PARTICIPANTS

Corporate Participants

Dara Khosrowshahi – President & Chief Executive Officer

MANAGEMENT DISCUSSION SECTION

Unidentified Participant

[Abrupt start] Expedia. I guess we just wanted to sort of kick things off with a brief overview. I guess for the people who may not be as familiar, as always in the room, on Expedia just give us a brief overview of Expedia and where you are currently.

Dara Khosrowshahi, President & Chief Executive Officer

Sure, absolutely. We're really the business is split into two pieces. One is the online travel agency. We're the largest online travel agency in the world as far as traveler booking volume, with over $26 billion in gross booking volume. We have $3 billion of revenue, over $600 million in free cash flow. It's a business that is run through multiple brands. Expedia.com is the world's largest kind of general travel – online travel agency selling air, hotel, car packages, et cetera.

Hotels.com is one of the leading stand-alone hotel sellers on the Web. We have a private label business where we power other sites, selling hotel rooms on a private label basis, and then we've got a corporate travel business, Egencia, which is the sixth largest corporate travel player. The business is mostly leisure business, but the corporate travel business is a new growth opportunity that we're very excited about. 60% of the business is domestic, 40% international. We want to drive the international business pretty aggressively.

And then on the other side of the business is the travel media business. It's really TripAdvisor and the TripAdvisor network of sites – by far, the largest travel media company with over 50 million unique users on a worldwide basis, operates in 29 countries and is really in the business of powering users using user-generated content to power users to be able to make better decisions about where they travel, where to go to, how to buy that travel. Enormously profitable company, close to $600 million in revenue, 50% EBITDA margins and a business that we recently announced we're spinning off.

Unidentified Participant

So just on the spin off, I guess the obvious question, can you give us any detail in terms of the timing there?

Dara Khosrowshahi, President & Chief Executive Officer

Yeah, sure. We talked about filing sometime this spring. I think we're going to be a little bit delayed there. So I think the filing is going to be during the summer sometime. It's going to be -- it's a matter of weeks, not months, as we're finalizing details about the spin-off capitalization, et cetera. So we hope to have the filing out there pretty soon, and once we do that, the clock will start ticking and we certainly expect the spin-off to be completed by year-end.

Unidentified Participant

And how does the spin-off affect the relationship between Expedia and TripAdvisor or were they already operating separately?

Dara Khosrowshahi, President & Chief Executive Officer

The businesses have been operating essentially separately. We – they're very different kinds of businesses, separate management teams, et cetera, and to some extent, we had thought about the spin-off as an eventuality. So we have kept the businesses pretty separate.

The Expedia sites bid on TripAdvisor through essentially a rev share, which is a market-based revenue share. So we don't anticipate the economics between the two businesses to change significantly.

Now, I do think that the Expedia sites and bidding on TripAdvisor know that they're bidding on kind of a family company. So I'd say Expedia has been an aggressive bidder inside the TripAdvisor marketplace. I don't expect that to change on a go-forward basis, but to some extent, the dynamics going from an in-house company to a third-party company may change. At the same time, third-party businesses that were outside the Expedia families, while they participated in TripAdvisor, there's no telling whether they held back some of the participation, because to some extent what they were paying for was going into Expedia's pockets.

So I think when we look at TripAdvisor, the fundamentals are going to remain the same. Revenue growth is going to be quite substantial. Margins are going to be very significant. There may be some slight changes between Expedia revenue, third-party revenue. We think it doesn't change the underlying kind of fundamentals of the business in any way.

Unidentified Participant

Okay, thank you. And then just, I guess next question, switching gears slightly, you recently formed a partnership with Groupon? So I guess the obvious question is, what are your thoughts on that? I mean, do you view it as an attractive space in terms of the overall travel market. Do you think it's receptive to that Groupon-style of product?

Dara Khosrowshahi, President & Chief Executive Officer

We think it should be, but I think once we launch, we'll see. Obviously, this kind of deal of the day kind of marketplace has grown at rates that no one anticipated. Groupon is, I think, one of the fastest growing companies in history, as far as getting to enormous scale on a worldwide basis very quickly.

We think that that product translates into the travel market quite well. A lot of our hotel suppliers have inventory. Occupancy rates are below where they have been historically. And I think that some of our hotel partners would welcome the opportunity to have a new channel to move volume during periods in which they need some help, without hurting their retail pricing.

And if you step back in a travel marketplace, we've seen it and in general, the retail marketplace, we've seen very significant growth spreads when new platforms are created to drive discounts and great deals for consumers. The merchant hotel business in the early days was a off-market channel. It was 30%, 40% off of distressed inventory. And it grew to a point where it is right now, which is it's really become the retail side of the business. After that, the opaque business developed, Priceline, Name Your Own bid, the Hotwire business, the package business. That fueled another very significant growth for the business as well.

Now we're seeing some of the new retail categories, the flash sale gilt.com type product, and we're participating in that product through sneak away through TripAdvisor, Groupon as well, and we're participating through the Groupon joint venture, where we're the exclusive OTA that Groupon can partner with for these kinds of travel deals.

So we think as these new types of retail appear, we see dollars moving into those categories, and we think as a distributor for our partners, we can add value to the extent that we can create more opportunities for them to sell their wares in different ways into segmented audiences.

And we think Groupon is just another choice for our travel partners. So we're – it's a very dynamic company, smart set of people and we are looking forward to building the partnership.

Unidentified Participant

And just think about like Groupon a little bit more detail. Is that – my feelings for my next question just international growth generally, is there something you'll attack globally or you'll obviously cherry-pick some more developed Groupon markets?

Dara Khosrowshahi, President & Chief Executive Officer

We're going to start in the U.S. That's a largest market. That's the market – that's the biggest potential on a near-term basis. We will test and learn if this is an iterative game. And based on that, we'll determine whether we want to go international and when we go international as a partnership.

Unidentified Participant

Okay. And then just thinking to that international question, I guess, international is going to be a key – driving international growth will be a key, part key – key question going forward. And essentially, I think your 2011 guidance implies increased marketing spend to drive international growth. Are you already seeing traction based on the increased marketing spend in areas such as Asia?

Dara Khosrowshahi, President & Chief Executive Officer

We are. Right now 60% of the business is domestic, 40% international. We want to drive that to 50/50 and, hopefully, even have a majority of our business coming from international points of sale. And the three significant international areas that we are looking at is Europe, the European market place is Asia-Pacific region and South America.

In Q1, I think you saw our international revenue growth rates accelerate pretty significantly from last year, and that's a combination of some conversion improvements within the international sites, especially on the Hotels.com platform and some return from our marketing spend in the international regions.

So while it does come with investment, we are seeing the volume respond as a result of the marketing investments, and it's something that we hope continues through the balance of the year.

Unidentified Participant

In which area in particular if you had to sort of look at the different areas where you've have seen growth -

Dara Khosrowshahi, President & Chief Executive Officer

Yeah.

Unidentified Participant

- which area in particular would you say pullout as a...

Dara Khosrowshahi, President & Chief Executive Officer

I'd say the Asia-Pacific marketplace is not only performing, but the potential of the marketplace is just enormous. So that's an example of current performance along with huge potential. The first thing that you have to start with is the overall size of the travel market. And just recently the Asia-Pacific market has now passed the U.S. as far as the size of the overall travel market in the – for the Asia-Pacific region.

Europe is number one. U.S. was number two. Now it's Asia-Pacific and then the U.S. So one is, just the size is there, and the penetration, the Internet penetration in Asia-Pacific is very low, lower than 20%. If you compare that to the U.S., which is around 50%, so not only do you have the large market that's growing quickly, you also have internet penetration very, very early. So the online travel marketplace is going to grow at substantially higher rates than a travel marketplace that's already growing pretty quickly.

A quarter of the growth in the world's travel market alone is going to come from China. So we just think that's a great market and a really good one. It's a real focus for us. And when you look at Asia, the – Asia's a word that we use, but it's not a really marketplace. Every single market in Asia is very different. So we're very focused on China where we have us taken eLong, which is the second-largest OTA in that marketplace, now starting to gain share on the hotel space versus the number one Ctrip, which is well ahead of us. But we have very encouraging signs as far as eLong's current growth goes.

We partnered up with Tencent, who is an investor in eLong as well. So hopefully, we'll have a combination of the eLong team executing well, increasing conversions along with additional traffic coming from Tencent.

And then in Southeast Asia, which is a very attractive market for us, we recently partnered up with AirAsia, which is one of the leading low-cost carriers in Southeast Asia. We now have access, exclusive access – the AirAsia joint venture has exclusive access to AirAsia inventory. And again, we think that's a real potential for us, because there is no Expedia equivalent in Asia. There is no Expedia of Asia or a [ph] ProtoView (11:35), et cetera. There's no player like that, and we think that partnering up with Asia – with AirAsia allows us that opportunity as well.

And then you've got other markets in Asia, Australia, Japan, that are just very attractive markets that we've been in for some time and are developing nicely. So it's a good market for us to focus on, and I think we're seeing early encouraging results.

Unidentified Participant

Would you, I mean, is it of your international plans, I guess the key question will also be, you expanded far acquisitions, I think, in 2008. So is that part of your plans going forward?

Dara Khosrowshahi, President & Chief Executive Officer

I think that I like where we stand as far as our geographic footprint growth. So at this point, we don't – there is no area where we look and say, well, we've got to acquire to grow in that area. We've got a very strong footprint. U.S. obviously is our core marketplace. Europe is a market that is improving for us profitably, and then we've done a nice footprint into the Asia-Pacific region.

And I'd say the region where I'm looking at this point to increase my footprint more aggressively is South America. We are there with Hotels.com. Brazil is a really, really performing very well for us, but I think our share in Brazil is relatively low. And we are going to go more aggressively in South America with Expedia brand as well.

So from a geographic standpoint, we're going to be opportunistic. There isn't a market where I think I have to buy. It's really going to be based on the opportunities, but we will look on the M&A front, adding scale to TripAdvisor. It's an incredible business. Every dollar I've allocated there has been a good dollar, and we'll continue to allocate capital there. Egencia, our corporate travel business, is scaling very nicely to the extent that we can find acquisitions that add to its scale profitably. That's an area that we'll invest in.

And on a selective basis as well some new technologies that we see coming in – Mobion is an example there. They were the leader in paid travel apps. We brought them in-house. It's a terrific team and already they have -- they're building the new Expedia mobile apps, and the quality of the app that they built for Expedia has even been better than we expected and people are downloading it, booking on it, et cetera.

So those are kind of the three areas really that we look at is travel media, corporate travel, technology and then geographically, really on an opportunistic basis.

Unidentified Participant

Okay. And just thinking about the competitive environment overall, I think, Google, have obviously just introduced some new products and then just, now sort of see, have an impact in terms of TripAdvisor traffic. Any thoughts there, what are your expectations going forward?

Dara Khosrowshahi, President & Chief Executive Officer

Well, the Google Places product has been out for a couple of quarters now. And we talked to our investors as for as effect there, really being TripAdvisor loosing some traffic from Google as a result of being pushed down the page and Google places coming in above the organic search rankings. TripAdvisor took a hit. Really all of the players in the organic search markets took a hit. Despite that, the underlining growth trends for TripAdvisor have been so strong, that even with a hit that

TripAdvisor took from Google Places, we're able to book 31% revenue growth on a very high 30% plus traffic growth; CPC revenue growing at very, very healthy rates. So while Google certainly has been a negative factor as far as the introduction of places for TripAdvisor, the underlying growth of the TripAdvisor segment has been so strong that we've been able to overcome that.

Q3, this year Q3, Q4 of this year, we're going to anniversary over, I say, the Google Places effect. And then we'll see growth where rates settle into. We're not seeing activity from Google either improving or making manners worse. I'd say, if anything, the newest iteration of places is better for TripAdvisor and that the TripAdvisor links are featured more and we're getting more traffic from Google Places than we used to, but it has been a negative. We've taken the hit. I think now we've taken it into our forecast. We've certainly showed you that TripAdvisor can grow through it, and we don't expect things to change significantly going forward.

Unidentified Participant

Okay. More broadly on Google and their acquisition of ITA software, how do you see that impacting the overall travel space?

Dara Khosrowshahi, President & Chief Executive Officer

I think it remains to be seen. We're not dependent on an ITA software technology, and I'm certainly happy about. We've got an in-house team of engineers. We've built up as Best Fare Search product and we're very excited about the plans for BFS on a go-forward basis.

My anticipation is that Google will try to introduce real-time pricing and availability into their air searchers very similar to what they have done on the hotel searchers. They – we don't think that they will have get into the transactional space on hotels. In other words, they will present pricing and availability and they will allow travel agencies and supplier directs to participate in that marketplace, just as they do in the paid search marketplace.

So while we think that Google will introduce new products, the song will remain the same in that Google will try to build great products for consumers and will try to monetize those through whatever means they can as long as it's consumer friendly, and a big part of that in sending traffic to OTAs and we don't expect that to change. So we think Google will be a good partner on the hotel side of the business. We think they'll be a good partner on the air side of the business. We don't expect that change.

Unidentified Participant

Okay, thanks. And then, travel meta-search sites, I think it's like client.com.

Dara Khosrowshahi, President & Chief Executive Officer

Yeah.

Unidentified Participant

Do you see them as friends or enemies or how do you see them?

Dara Khosrowshahi, President & Chief Executive Officer

For enemies, maybe.

Unidentified Participant

Yeah.

Dara Khosrowshahi, President & Chief Executive Officer

I'd say five, six years ago, we were much more worried about meta search as a channel than we are today. They're, I'd say, more friends honestly, which is they're a pretty significant channel for us. They send a significant amount of traffic to us. We are able to acquire traffic from a very broad array of meta search sites on a profitable basis and more profitably than Google for example. So meta search growing as a channel is a good thing for us because that's a profitable channel that's growing.

Now, if I were to rank my channels as far as profitability, the most almost profitable channel for us is direct, someone coming to Expedia, someone coming to Hotels.com, et cetera. So what I'm trying to do in running this business from a long-term perspective is make sure that all of my channels are balanced, that I've got growth from the direct side of the business, growth from meta search, growth from Google, growth from TripAdvisor, et cetera.

And so far, we've been able to develop that kind of a product pipeline where all the channels are pretty balanced, and meta search is yet another channel for us that we want to grow.

Unidentified Participant

Do you think it will push the traffic direct to the hotel and airline sites and impact the OTAs?

Dara Khosrowshahi, President & Chief Executive Officer

Meta search has been around for a long time, and we haven't seen them drive an undue amount of traffic to direct sites. That's what we feared in the early days. It turns out a couple of things are true. One is that because online travel agencies are in the online game, we are much more aggressive participants with meta search players. We are their leading customers. We're optimizing our sites to work better with them and we can invest in that channel in a way that supply direct just can't. They just don't have the scale.

The second is that the consumer who comes to a meta search site is by nature not a brand-loyal consumer. Right?

Unidentified Participant

Yeah.

Dara Khosrowshahi, President & Chief Executive Officer

So if you're coming to that site, you're announcing that you want availability, you want pricing, you don't particularly care about brand. You might somewhat care about brand, but you've already segmented yourself. So once you get a set of results on meta search with brand included in there, you're not necessarily brand loyal so you're still going to shop around. And as long as we, the online travel agencies, have pricing availability, we're going to get a fair share of that traffic, and we have for five, six years. I don't see that changing that on a go-forward basis.

So I think those two factors contribute to the fact that meta search is – it's a good channel, continue to be the good channel I think for all the players.

Unidentified Participant

Okay, Dara, thank you. And I think we'll turn it over to the audience for a couple of questions now. We have about just under 10 minutes left, so why don't we have the audience questions.

QUESTION AND ANSWER SECTION

<Q>: With regard to your expansion in the international business, ex-U.S, how do you see the mix working out between hotels and flights?

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Yeah. I'd see the majority of the mix being a hotel mix for the international business. Hotels.com obviously is the fastest growing segment of our business. In the last quarter, Hotels.com gross bookings grew 39%, clear acceleration because of some of the technology investments that we've been making. And the growth rates there are improving, have been pretty broad – terrific growth rates in Europe, very strong growth rates in Asia Pacific, as well.

So in general, I would say the hotel business is the business that we're allocating the most capital to and, to the extent that we're allocating more capital into international markets, we lead with hotels, and then obviously we'll fill in with the other products, including air.

<Q>: Yes, sir?

<Q>: And just with regard to the international expansion, maybe could you just talk a little bit about the pros and the cons that you are seeing relative to the domestic market in terms of what you didn't expect or language barriers or things along that line? And just relative to say Priceline having a bit more international focus than you, as well. Is there some markets that they've sort of closed off to you by getting there earlier? Are you seeing any resistance there?

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Sure. As far as the pros and the cons go, the international markets, in general, the hotel footprint is more fragmented than the U.S. markets. Brands are less of a factor. The big hotel chains are less of a factor in international markets versus domestic markets, which helps our revenue margins. In general, our revenue margin with a branded hotel site is lower than a revenue margin with, let's say, an independent and the international, especially the European markets, tends to be more of an independent market versus a brand market. So that's a positive.

As far as challenges go, language translation, building out sites that appeal to the local populace is different and, to some extent brings, scale issues to bear. So operating costs for international markets tend to be higher than domestic U.S. costs, and marketing efficiencies tend to be lower in international marketplaces, as we're earlier in the stages of development as far as our supply goes, inventory goes, pricing goes, et cetera. So international conversion for us tends to trail that of U.S. conversion, as well.

But we think with the technology investments that we're making, investments in content and in inventory, et cetera, we can drive conversion up in those international markets, which will drive volume up and, hopefully, improve our penetration there.

Priceline has unquestionably executed very, very well in these international marketplaces. But we don't consider them to be a winner-take-all marketplace. The markets are so large. Internet adoption is at relatively early stages, and we think that we can improve our international results for a number of years before we really start butting heads with Priceline. So what we're hopeful is our own success driving lots of penetration there. I don't think it's necessarily going to come at their cost, by any means.

<Q>: [ph] Fred (24:47), you're going to get very bored with international questions, but I'm going to keep at it.

<A – Dara Khosrowshahi – President & Chief Executive Officer>: I'm at the right place, so -

<Q>: Yeah. Fantastic. Just back to that again. Can you just talk very – I want to hear the strategic views on when you go in your international expansion, whether you go for a local brand or whether you – I think you bought something in France a while ago. . .

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Venere in Italy, yeah.

<Q>: Venere, oh yeah. So I mean, I don't think Venere operates as Venere as a brand.

<A – Dara Khosrowshahi – President & Chief Executive Officer>: No, it does.

<Q>: It does?

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Yeah.

<Q>: I mean, I'm kind of wondering is Expedia the brand or Hotels.com the brand you want to go with? Is it the local? I don't know what the strategic view is.

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Sure. Absolutely. I'd say, in general, we believe in a multi-brand strategy. These are broad marketplaces and multiple brands allow us to speak to as broad an audience as we can. And when we look at our various brands, Hotels.com is simple, hotel only, will be our broadest brand. It's in more countries than any other brands out there. And basically, any country that we operate in, Hotels.com is going to be in. It is the early entrant into every single marketplace.

Expedia goes in as a full-service online travel agency. When we first launch, sometimes we'll launch hotel only, but then we deepen the depth and breadth of the product so that we offer air, packages, cars, et cetera, and it is your classic full-service travel agency that can sell everything to everybody. We will not enter every single market that we're in with Hotels.com with Expedia. We'll look at Hotels.com, understand what are the markets that are, frankly, responding the best, what are the markets that have the largest potential as far as market size, Internet penetration, credit card penetration. And based on what we see with Hotels.com and those other factors, along with air inventory, we'll decide to go into selective markets with Expedia.

Venere is our agency brand. We wanted to broaden our inventory footprint and also have not only merchant hotels, which is our mainline business, but also agency hotels. And that's why we went into Venere, which is really a European agency-only player. We are expanding our agency distribution into Expedia and Hotels.com in a selective way.

Once in a while, we will -- if a market is significantly different, if it just behaves very, very differently from other markets, we may go in with a completely different brand, and that's a case in China. For example, when we looked at China, going into China the way that we went into other countries with Expedia Hotels.com at that time was impossible. It was mostly an offline business, significant amount of cash collection, et cetera. And we'd seen how Western companies perform in China, which was not that well, Western companies at least on the Internet. So we decided to really gain control of a Chinese company and help a Chinese management team expand in China, which seems to be working there.

So on an exception basis, we might go in with a separate brand. I'd say India, for example, very, very different marketplace, significantly offline. It's going to take a long time for India to look like our other marketplaces. We might address India with a separate brand, although right now, it is with Hotels.com and Expedia.

So I think from a strategic standpoint, we like the brands that we have. We like our footprint. And on a very opportunistic basis, to the extent that we see a big market that looks very different from all of our other markets, we might – that's a market that we might address with a separate brand.

<Q>: I think we just ran out of time. We've got one minute left if there are any last questions.

<A – Dara Khosrowshahi – President & Chief Executive Officer>: So about international again?

<Q>: Last question on international. Just regarding – if you're entering a market where Priceline are already quite well entrenched in internationally, do you have any sense as to the pricing terms that you're getting versus what they're getting – is it the same or --

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Sorry, what's the --

<Q>: Just in terms of, if you're entering a new market for you internationally, their price zone is already there.

<A – Dara Khosrowshahi – President & Chief Executive Officer>: Yeah.

<Q>: Do you get a sense – do you know in terms of the pricing that you're getting, is it the same as Priceline or...

<A – Dara Khosrowshahi – President & Chief Executive Officer>: It's very hard to generalize. I'd say it's true for Priceline or any other incumbent, when you're going into an international marketplace, that the new player in has to work harder to get the same inventory and the same pricing. The advantage that we bring to bear is that, let's say if we're going into Vietnam as a marketplace, we can bring a lot of international demand into those Vietnamese hoteliers, which helps us get a good initial base of rates and inventory for those hotels, even though there are a lot of incumbents there.

These hotels very much value the international traveler, as they should, because you get higher rates. They're very, very valuable travelers coming into these marketplaces. So to the extent you're going up against an incumbent, your return on capital initially is going to be lower than theirs, and you're seeing some of that investment from us, from a marketing standpoint. But we haven't encountered a market where we've had to retreat out of or a market that isn't open to us to the extent that we can start driving demand into that marketplace.