't necessarily have to pay upfront.

So hotels that are looking for more share within our marketplace, existing partners -- usually the marketing managers go out there, they pitch them ETP and it is a pretty good pitch and the hotels that have been signing up have been quite happy about that performance. So that has been route one as far as extending ETP and it continues to be a higher and higher percentage of our volume.

It has also allowed us to be much, much more flexible when we go out there and sign-up new hotels. There are some hotels who may want to work on an agency only basis who aren't looking for a bunch of promotion, who aren't looking for long stay package bookings. And we can offer them a simple agency product there that is nicely integrated into our systems and it is all one platform versus multiple platforms.

And there are some hotels in Asia, for example, or Latin America who might prefer a merchant model. And again, we can offer those hotels a merchant model and offer them the ability to get carriage on Expedia, on Hotels.com, etc.

So ETP has really given us a lot of flexibility and the market managers are using that great tool to go out there and sign hotels and we are seeing it as far as revenue from new hotels really improving significantly on a year-on-year basis.

As far as the rental cars goes, we are quite happy with the rental car trends. Our days, car days that we are now marketing and transactions have accelerated pretty consistently, so Q2 was better than Q1 and Q1 was better than last year. And in general pricing is pretty solid. Revenue per day is up on a year-on-year basis at modest amounts but it is up.

One area of pressure that we have seen is that, as it relates to Hotwire, a lower percentage of car rental, car rental bookings are opaque this year than last year. As demand has improved the percentage of opaque sales has gone down a little bit and that has proved to be a bit of a challenge for the car business inside of Hotwire.

But overall when we look at rental cars we like what we see on the Brand Expedia side and then within car rentals and the Auto Escape group, etc., we think we have a ton of potential and we have got a growth business ahead of us.

Alan Pickerill - *Expedia, Inc. - VP of IR*

Next question, please.

Operator

Heath Terry, Goldman Sachs.

Heath Terry - *Goldman Sachs - Analyst*

I caught the ticket number that you gave in terms of the impact of Travelocity, but any sense that you can give us on the impact on room night growth would be helpful. And then you talked about sort of the way that you are viewing the instant booking product at TripAdvisor. At the same time Tingo, which is participating in that product, is leveraging your network.

Is that something that gives you some leverage to that product? Do you see that as something that gives you leverage to the success in instant bookings should they have it or does that also sort of fall into your view of it not necessarily being something that you are looking to participate in from a network side of things either?

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

Thanks, Heath. So Travelocity contributed about 400 basis points of global room night growth this quarter, that is compared to a about 300 basis points roughly last quarter. And I will turn it over to Dara to answer that Tingo question.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, as far as Tingo goes, listen, they are one of many, many suppliers who hook into our EAN inventory. EAN powers literally thousands of websites and we believe fundamentally in an open marketplace. We make our inventory available to lots of players. It is profitable for us so those players don't have as many margin dollars to invest into marketing as let's say as a Brand Expedia or hotels.com does.

And in general as long as those players aren't doing things that are unacceptable to us or unacceptable to, for example, our supply partners or illegal, we make the inventory available to our EAN partners and then that EAN partners make whatever decisions that they want with their marketing dollars.

So, and our philosophy has been open marketplace, make it open to competitors, and I think that we will continue to in that manner. But as it relates to our brands -- Expedia, Hotels.com, etc. -- we don't see those brands participating in TripAdvisor, in TripAdvisor instant book. We just don't see the value there, the strategic value. And so, at this point I wouldn't expect to see those brands show up within that product.

Heath Terry - *Goldman Sachs - Analyst*

Got it, great. Thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Doug Anmuth, JPMorgan.

Doug Anmuth - *JPMorgan - Analyst*

Two things. Mark, first, you talked about having most of the investment cycle behind you at this point. So just as you look out a little bit, and I know of course you are not really talking about 2015 here. Is it just reasonable to think that we will continue to see leverage in the business? Is there anything that could derail you from that investment perspective?

And then the second question just on trivago. Can you give us some more color there just on how effectively the brands are using trivago and how you think about the efficiencies that you are getting there relative to other sources of marketing? Thanks.

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

Sure. So with respect to the investment cycle being behind us, we are really running the business towards the target P&L that we laid out at the time of the TripAdvisor spin-off. And the formula is essentially for us to continue to have discipline in fixed and overhead costs. And as a group have R&D, G&A, cost of sale leveraging nicely.

And there will be different bumps between the categories but broadly those will be growing slower than revenue. And then really pushing for really the next marginal dollar on revenue based upon pushing sales and marketing as much as we can.

So overall P&L expansion is not something that we are solving for, we are solving for bottom-line growth. And to get there we do expect to be leveraging our fixed cost and that is certainly our intention.

So with respect to trivago, listen, it has been really good for our brands. Trivago itself is a very fast growth business as we have shared with you. And it is also aggressively pushing into markets in parts of the world where either we are strong right now and are looking for channels of growth or parts of the world where they are very strong and we are underpenetrated.

And both Hotels.com and Expedia, as well as some of our smaller brands like Venere, have found just being working closer with trivago incredibly helpful. It has enabled them to just piggyback the channel growth that trivago is seeing. For example, in the US as trivago has grown pretty nicely and aggressively in this market we've been able to grow in that channel across all of our brands pretty nicely.

And then just in being closer to the trivago team and helping hone our own our own skills and being a good third-party bidder in that marketplace, it has enabled us to take share in markets where trivago is already mature and perhaps we're less strong in places Europe for example.

So it has been a really good acquisition or at least investment for us. It is a welcome addition to the family and I think all of our brands are quite happy to have them as part of the team.

Doug Anmuth - *JPMorgan - Analyst*

Great, thank you.

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

Great, next question.

Operator

Ross Sandler, Deutsche Bank.

Ross Sandler - *Deutsche Bank - Analyst*

Just two quick questions. Mark, first one on the guidance and then one on the international room night growth. So given the strong 2Q performance I think the midpoint of the updated guidance assumes that EBITDA growth will slow down a little bit in the back half to below the 16% level. Is that just conservatism?

You mentioned some planned investments, can you give us a little more color there? Or is it potentially some seasonal aspects of Travelocity that may have kind of moved it first half, second half?

And then on the international room night growth this is very solid, 31%. Can you just talk about how the growth looked in Europe versus APAC? And what do you expect there given the supply additions that you mentioned earlier as we look out a couple years? Thanks.

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

Sure. So there is a few factors that are impacting our guidance and our outlook for the second half. And really just for context I think the first half of the year in total, when you look at our first half of 2013 and you add in the addition of Travelocity, I would call it an easier comp than the back half of the year.

So as we move into the second half we are facing tougher comps, the business started to perform much more solidly in the back half of 2013 both in the top-line. But then also it is a difficult comp for us on the bottom line too because, as you can imagine, we weren't overly joyed with our performance last year and our performance compensation adjusts nicely given the outperformance so far this year. If that continues it should go the other way. So it put some pressure on our comps.

The investments also are incremental. So again, those are things that will not in their entirety have in year pay off. And then as Dara mentioned, we did have some disappointment or some downside in Hotwire and so we are not expecting anything extraordinary from them in the back part of the year too, so that does put a little bit more pressure on the growth.

With respect to international room night growth, I would say that with the exception of pockets, Europe and Asia were broadly consistent with trends that we have seen for a fairly long time now. Europe growing nicely, APAC, given our mix into China and South Korea and some of these other higher growth markets for us, growing a little bit faster.

There was some disruption in the quarter -- continues to be disruption in markets like Malaysia given what is going on in that country as well as Thailand. But broadly I would say consistent trends with what we have seen historically and we don't see any immediate reason, absent changes in the geopolitical climate, to expect anything different in the future, but it is difficult to predict.

Ross Sandler - *Deutsche Bank - Analyst*

If I can ask one quick follow-up to the first one. So if we take the back half run rate, stripping out any contribution from Wotif, is that the more reasonable way to think about how this is going to look going forward? Like is Travelocity contribution going to grow in 2015 do you think or is it too early to tell?

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

You know, it is too early for us to start talking about 2015. I think we generally produce a minority of our adjusted EBITDA on a full year in the first part of the year. So we've still have got a long road ahead of us in 2014, so we are not ready to talk about 2015 yet.

Ross Sandler - *Deutsche Bank - Analyst*

Okay, thanks, guys. Good quarter.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Thanks, next question.

Operator

Manish Hemrajani, Oppenheimer.

Manish Hemrajani - *Oppenheimer - Analyst*

Good quarter, guys. Can you talk about mobile here a bit? What was mobile's share of total bookings and any color you can provide regionally where you are seeing better traction with mobile? And also how do conversion rates on mobile compare with the desktop? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure, as far as mobile share of the bookings, it continues to be in excess of 20% and it continues to grow much, much faster than desktop. And this is true on a worldwide basis, really it has growing quite fast in the US, Europe, Asia-Pacific, Latin America. Pretty consistently there.

I would say in general we have excellent traction where especially on downloads on iOS devices. And we are building up our download base in geos where you have Android dominating as an operating system. And I think one of the muscles that we have to work out and flex is how to drive Android downloads in general at scale effectively.

I would say we are very, very good on the iOS side, I think we can get better at Android. But the teams are working quite well there. China of course mobile and mobile downloads are growing incredibly fast and we think will continue to grow. We have got over 150 million downloads now across the EI family.

We also believe that we can improve on mobile web. The app world is one -- is a great one in which you can get loyal customers who come back to you with a nice frequency and can come back to you direct. But we think mobile web, we see lots of consumers turning to mobile web. And we are continuing to optimize our sites to be more effective on mobile web. And in general I think that our mobile web optimization has only just begun. We are at the beginning to middle stages of that and I think we can expect a lot of improvements on a go-forward basis.

In general conversion rates on mobile tend to trail conversion rates on desktop. If you look at the same booking window and as a result of that we think that there is plenty of improvement there. Length of stay obviously for mobile is much, much lower than desktop. So a mobile click so to speak in general is worth less to us than a desktop click, but we are working very, very hard to build conversion and to increase our ability to pay for those mobile clicks on a global basis.

Manish Hemrajani - *Oppenheimer - Analyst*

Thanks for the color.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You bet, next question.

Operator

Kevin Kopelman, Cowen and Company.

Kevin Kopelman - *Cowen and Co. - Analyst*

So I called out the Welcome Rewards loyalty program. Is that a situation where you saw performance hitting an inflection point this quarter or is it more just a continuation of what you had already been seeing? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, it is really a continuation of what we have been seeing. Welcome Rewards has been a very significant investment in really marketing dollars that Hotels.com has been making. They took it international I think it was a little over two years ago. And so, the member base as of I would say two years ago really started accelerating, it continues to grow.

And in general if you look at the Hotels.com business, the growth that we see from repeat customers and Welcome Rewards customers is quite impressive. And those customers tend to be, as I said, quite loyal and they tend to come through much more direct channel. So it is a great battery that is being charged up and it is getting to be of significant scale within the Hotels.com business at this point.

Kevin Kopelman - *Cowen and Co. - Analyst*

Great, thanks a lot.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Brian Fitzgerald, Jefferies.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Maybe two quick follow-ups, one on the ETP mix, what percent of it is hotel collect, room night stay as it stabilizes or does agency continue to grow higher?

And then the second follow-up is on Travelocity. Now that the rollout is complete you mentioned before you're going to fine-tune it and you are also going to have new products. Wondering if we could get a little bit more color on the where the focus is there between new products and fine-tuning. Thanks.

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

Sure, so with respect to ETP, agency hotel room nights continue to grow at rates significantly faster than merchant. We continue to see the trend in terms of upward mix as you might expect in agency as a percentage of our total bookings. So broadly similar trends as we have seen in prior quarters. And again, we are very happy with the results of that program so far and continue to be pretty excited about how it is performing and what it means for our business.

With respect to Travelocity, listen, I think we are still a bit aways from tuning it perfectly. That said we have been very happy with the performance so far. We think that the Travelocity marketing team, from what we can tell, has done a really nice job adjusting to the new platform and getting their bidding algorithms and models built up in a nice form. But I don't think we are quite done yet and I think it will be several quarters before we get to the full year optimized rate.

Brian Fitzgerald - *Jefferies & Co. - Analyst*

Great, thanks, Mark.

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

All right, next question.

Operator

Brian Nowak, SIG.

Brian Nowak - *SIG - Analyst*

I have two. The first one, just to go back to Travelocity. It sounds like it is going out better than expected. Could you talk to how user conversion is trending compared to the old Travelocity platform? And how are you thinking about Travelocity EBITDA contribution under the new hire guidance?

And then the second one on trivago, could you help us on a trivago kind of post intercompany EBITDA contribution either for the quarter or year to date? And then for the back half, how do you guys think about kind of managing investing for more top-line growth versus letting the incremental margin advertising dollars flow-through? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

I am just starting on Travelocity. We don't have access to perfect data as far as user conversion at Travelocity goes, so we have got access to our own data, we don't have access to historical Travelocity data. But we believe that conversion, especially on the hotel and package path, is up year on year and up significantly. But we don't have perfect data on that. Mark, do you want to talk about the other question?

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

Sure. So with respect to EBITDA contribution, we are not providing an update on the guidance we have given previously. I would just say that the ramp up has gone better than we expected in terms of the replatforming effort. And I think the Travelocity marketing team has done a great job ramping up their side of the equation and I think that has been in excess of our expectations as well.

So it is -- we are not going to give a full year number, but I would say the first half of this year has been ahead of our expectations really as a result of things ramping up to call it full potential at a steeper curve than we had anticipated.

With respect to trivago, just a couple of things that I would say. We continue to invest behind what is an exceptionally well executing company with a very talented management team that has a pretty consistent formula. And we have got expectations for them that we will have at least some adjusted EBITDA growth this year, but we are really investing for the top-line.

And really the shape of the year is as we've said previously which is pretty steep sales and marketing investments in the first part of the year and then we see that starting to pay back in the back half of the year.

As I did say in my prepared remarks though, the back part of this year we do start to lap over their ramp up in the US last year and so we should see a bit of slow down in the top-line. But we are pretty happy with what we are seeing and continue to see great signs from that business.

With respect to our investments, listen, we set objectives for ourselves in terms of what bottom-line performance we expect on an overall basis, what bottom-line performance we expect from each of our different business units. We are very happy to have outperformance and we are very happy to have outperformance, a portion of which we do end up dropping to the bottom line.

That said we have been pretty consistent that we are a player that is looking out on the long-term. And so we are always balancing the short term with the medium to long term. And when we see opportunities to invest dollars with real material payback that may shift money from one year to another or one quarter to another, generally as long as we are hitting our objectives on the bottom line that we have set for ourselves and set for our brands, those are investments that we look pretty closely at.

And I think 2014 is one of those years where we see some of those investments. We have looked at them pretty closely and we feel pretty comfortable in the payback. But it does mean that we would drop less to the bottom line than we may otherwise -- we would just be running this thing four quarters or for an annualized year.

Brian Nowak - *SIG - Analyst*

Great, thank you.

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

All right, thanks. Next question.

Operator

Naved Khan, Cantor Fitzgerald.

Naved Khan - *Cantor Fitzgerald - Analyst*

Just a quick clarification on the guidance and how the acquisition of the Auto Escape group is impacting that. And then I have a follow-up on Hotwire.

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

Sure. So there should not be a meaningful impact from the acquisition of Auto Escape positive or negative in this year. So next question.

Naved Khan - *Cantor Fitzgerald - Analyst*

So, Dara, on Hotwire, I think you mentioned that it saw some additional weakness. Can you just talk about it a little bit more and give us some more color on it?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, I think the most significant factor for Hotwire we believe is -- one is the competitive environment where Priceline has introduced Express Deals which is essentially a copy of the Hotwire product. And obviously they are executing well, they are advertising aggressively as they have in the past.

The second factor is really the travel cycle. If you look at the travel cycle this is a -- we started the call saying how travel in general is performing well. And in upwards travel cycles you have opaque channels typically underperforming retail channels.

And as a result the kinds of pricing and the kinds of discounts that an opaque channel is able to deliver consumers in a less strong environment becomes challenged in a strong environment. The discounts are lower, the prices in general tend to be higher and you've got a group of customers who is quite price sensitive.

So one of the moves that Hotwire has made is to bring down pricing within the Hotwire system so that this year versus last year Hotwire is making less revenue per transaction because Hotwire is still trying to deliver very, very significant value to its customers. It is the right call to make long-term, but short term, because you are making less revenue per transaction, without a real offset it provides some revenue challenges and profit challenges.

So as Hotwire has been reducing margins we have been seeing some challenges with the P&L, but the team there is adjusting quickly. They are -- we talked about a pivot, an aggressive pivot to mobile, they have got a new iOS app which looks great. And they are also working on driving better supply and also better website conversion in order to offset some of the margin challenges and the pricing challenges that they have seen.

So we are absolutely optimistic that the team can turn it around, but we are not assuming anything heroic for the balance of the year because we know that these margin challenges are going to continue at least through 2014.

Naved Khan - *Cantor Fitzgerald - Analyst*

So as far as the guidance goes, does it assume further weakness or further weakening or continued performance at current levels?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

I think it assumes that current trends don't change. And in general current trends are a big challenged for Hotwire. Even though the team is doing all the right stuff, at this point we are not assuming that current trends change significantly.

Naved Khan - *Cantor Fitzgerald - Analyst*

Understood. Thank you.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

You're welcome. Next question.

Operator

Dean Prissman, Credit Suisse.

Dean Prissman - *Credit Suisse - Analyst*

Dara, you indicated you are seeing the cost to reach the consumer online up on a year-over-year basis. Can you comment on the degree to what you are seeing this both in North America and Europe? And then are the Expedia and Hotels.com brands fully represented as advertisers on trivago question? Or said another way to what degree do see an opportunity to increase their representation and thus offset your marketing spend? Thanks.

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Sure. As far as the cost to reach online consumers I would say geo, in general it is up fairly broadly. The FX in Europe was a tailwind both for revenue and marketing cost to some extent. APAC kind of went the other way. But in general this is something that we are seeing on a global basis and we continue to obviously execute through it. But we don't expect it to change at least for the balance of 2014.

As far as our brand's participation in trivago, on a year-on-year basis trivago is the fastest-growing I would say significant customer acquisition channel for our brand. So whenever our folks talk about it they talk about it with a smile on their face. And we've been able to grow our participation in trivago at efficiencies that are quite good.

And the quality of the traffic is quite good in that whenever we look at any channel we look at -- a channel may it a customer to book immediately, so trivago -- if we get a click from trivago that customer could click in that session or that customer might be shopping and they might come two days later or five days later or 10 days later and trivago will get some kind of credit for that as well.

When we look at the pattern of the trivago transactions it is a very high-quality pattern. Those consumers, they are real shoppers, they are very much engaged and they are booking and booking quickly which makes it a very high-quality click.

So whenever you have got a marketing channel that is big, that is growing quickly and it's driving high-quality clicks, it is a marketing channel that you pay attention to and it is one that you invest in too and I would say so far so good for us.

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

Yes, Dean, the only other thing I would add to that is we still have a significant opportunity in trivago just with respect to the hotel acquisition focus that we have. If you look at our total hotel count versus the number of hotels that are advertised on trivago, there are a significant number of call it auctions that are happening in trivago that we simply just don't have a horse in the race for.

So as we build out our hotel inventory, which is something that we mentioned we are doing on a much more aggressive basis, it will provide an opportunity for us to participate more broadly in the trivago channel and gain share versus where we are right now.

Dean Prissman - *Credit Suisse - Analyst*

Great, thank you.

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

All right, thanks. Next question.

Operator

And, gentlemen, I have no further questions at this time. I will turn the program back over to you for any additional or concluding remarks.

Alan Pickerill - *Expedia, Inc. - VP of IR*

Okay, thanks, everyone, for joining the call. The webcast replay will be up on the IR site shortly. Dara, any closing comments?

Dara Khosrowshahi - *Expedia, Inc. - President & CEO*

Yes, just thank you to the team EI for a really, really strong quarter. Mark and I get to talk about it but it is the team who is actually doing the work. So we appreciate it and as far as our investors go we look forward to talking to you next quarter. Thank you.

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

Thanks.

Operator

And, ladies and gentlemen, once again that does conclude today's conference. I would again like to thank everyone for joining us.
