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PRESENTATION

Alan Pickerill - ***Expedia, Inc. - VP, Treasurer & Head, IR***

Okay, I think we will try and get started here. We have got just two hours and we have got a lot of material to get through. We are going to do about an hour of prepared remarks and then an hour of Q&A, so we will try to have a very interesting and informative event.

First of all, thanks everybody for coming. We really appreciate you joining us today. Also, welcome to everybody who is listening on the webcast. I think there are quite a number that are participating that way.

We will during the Q&A session take live questions in the room, but we also have sli.do. For those of you that have used slido, slido.com, you can submit questions electronically. We will keep an eye on those and ask those, too, to try and keep things lively, but we will take live questions as well.

There are a number of non-GAAP measures in the presentation, as usual, and the reconciliations to those -- to GAAP measures are in the back of the deck. It is on the IR site.

Also want to, as we have been doing on the earnings calls, remind everybody that we sold our eLong stake in May last year. In order to make things comparable, most of the numbers that you are looking at and/or we are talking about are excluding eLong, but you should consider the GAAP results in conjunction. And we also have non-GAAP measures related to our expenses and the reconciliations are there as well.

I would like to just briefly introduce the IR team. They are all standing in the back. If you guys will wave, Elena and Sarah and Katie. I think a lot of you have talked to them on the phone before or traded email, but maybe not put a name with a face. And they did a lot of work pulling this together.

The presentation and the discussion today -- probably don't have to tell you, but I will -- is based on management's views as of today, March 16. We don't undertake any obligation to update or revise the information.

With that I'm going to hand it over to Dara Khosrowshahi, our CEO, and he and Mark will have prepared remarks.

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

Thank you, Alan, and thanks again everyone for joining us here. Just to start I wanted to talk a little bit about why we are here today.

Four years ago, after the TripAdvisor spinoff, we put together an investor deck for Expedia, Inc., to really talk about the new Expedia, what we were going to -- setting out to accomplish and why we thought that the new Expedia was a terrific entity that was going to grow significantly and also create significant shareholder value for the shareholders. And that has certainly happened.

We all know that the TripAdvisor spinoff created a lot of value. Before the spinoff, Expedia, Inc., was trading at a $6 billion market cap. Today the combined value of TripAdvisor and Expedia is about $27 billion. So we all know that the spinoff itself created value, but even post-spin, if you look at Expedia, Expedia over those four years has returned over 280% over those four years versus the S&P returning 60% for investors.

So we set out the vision of the company, what we were going to accomplish. I think we executed on that vision and now, especially with last year's activity, M&A activity, with the replatforming that we have done and the results that we have seen with the replatforming, we wanted to set out again for you what we are going to accomplish over the next four to five years. And then, hopefully, we will accomplish just that and, hopefully, we will show similar returns or market-beating returns for our shareholders over the next four to five years, just as we did over the past four to five years.

So we will start in general with investment highlights of the Company. I'm going to touch on these and really get deeper into them as we go into the presentation itself. And it really starts with an enormous addressable market; the travel market being a huge market.

And within this market we are operating the world's largest diversified travel platform with platforms that have significant scale. We see technological advantages and real moats in terms of competitive activity that we think are going to continue assisting us and gaining share within this incredibly large addressable market.

Within that technology platform we have market-leading brands and Mark will certainly talk to the financial performance of the Company and our capital allocation record, which has been excellent.

So let me start with the market. We are operating in a terrific large market. Overall, the global travel market it's a $1.4 trillion market. It is an enormous market that has been growing faster than GDP for the past couple of years.

Travel has been growing at GDP plus 200 to 300 basis points on a year-on-year basis. And as we think that Millennials, etc., enter the travel market, they are certainly valuing experiences over stuff. We think that adheres to the travel market and we have a very, very big market that continues to expand at very healthy rates on a global basis as well.

Within the travel market, this $1.4 trillion market, there is the online travel segment, which is now we estimate about 45% of total travel spend with penetration in the US being over 50%. But as you see, penetration in the APAC region and Latin America considerably less than that 50% level and we think very, very significant tailwinds as far as those penetration levels reaching US penetration levels. And by the way, US penetration levels continue to tick up year after year after year.

The online travel booking is simply the better way, and as we see more and more people moving to mobile, mobile has become a real tailwind in the online travel segment penetration. When we look at our market share of the online travel market on a global basis, plus 5%, even in the US, our largest market where we have a number of significant brands, our penetration of the US travel market is only 11%.

It is very rare that you find a marketplace where the top two global players account for less than 10% of the global marketplace. We think that we can grow at very, very healthy rates and our top competitors can grow as well. And we can continue to take share from a number of smaller players and take share essentially from the offline market coming online for many, many years to come.

Now we operate within this market with the world's largest diversified travel platform and when we talk diversified, we are talking essentially every travel product out there. And our addressable market within that $1.4 trillion market is really the full market.

We are not a one-product company and we have incredible breadth of supply, obviously over 200,000 hotels adding to very quickly. With the acquisition of HomeAway, 1.2 million vacation rentals. Air, car, activities as well. We offer everything in travel.

And as far as our channel audiences go, obviously it starts with our online audience; over 450 million visitors on a monthly basis coming to our incredible branded sites. But also we are looking to penetrate into markets, offline markets and corporate markets. Over 100,000 offline travel agents that we are powering through our affiliate channels, over 1 million corporate customers as well, and over 45 million calls handled the old-fashioned way on an annual basis. We are looking to have the full travel market as our addressable market and we think we are unique in doing so.

And as you get more and more suppliers coming into this platform, engaging with our platforms, and more and more travelers engaging with our platform, the platform continues to scale and continues to gain power. This is a true scale platform within travel that is unrivaled.

Now the platform begins with demand aggregation. The platform doesn't work if you can't bring in demand and we are spending on an annual basis over $2.7 billion and going out there, especially in variable channels, every day trying to predict what we can bid for a transaction and what that transaction can create on a return basis. If you are in the prediction business, big data essentially is your biggest weapon within the prediction business and we are able to apply the data that we have against multiple products, against multiple channels in a way again that is unrivaled out there.

Every day we are looking at the portfolio of bidded terms that we have and the channels that we have, and every day we are moving up and looking for that perfect curve as far as where can we go, what new demand channels can we find? And a certain percentage of our spend is inefficient, but we need to go out and test and learn against that inefficient spend, bringing it back into the efficiency curve. Then making sure that we are farming our efficient terms and being able to bid on those terms more and more efficiently as time goes by.

We take the profits from the efficient terms, reinvest them in order to increase the number of channels and find new demand patterns out there. And we do it very consistently and we do it at very, very significant scale.

Now, your marketing spend and your ability to go out and find demand patterns out there depends on the conversion of your platform, and we have been very aggressive in investing our platform.

We spent over $0.5 billion in technology, and now have over 5,000 of the best and brightest minds out there -- engineers, product people -- to build out platforms with significant scale that also have the flexibility to drive very significant throughput as far as testing and learning, coming up with hypotheses and trying these hypotheses live on the site to understand if a hypothesis improves the site or doesn't improve the site.

To the left here -- actually, to your right -- you can see Brand Expedia. We have gone from a place where a couple of years ago we were running about 100 AB tests a year -- these are true AB tests, so this is a -- to the extent that we are trying out five different colors on a button, that doesn't count as five tests; that counts as one test. We have taken the pace of AB tests from about 100 a year now to over 1,300 a year, just on Brand Expedia. This doesn't include the other brands out there.

And essentially, no matter how bright you are or how smart you are, what we find is that about one-third of the tests work, and about one-third of the tests are neutral, and about one-third of the tests lose.

So to some extent, this is a numbers game: how flexible is your platform; how much are you spending on technology to be able to drive throughput; how many one-third good ideas can you find out there. And in addition, the data, how quickly can you gather data to understand whether a test works or not. You need traffic. In order to get to statistical significance of success or failure, a very, very significantly positive test for us will be a 0.5% winner.

So the players who don't have the flexible platform, the players who don't have a number of engineers to drive against this AB testing, and the players who don't have enough traffic to understand whether one test is a statistical positive versus another test, our players then over a long period of time are going to lose share in this market.

I will add, too, that our multibrand capability is a real weapon here because all of our brands are constantly comparing winners versus losers. And our multiproduct capability is a weapon here because many tests that work on one product will then work on new products as well. So, for example, our real-time reviews which were launched for hotels are now on our air product, are moving to our car product as well.

So multibrand and multiproduct here again keep us ahead of the game and provide us with a structural advantage over virtually everybody else in the travel marketplace.

Now a lot of people ask us if we've hit kind of our top as far as conversion. And what we have seen is that the percentage of winners for us continues at very significant rates. So to the extent that we saw the percentage of winners decrease, you would think that you would have a site that is starting to get close to perfect, we are not there at all. And we continue to draw conversion improvements over a number of years, and so far we think we can continue to do so.

This methodology for us works across multiple products. This is not a one-product company. So if you look at last year's growth rates on an EI basis, we had Air growing at 35%, Hotel 36%, Car at 37%, Activities 43%, Cruise up 5%. And of course, we are introducing Rail in 2016 as well, first time we are going to be selling rail on a global product. And that is another product that we will start testing and learning and optimizing against.

You can see here, this is just the Brand Expedia platform, so this is Expedia worldwide. And the index growth rate of the product -- this is 100% organic -- after we replatform that product and we start testing and learning, the AB testing and learning that I talked about, and marketing against that product.

The orange line, for example, is the index Air, so 120 index over two years. The Hotel product is the blue, 150, and then you can see Car and Activities already at 170 and over, in just about a year of replatforming.

So the replatforming process, the marketing data process and the AB testing process simply works, and we have replatformed across product, we have replatformed across brand, and this is a repeatable process that works organically for us. And we think we are one of the few global companies that can pull this off and continue to pull this off on a repeatable basis.

And this process and these platforms also inure other advantages to us, such as the unique acquisition and integration approach that we brought. Travelocity for us is a case in point. We essentially took the Travelocity site and powered it using this Brand Expedia platform. And we took a site -- a very strong brand but a site that had had declining revenues for years, and this is now -- now that it is on our platform, it has double-digit revenue growth, it has single-digit adjusted EBITDA margins.

Now those margins are really market-leading OTA margins. And really this Travelocity team gets to leverage all of the technology bandwidth that we have on our global platforms with a very, very small employee base.

Now this employee base is going out. It has its own GM, they're marketing aggressively, they're growing the brand aggressively, but they get to take advantages of global scale. This integration happened over a course of months, not years, and this is the same process that we are bringing to bear with Orbitz and we are driving the same process. It is looking very, very good and, again, we talked about the synergies that we think we can bring to the Orbitz platform, not including any goodness from let's say revenue growth or revenue synergy really there in our model.

But certainly, Travelocity is something that we are one of probably the only companies on a worldwide basis that can pull it off in the time that we pulled it off, now growing at very, very healthy organic rates as well.

The third leg of our growth now is an investment in supply. We had the platform formula working and we had the marketing formula working for a couple of years. And last year for the first time, we really started making significant investments on the supply side. And the reason why we're making those investments is that as we add supply into marketplaces, we see increases in conversion.

When we look at our global markets, for example, and we move from a destination where we have let's say 25% of the hotels in a market covered to 50% of the hotels in a market covered, conversion usually doubles in that destination.

So two years ago, we decided to reduce margins in order to get to market competitive margins. We started making investments in our supply platform and we started making investments in our lodging market management team, now over 3,000 people, and we significantly upped the pace of hotel acquisition, 73,000 new hotel adds to our marketplace. We are just getting started here.

Certainly, you see with our competitor Booking.com, this has been a multiyear road for them. And while our supply base is very, very strong, especially including HomeAway in the vacation rental segment, on the hotel segment we think we have a multiyear trajectory of increasing the pace of hotel acquisition, and the increased pace of hotel acquisition result in conversion increases. So this is the third leg of our growth strategy that really we are now just getting started on.

The investments that we are making on the supply side aren't just about people and increasing the number of hotels that we have, but also increasing the engagement of our hotel partners with us through a number of very innovative new product. One is, for example, real-time feedback from our consumers so that our consumers can come and check into the hotel, give feedback to the hotel right there so that the hotels can essentially act on that feedback and fix the experience of a consumer, to the extent that the experience isn't perfect.

We are also allowing EPC conversations, the ability to text back and forth between our consumers and the hoteliers if they have any special needs or early check-in, etc. And one of our newest products is Accelerator, which allows hotels to bid on an on-demand basis when they need more demand, and when they don't need more demand, go back to our base margins as well.

The more engagement we see as far as our hotel partners with our tools, the better pricing, the better inventory, the better content we see from those partners and a number of these new tools, both on desktop and mobile, are increasing the engagement with our hotel partners. This is something that we have just gotten started on. This is not something we have been working on for five years. This is really for the past 18 months as the same teams that have built the terrific UI for Expedia are now building terrific UI for our supply partners as well.

So I've talked about now the platform, as far as the conversion and the marketing and the supply as well. I want to talk about four other areas where we think we have unique advantages over our competition. Our brands, our attach loyalty, and the investments that we have made on the mobile side.

So I will start with our brands. These are brands that we spent billions of dollars building, and we have organized these brands into essentially five platforms here. Each of these platforms has their own presidents that report to me, they have their own tech teams, they have their own marketing teams, etc.

And what is the Brand Expedia group? This is multiproduct, over $40 billion in gross bookings. And this is really -- building multiproduct on a global basis is incredibly difficult, and we are really the only player out there trying and succeeding in building out a full-service online travel agency on a global basis. No one else is in this game. Brand Expedia is uniquely in this game, and also able to bring multiple brands and put them on top of this terrific platform that we are building on an end-to-end basis.

Hotels.com, hotel only; and EAN, our private-label business are about loyalty in private label. They are growing very, very quickly, $14 billion in gross bookings on the lodging side, growing at market-leading rates here, very successful brands.

Egencia, fifth largest corporate travel company in the world right now, outpacing its competitors significantly which we will talk about. HomeAway, one of our newest additions to the family which Mark will talk about; and then trivago, the fastest-growing kind of global hotel only meta-search player which has become a very familiar brand in the US really out of nowhere.

Now the investments that we have made in these brands have resulted in a traffic pattern that we believe is very, very healthy. If you look at our 2015 gross bookings by channel, the majority of our gross bookings are coming through direct or what we call cheap channels. These are our brand channels. This is Google, search engine optimization, email, apps, etc. And these are channels that obviously we get very, very significant returns from, and these are really kind of the heart of the profit engine of the Company.

There have been a lot of questions as to what our exposure is to indirect performance-based channels. You can see while these indirect performance-based channels are very important channels for new customer acquisition, the majority of our business comes from direct and cheap channels. And these channels are growing at very healthy double-digit rates, which really wasn't true five years ago. If you looked at our direct channels, the channels were not growing significantly.

Now this formula of bringing customers into our front door, giving them great experience, great inventory, has created a terrific repeat feedback loop so that our direct channels consist of well over 50% of our traffic on a global basis. Obviously, Expedia, the big brands we have over 95 million unique users, Hotels.com over 50 million, trivago over 120 million unique monthly visitors. And what you see is a portfolio that is very varied.

We are able to go into new markets and when we enter new markets, the vast majority of our traffic comes from these indirect channels. And over a long period of time as we invest in those indirect channels aggressively to bring in customers, we are able to change the profile of these markets into a very significantly different profile in these mature markets.

As you can imagine, new markets are significantly less profitable because these indirect channels are channels in which we have to pay the majority of our revenue back to our partners. But as we build a significant repeat base, you get into a mature market segment that is very, very healthy from a profitability standpoint.

As Mark will talk about our sales and marketing spend going forward, a significant amount of our sales and marketing spend is taking profits from these mature markets, reinvesting them into new markets over a long period of time, and changing the profile of the new markets into a mature market, and doing it over and over and over again.

Our portfolio really is -- there's a whole host of portfolio of markets that we look at from mature to new, and we are constantly allocating capital from the mature markets into the new markets to move those markets over.

Now another advantage that we have, both on the marketing front and the return front, is the Air business and the attach business. Air is a very, very significant traffic driver for our brands, especially Expedia. Expedia.com only, for example, has 55 million monthly air shoppers, 8.6 billion annual air searchers. For example, if you look at Google searches, searches for air are approximately 80% of the number of searches for hotel.

And as you know, there is a significant amount of competition for hotel search; a number of players out there. But the competition for air is significantly lower as far as the kind of innovation out there, the scale of the players out there, and we have a significant competitive advantage in terms of attach.

The revenue that we bring from attach now for an air ticket is higher on the attach than it is for the air ticket itself. The attach rates, the percentage of air tickets that we now attach to over the past three years has increased by over 50%. And as a result, we are able to go out there and bid for air terms at economics that our competitors who haven't built this attach product simply can't bid on.

We continue to invest in air in a way that other players aren't. We are increasing the speed of our air search. We are introducing new technologies such as split ticketing, so that when a consumer, for example, looks for a round-trip ticket in the US, we not only do a search for the round-trip ticket but we also do searches for two one-way tickets to see if there are combinations out there either with the same airline or different airline that they wouldn't be able to find otherwise.

We are investing in air product in a way that others aren't, as far as showing Wi-Fi, etc.; what can you expect in your air ticket, the ability to upgrade now to different fare classes, attaching baggage, for example, to your air; and also now introducing reviews so that customers can now buy their air product based on the quality of that product and not just the price of that product as well.

We've deepened our relationship very significantly with our air partners, and this is an investment that we are making that is very differentiated from any of our competitors out there and we think is going to create a real moat and a traffic source that is significant, and a traffic source that we can reach into unlike anyone else out there.

By the way, this is one of the big reasons why we are now putting investment in rail product as well, not because we think rail itself will be very profitable, but we think that the amount that we can attach to rail is certainly going to be significantly profitable and, again, another demand channel that we can reach into that our competitors can't.

Third area for us is loyalty, and loyalty is about moving some of the channel mix that you saw in the new markets into the established channel mix that we have now. We are making very significant investments in loyalty. Our biggest loyalty program is the Hotels.com rewards program, over 20 million members; Expedia program, over 12 million members; and now the Orbitz Orbucks program which we are very excited about, over 6 million members.

As we moved over Orbitz onto our platform, we essentially rebuilt the Orbucks platform on top of the Brand Expedia loyalty platform, and it is something that we are very excited about testing and learning about.

Loyalty brings a number of benefits. Loyalty members come through us with a better channel mix than our non-loyalty members. So the efficiency, our marketing efficiency for our loyalty members, is better than our non-loyalty members. Loyalty members spend more than non-loyalty members. Loyalty members attach more, for example, at Brand Expedia at 3 times the rate of non-loyalty members. And loyalty members repeat significantly more, again, investing in that direct channel.

Note that the investments that we make in these loyalty channels are upfront investments, because we have to recognize the cost of the loyalty points upfront. And the benefits that we get come over a period of time, so essentially we are investing in building an asset that is going to inure to us over a significant amount of time.

The percentage of bookings now that we are getting from our loyalty members continues to increase. For example, at Hotels.com, over two-thirds of Hotels.com gross bookings come from hotel loyalty members, a percentage that has consistently increased on a year-on-year basis and continues to increase on a go forward basis. It is a pattern that we see in every single one of our brands where we have introduced these loyalty programs.

Last but not least certainly is mobile. We know that significant amounts of consumers in developing countries are jumping straight to mobile. And for us, the mobile game is pretty simple. It is about bringing in new customers through mobile web. Mobile is about 40% of our traffic now on a global basis, continues to increase.

And an increasing amount of these mobile users are cross-shopping. Over 50% of them are moving from a phone to desktop or desktop to tablet, etc.; is shopping across the different products out there. We make sure that we give them a very consistent experience when they move from product to product: understanding what they've searched for, remembering what they searched for, remembering all their billing information, etc.

And for us, the game is moving users from mobile web essentially to app. We have over 130 million app downloads now and app users repeat at significantly higher rates than other users. And the app channel for us now has become one of our fastest-growing, most profitable direct channels out there and a channel that we are very happy about. One that we keep investing in and one where consistently the user experience that we are seeing is a user experience that is terrific.

And we think that again, when you compare us to suppliers, etc., we think we bring a scale and a technological know-how and an ability to drive frequency with app purchasers that is unique out there in the industry because of the loyalty programs that we have and the multiproduct nature of our business.

So with that, now that we have talked about core, we are going to talk a bit about some of the other brands that we have got in our portfolio. Mark is going to talk about them and then take you through some numbers.

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

Thank you. So I think, as Dara laid out, it is an absolutely massive industry. We think we have got a ton of runway ahead of us in the core OTA business; a repeatable formula. I think Dara has given you a little bit of the under-the-hood look at how that all works, but equally we are incredibly excited about three other pieces of this business. Let's start with Egencia.

The corporate travel business is about $300 billion to $400 billion in spend annually. It is a big, big business. And not only do we have unmanaged corporate travel happening on brand Expedia or hotels.com, but we have also got a big business in Egencia, which is going after the corporate travel business in a very unique way.

Egencia is essentially doing to corporate travel what Expedia.com started doing to leisure travel about 20 years ago. It is bringing technology to bear.

When Egencia goes into clients such as Procter & Gamble, big global clients, Starbucks, L'Oreal, they go in with a technology product offering which means that these businesses go from doing travel on the phone where the big players of yesteryear, a call center or American Express, are charging $50, $60 per phone call to a place where individual users and travel arrangers are actually putting 80% to 90% of their transactions on the platform. And the results have been pretty phenomenal.

Egencia has been growing gross bookings about 20%, growing revenue about 22%, and this compares to single-digit to shrinking growth for most of their major competitors. Highly, highly disruptive.

We think over a long-term this can be a very big business just on its own, but it is also incredibly strategic to us. When we talk to our airline partners or our hotel partners, they are thrilled with us filling up their weekend rooms and the back of the bus, but they are even more interested in talking to us about filling up the first-class seats and the midweek stays. So over the long term this is a big, big piece of the pie. We want this business to be significantly larger than it is today and that is absolutely the plan.

So next let's talk about HomeAway, the most recent addition to the family. HomeAway is really the leader in vacation rentals. There is really two pieces to the alternative accommodation market: there is a secondary home market where HomeAway is the leader with $1.2 billion of listings. Then there's this new market of essentially primary home urban areas where Airbnb has started.

But the scale that is happening on the HomeAway platform right now is massive: $14 billion to $16 billion of vacation rental activity happens by virtue of HomeAway listings and online transactions. So a very big business, very significant scale, $100 billion market just in vacation rentals. The Airbnb opportunity additional to that.

So when we look at the opportunity here, it is really a two-phase opportunity. Phase one, take what HomeAway already has, turn it to be 100% online and better monetized.

So what is the monetization opportunity? Last year HomeAway did about $500 million of revenue on that $14 billion to $16 billion book of business. About a 3% to 4% take rate. Compare that to Airbnb, 10% to 13%; booking.com 15%. Clearly a lot of opportunity here ahead of us.

Such a big opportunity that we actually put a stake in the ground and said we got a goal to deliver $350 million of adjusted EBITDA from this business in 2018. A number we still remain confident that we are going after. So that is basically phase one.

Phase two is the opportunity in the urban markets. Markets like Paris, New York, San Francisco, primary home markets, also secondary home markets. Markets where the traffic to get into these markets is incredibly expensive.

Buying keywords for New York accommodations is some of the most expensive traffic that you can buy. The great news is we've already got this traffic on Expedia and hotels.com, so phase two is actually go after that segment of the market. Get that inventory, put it on our existing core OTA brands, and that creates a really long-term opportunity for us that we are pretty excited about.

In terms of progress so far on just phase one of the transition, listen, it is early days but so far signs are very encouraging. The traveler fee has been launched in the US; early, encouraging signs. We like what we see.

We have really tilted the focus of this business from being a very supplier-focused business, focusing on one side of the platform, focusing on getting subscription renewals -- the right thing to do at the time -- to really a two-sided platform. To taking this formula that Dara described to you of great online marketing, world-leading conversion platforms utilizing test-and-learn methodology and supplier-facing technology and turning it into a real online business.

We have recently put in place in HomeAway a former Chief Product Officer of Brand Expedia, a gentleman who orchestrated, along with Dara's help, essentially the return of Brand Expedia to technology greatness. He is running products, he is running technology. And the great thing is that what we found at HomeAway was a group of actually greatly talented product and technology folks. So we are very excited about what John can do with that team on the ground.

We have taken some of the money that we have seen incremental from the traveler fee and we have started to put that back into the business. The introduction of a Book with Confidence Guarantee essentially says traveler if you book on the HomeAway platform, you don't like the property, you got a dispute with the owner about the damage deposit, we will take care of it for you. Again, reasons to book on the platform.

Again, it is very early. What we are doing here is very difficult, but we have got the expertise to execute on it, but it is a long ways out. So I would just caution you this is a difficult transition that we are pulling off, but we are opportunistic about what we have seen so far.

Lastly, before going on to financials, trivago. If anyone was watching CNBC this morning you probably saw about three trivago television advertisements. They have got a very unique approach to television advertising, not unlike the test-and-learn approach that Dara described in terms of how we test our consumer experiences. Hundreds of different versions of ads that they're testing to see which ones work.

And that allows them to go into a market and generally spend much more than anyone else in the travel category on television advertising. In many cases, multiples more.

They take that traffic and they drop it onto really the world's leading experience in hotel search. You won't find restaurants on this site. You won't find activities. All you will find is hotels.

And trivago is dead-set on creating the absolute best hotel search and certainly the growth rates would suggest that they have got it. Growing significantly faster than TripAdvisor, Google, you name it in the hotel category.

They have got about 1 million properties listed on the site. They are comparing that over 250 OTA-like advertisers and over 100 different hotel chains. And they got presence over 55 countries. Very excited about what we can do with trivago.

And the financial performance has been pretty impressive. You just take a look, 2012 -- this is when we signed the deal. We closed it in 2013. In these three years revenue has quintupled -- quintupled.

And just to give you a sense of this scale, EUR494 million, about $550 million. For comparison, 2012 TripAdvisors' hotel CPC revenue just over about $580 million. At that time, 2012, TripAdvisor growing revenue 18%. Trivago this time growing revenue of about 60%, so it is a big business and it is growing exceptionally quickly.

Not only is it growing now, but we are investing in growth for the future. If you take a look at their core established European markets -- these are the top 16 markets in Europe -- this is a business that has got impressive revenue growth. Revenue growth of about 20% year over year.

It is a business that -- in fact, trivago probably invests more to accelerate growth even further, but with modest investment it is growing about 20%. Contribution margin, 25%. The model works. We can see it works.

We are taking that money and we are investing that money into growing new markets. And these aren't small markets. If you take a look at the new markets, just about 50% of their revenue is coming from these new markets. That revenue base growing 130% year over year at breakeven. We are not digging big holes here, we are essentially just funding future growth.

At some point here in the next couple of years we will hit an inflection point. No promises for 2016; we do expect some earnings growth from trivago in 2016. But over the course of the next three years we will hit a spot where big markets that are over on the right-hand side of that chart, big markets like the US which is in fact trivago's largest market, will shift over to the left. And that gives us the confidence this is going to be a very profitable, high-growth business for us for a long time to come.

So I will spend the next hour and a half on this slide, give you a chance to take a look at this. This is a slide that we constructed in very similar fashion to how we constructed the target P&L that we put out at the time of the TripAdvisor spinoff. A P&L that we have essentially managed the business to and delivered on over the course of the next four years -- the following four years.

I wanted to spend a bit of time on this slide to give you a little more color around what to expect in 2016, which is a transition year, and then what to expect 2018 and beyond in terms of the shape of this P&L.

To orient you to this slide, on the left-hand side here we have got 2013 to 2015 revenue growth and then all of the expense items here, plus adjusted EBITDA, as a percentage of revenue. All of the references here, these qualitative words, all refer back to here. Specifically 2018 refers back to this period, 2013 to 2015, not to 2016.

So a few things I will say; 2016, just to reiterate, our full-year 2016 adjusted EBITDA guidance, excluding eLong, 35% to 45% year-on-year growth all-in. We have also said that within that number $275 million to $325 million comes from HomeAway and Orbitz. You back that out, you back HomeAway and Orbitz out of the base, you start with a 2015 base of $1.2 billion roughly, we expect that piece of the business, the organic business, to grow between 8% and 13%. What we said on the call; just wanted to reiterate.

A few things, though, I would call out specifically in relation to 2016. Although generally the P&L looks broadly similar to the target P&L that we have been managing (technical difficulty); two, there are a few exceptions. The biggest one, right here, technology and content.

That is higher for a very important reason, which is essentially we have a team that is in Chicago and other parts of the world that are maintaining the old Orbitz platforms. We also have a team at Brand Expedia and Expedia, Inc., that are building essentially the new platforms for Orbitz to go on. While that is happening, we have essentially got double costs.

That is the most significant in the first part of the year. It is one contributor to why our plan is very back-end loaded in addition to the ordinary seasonality of our business. It should unwind in the back part of the year as the transition is complete and these transition employees leave the business.

Now that phenomenon also exists here in capital expenditures as a percentage of revenue. 60% to 65% of our capital expenditures are, in fact, capitalized software development. These are the salaries that go to the engineers that are working on our websites. A portion of them gets expensed and a portion of it is capitalized and then depreciated over a three-year useful life.

So generally what happens here also happens here. There is two other factors that sit in capital expenditures. And, by the way, this CapEx line does not include our new headquarters, but I will talk to you about that in a second.

The other two pieces of it are data center costs, hardware essentially, network infrastructure, as well as real estate. On the network infrastructure and hardware, Orbitz had a business that had double-digit billions of business happening. It was delivered through a data center that had thousands, tens of thousands of servers.

They built that data center over the course of three to five years; these servers have three- to five-year useful lives. We are essentially leaving that there. We are essentially building up that infrastructure in one year -- some of it happened in 2015, there will be another portion that is happening in 2016 -- to basically take all of that traffic and activity and put it on the Brand Expedia platform.

So abnormal levels of capital expenditures happening in 2016 and also some of that did happen in 2015. I would also say, too, on the real estate front, as we have added more hotel market managers, we have been building out new office space; office space that will last us three to five years. But as that has accelerated that has also put pressure on CapEx.

So those are the things that I want to call out on 2016.

Importantly, let's talk about 2018. We continue to believe that we have a long runway of growth ahead of us in the core OTA business. $1.4 trillion industry; we have got significant advantages, as Dara laid out. We can continue to grow very nicely.

There are a couple of tailwinds that should help us in revenue growth on an Expedia, Inc.-wide basis during this period. One is we do expect stabilized unit economics in our hotel business. We have been reducing our hotel margins. We have been doing that to get down to market rates so that we can then add on this program called Accelerator that allows hotels to bid up for placement.

That transition is essentially going to be substantially complete by the end of this year. There will be some annualization in 2017. By the time we get to 2018 we should get to a spot where we have got stable unit economics. Of course, that is three years out; lots can change, but that is our view right now.

Two is HomeAway, significant transition going on there that will accelerate revenue at HomeAway. And three is trivago. As trivago gets bigger it is growing much more quickly than the overall business. We expect that very likely to continue and that will be a tailwind for revenue.

In terms of the rest of the P&L, the expense items, I would just say that generally we are going to continue to manage this business how we have in the past. I will also say that all of this guidance relates to Expedia, Inc., but it is also applicable largely to how we are running just the core OTA segment. Core OTA is a big piece of this business so generally this is guidance on just the core OTA segment as well.

Just to go through a few of these items. Cost of sales; this is credit card fees, this is our call centers. We expect to be able to leverage this for a long period of time. Big scale platforms shifting to some extent to agency hotel where credit card fees disappear from this line item. We should be able to get leverage here.

Sales and marketing, and I will talk more about this in a second when I talk about adjusted EBITDA. Sales and marketing has been deleveraging for us for two very important reasons. Two great reasons.

One, mix shift to performance marketing channels. As we have improved the conversion rates on our websites, our expected profit that comes from those websites is higher and, therefore, we can bid more. And when we can bid more we can actually keep our efficiencies constant and actually get more traffic, which reads to acceleration of these performance marketing channels.

All of these performance marketing channels, even though they are generally profitable, all more expensive than free, which is generally the other bucket of traffic. So that has been a phenomenon for us over the course of the last number of years. It is very possible in the 2018 period beyond that could continue if we continue on the trajectory we are on.

Secondly is mix shift to international. As Dara mentioned, as we go into new countries generally there is a higher proportion of the business that comes from performance marketing channels. All of those performance marketing channels more expensive than free, which are generally the cost of the other channels.

As those markets mature they all get more profitable. Year over year they get more profitable as we build that repeat base of loyal customers, but generally they are all less profitable than the US business. So those have been the drivers to sales and marketing deleverage for us. Again, both good reasons.

Last one I would just mention is trivago. Trivago is generally spending somewhere between 80%, 85% of their revenue on sales and marketing. As they grow faster it can put pressure on this line item as well. I will go back to this line item in a second, because it is important in the context of thinking through adjusted EBITDA margins.

Technology and content. We think that is going to be broadly in line, on a percentage of revenue basis, with what it has been historically.

Technology, I think from hearing from Dara you get it; it is critical to what we are doing here. It is a key differentiator for us. We are going to continue to invest in it.

And of course, general and administrative expenses we are going to leverage that.

So let's talk about adjusted EBITDA; in line to higher on a margin basis. A few things that could tip it higher that I would call out. As a reminder, we think our unit economics are going to be stabilized at this point for the hotel business. When that happens it naturally can make our sales and marketing a little bit more efficient, as it can make all of these line items efficient.

The other thing that can tip at higher is, to the extent we are able to grow our international businesses as we expect to -- and those businesses will be getting more and more profitable -- based on the relative sizes of those business and our US business, we could actually see some of the sales and marketing deleverage slow down.

And, lastly, performance marketing channels would be another driver here. To the extent, again, that we can continue to accelerate the growth of our direct channels -- a phenomenon that we actually have seen and we called out on a few calls recently that the relative growth rates of performance channels and direct were getting closer together -- that could also help us on sales and marketing.

So sales and marketing, the first thing I would call out. That is generally for us the difference between EBITDA margin expansion or not. Our goal is to grow EBITDA. Margin expansion is one way to get there, but if we can grow it through actually just making incremental dollars on incremental marketing spend, even if it hurts adjusted EBITDA margin, we are going to do it.

The two other factors: HomeAway, which is generally have adjusted EBITDA margins than our core business. If we are successful with this transition that could be a tailwind here. And trivago is going to be a tailwind to adjusted EBITDA growth. Whether or not it is margin dilutive or accretive, we just don't know at this point.

Right now it has got lower margins. We think at scale it should have higher margins. Where it will be at this point, we just don't know but we can tell you that it is going to be a helper to growth. So that is that.

Let me talk about headquarters; a reminder, none of those CapEx numbers included our headquarters. We had the opportunity in 2015, a very unique opportunity, to get a 40-acre waterfront parcel in downtown Seattle.

Kind of unheard of to get 40 acres of waterfront very closely one of the top tech hubs in the US, if not the world. It's located right here. This is Amazon. This is downtown Seattle.

This is a property that is zoned to actually build 4 million square feet. We are not building 4 million right out of the gate. We are going to build about 1.2 million square feet of office space. We are going to get additional permitting to build another 700,000 square feet.

Importantly, this allows us to bring all of our Seattle area employees together. We have got just over 3,000 right now, by the time we move in we will have about 4,500. This campus, the initial buildout, will house significantly more than that.

And it is going to be a real key for us to attract and retain tech talent in a place where there is an abundance of tech talent, but Amazon wants them, so does Google, Facebook, the other players that are in the Seattle market going after them. So it is going to be a huge boon to our recruiting activities.

In terms of cost, this is a standard technology campus buildout. We are not building a monument to Expedia. We are going to be very reasonable on this. Total build expense here about $1 billion to $1.2 billion. You can do the math on the cost per square foot; it is pretty in line.

Most of this is going to happen in 2017 and particularly 2018. And as a reminder, we are building a real asset here; this is a real valuable asset. I think one way to think about it is essentially -- we haven't decided yet how we are going to finance this, but we are essentially replacing lease costs -- we got to have a home for our employees -- with interest costs. That is one way to think about it.

One of the reasons why we feel comfortable making an investment for growth is we have got a long track record of growth. Really across the metrics here I think what hopefully you will see we have demonstrated is a good balance of essentially delivering near-term profits and yet investing in the future.

We are not Amazon. We have got a massive opportunity ahead of us. We could basically go very hard against that opportunity and not deliver near-term profits. Our goal is to continue this type of consistent financial execution for a long period to come.

Lastly, I will just take a moment to talk about capital allocation. We believe we have got a pretty good track record here. Our plan is to continue to do more of the same.

Let me start here, 2011, TripAdvisor spinoff. Dara mentioned it. When I joined Expedia, one of my first jobs was to buy up all of the travel media assets around TripAdvisor and create the TripAdvisor Media Group to add to the amazing deal that this man did before I got there. We invested about $500 million in TripAdvisor. Today it is worth $9 billion.

After the TripAdvisor spinoff, our focus was really to energize the growth of the core OTA business. We made some very significant investments in technology, also in working capital. We rolled out an agency hotel business that had negative working capital -- well, positive working capital, but negative consequences on our free cash flow from working capital -- and rolled out a program called Expedia Traveler Preference program, which has fueled growth and allowed us to really accelerate our hotel acquisition strategy.

At this time, we were still in rebuilding mode here, but we liked what we saw. This time we invested $1.2 billion in share repurchases, average price about $47. Incidentally, here, 2013, we also bought trivago, the majority of trivago.

We then move to 2014 to 2015. We are starting to see and actually are seeing the returns on these investments: consistent, strong, solid financial performance. We took some of the upside that we were seeing and we made some very critical investments in the core business, which was priority number one.

We started reducing our hotel margins to reset the model. This has been hundreds of millions of dollars, essentially in unit economic give-backs, to really get ourselves to a spot where we had disrupted ourselves and we can actually reset to growth, which is essentially where we are now.

Seeing the performance of the demand channel changes we have made, the platform changes we have made, and also the supply formula that we had developed, as Dara spoke about, gave us the confidence to actually say, you know what, this platform works. Let's go out and do some significant deals. Let's do Travelocity, let's do Orbitz. Of course, gave us the confidence to say we can really help HomeAway transition to the business that they wanted to do.

We did last year announced value, just about $6 billion; ultimately, with share consideration and stock prices coming down about $5.3 billion in M&A activity last year. So what to expect for the next three years. Listen, I think the story is largely the same as you have seen from us historically.

We do expect to continue to have solid financial performance in the core business. We are going to start to realize some of the returns on the big strategic investments we made in 2014 and 2015 through Orbitz, through HomeAway. And for the capital that we have got remaining, we are going to do much of what we have done historically.

We will be opportunistic on M&A. We do continue to have a bias to reducing our share count over a long period of time. We're going to be opportunistic on share repurchases and, of course, we do have our dividend as well.

So that is basically what we had for prepared remarks. I'm going to just wrap it up by saying this is an absolutely massive opportunity. I think this business has really never been better positioned to execute against that opportunity and this is a very unique way of going after it. We are not hotel-only; this is the world's largest diversified travel platform. And we have got very significant scale and technology advantages here.

We've got leading brands with proprietary channels. We have got a solid track record of financial execution and we got a great track record of capital allocation as well. And we think we are going to have a number of fantastic years ahead of us.

So with that I am going to turn it over to Q&A. We are webcasting this, so we do have microphones that we would ask people to use just so the listening audience can hear the questions as well. Just raise your hand if you have a question and we will get a microphone over to you.

QUESTION AND ANSWER

Mike Olsen - ***Piper Jaffray & Co. - Analyst***

It is Mike from Piper. So on international, the Company obviously got out of China last year and you described how much lower penetrated international markets are in general at this stage. Can you just talk about international growth strategy and how you kind of expect both organic and then acquired growth?

Secondly, I understand Airbnb was doing some investor meetings last couple weeks. I wasn't there, but I hear that they were making the case that they can be more partners with hotels and competitors with OTAs. What is your kind of just take on that message and the impact of Airbnb generally on the space and your business?

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

Sure. As far as international markets go, I would anticipate that the majority of our growth international is going to be organic. We have a full portfolio of brands out there and every single one of those brands, other than some that are very domestically focused like Travelocity, are growing their international businesses.

In general, the international businesses are breakeven or making money and, in general, the growth rates of those international businesses are in excess of the growth rates of the domestic business. So we have a very good organic growth path in the international markets.

Europe is obviously a very significant potential for us and we have decent penetration into the European markets, but compared to our competitor our share is significantly less. And we think we have got lots and lots of headroom in the European markets.

We are successfully adding supply. Hoteliers that we talk to want us and welcome us and welcome our demand. We bring to those hoteliers a different demand profile and the opportunity to diversify, and that formula, certainly in Europe, is working as far as higher conversion, finding new customers, and then creating a repeat customer base.

Trivago, for us, is a terrific asset in Europe because obviously they are the number one meta-search brand in Europe. And we think that we can build an unfair share, so to speak, in that marketplace and use them as a growth spear for us in the European marketplace.

The Asia-Pacific marketplace and the Latin American marketplaces are much earlier in their penetration, younger markets. We are happy with our penetration there.

In Asia-Pacific we are especially strong, I would say, in the Northeast, in the Japans of the world. Obviously, Australia and Hong Kong, Korea, Singapore, etc.; we have a number of very, very strong markets there. We are looking to grow much more significantly in the Southeast: in Indonesia, Malaysia, etc. We think there is a great opportunity there.

China, obviously, has its own challenges and I think in China we are going to focus more on the outbound traveler through a number of partnerships, including our partnership with Ctrip. And India is a market that we have had a tough time penetrating in. We will keep investing in India, but I would say it is not probably first order of business there.

And then Latin America. Obviously our strategy there is complemented with the investment that we made in Despegar and building out outbound demand, similar to what we want to do in China as well. So we have got very good organic plan on the international front.

We will be opportunistic on the acquisition front. We will look for opportunities there. My guess is, if you look over the next five years, we will probably do an international deal, but it is not something that we have to do for our portfolio. It will be an opportunity that we want to take on a go-forward basis.

On the Airbnb side, what I would say is we think that from a starting point we are in a really strong position, because we have a fulsome hotel inventory that is being added to and a fulsome alternative accommodation inventory that we are also adding to as well. The brands that we have, obviously, are incredibly well known. And if you think about the capability to go out and to bid for a London accommodations term or a London hotel term, etc., or a London rental term, we now have the full inventory and the kind of brands which we think can convert against those terms and can be competitive against anyone in the world.

Listen, Airbnb is a strong competitor. They are an innovator. We would never take them for granted, but when I think about our competitive position versus them, as well as versus a number of others, because of the portfolio of brands that we have, because of the portfolio of product that we have, we are quite confident that we can win our fair share and more.

Unidentified Audience Member

Dara, a question on your comment that you're optimistic on the HomeAway transition. Can you talk about where your take-rates are now that you have implemented the fee and if you see any downturn in conversion rates since you have added the fee? Thanks.

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

Take-rates are higher. Listen, it is so early. It is so early and the teams are still testing various combinations of subscription rates and traveler fees, so it is too early to give a take-rate.

We have seen a little bit of a tick down in conversion rates, as you actually might expect. Nothing out of the ordinary; entirely expected. Generally, we haven't seen anything that would suggest our initial expectations were optimistic. We feel good about what we see.

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

The trends that we are seeing against our acquisition model are so far, so good.

Elena Perron *- Expedia, Inc. - Director of Investor Relations*

Question here from slido, now that we know the correct code, 7854. Given the success spinning off TripAdvisor, would you consider spinning off trivago at some point, or is it a strategic part of Expedia?

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

We are not dogmatic about anything one way or the other. We are here to build a business and the reason that we want to build a business is accrue value to our shareholders.

At this point, we think that trivago has very significantly benefited from being within the Expedia, Inc., family as far as the Expedia brands investing very significantly behind trivago. Although I would say that the amount that we invest in the trivago channel is not significantly above any other channel that we would invest in. And also trivago's ability to grow 5X revenue since we have owned them, and especially build the US market to be kind of their largest market.

So at this point we think that we get a lot of benefit from trivago being within the Expedia, Inc., family; trivago gets a lot of benefit from being within the family as well.

We will -- over a period of time, we are, as you know, increasing disclosure about trivago so that our investors can appreciate the asset and hopefully value the asset effectively within the family and we will look to, whether through increased disclosure or other methods, make sure that the value of trivago is reflected within EI. That can include nothing, it can include a spinoff, it can include an IPO, etc.

At this point, I would say we are in no hurry to push a capital markets event one way or the other, because we think that the business is performing well, the growth is there. But from a long-term perspective, we are certainly not dogmatic one way or the other.

Ken Sena - ***Evercore ISI - Analyst***

Ken Sena, Evercore ISI. Going back to the slides where you showed the direct versus the indirect, we noticed in the footnotes it mentioned branded SEM. Can you just specify if the branded SEM would be a search for Brand Expedia or the other brands, or would it be if you come up in the SEM results it is just a click of the branded ads?

And then also, just if you could speak a little bit more to the unique economics in terms of having to come down in order for Accelerator to really take off and maybe how your conversations have been there with folks who are adopting.

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

On the SEM question, it is branded. Someone is typing in Expedia.

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

Type in Expedia, trivago. We still sometimes bid for those terms, but efficiency of the bids are much more efficient.

And far as Accelerator goes, we don't have big numbers in Accelerator with our model for 2016, because we wanted to be conservative. But, listen, engagement with Accelerator is happening right now.

We have trained the market managers. They are going out and offering it to our hotel partners. We are seeing increased uptick, every week the use of it increases. We look at the number of bids on a marketplace, the size of the bid.

And the great news is that the players who are bidding on Accelerator are getting reaction, demand reaction and we think that, especially as you are entering the next cycle of travel where you might not have the kind of RevPAR increases that we have been fortunate to have over the past six, seven years, we think that Accelerator is going to become a more important part of the pie as far as the toolsets that our hotel partners have.

Accelerator isn't the only tool out there. We have had, for example, a bidded tool where hotels can pay on a CPC basis to show up higher in the returns. We are testing media elements such as link-off advertising as well, what we called travel ads link-off. So there are a number of experiments that we are running and I think Accelerator is just part of a portfolio that is becoming much more rich, as far as engagement that we have with our supply partners, and it is just the beginning.

Unidentified Audience Member

Question on trivago. Can you provide some color on the traffic that comes to you from trivago? How meaningful is that versus the traffic you get from TripAdvisor and how the economics of that compares with TripAdvisor?

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

Sure. The question is the traffic from trivago, how meaningful is it?

It is very meaningful and increasing. So I'd say, in general, if you look at our other -- I think someone has entered the room. I think our Chairman has entered the room.

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

Special guest.

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

We're going to call him out. You can't get away with just hiding there, Barry.

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

You can't hide.

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

So Barry Diller, our Chairman, is here.

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

We got a chair for you.

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

We couldn't let you get away with coming here and not putting you on the spot. We have a microphone there as well.

So the question is on (multiple speakers) the world, to our best friends around the world.

On trivago, if you look at our bidded channels and our variable channels, in general the largest channel is Google in general, followed by TripAdvisor, followed by trivago. And with certain brands out there trivago is getting awfully close to TripAdvisor, especially as TripAdvisor has moved into instant book. So it is big; it is growing very, very quickly.

In general, the efficiencies that we are bidding on trivago are broadly similar to the efficiencies that we are bidding on other variable channels. We will vary the efficiency on the channels based on the quality of the traffic coming and the propensity to repeat. So to the extent that customers repeat more on our direct channels coming from channel, we will bid more aggressively, but trivago is right in line with other channels and usually our fastest-growing indirect channel out there.

Unidentified Audience Member

Then just a follow-up on the attach rates. What are some of the things you can control to drive these higher?

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

To drive attach rates higher?

Unidentified Audience Member

Correct.

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

Listen, it is all test and learn. I mean the advantage that we see with attach is that it is a revenue benefit for us and it is new traffic that we can find. And for the consumer it is a significant benefit, because when you attach multiple products together you can drive actually advantageous pricing because of the package rates that we get, net rates that we get on the hotel side and on the car side, activities, etc. So it is a win-win for both.

We are just testing and learning aggressively on the package side, optimizing the package path. Insurance is one of our fastest-growing products and a very significant attach product out there and we continue now to increase the portfolio of ways in which you can attach.

Previously, attach was mostly flight plus something. We're going to be -- you can attach now hotel plus car. We are going to be able to attach hotel plus hotel. Rail is going to add to our attach portfolio as well.

So you are going to see the websites move much more to a shopping cart-like experience, where you can put anything and everything that you want. When you put them all together you get a discount over the standalone price, and it isn't a different kind of pathway in. Also, we are going to allow the opportunity to attach not at the same moment.

For example, if you buy a flight to Boston for next week, previously you would have to attach a hotel into Boston right with that transaction. Now you can buy the flight and if you come back two days later and look up hotels in Boston, because you bought the flight to Boston, we will give you package rates for hotels that want to participate -- and, by the way, most of our hotels in Boston want to participate. And that package rate is only available to you because you bought that flight into Boston.

So that is a different way of attaching that is unique. And those experiments as far as attaching any way you want are driving up the attach rate pretty significantly.

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

Some of the deals are very remarkable. You will see over the course of the next 12 to 18 months concepts like book a car with this flight and have the whole thing be $5 less than it was for just the flight alone. I mean these are the types of deals that you will see. You will see book seven nights, get your flight for free. Those are the types of consumer messages that we think will really drive it.

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

Another interesting factor in attach is mobile. So, now with your phone, now that we know that you are going to be in Boston, when you land in Boston we will market activities to you. Especially if you are traveling on a weekend and you are probably a leisure traveler, we will -- you can go on the duck tour, etc. So that attach can happen based on the context that we have with you on the mobile side.

If you are traveling on the weekend, it will be a leisure activity. If you are traveling on a weekday, it will be a car, for example. Those kinds of offers. So the attach opportunities are pretty significant and, again, it is a unique circumstance that we have versus any of the other players out there.

Youssef Squali *- Cantor Fitzgerald - Analyst*

I have a question here. Youssef Squali, Cantor.

On your customer acquisition commentary earlier, Google the last four weeks has made some major changes to their SERP and was wondering if --. We have heard from some SEMs that the OTAs in particular saw a big jump in CPC. So I was wondering if maybe you can comment on what you have seen so far in CPC/CTR, just overall terms. Thanks.

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

It is early in the game as far as those changes in search. It continues a pattern of Google pushing organic results below the fold, so this is nothing new. I think from -- our philosophy is we know that Google in general is giving less retail space to organic results and whenever we talk to organic search teams I tell them, listen, you are starting from a negative; get over it. Tell me how you are going to grow.

This is not new. It is something that we have lived with for a number of years. And based on the content that we are building and the technology and the relevance of our brands, we have been able to increase Google organic search to our various brands on a portfolio basis, despite the negative weight of kind of the Google designs, etc.

On the paid side, I would say that it is very, very early, but it has been generally a net positive from a volume standpoint for us because we are multibrand. And if there is a fourth search term out there it is an opportunity for Travelocity and Orbitz or one of our second-tier brands to get into the main game versus having to be on the right rail.

But it is very early. These are -- I would say the market hasn't adjusted to the new search formats yet, but there haven't been alarm bells ringing at the Company other than some of the SEO, the organic folks. Where we are very strong in SEO; for example, HomeAway has felt it a little bit.

It is not earth shattering. It is stuff that we can make up and stuff that over a long period you just adjust to those switches that Google is making. It's a part of life.

Eric Sheridan *- UBS - Analyst*

Eric Sheridan, UBS. Maybe just teasing out some of the data you gave around mobile opportunity. How much of mobile today is web versus app?

Second question would be what sort of costs or initiatives are you doing to bend the curve more towards app versus Web over the medium and long term? And how that might change the ROI for lifetime value of a user as you move more to app over web over time? Thanks, guys.

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

Generally the split between mobile web and app has been, from a transaction basis, generally around 50/50. It has been that way for a while. We have seen the amount of traffic come via mobile increase pretty significantly. 40% to 60% of our traffic is coming via mobile and we love the mobile traffic.

We are -- again, we are trying to shift more of it to app. I think if you take a look at just the features set that is being built in the Brand Expedia mobile app, for example, you're going to see some stuff that is just unique there versus the mobile web experience. Hotels.com, for example, is pushing a lot of volume through their mobile app and really encouraging their loyalty members to use their app.

You will see a lot of mobile-only deals as well that are fenced rates which are only available in mobile. So, listen, we think it continues to be a huge opportunity and we absolutely love the dynamics of getting someone on the app. They repeat more, they generally spend more, and of course, we don't have to pay the Google tax.

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

One of the changes that we have seen in mobile, let's say, now versus three, four years ago was that the cost of acquiring new customers on mobile web was prohibitive. And especially in some of our core markets in the US, if you include some of the cross-device behavior, the cost of going out into variable channels and acquiring those customers has become much more reasonable.

Mobile has gone from being a very, very significant headwind on sales and marketing efficiency. It is still a headwind on sales and marketing efficiency, but much less so than it was previously. And if you look, for example, at our conversion rates, because mobile was mixing into our transactions much more heavily, mobile was a significant negative factor in conversion rates.

But mobile conversion has improved so much; app conversion is pretty dynamite so that, again, if you look at our overall conversion rates, mobile is not nearly as much of a negative factor. And actually mobile conversion, in general, is increasing much faster than desktop conversion. So I think mobile even has become a decent factor in our conversion as well.

It is a big channel and I would say three, four years ago it was a bit of a what do we do about this channel getting bigger to, okay, this is a great channel for us and let's take advantage of it.

Unidentified Audience Member

Liberty's plan to spin out the Expedia stake opportunity for you; how do you think about that?

Barry Diller - ***Expedia, Inc. - Chairman***

I don't really think it's an opportunity. It doesn't matter if I'm --.

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

It's being webcast so -- people want to hear.

Barry Diller - ***Expedia, Inc. - Chairman***

This is [that] part? So technologically enabled.

I don't think that it matters much in terms of, quote, opportunity. I think what Liberty is doing and has done in several recent transactions that they have done is to put their shareholdings that are not, so to speak, core to whichever one of tradings, tracking stocks, or whatever that they have into individual, so to speak, repositories. So that then they have just much more flexibility than they would if it was inside Interactive or inside one of their other entities.

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

I think there have been a lot of Liberty questions over the past couple of years and not much has happened other than they're being a great supportive shareholder.

Barry Diller - ***Expedia, Inc. - Chairman***

Liberty has, of course, since the very beginning when we -- I was just thinking sitting here that it is 15 years since we acquired Expedia and Liberty was there from the very first day. They have been enormously supportive and they continue to be very interested in the business.

As you know, we spun off TripAdvisor and Liberty actually now controls directly TripAdvisor. So they are both kind of with us and competitors, but kind of that is the nature of things now in many different areas. Many people speculate about it and think of different wedges that they can take advantage of by driving into this or that little portion of it. But it has been stable; I expect it will continue to be so.

Unidentified Audience Member

Earlier, Dara, you talked about how the substantial increase in hotels drove a big increase in the efficiency of conversions for you guys. And if you look at you're -- you did a great job of adding hotels in a very cheap fashion with the acquisitions that you made. As you try and progress forward, though, you are not going to have those big acquisitions as a tailwind for adding hotels.

Can you talk about how -- it sounds to me like that would be a higher cost of acquisition in the hotels? Can you talk about how that fits into your framework of the guidance that you gave for 2017, 2018, and beyond in terms of the leverage on the margins?

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

Most of the acquisitions -- you can talk about margins. Most of the acquisitions that we have embarked on haven't been about adding hotel supply. The Wotif acquisition came with some hotel supply in Australia, and these are hoteliers that had mostly domestic, call it, traffic versus international traffic. So there was a real benefit for us bringing those hotels on board, both in terms of the Wotif traffic, but Expedia and hotels.com traffic in building up our domestic business.

But Travelocity, Orbitz really didn't come with any hotel supply and the majority of the hotel acquisition activity now that were undertaken is essentially organic. We continue to make investments on the technology side and on the market manager side, as far as the people costs.

You've seen it in the capital expenditures to some extent as far as expanding offices, but it is part of the formula going forward. And I think when you saw Mark went through the margins and the growth prospects of the business, I think that the hotel acquisition machine is essentially built into it and it is not going to change any of the margin characteristics of the business going forward.

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

Absolutely. So that salesforce, if you will, sits in sales and marketing, sales and marketing indirect. I had a number up there; it was about 3,000 people. In the context of billions of dollars, over $5 billion of our total expense base, that expense is not really moving the needle.

And think about it, too, as once you build up the salesforce they have the ability to add new hotels every year. So you don't have to add a person for every 1,000 hotels you add; you can actually get returns off the ones that you have got.

Lloyd Walmsley - ***Deutsche Bank - Analyst***

Lloyd Walmsley, Deutsche Bank. A couple on HomeAway. The Company has always talked about doing $15 billion of bookings online and offline, so as they force all of their listings to become online bookable by the end of this year is there any reason to think you can't get traveler fees on all of that $15 billion? Do you still feel good about the $15 billion; can all of that get fees?

Then as a second question, the subscription model presence has always been an impediment for them to optimize for conversion. Brian, I think in a letter to homeowners, talked about upcoming changes to the subscription model. Can you kind of shed some light on what is going to happen and how do you think about optimizing for conversion in a product that also has a subscription model?

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

So I think as far as the changes on the subscription model, you will have to wait for those as far as what we are going to talk about. They will be changes that are meant to be eminently fair to the supply community and we are taking some of the feedback that we are hearing from the supply community right now regarding the booking fee, etc. There is good feedback as far as the volume and there is some negative feedback as well that we are listening to to shape the next step as far as the subscription product goes.

But we are trying to optimize both the subscriber or the supplier experience as well as the consumer experience, and it is getting that right balance, because a lot of these subscribers have been with us for many, many years and we want to make sure that we stay true to them. We want to make sure that we are sending them tons of volume in a manner that they are used to over a period of time. But we want to make sure that we have an economic model that allows us to go out and reinvest in variable channels aggressively in order to build the HomeAway traffic to make sure that a subscriber is constantly getting more and more traffic, especially if they move to online bookability.

As far as the volumes and our assumptions on what percentage are coming online and what percentage are addressable through the system, we have made some assumptions around bleed. There are some -- we haven't assumed that the full $15 billion is going to come online, because there are circumstances when someone wants to talk to an owner directly and wants to do an offline booking, etc. So all along the path as far as the financial model, as far as conversion impact on fees and also some bleed outside of the systems, these are assumptions that we made and assumptions that we think are pretty conservative in terms of our $350 million target in a couple of years.

It is going to be a long road getting there. With John Kim added to the team there, I think from a product and a tech standpoint we are armed up. We are testing and learning and we are listening carefully to our supplier base.

Elena Perron *- Expedia, Inc. - Director of Investor Relations*

One question that came up on slido that is getting a lot of votes: Marriott and Hilton are starting to advertise benefits, including lower prices, for booking direct on their sites. How negative is it for you?

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

Listen these are trends that are not necessarily new. We saw it in the airline space many years ago and we are seeing it to some extent now with some of these brands. I think that the most significant negative is going to be, to some extent, for the share of Marriott and Hilton owners within the Expedia marketplace.

The sort order in our marketplace is based on a number of factors, a very important factor is conversion. And what we find consistently is that to the extent that you don't have the best content and the best price on Expedia or hotels.com, conversion goes down and sort goes down within a marketplace.

We think that we've got enough hotels in any destination where anyone who goes and searches for hotels in Boston or goes and searches for hotels in Milwaukee is going to find a great hotel; is going to find terrific choice on Expedia. Do we want the best prices there? Absolutely.

But when you look on a market basis for a Milwaukee search or a Boston search, we think our product is first class. The hotels who are aggressively engaging in our marketplace are going to gain share and the hotels who are not as aggressively engaging in our marketplace are going to lose share. But these hoteliers are free to choose.

We would anticipate that this is going to result in a loss of share for Hilton and Marriott hotels within our marketplace. And these are choices that they can make based on what their needs are and how the market performs. Certainly, in a market that now is not seeing the kind of occupancy increases that we saw, we think that we are going to have plenty of hotel partners that engage very, very aggressively in our marketplace and give us the best prices, the best inventory with terrific contents. And we are pretty confident of that on a go-forward basis.

Tom White *- Macquarie Research - Analyst*

Tom White, Macquarie. In one of the earlier slides you talked about your market share kind of estimate. I think you said 5% globally, 11% US. Can you just maybe give a little bit of color as to exactly kind of how you calculate that, the numerator and the denominator; what is going in there? And then how do you guys think about your market share in hotels specifically?

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

Sure. So the roughly 5%, think about it as basically $60 billion over the $1.4 trillion.

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

Spoken like a true CFO.

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

There you go, there's the math. I mean if you pro forma'd in Orbitz you would be significantly higher, so think about that is the rough range. And then 11% is essentially the US market, call it close to $400 billion and our gross bookings in around that range.

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

We look -- on the hotel side, we look at Smith Travel data, industry data to look at our hotel volume versus the Smith Travel volume. And we were less than 10% of the US hotel volume today. 10% is a big target for our market management team, so there's going to be a nice big celebration when we break the 10% level.

But 10%; we think that we have the potential to increase that very significantly, even in our biggest market. And believe me, we are not happy with the shares that we see in Europe and Asia-Pacific and Latin America. So we think we will have a long way to go right here and we have a longer way to go internationally.

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

And importantly, that 10% in the US has been climbing and climbing and we think we are gaining share in almost every market in which we operate.

Unidentified Audience Member

I wanted to go back to that slide where you had the paid versus earned media. I think the mix of traffic whether it's coming from (multiple speakers). The slide where you had the indirect traffic versus direct traffic and what you are paying for; can you give us some perspective on what that mix looked like five years ago and how that has changed over time?

In the new markets versus the mature markets, where in the new markets I guess you have a higher amount of paid media, is that cohort following along the same trajectory that you already see for the mature markets? Thanks.

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

Interestingly, there hasn't been a huge change in the mix. If anything, it has probably skewed a little bit more to performance marketing channels just because we have gotten that much better at them. That has been one of the drivers of our sales and marketing deleverage, just us getting significantly better in SEM and all of the meta-search channels.

What we looked at, though, is actually the growth of the direct-branded traffic and we have been seeing that actually accelerate. We also look at repeat rates, all kind of up and to the right.

Generally, what you see though in international markets is, with a few exceptions -- places like China, places like India where there are entrenched competitors -- we can go in and repeat the same formula that we have elsewhere. The first-mover advantage in the US is pretty remarkable, but outside of the US, for example, we see most of these markets following the very similar predictable formula.

And when we go into these markets, even where we have incumbents, we have a built-in advantage because we can start with the outbound traffic. And that outbound traffic is generally higher ADR, longer length of stay; gives us actually very attractive economics to slowly build a real meaningful domestic presence and have the marketing money to actually do that.

Ron Josey - ***JMP Securities - Analyst***

Great. Ron Josey, JMP. Mark, you mentioned three drivers I think on growth for revenue: hotel stabilization, you talked about HomeAway, and trivago. But you didn't really mention Orbitz. So I want to talk a little bit more about Orbitz as it goes on the new platform. How you are thinking about it in terms of growth?

Then also on EBITDA, given the data you shared on Travelocity. I think you said the highest EBITDA margin across OTAs. Can that happen at Orbitz? Thanks.

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

Listen, I think -- first of all, the guidance I gave was 2018 and beyond. I think the Orbitz story is going to unfold this year and next year, and by 2018 we would expect Orbitz to perform broadly in line with what we saw with Travelocity.

I think from an EBITDA perspective, listen, we are very hopeful that this is going to be a business that should exhibit the characteristics of Travelocity. It is a different business, though.

They have got the core consumer travel business, which should be like Travelocity, but then there was the Orbitz Partner Network which is generally a bit of a lower margin business, a little more complex. Orbitz for Business as well. So it will washout.

This is going to be, we believe, a great deal. I gave the commentary that we thought there was meaningful upside to the initial synergy estimate we gave. We continue to stand by that.

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

I think to Mark's point, one of the big differences is that with Travelocity we really didn't keep any technology team as it related to Travelocity. With Orbitz they actually have a very strong product and technology team across the board and a number of that technology team they are working, for example, on alternative accommodations and building out our alternative accommodations for Expedia and hotels.com.

The practices that we saw there are pretty interesting as far as speed of delivery, etc. And the Orbitz Partner Network business is of particular interest to us. The margins are lower than the core mainline OTA business, but it is a piece of demand that we can reach into that is essentially protected demand.

The partners are American Express; they are Bank of America; they are a number of these points programs. And these points programs are -- it is essentially a currency that is growing all around the world. And Orbitz has built out an engine that allowed these banks to customize so that they could have a front-end that is according to however they want that really reflects their brands.

We are taking those capabilities, these customization capabilities, and we are putting them on top of the Expedia platform so that the partners can get the best of both worlds, which is they can have a front-end that speaks to that specific brand. But they can get all the goodness of the optimization that we are driving on the Expedia platform so that we can cement these partnerships and hopefully have these partnerships for years and years. And secure economics, where we are not having to bid every single day for those customers, based on these long-term partnerships that we have with these banks on a global basis.

The banks are looking for full-service travel, so we think we are one of the few partners globally that can deliver that. And they are realizing that it is not enough to build a platform today, because three years from now that platform is going to be out of date. With us, they have a partner where you can build a platform that speaks to your brand and that platform will be a first-class platform two years from now and eight years from now.

Unidentified Audience Member

In terms of your M&A strategy, the slide that you had for your background prior to this slide had 25 brands. And as you acquire brands like Travelocity and Orbitz and Wotif and replatform it to Expedia they become less differentiated; they become more standardized.

So how do you think of the trade-off the experience increasingly becomes similar on the different brands? So how do you think of the trade-off of the overhead and the investments and different brands subsuming it over time into one of the larger brands?

The second piece was your competitor, Dan Finnegan yesterday mentioned that he had no interest in buying HomeAway because of the cost. And he said that building it internally, the capability was a far more cost-effective way of doing it. So going forward, how do you think about that trade-off of build versus buy?

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

We are working on a hotel restaurant reservation business organically. No. (laughter)

Just to start with your first question around these brands, the remarkable things about these brands is they have had hundreds of millions, if not billions, of dollars spent against promoting them. And the brands Travelocity, Orbitz, Wotif if I mean these are all brands, notwithstanding, that we felt like their websites weren't and their apps, in many cases, weren't quite as good as Brand Expedia's. They had loyal customers that just kept on coming back.

Again, I mean think of these as annuities of traffic, if you will. When we give those customers the best-in-class experience, an experience that is the best-in-class now and is actually getting better at a faster rate because of the test-and-learn philosophy that Dara mentioned, what we see is not only do we have these loyal customers who, in many cases, withstood a bad experience, we also have them telling their friends. And that actually generates more and more growth over time.

In terms of the differentiation, right now we have just seen such a nice improvement in conversion in the ones that we have done: Travelocity, Wotif. Orbitz is still a bit early to tell, but early signs are good. And I think over time you will actually see us test with how much differentiation do we allow based upon the returns we see.

We are a very test-driven culture. All of these front-end websites, even though they are on the Brand Expedia platform, do have some degrees of freedom, if you will. And I think we can flex that back and forth depending on the returns we see from tests. We will let the data speak.

Listen, in terms of HomeAway and the sort of build-versus-buy situation, we are actually in the process of building alternative accommodations in Expedia, in hotels.com. The easiest stuff to do is the stuff that you are going to find on booking.com. This is multiunit, apartment-type things that are professionally managed. They are kind of like hotels.

We can absolutely do that; we are going to continue to do that, but at the same time HomeAway is an incredibly unique asset. I mean the loyalty that exists between the vacation homeowners and the platform and the consumers and the platform is rare. I mean there is nothing else like it. And so we looked at that opportunity as not necessarily a substitute for what we were doing, although it could very well be, but as a very attractive opportunity for us on a standalone basis.

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

Just to add on the differentiation, different doesn't mean better in a lot of circumstances. And while we start at a starting point that looks pretty similar to the Brand Expedia side, the platform that we built has enormous flexibility so that the content, for example, that you see on the pages -- the reviews are different, the content of the hotels are different. The pictures can be different. Pricing can be different. Sort order is going to be different based on the likes or the dislikes of each of these various services.

Package pricing; for example, we found that the optimal nature of package pricing on Travelocity is different from package pricing on Expedia, because of the Travelocity brand and the Travelocity customer base. So you will see over a period of time differentiated landing pages, differentiated content, and lots of optimizations to start expressing differentiation, but still having the advantage of the global platforms that are able to test and learn as the kind of accelerated pace that we are able to on Brand Expedia and hotels.com.

Barry Diller *- Expedia, Inc. - Chairman*

I would just add on brands that Expedia's brand strategy from the very beginning has been almost flawless. Many times when you make acquisitions some are good, some are bad. There is almost -- maybe one exception of the acquisitions that we have made over the years has not been superb for the ecosystem or differentiation.

And when I think about it, it was extremely early, almost around when we took our interest -- first interest in Expedia, we also bought hotels.com. And at the time people said to us, well, why are you doing that? Why don't you just take one horse and ride that horse?

Well, hotels.com, as I think you've probably seen in these slides which I've seen before, hotels.com has been fantastic for the Expedia system. And brands -- acquiring brands in the way that Expedia has done it over these years has not only been a basic driver of growth for us, but it has also taught us lots of things that we did not know in our central house. And as I say, I don't think there has been maybe one poor one in all of those acquisitions.

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

We don't want to talk about the poor one, though.

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

We will talk about that one later.

Barry Diller *- Expedia, Inc. - Chairman*

I think we might agree, though.

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

Yes.

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

I don't agree.

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

We still have discussions about it.

Kevin Kopelman - ***Cowen and Company - Analyst***

Kevin Kopelman, Cowen. Just a couple follow-ups on HomeAway. First, can you tell us where you are today in terms of the online transition -- is it 10% of that $15 billion? Is it 20%? Is it 50%? Anything you can share to help us understand how far along you are.

And then separately, as you think ahead to phase two in urban rentals, can you comment on how you are thinking about the regulatory environment there? Thanks.

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

Sure. As far as the transition goes we are very early, we look at the percentage of transactions flowing online; it is less than 50%. Again, we gave a 2018 target, because we think it is going to take a number of years to get there. And while HomeAway has built a pretty good standard architecture as far as the e-commerce platform, to kind of get a transaction through, there are years and years of optimizations that we have driven on the Expedia platform that HomeAway hasn't even started on.

So this is -- we are very, very early in the path. We like the trends that we are seeing. The model that we have is a conservative model, but we are in the first or second inning of probably an extra inning game here. This is not going to be easy. It is going to take a lot of work, but we are more than up for it.

As far as urban demand goes, our approach early on with urban is to essentially contract direct with Expedia and hotels.com, because we were building out this inventory on an organic basis. The early results are actually quite good. That demand into that inventory is growing at very significant rates and over a period of time, and actually that period of time is going to start pretty quickly, we are going to hook up to HomeAway inventory, both more aggressively driving demand to the HomeAway site.

And then over a period of time cooking in HomeAway direct bookable inventory into the Expedia system so that the folks who make their product online bookable get even more demand. Not just HomeAway demand, but Expedia demand, hotels demand, Travelocity, etc., demand. That is in the works now and is going to come along.

As far as the legal framework, etc., this is something that we are new at to some extent, although we are not unfamiliar with occupancy tax and all the fares there. We have a very strong government affairs group. They are working very, very closely with HomeAway as we speak and we think that this stuff is going to organize itself over the next five years. You are going to have your bumps and bruises, but this is a product that consumers want.

It is a product that is being wired up all over the world and we will be very, very responsible in making sure that we work with the local authorities to give the kind of protections that they need and also to give them the kind of revenue that they want and they should get. We are not the first here. Obviously, Airbnb has been working on it over a long period of time. We are kind of new to the fray, so to speak, so we will catch up and we will act accordingly on the regulatory front.

Unidentified Audience Member

(inaudible -- microphone inaccessible)

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

I think it is very early. This is going to be a -- it's a product that is going to launch next year. Rail in Europe is bigger than LCCs, and I think one of the advantages that rail brings is that there really is no other OTA. There are rail verticals that are being built, but no one is bringing to bear rail with the kind of brands and scale that we have.

For us, we think it is going to be an extraordinary opportunity to drive attach. It is going to be a great opportunity on the mobile front to drive frequency, and we think it is a terrific product as well for the business traveler in Europe as well. So the Egencia team is pretty excited about working with the Expedia team as we build out rail.

It is very, very early and we think it is going to be kind of a multiyear journey for us on the rail side. But again none of the other OTAs are working on it at our scale and we think it is going to be yet another road for growth for us on a go-forward basis.

Unidentified Audience Member

Thanks for the slides, especially the color on the test-and-learn. Could you just talk a little bit about maybe -- if I marry the fact that it seems like a number of A/B test growth has accelerated this year and the fact that the percentage wins are constant, does that mean the CPC inflation afforded to you by better conversion should kind of decelerate going forward?

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

The most significant factor in the rate of growth of AB tests not being as much as it has been historically has been the integration work. These teams work on multiple products out there and a number -- the hotel search team, etc., not only has to work on A/B testing, but also has to have their hand in making sure that the new Orbitz hotel side is launched in the right way, etc.

So it is something that is perfectly explainable based on what we are doing. It is actually, I think, pretty amazing that as a company we are able to integrate these giant brands. We are able to do it in under a year for most of the business and we haven't skipped a beat: conversion continues to increase, our businesses continue to grow on an organic basis, and we are able to kind of play both games, so to speak.

So I would absolutely anticipate that, for example, with Brand Expedia the pace of A/B testing starts to increase. We are not running A/B tests for the sake of A/B tests, so there is going to be a natural ceiling at some point. We haven't hit the natural ceiling so we do want to see more A/B throughput for Expedia.

And by the way, these AB tests don't include marketing tests, for example. They don't include necessarily package pricing tests. These are more website feature testing, so there is a lot of testing and learning going on at the company.

A/B testing philosophy at Hotwire, for example, is increasing. It is a way of doing business right now. It is a very scientific method, data driven way of doing business that is spreading across the Company. And at this point it is giving us repeatable advantages that are accruing to us and we think are going to accrue over a number of years.

Mark Mahaney *- RBC Capital Markets - Analyst*

Mark Mahaney, RBC. Dara, you mentioned integrating HomeAway inventory into the main Expedia platform. I wonder -- it sounds like a great UI challenge, a menu challenge. I want to make sure that the problem actually exists that people want to do that.

They want to be able to look at a variety of different options. They're going to Orlando, for example, for business or leisure and want to look at all those different options. How do you know that people really want to do that?

Then just talk about who wins three to five years out? Is there a reason why you win doing that versus Airbnb coming at it from the other angle would win?

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

Mark, it is a great question and we are going to answer it through -- in a data-driven way. We don't have religion one way or the other.

What we do see very consistently is, to use a technical term, the more stuff we offer our customers the higher conversion goes. Stuff, just any stuff. Inventory, right?

And so what we have seen with the early testing on HomeAway, for example, is you want to integrate the HomeAway inventory, the rental inventory in a targeted way. So if there's a mid-week stay for one or two days, you might not want to put in vacation rental inventory. If it's a weekend stay that includes family, you absolutely want to include inventory and you want to make sure that that inventory is sorted high up.

Sometimes when you have events, Super Bowl, etc., and you are sold out of hotels it is great to have vacation rental inventory as a backup as well. So I don't think that there is going to be a plain-vanilla way in how we integrate, and the integration and the sort is going to change based on the context of a search. We are not religious on how we do it at this point. It is going to change and it is going to change based on the data and based on conversion and MPS scores that we see from our users.

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

Then on the question of who wins in the Airbnb battle, this market is massive. What we have found is that our performance is generally a direct result of our execution and I expect that to continue. We don't believe we are growing at the expense of the Priceline Group, who is doing very well. And to the extent that Airbnb enters this market, we think there is room for everyone.

Our defense is to make sure that we have got the absolute best product out there and we think we have scale advantages to make that happen.

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

I think in general, another observation is, for big categories we like to have a vertical specialist because there is always a benefit in specializing. Because that is all you think about; you think about just your categories. So HomeAway is our vertical specialist in alternative accommodations and we think there is a real benefit to having these umbrella brands with a hotels.com and even hotels.com with alternative accommodations that are able to add to the demand pipe into this alternative accommodations or other categories as well.

Listen, I would not -- we don't take Airbnb for granted. We are used to competing against really strong and able competitors, i.e., booking.com. But we like our position and I think our success is based on our ability to execute, purely.

Elena Perron - ***Expedia, Inc. - Director of Investor Relations***

I'm going to sneak in one more from slido that got a lot of votes. What's your penetration in the longer-tail European properties? To give us a framework of size, if you could frame the penetration versus booking.

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

I think it is de minimus compared to bookings. The growth rates that we have in these European tail destinations are significant, but they are off of a very low base. We continue to -- our conversion in those destinations is increasing faster than our conversion in our mainline cities, but trails the conversion in the mainline cities.

In general, we are -- historically, have not been able to bid in variable channels as effectively in some of these tail destinations. But as we are now adding supply into the tail destinations conversion is improving and we are confident that we can improve our mix of variable channels, which again starts that flywheel happening. So I think we have a pretty extraordinary opportunity and we are not nearly where we want to be.

Unidentified Audience Member

Two questions. When you think about STR data or broader hotel data --

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

STR data, Smith Travel?

Unidentified Audience Member

Yes, so industry data. What do you ideally want to see? When you think about what -- it comes out weekly. What is the best case scenario for Expedia in terms of occupancy and ADR?

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

We have philosophical debates about this and we might have different answers amongst the three of us. I would say we like Goldilocks. So we like improvements in ADRs and in general improvements in occupancy. ADRs are more important to us because ADRs improve the economics, the unit economics of the business. And so we like a Goldilocks situation which, frankly, we see for the past couple of years.

Our share tends to improve faster during periods where the lodging industry is performing worse. But, economically, ADRs go down and ADRs going down are a significant negative factor for our hotel partners as well as us on unit economic basis. So from our standpoint, we like Goldilocks because we have been able to increase our share over a long period of time in good times and ADR becomes a nice tailwind for us.

Unidentified Audience Member

Then just one other kind of vacation rental versus OTA question. If you think about HomeAway a couple years from now when you have that platform as you like to have it, with hotel inventory on it versus, call it, Expedia or hotels.com with vacation rental inventory on it, which one do you think is going to be more competitive bidding on keywords in competitive markets like New York City or San Francisco?

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

I wouldn't take for granted that HomeAway is going to have hotel inventory. I think someone who goes to HomeAway is not looking for hotel inventory. I think there are lots of brands that say hotel, so obviously we will test and learn that one as well. I think with HomeAway we will offer car rentals and we will offer great activities for your family to do.

So there is lots of cross-sell opportunity on the HomeAway front in products other than hotel, but I think HomeAway is going to be about alternative accommodations and vacation rentals because that is what that brand will speak to. I think there is a great opportunity for hotels.com, Expedia, Travelocity to offer alternative accommodations and I think that those brands are going to be stronger in general in bidded terms on a destination basis than, let's say, HomeAway on a pure-play.

Now, if you say for Miami vacation rentals or Myrtle Beach vacation rentals, probably HomeAway will be our lead brand. But for the majority of destination terms, I think hotels.com or Expedia is going to be our lead brand.

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

Just to draw that home, there are some markets where the vacation rental inventory is dense and the ticket price of these vacation rentals could be whole homes, $6,000. In those types of markets, HomeAway with online booking capability with the monetization we want to have should have better economics in some of those markets than a traditional hotel player.

Unidentified Audience Member

Thanks. So Orbitz was seeing some elevated fraud rates last year. Can you talk about your ability to bring these down and what you are seeing there?

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

Yes, we feel really good about our ability to do that. In fact, that was one of the first things that we attacked was really helping that Orbitz team tackle their fraud problem. We have got what we think anyways is a best-in-class fraud detection and prevention operation function, and that is definitely a piece of -- when we talked about meaningful upside, the 75, that is in there.

Brian Pitz - ***Jefferies - Analyst***

Brian Pitz, Jeffries. Any color on industry trends globally? Any conversions in countries you are seeing across geographies (inaudible) Asia, Europe (inaudible)?

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

The most significant trends that we see are currency driven and the currency trends that we saw last year obviously had very significant effect on our economics. And this year, at least the currency trends that we are seeing, are better in general.

I would say that we talked about ADRs being an inch weaker than we saw in, let's say, last year as we entered Q4 and early this year. So we are seeing a little bit of ADR weakness on the air front. Air ticket prices continue to be negative on a year-on-year basis, which generally is good for us because the leisure traveler especially tends to travel more.

And then on the business travel side we have seen a little bit of trade down. There is definitely caution going into the year and we are seeing that on a gross bookings per transaction basis on the business front. So I think that our stance hasn't changed significantly one way or the other since we last spoke with you.

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

We got one more question and then I think we'll wrap it up.

Unidentified Audience Member

This is Rob in for Peter from Wells Fargo. Two questions if I could. First, some of the third-party forecasts have indicated online hotel penetration leveling off or growing more moderately than we have seen in the recent past. Just hoping you could provide some perspective on how you capture incremental share of those transient hotel volumes. Is it just a matter of the younger demos coming of age or is there anything else you could do to capture share?

And then a quick follow-up on Orbitz. I think the ITA deal has come to a close. How important has QPX and the matrix interface been to that brand historically? Just any perspective you could offer on that.

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

Sorry, can you repeat the second question? How --?

Unidentified Audience Member

How important has QPX, the relationship with ITA been for the Orbitz customer historically, in your view?

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

Sure, sure. As far as online penetration, we read the reports; they are kind of interesting and they seem to have no basis on our business.

Online penetration has theoretically slowed down and has matured. You look at our room night growth and you look at our air ticket growth and you look at our car days growth and they have only accelerated.

So one is we have penetration into a number of less developed markets where online penetration is really low. We are less than -- we are 11% of the travel market in the US, which is our most highly-penetrated market. And we -- our addressable market is not just online and it is not just the leisure transient customer.

We are building a corporate business. We are building in alternative accommodations. We have hundreds of thousands of offline travel agents. Offline travel agents is actually one of our fastest-growing channels out there.

So we are making the kinds of investments that we need to in order to have the full spectrum of the travel market addressable for us. Some of these new businesses carry lower margins, but over a long period of time we think are going to build the business that is going to have significant growth rates over five to 10 years, which is the kind of game that we are playing here. So we really see no effect on the studies that talk about online penetration slowing down.

As far as the ITA relationship and QPX ITA, it's a great technology company. We have moved over the vast majority of the Orbitz air volume on to our pricing, which is BFS, and the Orbitz consumers seem to like it just fine.

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

I think that is it. Any final --?

Barry Diller *- Expedia, Inc. - Chairman*

I will actually, since I wasn't going to be up here in the first place and I was going be in the back until somehow this chair appeared and I got dragged over.

But I actually will tell you all one thing that I think my colleagues up here would be a little shy about. One of the greatest assets that this company has is its management team. Dara, Mark, and their colleagues are as good as any group I have ever seen, been associated with, looked over the shoulder of, etc. I am so proud of this group.

They have, over the last really -- what 12 years for you at Expedia?

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

11 years.

Barry Diller *- Expedia, Inc. - Chairman*

But over the life of the company they have not only been able to manage their business, turn themselves truly into a tech company, but they are excellent allocators of capital. And that is a very, very rare combination.

I don't get a chance to say it very much, at least publicly -- also privately, too, probably -- but this is a group of people with the kind of drive, imagination, creativity that has just performed remarkably over these last years. And I expect it will in the future. So I am really glad to be associated with them.

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

Thank you very much.

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

Thank you.