MANAGEMENT DISCUSSION SECTION

Analyst, Goldman Sachs & Company, Inc.

All right. Good morning, everybody and thank you for being here today. It's my pleasure to introduce Dara Khosrowshahi from Expedia. Dara served as Expedia's Chief Executive Officer since August 2005 and was previously CEO of IAC Travel, a division of InterActiveCorp. He also served as CFO of IAC and held the role EVP of Operations and Strategic Planning at that company.

Dara, good morning and thanks for joining us.

Dara Khosrowshahi, President and Chief Executive Officer

Thanks for having me.

Analyst, Goldman Sachs & Company, Inc.

Sure. So I'd like to start off big picture. A lot has changed over the last year since we were here last. We were talking about net revenue rates last year. So let's talk about air this year. So what in 2010 exceeded your expectations? And what could Expedia have done better?

Dara Khosrowshahi, President and Chief Executive Officer

I think in 2010, certainly the media business, the TripAdvisor media business and Egencia corporate travel businesses exceeded our expectations. We expected those businesses to grow. TripAdvisor grew revenue 30%, 40% significantly above that of other media players in general, not only the travel market but the media market in general. And it was a result of terrific base domestic growth, explosive international growth and a number of new products starting to come in online and contribute revenue, the business listings product that we're investing in, Asia Pacific trying to starting to contribute some revenue, vacation rentals, et cetera.

So I think, what TripAdvisor's successfully done is, had a base business, overlaid on at a big international business and also new products that are starting to contribute revenue. And I think it positions us in a very, very strong way for three to five year period after that when else.

The Egencia business as well, which has been running on a break even business and had a tough time in 2009 with the recession, corporate spend going down, really 2010 got very solidly profitable and is now in a position where we have been growing top-line but the business hadn't been leveraging because we've been reinvesting in sales force technology. Now, we're in a position with that business where not only can we reinvest aggressively but both the top and bottom line are growing and leveraging nicely and again, I think that's something that's going to keep going for the next couple of years.

I'd say the third area that I am happy with is Hotels.com, our private label business. Businesses, the growth rates there top-line, bottom line, those businesses have gone from platform integration, lots of execution to a point where the investments that we made in the technology and platform and while we're continuing to make investments, those investments are paying off, the room night growth is there, the bottom line acceleration is there, et cetera, and we feel good about that.

I'd say the area where we expect better results going forward is Expedia. That business is six to nine months behind as far as the platform integration work and the platform improvement work that that we have spent considerable investment in – it's not because the work is slower, it's because the platform is larger, it's more complex. It's a multi-product company than just selling hotels.

And we – and because the platform isn't there yet, you don't see the kind of improvements that we've seen in our other businesses but there's a playbook there, they worked with our other transnational businesses and we don't see any reason why it can't work with Expedia as well. So we're – again, investment and lots of investment and execution but we feel pretty good about the pay-off.

Analyst, Goldman Sachs & Company, Inc.

Okay, great. And so it sounds like the Expedia.com platform is gonna be a main focus for 2011.

Dara Khosrowshahi, President and Chief Executive Officer

Very much so.

Analyst, Goldman Sachs & Company, Inc.

What other things are your top priorities for '11?

Dara Khosrowshahi, President and Chief Executive Officer

I'd say other than that international is and has been a priority. A goal of the company is for us to get greater than 50% of our revenues from international markets. You see that in certain businesses, certainly, for example, traffic at TripAdvisor significantly greater internationally than domestically, revenues just gonna catch up.

We're making pretty aggressive investments in the Asia-Pacific regions and Latin American regions across our media and transactional businesses. So building up those businesses, some of which are still in investment mode is a real focus for the company.

And I'd say the other focus is positioning us for some of the new platforms that are coming out, the mobile platform, the social platform, et cetera. While they're not significant financial contributors, the growth rates there are very significant, the platforms themselves, the number of smartphone sold, et cetera, continue to accelerate and compound. So we wanna make sure we're in a good position to take advantage of that business as it turns transactional.

Analyst, Goldman Sachs & Company, Inc.

Okay, okay, great. So turning the discussion to an area of focus, recently, the air business, it's roughly 12% of your net revenue and it's a fairly high investment area. So how important is the air business to Expedia? And how focused are you on this American Airlines' dispute and getting through that?

Dara Khosrowshahi, President and Chief Executive Officer

Well, it's a fundamental part of what Expedia has to offer, right? The Expedia brand is about one-stop shop, whatever you want to buy and travel, we are here for you. So from a financial standpoint, it's real dollars, it's hundreds of millions of dollars and that's important. And so there's an import of the business from a financial standpoint but from a service standpoint, it's what sets Expedia apart from a booking or hotels.com, et cetera, and the ability to combine air and hotel inventory and packages allows us to create a differentiated product and differentiated pricing from standalone players or supplier direct sides, so it's important in that way as well.

So we certainly want to continue to sell air on Expedia. We are continuing to invest in the product and the AA incident is certainly something that's unfortunate. We would – in general on air, we wanna have as much product on shelf as we can to make it available to our customers. But it's gotta be on the right terms. And right now, we're not in a good place with American and hopefully we can get there.

Analyst, Goldman Sachs & Company, Inc.

Okay. I was wondering what percentage of people coming to Expedia originally are coming to search for air versus hotel? And I think you said on the earnings call that there isn't that much cross-sell, but if you can speak to both those points?

Dara Khosrowshahi, President and Chief Executive Officer

The amount of standalone air search and hotel search is roughly comparable.

Analyst, Goldman Sachs & Company, Inc.

Okay.

Dara Khosrowshahi, President and Chief Executive Officer

Between air and hotel, I won't get into specifics, obviously, from a unit -- economic standpoint, the hotel business is significantly more profitable than the air business. And of those air shoppers, the most significant kind of economic translation for us is the air shoppers that we can turn into package transactions. And package transactions for us are quite profitable because they've got hotel component, but also you're getting essentially two transactions for a single customer acquisition cost. So I'd say standalone air business has some economics but the package business is the larger part of it.

Analyst, Goldman Sachs & Company, Inc.

Okay, okay. So how important are the GDS companies to you, what would be the issues of direct connecting with the airlines?

Dara Khosrowshahi, President and Chief Executive Officer

Well, the GDS companies are our sole source connectivity provider on the air side. We work with them at ASN, Europe we work with Sabre, in the U.S. we have for 14-15 years, we have long-term partnerships with the GDS players. And they provide a very important function, which is for us to build connectivity to 300 plus airline partners, would be prohibitively expensive. It's – with technology 20-30 years from now, is that possible? Perhaps, but economically it just doesn't make sense. There is a place in the ecosystem for a central switch and the GDS plays that part. So we're pretty committed to the GDS model going forward. The vast majority of our airline partners participate in the GDS, put their content in it, and I think it serves the airline partners, who don't have to manage connectivity with tens of thousands of different travel agents, and it serves the travel agents, who also have one central connectivity player, who frankly are very good at what they do in scale.

Analyst, Goldman Sachs & Company, Inc.

Okay. We've recently seen some pretty aggressive comments coming out of Delta's earnings call. I was wondering if maybe not the smaller airlines, but maybe the other larger airlines might follow American Airlines' fleet. I was wondering if you've had any discussions with the other larger airlines and do you expect them to follow American?

Dara Khosrowshahi, President and Chief Executive Officer

We don't think so. We've had – we have good relationships with a number of airline partners. U.S. Air for example, we renewed our relationship over a multi-year period with U.S. Air. And I think that a number of the other airlines are focused, we think, on what they should be, which is their product.

I think right now we're finally in a good spot in the economic cycle. The airlines are in a position to be profitable. They're in a position to put some capital to work to improve their plant to bring in some new planes, et cetera, and to possibly increase capacity in a disciplined way.

And I think most of airlines that we've talked to, the Deltas, U.S. Airs, et cetera; they're focused on their business. Changing connectivity or trying to change connectivity we think doesn't add any value whatsoever to the customer. And most of the airlines that we're talking about are talking about growing their business. Growing yield, growing their international business, et cetera that tends to be higher yield; those are most of the discussions that we've been having with them.

Analyst, Goldman Sachs & Company, Inc.

Okay. So let's say, we're going to still follow the same topic.

Dara Khosrowshahi, President and Chief Executive Officer

Sure.

Analyst, Goldman Sachs & Company, Inc.

So let say, Google/ITA were to be approved tomorrow with minimal conditions. What does that mean for Expedia both in terms of the short-term and the long-term?

Dara Khosrowshahi, President and Chief Executive Officer

As far as the short-term goes, I don't think it would have much of an effect if anything. We are ITA clients through Hotwire and TripAdvisor and I think short-term we wouldn't anticipate any changes as far as the Google/ITA offering.

I think from a long-term standpoint, it poses the danger of Google being able to favor its own internal results whether for flight search or hotel search, but this is really on a flight search basis. They've demonstrated doing so for example in Google Places that they are favoring internal results over third party results.

And we think from that standpoint, it can choke a fair amount of traffic from third party providers who may want to bid on the Google demand. And to the extent that that happens, we think that competition in the, call it origination or air marketing area goes down which could increase cost to consumers.

So from a long-term standpoint, Google may not abuse their power but they will have the ability to do so. And that's why we think that the government should one, not let the deal happen, but to the extent that the deal does happen, it should come with very, very significant restrictions as far as what Google can do with their internal content versus external content.

Analyst, Goldman Sachs & Company, Inc.

Okay. Well, since you brought up Google Places, there has been some controversy around what's done to TripAdvisor's traffic? You still reported pretty good results for TripAdvisor in the fourth quarter.

Dara Khosrowshahi, President and Chief Executive Officer

Very good results, yeah.

Analyst, Goldman Sachs & Company, Inc.

So what kind of impact has Google Places had on Trip and are we going to see more of that impact, I guess, over the next few quarters?

Dara Khosrowshahi, President and Chief Executive Officer

Just to be clear, the impact that Google Places has had isn't necessarily because of Places as a product, but it is because TripAdvisor's organic links being moved down often the below the fold. And customer clicks typically concentrate above a fold versus below the fold, and any kind of effect that they may have had on TripAdvisor is an effect that they have basically on the whole travel ecosystem. Now TripAdvisor has unbelievable content, so there is a lot of SCO traffic coming to TripAdvisor. So really the effect that we've seen is a decrease in the growth of SCO traffic that we have seen from Google previously. That decrease as a percentage of total growth, obviously, in the domestic market is higher because the growth rate in the domestic markets while very healthy, wasn't quite as high. In international markets, the growth rates for TripAdvisor are so high, it's high double digits et cetera that it's much less noticeable as far as the effect that it had on TripAdvisor. And I think the key is what's Google going to do with Places? Are they going to rank Places based on the quality of that content? Then I would say that the quality of TripAdvisor content is better. Or are they automatically going to put it on top because it's a Google product? We'll see how that shapes out.

Analyst, Goldman Sachs & Company, Inc.

Okay. You mentioned that TripAdvisor is growing a lot faster internationally than domestically. And we have searched around and we've seen that Google Places is – or Google's prioritizing its Google Places above other links both internationally and domestically. Do you think it's a bigger threat internationally as it is domestically?

Dara Khosrowshahi, President and Chief Executive Officer

Again it's – I don't think it's necessarily a threat, it's a one-time event, right. To the extent that our links are down on the page which is going to affect our traffic, but then we would expect that the traffic will continue growing along with search query growth.

Analyst, Goldman Sachs & Company, Inc.

Okay.

Dara Khosrowshahi, President and Chief Executive Officer

And at the same time we are investing very aggressively in developing new channels, mobiles, social et cetera, TripAdvisor. So it's a hit that we're going to take on traffic, you know, do I think it's a fundamental threat? I think the fundamental threat is will Google continue to increase the amount of real estate that it – that it puts as far as its internal traffic and push all organic traffic significantly down et cetera. Now, we think that that would be a terrible user experience. Users expect to come on Google and to be able to navigate to other sites. So we don't think that is something that they would do, but again, that's out of our hands.

Analyst, Goldman Sachs & Company, Inc.

Okay. So we just talked about how quickly TripAdvisor is growing in international markets, what about the new products that are growing within TripAdvisor? Do you see more of the growth in '11 for TripAdvisor coming from these new products or is it from international markets?

Dara Khosrowshahi, President and Chief Executive Officer

I'd say the single most significant growth area for TripAdvisor is going to be international markets, because the dollars are much larger. And again, it's high double-digit growth rates there. The CPM business for TripAdvisor is very healthy. CPM rates have strengthened versus '09 say. So that is a great high margin business coming in. And business listings I'd say is the next significant part of the business really growing from zero in revenue in 2009 to significant revenue last year and it should, it's a subscription product that's building on itself, we have over 25,000 hotel subscribers.

And what's interesting about those hotel subscribers is we're reaching a segment of hotels, highly concentrated in Europe, a high proportion of which actually don't have OTA distribution. So there is a segment of hotels that are smaller hotels, that are tail hotels, that are coming to TripAdvisor for distribution -- kind of direct distribution to a client base which we think is quite significant and quite promising.

China is the other very significant investment area for us. We have the number two meta-search player there Kuxun and we've got TripAdvisor China which is Daodao. We are investing pretty heavily there, but the traffic numbers are quite encouraging and early results are quite encouraging. That said, it's a highly dynamic, highly competitive marketplace. So we think we will -- it's -- there is a lot of data in that marketplace for years to come.

Analyst, Goldman Sachs & Company, Inc.

Okay. In the past you've talked about Trip being a good natural hedge against your own marketing costs going up, is it still as good hedge as it was before?

Dara Khosrowshahi, President and Chief Executive Officer

Yes, it's growing, right. So TripAdvisor's revenues are growing faster than our marketing costs, so the hedge is only increasing.

Analyst, Goldman Sachs & Company, Inc.

Okay.

Dara Khosrowshahi, President and Chief Executive Officer

And we feel great about having TripAdvisor in the family.

Analyst, Goldman Sachs & Company, Inc.

Okay, great. So switching gears to the Expedia.com properties, which markets are likely to provide the greatest growth tailwind over the next two to three years?

Dara Khosrowshahi, President and Chief Executive Officer

I would say that there is a good amount of growth still in the U.S. business. The U.S. business is quite healthy. And the Asia-Pacific business which is mostly right now concentrated on Australia and Japan, and somewhat India, are really starting to build bases as well. We are looking at a fairly significant additional investment in Asia to get into quite a few new countries, especially in South East Asia, so I think that will be growth driver...

Analyst, Goldman Sachs & Company, Inc.

You mean M&A or...

Dara Khosrowshahi, President and Chief Executive Officer

I am sorry.

Analyst, Goldman Sachs & Company, Inc.

In terms of M&A...

Dara Khosrowshahi, President and Chief Executive Officer

Organic, first, we will certainly look at M&A, but we've made the requisite investments to rollout a number of new points of sale in South East Asia. So we see that I would say as being starting to become a contributor next year, going to 2013. And Europe I think has had a bit of a tough time, but the reasons are all explainable and I think when the new platform comes in, we're hoping that Europe goes into healthy growth mode versus I'd say trailing relative to the rest of our portfolio.

Analyst, Goldman Sachs & Company, Inc.

Okay. And Dara at focus right, you talked about how the developed markets are better markets for the merchant model, whereas tertiary markets are better for the agency model. Do you think that you – do you think the agency model could make some headway in the U.S.?

Dara Khosrowshahi, President and Chief Executive Officer

I don't think there is any reason why it couldn't, but I think that the difference between the merchant model and agency model, I think in general those models are coming together. I think they are converging versus diverging. We have experience with the merchant model, significant experience with the merchant model. We have experience with the agency model. And the ultimate goal for us is to get the best supply, the broadest supply at the best prices in front of our consumers. And I think the relative importance of which model is going to be – is going to get less and less important as time goes by. We think it's important to have exposure to both. There are certain markets for example, I would say, India, right, where I think the merchant model is going to work much, much better for the next couple of years, and there are certain markets where the agency model is much more appropriate and the point is to be able to point the right model at the right market.

Analyst, Goldman Sachs & Company, Inc.

Okay. Well, that leads to my next question. I was going to ask you about, or I am going to ask you about which markets, let's say in Asia and Latin America are better for the merchant model versus the agency model?

Dara Khosrowshahi, President and Chief Executive Officer

I would say that India is definitely – I think will be a merchant model market and I think the rest of the markets are going to be a mix. I think some of the newer markets where you have collection issues or you have currency issues will tend to be merchant and start merchant but I think that other than India, I think you're going to see a mix of both.

Analyst, Goldman Sachs & Company, Inc.

Okay, great. So moving over to China, could you tell us what you've learned so far from your experiences in China? Could you describe how you are thinking about approaching Asia given the experience you've had in your investment in eLong?

Dara Khosrowshahi, President and Chief Executive Officer

Sure. I'd say what we've learned is China moves unbelievably fast and you need local management to keep up with changes in the industry or else you are going to miss the boat. The market in China with Taobao coming into travel et cetera, it's just changed. The market now versus 18 months ago is significantly, significantly different. Very rich, we're seeing very encouraging growth rates at eLong and as the Chinese consumer its coming online the growth rates there are accelerating. And I think quite healthy, but it is a very dynamic market and you need local players in order to succeed. I think that we would not nearly have the market position that we do now, kind of having a similar global outlook versus having local management driving eLong et cetera and driving Kuxun and Daodao. You have to have local management on the ground.

I think the other lesson is that Asia is a word. There is no Asian marketplace. China is completely different from India. The Indian market is completely different from Australia, totally different from Japan. And so people talk about the APAC market, but when you go into each country and build a service for each country, if you take kind of a peanut butter approach, you can have some – you can make money and you can have some success, but you are not going to succeed in being let's say a top two or top three player. And so we have found that there is a challenge in Asia, which is the approach that you take in each market, especially for the Expedia-type business, for the full service business has to be quite distinct from market-to-market-to-market.

Analyst, Goldman Sachs & Company, Inc.

Okay. Well, speaking specifically of the Chinese market, do you find the hotel market there fairly fragmented, or is it pretty consolidated? And do you see that being more of an agency or a merchant type market?

Dara Khosrowshahi, President and Chief Executive Officer

It's – I'd say it's dominated by the agency model in general. It's a fragmented market with lots of big players, the home ends et cetera. There is -- what's different about the Chinese market is these budget hotel chains, what's developed very quickly in the Chinese market is supply that is built for local travelers at very reasonable prices and I'd say good price point, terrific product, great service. You don't see that in India, for example. And so that has in China really I think created this explosion of Chinese travelers coming in and traveling and spending money, et cetera, which I think has driven the growth of Ctrip, eLong and a number of other players there. And as a result, it's a very rich travel ecosystem.

The second thing that's happened in China now is that the Chinese traveler is really travelling within the Asian Pacific markets. And there are a number of markets there where Chinese travelers are now becoming the top kind of inbound source. And so they are spending money, they are spending, they are travelling aggressively, and I think they are really going to be a force in that marketplace.

You do see some, what's interesting about China as well, agency is I would say the model of record. You are a seeing a lot more tests with the merchant model, because that allows OTAs to price more aggressively et cetera, and maybe give discounts and also avoid, in China cancellations et cetera are very, very high. And to the extent that you can have a model where cancellations are lower, you can get much more attractive economics. So actually in China, I think, the merchant model is going to gain some share in the next couple of years relative to the agency model, which is pretty dominant.

Analyst, Goldman Sachs & Company, Inc.

Okay. Interesting. So I am going to ask one more question before we go to the audience. So, we'll have a microphone going around. So, you've talked about your interest in expanding into new products and into new geographies, and you talked about how you are going to grow some of those organically. At the same time you have an underleveraged balance sheet, so...

Dara Khosrowshahi, President and Chief Executive Officer

Yeah.

Analyst, Goldman Sachs & Company, Inc.

I was wondering if you can speak to capital allocation and your views on M&A versus share repurchases?

Dara Khosrowshahi, President and Chief Executive Officer

Sure. We are -- I'd say we are not in capital courting mode, right. And I think that the business is quite well capitalized, right now we're satisfied with the capitalization of the business. So to the extent that we are throwing off cash and we are throwing out cash, we will look to put that cash to work. Now on a quarter-to-quarter basis it might change. But I say if you look at last year we had around 600 million or so of free cash flow. We paid $80 million of dividends to our shareholders. We bought back around 500 million in shares. And I think we did around 50 million in deals. So you can kind of – I'd say if you're looking to what we're gonna do in the future, just look at what we've done in the past.

We have averaged, since we've been public, I would say $150 million to $200 million a year in M&A. So last year was light in M&A, and I would hope that we find some more deals in 2011. And the areas where we're gonna look at is really international expansion, media deals, corporate travel deals. Those are, I'd say, the three specific areas that we're looking for. But we're quite flexible. We'll allocate capital to the area that we see the highest long-term returns. And we think over time if you do that and you're careful, you'll get back a decent return on your cash.

Analyst, Goldman Sachs & Company, Inc.

Okay, sounds good. Anyone have any questions? Wow. All right then, okay. I'll ask another question.

Dara Khosrowshahi, President and Chief Executive Officer

There's one over there.

Analyst, Goldman Sachs & Company, Inc.

Oh there is, okay.

QUESTION AND ANSWER SECTION

<Q>: Maybe just following up on the capital allocation there just discussed, I think you stated a target of about 2.5 times leverage over the longer term, is that still where we should expect you to get to over time? And getting there and anything more along the lines of M&A of $200 million probably wouldn't get you there in terms of increased leverage and the like, anything as far as from a use of that capital as it relates to the share repos or anything along the lines would be a Liberty stake that we should be thinking about, is that something that the capital that you're building or have the access to could be used for? How should we think about that approach?

<A>: Yeah, I wouldn't say that the 2.5 is necessarily a long term target, as it's an amount that we'd be comfortable with. The business has demonstrated considerable resilience. And for example, in the worst economic crisis, we're able to grow cash flow, we're able to grow profits and as a result we think, it's a business that can carry 2.5 times relatively comfortably.

I would say, at this point, we're the mode of – we're throwing off significant cash and let's allocate that cash. We're not necessarily looking to lever up the business more than 2.5 times, although we'll be opportunistic based on a specific use of cash. So I wouldn't expect, I would say, significant divergence in our cash allocation philosophy this coming year to lever up versus past years. We'll just allocate capital to either buybacks, dividends or deals, based on what opportunities we see out there.

<Q>: Anything around the Liberty stake?

<A>: Nothing around the Liberty stake specifically. They've been very supportive shareholders. I think they've liked the direction that we're going in as far as capita allocation, and they're quite supportive of the international investments that we're making. So they continue to be a great supporter of ours.

Question up here.

<Q>: You talked on the call about rebuilding Expedia's platform, could you tell us what benefits that might bring in terms of product benefits? Are there more packaging, more flexibility? How's that gonna improve the margins or revenues?

<A>: The specific benefit that it will allow is, it'll allow us to introduce new products onto the website or test out different layouts, different ways of presenting the product at a significant and accelerated pace versus what we have been able to do in the past. There's a whole practice of what I call website optimization. And it can move the needle as far as conversion. Ultimately, conversion is what you're after. And you wanna convert the maximum amount of users that come to your site into buyers and that can come through a variety of factors. Do you have great deals? What does the website look like? Where are you helping the person navigate to the extent, if they make a mistake, do you explain the mistake to them et cetera?

The new platforms allow us to significantly accelerate the pace of new product introduction to users, and which we think is going to allow for increased conversion as we test what works and what doesn't work. And we're seeing that with hotels.com. It's literally what I compare it to is if someone's throwing a pitch on the whole platform, we got one swing at the pitch, on the new platform we're going to get three swings of the pitch. With three swings, my odds of succeeding are higher. It's as simple as that. We're just getting more shots to convert the customer or coming out with new features that convert the customer. And over time if you take more shots, you're probably gonna be more successful and we're seeing that with the hotels.com platform and we're pretty comfortable that we'll see the same thing for Expedia.

<Q>: That's actually all the time we have for today. I'm sorry and if you have a quick question?

<Q>: What are your initiatives in group travel and corporate travel?

<A>: Group travel is, I'd say, less of a specific focus area. I think corporate travel is pretty important. Egencia is a corporate travel business that we've invested in over the past six years and it's getting to profitability and growing at healthy rates, and we expect it to be a significant contributor of profits over the next two to four years.

Analyst, Goldman Sachs & Company, Inc.

All right. Thank you, Dara.

Dara Khosrowshahi, President and Chief Executive Officer

Thank you very much.

Analyst, Goldman Sachs & Company, Inc.

Thank you.

Dara Khosrowshahi, President and Chief Executive Officer

I appreciate it.