Justin: Hello, everyone. We'll go ahead and get started. I'm Justin Post, Senior Internet Analyst for Bank of America Merrill Lynch. Very happy to have Mark Okerstrom here. He's been a regular at our conference for the last couple years and I really appreciate his attendance. I've followed Expedia for many years. I've seen ups and downs and really interesting to see the company evolve over the last few years. So pleased to have him here. Lots of balls in the air. There's lots of topics to cover. Probably I'll do about 25 minutes of Q&A and then I'll open it up to see if there's any audience questions. Thanks a lot for coming here, Mark. Appreciate it.

Mark: Great to be here as always.

Justin: So why don't we start with just a broader macro question that I always like to ask. How do you see the travel environment right now? There's little things like a French rail strike that hit the news recently. But there's always stuff going on. But just talk about the environment and the terrorist attacks in the last six months, just how you feel about things right now.

Mark: Yes. Well, I'd say generally a continuation of how we felt for the last few quarters, which is macro just looks okay, not great, just okay. There are a few things though that we're looking at with potential caution. One is, I don't know if people saw yesterday the US issued a travel advisory warning US travelers about traveling in Europe around the Euro Cup due to fears about terrorist attacks. So I think that's something to keep an eye on. And generally what we see in these situations is no long-term impact but it can have a short-term impact. It can shift travel demands. So we're looking at that.

May Smith Travel Data suggests that RevPAR is a little bit weaker than expected. Occupancy is actually down and the expectation being that RevPAR's, at least in the US, potentially hitting the lower end of the three to five percent range that were predicted. So we're watching that. And then we also look very closely at our Egencia corporate travel business as a leading indicator of economic health and we're seeing so far in Q2 a continuation of what we saw in Q1, which was pretty strong transaction growth but lower average transaction values and that's a combination of average ticket prices being lower but also we do see some evidence of trading down, business travelers maybe not booking first class, maybe going to the back of the cabin, more lower cost carrier fares, lower room types.

So those are a couple of things we're keeping an eye on. I think in terms of our trends as Dara mentioned on our Q2 call, we were expecting to see a slowdown in our room night growth, a little bit of law of large numbers and of course comping over some of the recent acquisition activities and we are seeing that this quarter in fact. And we've also got teams very focused this quarter on getting these big integrations done, Orbitz, Cheap Tickets, which are on the Brand Expedia platform, ebookers, which is moving over, and that can take some focus away from the core business and can put pressure on infrastructure. But we are dead focused on getting that stuff done in Q2 and setting ourselves up for a phenomenal back half of the year, really to deliver on our full year adjusted EBITDA guidance of 35 to 45 percent on an all-in basis excluding eLong.

So we still feel good about that. But there are some I would say caution signs in the overall macro environment that we're keeping an eye on.

Justin: Got it. And summer travel season, I know there is the Euro Cup, Olympics. Is there anything different this year versus last just to call out?

Mark: Well, I think you called out a couple of the big ones.

Justin: Are those good or bad?

Mark: Well, generally for us they result in a shift of travel. It can cause compression periods in around those events and we generally see people as they always do particularly in Europe, they keep traveling. They just go to different locations.

Justin: Got it. How would you characterize the travel industry today versus three or four years ago? Obviously your share has improved and the big platforms seem to be getting bigger and then there's Airbnb which is a new platform that's entered. How do you think about all that right now?

Mark: Well, as always it's exciting. There's a lot going on. I think the travel industry generally is in a healthier spot than it was a number of years ago. Whether that continued state of health continues or whether we're near the top, it's difficult to tell. I think it'll depend on what happens in the broader economy.

But yeah, there's a lot of exciting things going on. I think first of all some of the things that we've done around consolidating the industry, replatforming our technology, refocusing on or developing greater capabilities on adding hotel properties I think has resulted in us being a much stronger player. I think the Priceline Group continues to execute very well. And then there are a couple of newer developments. I think trivago, which we're very happy to own a majority of, has really emerged over the course of the last three or four years as a real force and is the fastest growing scale travel media player out there. So we're absolutely thrilled to have them as part of the family.

I think what Airbnb has done has been pretty exciting and we've got a great amount of respect for Airbnb and how they've executed. But similarly, they have laid out a great opportunity for HomeAway, which we were very pleased to bring into the family late last year and laid out a path for HomeAway to make a transition to an e-commerce business and we think that can be a very exciting development in the travel industry both for travelers who are really increasingly turning to alternative accommodations as a place to stay but also for Expedia, Inc. and HomeAway as we turn that business into something that's much more significant and much bigger than it is today.

Justin: I think people in this room and myself are trying to get my arms around alternative accommodations. We've written on it. Everyone's been thinking about it. Is it competitive? Is it additive? How do you characterize? A little bit of both?

Mark: Yes. I think that's the answer, yes. I think the numbers that we look at suggest that alternative accommodation is increasing in popularity. The percentage of consumers that have stayed in alternative accommodations this year is significantly larger than they were last year. Are they taking new trips that they wouldn't have otherwise taken? I don't think so. Maybe there's a little bit of that.

So I do think there is some substitution happening between traditional lodging properties and alternative accommodations. We certainly have seen evidence of that. During peak periods in big centers when the town used to sell out, we're seeing alternative lodging inventory come and provide surge capacity. That has been generally a good thing for us. We've gotten inventory when we wouldn't have otherwise got it. But it can put pressure on yields. So I think there is some substitution happening.

But again, we also think it's an amazing opportunity for us because for Expedia, Inc. we think net/net given the HomeAway acquisition, given the transition that they're making, it's going to be very additive to our story.

Justin: Got it. Let's talk about hotels. A lot of questions we get about hotels and they go on the road and talk to people and there is a fear that they are changing how they deal with OTAs. There's been some comments on the internet about raising or lowering take rates that they're paying and also not offering best price. So how have those relationships changed if at all? And is it having any impact on the industry that you're seeing?

Mark: Well, I think generally our relationships with the chains are constructive and they have been constructive for a while. The other thing that has been in existence for a while is that internet players want to drive more of their business direct. We want to drive more business direct. The chain hotels want to drive more business direct.

Now the way that we do that is we make sure that we provide our consumers amazing experiences and great selection and attractive prices. And generally, that has resulted in great share gains for us over a long period of time. And I think the chain hotels are taking an approach of predominantly discounting to try to drive direct business and we'll see how that plays out. I think as a reminder, this game is really not the chains versus the OTAs. This is the chains versus the chains versus the independent hotels and I think once you start doing discounting across a broad selection of your inventory I think it'll be interesting to see whether that sustains itself.

I think from our perspective what we're seeing is that the individual hotels that are participating in this discounting activity are generally losing share in our marketplace and that has provided a great opportunity for independent hotels as well as other hotels that are maybe part of the chains that aren't participating in this activity to gain share. So I think we'll wait and see how this all plays out. I think for now we're very happy with our position in the travel ecosystem if you look at the value proposition that we provide to suppliers, which is really risk-less marketing and reach into pockets of the globe that are very difficult and expensive to reach. And at a time where we have essentially reduced our margins over a long period of time to reduce the cost of OTA distribution, I think that's a great value proposition to suppliers and I think that's why you see us adding new properties at the rate we have.

And I think if you look at the consumer side, also a pretty amazing value proposition. Before I came on stage I was actually just doing a search for San Francisco hotels and I looked at Hilton and there were 20 hotels available within 15 miles. I looked at Expedia, there were 404. So the value proposition on both sides of the platform is real. I think the chains are doing what they feel is right to drive direct. I don't think it's a great thing for certainly our consumers and we'll see whether it's a good thing for them over the long-term.

Justin: And of course, we try to track market share and you see we think the OTAs are gaining share. But I think your room nights have been in the 20s, maybe as high as 30 percent organically. Obviously Priceline has good numbers. And what is driving the relative share gains? Is it just the choice do you think it is? Or what are other reasons maybe that OTAs are gaining share and can that continue?

Mark: Well, it's a combination of a number of things. And we have a number of scale advantages just structurally behind those things. I think first of all the technology platforms that we've built and the leading groups of travel technologists that work at Expedia and very likely our other competitors as well give us the ability to really constantly evolve our websites, and our mobile applications for example, to make them better and better for consumers. And because we just have so much traffic, 450 million visits on average per month visit Expedia, Inc. websites. That just gives us an amazing amount of data and observations to be able to draw conclusions and reach statistical significance on tests that we run really faster than anyone else on a very small change. And that's a structural advantage. As a result, our products just keep getting better and better and better.

But I think secondly because of this data advantage, because of the scale of our business we're just able to reach a much broader audience in terms of our marketing. We spend close to $3 billion a year in direct sales and marketing. That's a huge number. I mean we are out there. This is a big distribution channel.

I think the third thing is we have increasingly added new hotel properties at a broader clip. That 404 hotels in San Francisco versus 20 hotels in San Francisco, I mean that's a very real selection advantage.

And then I think the fourth thing is there are some proprietary channels that we have been very focused on building out. I think our loyalty programs are pretty exceptional. I think the Hotels.com rewards program, buy ten nights get one free, you don't have to stay in a particular hotel, you can stay in any hotel at Hotels.com, very compelling. And that's just a growing portion of Hotels.com's business. This is really driving growth.

I think our mobile applications, again, that have 404 hotels and not 20 are very valuable. And then I think for Brand Expedia and now Orbitz, Cheap Tickets, Travelocity and ebookers, the ability to take a proprietary stream of traffic which is just this vast amount of air search volume and air ticket volume and offer those travelers who we know where they're going a great deal on a hotel also just gives us some asymmetrical advantages and the ability to gain share.

Justin: Good. Let's talk about your comparison to Booking.com. You had the technology platform change three years ago. Are you on par with them or do you still see a lot of opportunity to still get better conversion rates or better traffic how you look at it on search engines?

Mark: Well, it's hard for me to comment on where they are because I just don't know. I wish I did. From their performance I think they're growing very nicely. So I assume that they're doing very well on the conversion front. I think we're still doing very well as well and we continue to find new veins for conversion improvement and we're constantly testing. And so far, we have not found the bottom. We continue to be able to drive improvement and we think we've got many, many years of improvement ahead of us.

Justin: Let's move on to the acquisition portfolio that you have going on. Obviously you had some success with Travelocity. The big one on people's mind right now is Orbitz for the second half and then HomeAway maybe on a two year or three year basis. Talk about why those were good deals for Expedia and any change in your optimism on those.

Mark: Yeah. Listen, no change. I think the Travelocity acquisition, the Orbitz acquisition fall into one bucket of a deal thesis, which is once you have built a global platform of technology and people and business process that allows you to market globally, that allows you to test and learn on websites and mobile applications very easily and reach a better result faster than anyone else, and once you have the ability to really add any hotel in the world at scale, that's a very unique competitive advantage and it doesn't have to be replicated amongst multi-players in the industry. And what we found was that players like Travelocity, players like Orbitz had developed these amazing brands with a loyal customer following but their product itself had become inferior. They did not have the marketing reach. They did not have the websites and mobile applications that were as effective as ours were at converting and just did not have the breadth of supply that we had.

And so, we saw this opportunity firstly with -- in conjunction with Sabre to essentially take the Travelocity traffic, unplug it -- I'm simplifying it -- from their data centers and plug it into a new website which is a brand -- it starts with the Brand Expedia website with the gnome on it as opposed to the plane and that resulted in better conversion rates so the top line goes and significantly lower costs. And once we did that with Travelocity, we said we think we think we can do it with Orbitz, we think we can do it with Wotif and these are these magical deals where you get revenue synergies and you get cost synergies.

So that's the thesis there. We've got Orbitz, Cheap Tickers on the Brand Expedia platform. ebookers now is just right in transition. And we've got a few other pieces of that business to migrate. But so far we continue to be very happy with it.

HomeAway is just a different beast. I mean HomeAway we thought was just really one of these last remaining opportunities in our industry to really capture a true industry leader in a space that has just got secular tailwinds behind it and help that business in a way that we were uniquely positioned to help them, which was really to turn them into an e-commerce business monetized by transaction as opposed to just purely by subscription and really bring our expertise to bear on a problem of moving to online that they were quite frankly, not struggling with, but they were working on resolving and it was going to take them a long time. And we think when we get this done we're going to have a business that is significantly larger on both the top line and the bottom line. We put out a $350 million adjusted EBITDA number in 2018 that we remain confident we're going to hit.

The transition to e-commerce is going very nicely. We've launched the US traveler fee. We're about to do it in Europe and we think that can be a phenomenal deal as well. So two different theses but I think both of them are very interesting for us and we remain very optimistic about them.

Justin: You probably expected me to ask about the traveler fee transition in what you're saying. So why don't we? We'll just jump there.

Mark: Let me talk about it, yes.

Justin: It's March you launched it, right?

Mark: Yes.

Justin: So you've got three months of data and we're all friends here, so do you want to tell us how it's going?

Mark: Are you a vacation homeowner? Are you listed on VRBO?

Justin: I have not, no.

Mark: So far so good. There was when we originally launched the traveler fee, there was some noise from the owner community. It was, I think in retrospect it was a vocal minority and when we really dug into it the concern was not really with the traveler fee itself but actually with some changes that we made to the sort order that resulted in some owners getting fewer bookings than they would have gotten in the past.

We're now basically moving past that and the results have been very encouraging. Booked transactional revenue, which is online transactional revenue on a booked basis, for Q1 was up 170 percent year-over-year. We've taken a lot of the learnings really around communication, around the US launch and we're about to roll out in Europe and we feel really good about where we're positioned to make that a big success. So I think so far so good and we're encouraged by what we see.

Justin: I guess my fear was that consumers would see like a six percent fee added on and just abandon the shopping cart. Have you talked at all about that or...?

Mark: Well, so far what we're seeing is there is an impact to conversion rates. But it is completely in line with our expectations and we've been broadly happy with it. And as a reminder, the other places to go to book your vacation rental include TripAdvisor and include Airbnb, both of whom have the same fee and of course we are experimenting with different fee levels to try to find that sweet spot. We are also very focused on the topic of leakage and making sure that transactions actually do happen on platform and we will be rolling out a number of changes to the search algorithms to make sure that positive platform behavior is well-enforced. And there's a lot of learning to do at this point. But, no, I mean so far things are going in line with our expectations and the traveler fee is a fact of life in the industry.

Justin: For people here you talked about hotel accelerator a couple of times on the calls and maybe just explain what it is really quickly and then can it have an impact in the second half?

Mark: Sure. So the hotel accelerator product is I would say the last leg in about a three year journey we've gone on and it's a journey from essentially charging a high priced premium margin to all hotels that are on the platform to a spot where we actually have got a low base rate margin which is consistent with market standards now around the world and we are now able to either upsell on a product basis, move from agency only hotel to both merchant and agency hotel, which gives you access to packages. But also, we've introduced this accelerator product which is essentially a bid for placement product. So when individual hotels need a little bit of extra volume, they're able to offer us incremental margin and provided that they are in good standing in terms of having a good quality score, we call it in the marketplace, which means they've got great photos, they've got great descriptions, they give us, our customers, the best rates of inventory and the particular offer they're pushing is compelling in the marketplace, again they can pay more and they can actually rise up in the search results. And when they rise up in the search results they get more bookings.

It's fairly early right now in the rollout. As you know, we just started rolling it out this year. It's now essentially rolled out globally and we're in the process of educating hoteliers on how to use it. So far the results have been encouraging but it's still pretty early.

Justin: In the old system, in the merchant model wouldn't the hotel just call his local market representative and say move us up this week, we're kind of empty? Or how is this a change?

Mark: Well, there was certainly a human way to rise up in the sort order and many times it was a discussion as you describe and some would say yes, I can bump you up in this sort order. Generally in many cases there weren't necessarily economics tied to it. And it was to some extent a -- it was kind of a dumb system in that it wasn't intelligent in that if we ultimately ended up having individual market managers making decisions around search result placement, many times that results in a suboptimal outcome for the consumer because the photos aren't great, the prices aren't that great.

And so, the new system actually algorithmically adjusts the ability to push up in sort order based on actually the likelihood that a consumer is going to convert on that. And in that sense, it's much more intelligent and of course it's now self-serve and completely automated.

Justin: Is it live right now?

Mark: It's live right now.

Justin: When did it go live?

Mark: It went live...

Justin: Or is it gradual?

Mark: It went live in the first quarter and we've been rolling it out. You've got to train hoteliers how to use it. That takes a while of a base over 280,000 properties.

Justin: I'll ask one more and then we'll see if there's anything out there.

Mark: Sure.

Justin: You talk a lot about kind of the front end traffic providers moving closer to bookings, moving down the funnel. You're actually taking bookings in TripAdvisor's place. So what's the company's strategy for maybe a different world two or three years down the road and how are you thinking about that?

Mark: Well, you do have a number of players moving closer to booking. You've got Google, who's still in the early stages of a product. You've got TripAdvisor who has been evolving their strategy in this space and you've also got trivago who has launched their own product called Express Booking live in Germany and we're in the process of rolling that out more completely. Now they've all taken somewhat different approaches and as a result we have taken different approaches.

If you take Google, for example, or you take trivago, those platforms are truly intending to remain independent search providers that help consumers find a great hotel and then pass consumers on to OTAs or hotel direct sites to essentially take that customer and take them to the next level, service them if they want to change, deal with in-trip issues and even the instant book products for Google and trivago just make that very clear. It's a very branded experience. In the case of trivago the actual OTA website is just darkened out behind the booking widget. You can click on it and go right to Hotels.com.

That's a very different approach from what TripAdvisor had originally taken and TripAdvisor had taken the approach of really trying to convince consumers that they were booking on TripAdvisor and that was not an approach that we liked. Now of course they have done a deal with Booking.com and the Priceline Group and they've dramatically changed the presentation of it. And I think we will be looking at that opportunity closely as the year progresses and if and when it becomes available we'll examine it really closely because for us, we don't really care where physically the booking happens as long as these marketing channels remain customer acquisition channels for us, as long as it's a way for us to get our brand out there for us to have consumers experience our apps and all of the things that we can do for them while they're booking and after booking. We're interested in pursuing all of these channels.

Justin: Is there a chance that these changes make it more competitive against the hotels themselves? Is that why they're going deeper in the funnel to get more hotel revenue in the pipe, do you think? Or is it...?

Mark: Well, I think that's a strategic attempt, intent. I think if you look at the OTA space there's been significant consolidation and if you are in the advertising business you definitely want to make sure you've got a healthy auction. And as I mentioned previously, there are some structural advantages the OTAs have in terms of their selection and their conversion rates that these movements down the funnel can help to neutralize some of that and level the playing field and create healthier auctions. And certainly with trivago that is part of the strategic intent as well. But it's not necessarily something that is mutually exclusive with an amazing OTA customer acquisition channel. It doesn't have to be and I think you've got a couple of players who have made that clear that they don't intend it to be.

Justin: Why don't we see if there's any questions in the room? It doesn't look like any. I've got a lot more. I'll just go ahead.

Mark: Got to roll.

Justin: Forging ahead, yes. Sure. So guidance is kind of interesting. I don't know if you want to recap what you've said for the second quarter but for the year it's very backend loaded versus traditionally. More so, it's been getting that way for years but it seems like this year has got an extra acquisition and maybe an Easter shift. Maybe talk about some of the things going on.

Mark: Yes. It is an interesting year. So as a reminder, we guided to full year adjusted EBITDA growth of 35 to 45 percent all-in including recent acquisitions excluding eLong. We've said that Orbitz and HomeAway combined will contribute $275 million to $325 million of adjusted EBITDA for the year. We've also said essentially that's a very significantly backend loaded plan and the reason for that is four basic reasons.

One is that our business is very seasonal anyway and it can be very backend loaded. And the reason is that we spend sales and marketing dollars at the beginning of the year to generate bookings and those bookings don't result in revenue until the stays happen and of course the summer months, July, August, September, are very heavy stay months and you get a skewing of revenue into the third quarter that is not reflected in your cost base. So that happens every year.

Second reason is that right now with the integrations that are going on we've essentially got in the first half of the year what we'd think about as double costs, which we have beefed up teams at Brand Expedia and teams at our e-commerce platforms for our core backend infrastructure team to really take on this new volume from the Orbitz business onto the new platform. But we also have teams that are still on transition at Orbitz that are maintaining the old platform. And so we've got this double cost that's existing in the first half.

And then the third reason is that the synergy realization, not only the shedding of some of these transitional employees but also just the other goodness associated with the integration of these acquisitions including the broader supply, better fraud detection rates, etcetera, these start to materialize in the back half of the year. So you've got synergy realization.

And then the fourth reason is that if you recall in the fourth quarter of last year we had some pretty significant just M&A costs, deal costs. We had some significant one-time integration costs that should peel off. And we also had some significant purchase accounting impacts. And so all of that creates a pretty backend loaded plan but more so than is usually the case.

Justin: Got it. Pretty big change obviously with eLong and strategy for China. Do you have anything left there and is that a market that you're targeting five years out?

Mark: We left our dignity there. We've got a number of irons in the fire there. One is we recently launched Brand Expedia China. So Brand Expedia is now operating in

China. Right now it's a hotel only offering. But we've planted the seeds there. Secondly is Hotels.com. Hotels.com has actually been in China now for a number of years and is doing pretty well. It's predominantly an outbound business as opposed to a domestic business but continues to grow very nicely.

We've also got our Expedia Affiliate Network that's operating in China. They're powering a number of the big OTAs and big players there. Egencia, our corporate travel business, has an offering in China and trivago is testing and learning on their approach in China. So we've got a number of stakes in the fire. And then we've also got a good relationship with Ctrip and as part of the transaction we did with them we struck a deal where we will be offering to their travelers certain of our travel products and there's a reciprocal relationship and we're building on that relationship over time. So I think that's the last leg in the China strategy.

Justin: It is presumably going to be the biggest travel market in the world. So I mean is it an important market to have some decent share in as far as...?

Mark: Absolutely. And I think it's an important note that as we sold eLong last year we were definitely of two minds with that. On one hand we had the number two online travel agency in China, which was absolutely amazing. On the second hand, it was something that was headed for significant losses with no end in sight. And so we took the opportunity to do what we do, which is not be dogmatic about something because it's strategically important but took the opportunity to realize some significant shareholder value creation.

But we're now in a situation that as you point out China is the biggest market. Do we wish we still had a number two online travel agency there that was doing well? Absolutely. But we're comfortable with our decision.

Justin: Got it. Something that comes up on every -- oh, we have a question back here. Good. Go ahead.

Q: Hi. Just coming back to instant book, could you comment or elaborate a little bit on your comments? Do you see TripAdvisor evolving and going the direction of becoming more of a competitor where historically they've been a partner?

Mark: Yes. I think that's an evolution that they have been on. I think TripAdvisor back in the day when we owned them was very much a lead generation business. As they moved to meta search they moved deeper down the funnel. I think when they moved to instant book, particularly in the initial incarnation, which was to present it as if there was a booking happening on TripAdvisor, which wasn't in fact the case. It was being passed on to a partner. I think at that point they did become a competitor.

But I think in their CPC business, which is the traditional meta search business, they’re also a great partner of ours. So you find this in the travel industry generally and particularly online travel. Not unlike trivago’s relationship with Priceline and our relationship with Kayak, there’s a lot of competition and cooperation essentially happening across the industry and TripAdvisor is no exception.

Q: Would that give you pause in terms of concerning participating ...

Mark: No. I think that, again, our decision not to participate in the instant book platform was based largely upon the product itself, the fact that it did not look like a branded product at all, the fact that it was not likely to be a customer acquisition channel for us. And as a result, we didn’t want to participate. I think that the new look and feel of it looks like more of a customer acquisition channel and again we’re pretty analytical. We’re not dogmatic about these things so we’ll take a look at it.

Justin: One back here.

Q: Hi, Mark. As you think about the industry evolving over the next five to ten years, it’s hard to think that alternative accommodations is not a better business model for OTAs than say your core hotel business just given the fragmentation of supply, differentiation of inventory, and just the higher price points, frankly, the ADRs and lengths of stays. How do you think about that industry versus core hotels and potential channel conflict or cannibalization as the industry evolves?

Mark: Well, I think you rightly point out I think it’ll be a bigger factor in the industry going forward. It’s a highly fragmented market, at least for now. I think that if you looked at it ten years down the road I suspect there will be more managed properties and you will see a professionalization of that business over time.

But I do think it is very likely, particularly as that type of inventory becomes available on more big, mainstream OTAs, ourselves and the Priceline Group, that it will be presented in a way that potentially is more attractive to consumers and easier to book. There’s been a lot of friction in the market historically to making a booking and we’ll be moving to take that friction out. And as a result, I do think it’s very possible that we could see a shift of at least some portion of the traditional hotel business into more alternative lodging.

Now that said, I think there’s always going to be a place for hotels and traditional hotels and I think there’s going to be a very big place for them. And as a reminder, that market is also extremely fragmented. I mean we like to talk about

Hilton and Marriott and, yes, in the US they are big. But in the grand scheme of 800,000 to a million properties worldwide, they're not that significant a piece generally. They're significant but they're not the lion's share and there's still a ton of fragmentation. As a result of that fragmentation, OTAs can bring, continue to bring a ton of value. So I think it'll be more meaningful. I think it'll migrate. But I still think there's going to be a huge hotel business that exists for a very long period to come.

Justin: We'll go on to the take rate. So maybe five years ago I thought you could never switch to an agency model because your cost basis was built around a higher take rate merchant model. And you've talked about the shift in hotels hurting your take rates. But you also hinted that that could come to an end, at least part of the negativity in about a year or so. So maybe talk about how a lower take rate agency versus, I don't know, 20 versus 15, my numbers not yours, how you've been able to weather that and keep your margins because that's a pretty big difference in your revenues. And what happens when that levels off in a year or two, if it does?

Mark: Yes. Well, it's been a process of pretty careful planning to be honest in terms of being able to really drive that type of ultimately distribution cost reduction to our partners. And really the way we've been able to do it is make sure that as we're doing it, one, we plan it out very carefully in terms of what gets rolled out when. Two is that we're doing it at the same time that the conversion rates on our websites just keep getting better and better. So as the expected value of the transaction can go down because our margins are going down, the probability of a transaction which are a conversion is going up. And so therefore there's an offsetting effect.

And then I think we've also been very good and I think our partners have been phenomenal at this as well in just making sure that as we reduce our margins we actually are doing that for a purpose and that's to bring on more hotels. It's to get better package inventory, to get better last minute inventory, to really stimulate more supply in the marketplace and that's also a conversion driver.

And then I think too, internally we're very focused on making sure that we keep our fixed costs in check. We have had a little bit of a bubble up with these recent acquisitions. But we have a pretty simple formula which is if you grow variable profit faster than fixed costs it's going to result in good things. And so we're pretty disciplined on how we watch the cost base as well.

Justin: Last. We have 30 seconds left. Just give us a quick review on where the balance sheet stands right now and where you're going to deploy free cash flow or what you said for the next couple of years, how you're thinking about that.

Mark: Yeah. I mean the balance sheet is pretty healthy right now. If you take our total gross debt, it's about $3.2 billion. If you take that over the EBITDA implied by our guidance, I mean we're at around two times leverage. We've got -- which is exactly kind of where we like to be. We've got healthy cash on the balance sheet. We don't have another year of $6 billion of strategic transactions on the horizon. So we feel pretty good of where we are.

We did announce at the investor meeting that we are looking at building a new headquarters in Seattle. We have actually since we made that announcement really taken a closer look at what we need and taken a closer look at phasing. We don't have new information to share at this point but we do think we're going to be able to actually dial that back a fair bit, focus more on phasing and maybe at some point it'll hit that number but probably not in the next three year horizon. We'll be able to move in with significantly lower capital outlay.

So aside from that I would just say we're in a great spot and we're going to resume business as usual, which is we continue to be net believers in our stock and are going to want to reduce our share count over a long period of time. We do have our dividend and the yield on that has been in and around one percent historically. And then we'll be opportunistic on M&A. And I think on the M&A front the great news is that we are strategically complete. I mean there's nothing that we must have and we can truly be opportunistic on a go-forward basis.

Justin: Great. Thanks a lot, Mark. Appreciate it.

Mark: Yes.

Justin: Very good.

END