PARTICIPANTS

Corporate Participants

James Fehrenbach – Managing Director & Head of Institutional Equity Distribution, Piper Jaffray & Co.
Mark D. Okerstrom – Chief Financial Officer & Executive Vice President

MANAGEMENT DISCUSSION SECTION

James Fehrenbach, Managing Director & Head of Institutional Equity Distribution, Piper Jaffray & Co.

Hello. Good morning, everybody. My name is Jim Fehrenbach. I manage Equity Distribution for Piper Jaffray. One reminder is, if you're going to ask questions today, if you would, please, let the person find you with the microphone, so that they can get the question online. And if by chance it doesn't happen, we will have Mark try to repeat the question for those that are listening online.

With that said, I would like to introduce Mark Okerstrom, the CFO of Expedia. Mark. Thanks very much.

Mark D. Okerstrom, Chief Financial Officer & Executive Vice President

Thank you. Thank you. Thanks for your interest in Expedia and for joining us this morning. I know you've all read one of these before, but I would ask you just to read the Safe Harbor statement. We will be making certain forward-looking statements that we undertake no duty to update. So take a look at that. It should be old news to you.

So Expedia is in an absolutely huge industry. Travel is a $1 trillion industry, and Expedia is focused primarily in the online segment. And in the overall travel industry, there continues to be the shift from offline to online. The U.S. was the start of it, Western Europe was short to follow, and it's happening around the world. So it's a tremendously large industry and attractive industry.

We are focused on really four main growth drivers to this business. Firstly is geographic expansion. Of course, we were predominately a U.S. business. We've migrated our business much more significantly internationally. We're now over 42% international, and we want to get that north of 50%. We think that international is a huge opportunity for us.

Secondly, we are very focused on the hotel industry. Hotels are where the profits of this industry are created. It's where intermediary, such as ourselves, create the most value. It's very fragmented, it's very attractive, and that is where we are positioning Expedia, Inc., as an entity.

We are also – and for those of you who have followed the business over the course of the last couple of years will know this, we are also heavily focused on modernizing our technology platforms, creating modern technology platforms, common websites and backend structures that we can iterate on quickly and delivery high value to our consumers in a very modern way.

And then lastly, new distribution channels, our industry, the online travel industry was created by new distribution vehicle, the Internet. When Google emerged, it created the opportunity for players like TripAdvisor, like Booking.com, to harness the new channel. And we are seeing new channels emerged today in mobile, in social, and we are very focused on taking advantage of those opportunities.

And the last thing, I would say that I love you to come away with is, this is a tremendously free cash flow generative business. Last year, 2011, we did about $711 million of adjusted EBITDA and converted that into over $600 million in free cash flow. We've got a great track record in deploying that free cash flow against acquisitions, such as TripAdvisor, which is a business we bought in 2004, built a number of businesses around over the course of the subsequent three or four years, and then spun-off to its independent – to be an independent company in December and is now worth over $5 billion. So we've got a great track record on the acquisition front. We do like to deploy our cash against buyback, so return share – return cash to shareholders that way, and we do also have a dividend as well.

So the global travel business is, by definition, a scale business. It is by definition global, and Expedia, Inc. is at the center of connecting the world's travelers with the world's travel suppliers, if you will. For us, it starts with the demand side of the business. We have a vast amount of consumers. We've about 60 million unique visitors that visit our own websites every month. You could add to that about 70 million unique visitors that visit the websites of our affiliate partners, such as airline such as Delta, other online travel agents, such as Opodo and eDreams here in Europe, that use our supply inventory. So we have a huge consumer base.

On top of that, we also have a huge geographic footprint, like travelers in over 70 different countries around the world are using Expedia, Inc. websites. In addition to the leisure traveler, we also offer corporate travel. We have the fifth largest corporate travel business in the world, a business called the Egencia, a business that is doing to corporate travel what Expedia.com did to leisure traveler back in the late 1990s. It's moving it online. It's transforming that industry.

And we have obviously significant call centers that we operate and we also power offline travel agents. So we can reach consumers around the world wherever they are, whether they are at work, leisure, online or offline. And deliver those across to our valued supply partners. We have a team of over 1,000 people out there negotiating with hotels, with airlines, with car companies. We have a listing of 150,000 hotel properties in over 200 countries around the world, deals with over 300 airlines. Last year, we individually packaged 2.4 million packages and sold those to consumers around the world.

And when you build this type of scale, it creates a virtuous cycle, which is you have travelers who are in the U.S., who want to travel anywhere in the world, we can offer that. If you are a small hotel in Italy and you want to attract a Japanese business traveler who is going to spend more in the mini bar or restaurant they will in the hotel room, we can also offer that. It's incredibly hard to replicate this once you've got it built. We've built it over the course of the last 15 years.

So a moment to talk about our brands. We do have a very diverse set of brands under the Expedia, Inc. portfolio. They are all uniquely positioned to capture a certain segment of the market. It starts with Expedia, the world's largest online travel agency. This is a business that is, as of the end of last year was 46% of our business. So a minority of our total business comes from our namesake brand Expedia. It is really the only global full service online travel agency brand. It has presence in over 30 different countries, with 30 different sites offering air packages, hotels around the world.

Hotels.com is our leading hotel specialist. They are focused squarely on the standalone hotel opportunity. They are in just about 70 different countries around the world. It's one global website focused on taking travelers from anywhere in the world, speaking any language, wanting to pay in any currency, and just matching them up with the hotel anywhere else in the world, very singularly focused on the hotel opportunity. We think of them, to some extent, as our mercenaries. They go in first into a new market, a market like Brazil, figure out what works, figure out what payment methods work, and then share that with the rest of the portfolio.

EAN, our Expedia Affiliate Network, this is a private label business. This opens up our systems, our hotel inventory, our technology, our payment platforms, to other partners around the world. They could be players like Opodo, like eDreams here in Europe, Rumbo down in Spain, airline such as Delta in the U.S. We are opening up this tremendous platform that we've built to other players in the world, to about 10,000 affiliates around the world. They power such players as JALAN, the number one online travel agency in Japan; Despegar, the number one online travel agency in Latin America. So it's a great asset to have in the family.

Egencia, I mentioned, this is our corporate travel business, the fifth largest corporate travel agency in the world. It is a very technology-centric player, which is competing in the world which is very offline, a world that really has been the domain of such players as Carlson Wagonlit, American Express, Hogg Robinson, businesses that work from a call center get paid per call. Egencia is coming at it from a technology standpoint, and building and moving consumers that book with Expedia online at home into Egencia consumers – customers at work and book online at work.

We then have another of – other regional or specific players; hotwire, which is our discount opaque business. It's similar to the Priceline brand in their group local expert, which is destination services, Venere.com, a European hotel specialist centered in Rome; eLong, which is the number two online travel agency in China. Those of you who have been looking at China will know that eLong has now outgrown Ctrip, the number one online travel agency in the China for nine consecutive quarters. We're very pleased with eLong. And then a number of other brands. So with these brands, all part of the platform creating different and unique ways for consumers to interact with Expedia, Inc.

So a couple of lenses that we look at the business through, just to give you a sense of the transformation of this business over the course of the last five years. We started off, like the online travel industry, as very much a U.S., North American-centric business. Five years ago, only 24% of our business was international. Today that's 42%, and we expect that to go north of 50%, that's what we're pushing for. About 66% of the travel industry is outside of the U.S and North America. And we expect our footprint to look a lot more like that as time progresses.

The other lens is product. Expedia.com started, as online travel generally does, in markets as an air business, a place for people to book flights online. As I mentioned, this business of ours, the profitability of this business of ours, the value that online travel agents can offer is squarely in the hotel business. You've got to have air to be relevant on a site like Expedia, but really we are very focused on harnessing the hotel opportunity. We've gone from hotels being about 63% of our revenue to about 73% recently. So we are migrating this business to be much more hotel centric.

So I'll speak a little bit about the geographic opportunity and where Expedia sits. So Expedia, Inc., as I mentioned, is the largest online travel company in the world. That said, if you look at our market share, still very small. This is a very fragmented industry. In North America, we're about 11% of the online segment, and the online segment represents about 58% of the total travel market in the U.S.

And then as you go down through the regions, our share decreases, and the online penetration deceases as well. So in Europe, about 5%, Asia Pacific 4% and Latin America 2%, so meaningful market position given the fragmentation, but lots of opportunity. And when you broaden that out to the total travel market, which is really the opportunity we're addressing with powering offline travel agencies, having desktop, having corporate businesses, you can see that the headroom is even greater, even in the U.S., where we were – we invented this industry, we are the leading player, 6% of the market, and it really goes down from there.

So a tremendous opportunity for us independently to grow within the market. And then if you look at the online penetration numbers, a nice tailwind behind us in terms of consumers just moving online into our segment.

So I mentioned the hotel business being really the center of our focus. 73% of our revenue does come from hotels. We have 150,000 hotels in about 200 different countries around the world. We are the single largest booker of hotel rooms in the U.S., and yet we're only 5% market share. So a huge amount of fragmentation still exists in this industry on the demand side.

And if you turn it over to the supply side of the equation, TripAdvisor, for example, has listings of over 570,000 individual hotel properties. They don't have them all. We have about 150,000; the Priceline Group has about over 200,000. We match supply and demand, so do they, but huge amount of headroom both on the supply side and on the demand side, a very fragmented market. And we think a market rich for opportunity and we are positioning ourselves to take advantage of it.

So I mentioned one of our biggest growth drivers was technology, and that we had significantly invested – have been significantly investing in technology over the course of the last number of years. The architecture that we have built is unique. It's an architecture that we believe will deliver very significant scale benefits for us once it is completed, and it is nearing completion.

What we've done is, across our entire portfolio we have built an integrated backend system, whereby customer operations technology is shared. We have one single global customer operations; team with one piece of technology. We have central financial infrastructure. And importantly, we also have central supply infrastructure. The technology essentially that hoteliers input their inventory, the rates in inventory into is one common system run by one common sales force across all of the Expedia, Inc. family.

On top of that shared stack, we have individual technology stacks for each of our brands. These are separate websites run by separate teams, incented on their own performance, driven to go after the opportunities in the market that they feel are the most appropriate to go after. We at Expedia, Inc. headquarters, we don't actually dictate that Hotels.com doesn't compete with Expedia.com. We keep an eye on them in making sure that they don't do anything destructive, but we allow these individual brands to go after the market opportunity freely.

In a market worth 3% of a $1 trillion market, we believe they will take more share from our competitors than they will cannibalize each other. So it enables them to be very nimble, very quick, and with modern technology infrastructure enables them to grow very quickly. For an example, the Hotels.com business, which was really the first that we – the website that we wrote and put on top of this stack, this was a business that had essentially two different websites; one that was built in the U.S., one that was built in Europe. Old architecture built, in the U.S. case, late 1990s, early 2000s. They are now running on brand new technology. This is now a website you would expect a start-up to have built except industrial strength. They went from being able to release once – every three or four times every year, now they can release once every two weeks. They can integrate very quickly, test different versions of the website, and that produces results. Hotels.com went from growing revenue at about 12% during the period from 2007 to 2010, and over the past few years has been growing in the 30% to 40% range year-on-year.

So when you get this right, it works. We are part way through the Expedia re-platforming effort. The hotels part of the website was redone towards the end of Q3. The air path, if you will, is being rolled out as we speak, packages will be the end of this year.

So very powerful. We've invested in new technology. We're moving that new technology investment essentially behind us as we move into 2013 when we expect this business to be able to start to really realize some of the scale benefits that we've built this to deliver.

So I mentioned new channels and the importance of new channels. Again, the Expedia business was built on the back of a huge channel shift, the shift from offline to online, and that's how we established our leading position. When Google emerged, TripAdvisor realized that search engine optimization was a new opportunity, and they harnessed that opportunity. And they have now realized the fruits of that labor, be in a business worth $5 billion to $6 billion.

Booking.com, owned by the Priceline Group, recognized the importance of paid search and search engine marketing as Google emerged, and they have established a very strong position in Europe. The same thing is happening now with mobile, and potentially with social, social commerce, and we are at the forefront of these opportunities. The exciting thing about mobile is we believe a lot of these bookings to be incremental. New business that didn't used to come through our channel. These are bookings that came from people who'll be driving down an interstate highway in the U.S., see the Marriott Courtyard sign, pull into that hotel, walk in and pay at the front desk. Right now there is someone in the passenger seat, I hope, or in the back seat on the Hotels.com app, checking at the hotels and booking it. 50% to 70% of our bookings on mobile are for travel within the same or next day, travel within 24 hours.

So these are new bookings, it's a new market. And when we get an install on a mobile phone, we get a customer who is loyal to us. We don't have to pay the Google tax every time they book. So it's an interesting channel for us, because it's incremental and we also think that it is – it has more attractive economics for us.

We did lean very far forward into mobile. We bought a company called Mobiata. It's a group of 20-something year olds who learned how to develop on the smartphone device, not like the desktop developers that were roaming the halls of Expedia. These guys have the top three apps in the app store for about two years running. We acquired them about a year and a half ago. They have built the Expedia Hotels app, which has been very successful, and they're working on Expedia Flights app as we speak. Hotels.com has also been very focused on the mobile opportunity and has built great iPhone and iPad apps.

We have, as a business, had the number one free iPhone app in over 40 countries around the world. So we think this is an attractive opportunity and we're moving pretty far forward with it. The social commerce space is another opportunity. Groupon, obviously, has been leading that charge. We do have a partnership with Groupon, called Groupon Getaways, where we're testing how does this type of concept work in travel. We've got a number of different offerings in this space as well. So we are aggressively moving after new channels. And the modern technology platform we have enables us to harness these opportunities very quickly. We can release every two weeks. We don't have to wait till next fall, next autumn to release; we can do it in two weeks.

So that whole system, if you will, the Expedia, Inc. system that I explained to you, is something that has significant competitive moats. First, if you just take the scale of that business, the fact that we spent over the course of the trailing 12 months about $400 million on the technology platforms. We have a sales force of over 1,000 people negotiating with hotels. We have hotels in 200 different countries. We have 60 million unique visitors. We have corporate travel. That is a – that's a machine that's very hard to build, very hard to replicate. It delivers a tremendous amount of value to consumers, given the breadth in supply, and tremendous amount of value to suppliers, given the breadth of demand that we have, very hard to replicate.

I mentioned the diversity of demand. We are very unique in the fact that we have not only leisure traveler – travel, like some of our competitors, but we also have corporate. We also have products that power offline travel agents. We have a significant call center operation. We attract a much more diverse set of consumers, which is important to hoteliers. Hoteliers that on average will have a third of their business go to corporate, a third go to meetings and conventions, and a third got to leisure. We can with one relationship deliver to that hotel everything, and that gives us a tremendous amount of relevance to our hotel partners, and relevance to hotels partners is important in an industry where the revenue you generate is from those hotel partners. It gives you a lot of power, if you will, in the industry and our set-up has delivered that.

The supply position we have, again, 1,000 people on the ground talking to hotels, talking to airlines, that's a significant investment. We have the scale to actually build and to maintain, hard to replicate, hard for a new start-up to go into a small hotel with 20 rooms and say, I would like you to manage your relationship with me. I would like you every day to enter your rates and inventory into my system. These hotels like to work with more than one. They don't like to work with 20 and they don't like to work with new people who can't deliver them the demand that we can.

And lastly, the technology platform, these are very large, very complicated technology systems. The backend systems that we have architected have been built by people who invented the online travel industry. They are customized solutions. It is a very difficult thing to replicate. We've built it, we've built it industrial strength, and we've essentially been modernizing it over the course of the last three or four years. So we've got the technology in place, again very, very hard to replicate.

So a moment on financials to give you a sense of really, kind of, where we are in this sort of lifecycle of ours. We had – as I mentioned, we've been investing very heavily in technology. Doing that enables you to accelerate growth, and we've certainly seen that in our financials. If you take a look at our top line, $30 billion of gross bookings, we are the largest travel company in the world. But more interesting is actually the growth trajectory that you've seen happen. We have been seeing some acceleration in our business as a result of the technology investments that we have made. On a revenue basis, we've gone from really mid-single digits growth for last four years and we've accelerated into the teens.

You can see in the EBITDA line, again, the similar acceleration. But again, because of the technology investments that we've made, you have seen some deleverage. You've seen some deleverage in the P&L that post-2013, we expect to start peeling away, and we do expect to get into a margin expansion situation following 2012 and as we roll into 2013.

On EPS, we have, again, through – we believe is an effective capital allocation, buying back stock, doing accretive acquisitions, been able to boost EPS and accelerate shareholder returns above and beyond what we've been able to deliver on the adjusted EBITDA line. Again, we've also been pretty strategic in our tax structuring to make sure that as we move more international, we're able to take advantage of more attractive tax rates and we do expect that to continue.

So to wrap up again, this is a huge industry and Expedia, Inc. is a global leader. We are squarely focused on the growth drivers that we believe you need to really have in place to maintain and really enhance leadership in this industry. It's a free cash flow generative business and we believe we have established ourselves as decent stewards of that capital. And it is an exciting time to be interested in Expedia and an exciting time to be part of it.

So with that, I will open it up for questions. I think we've got about five minutes or so for questions.

QUESTION AND ANSWER SECTION

<A – Mark Okerstrom – Expedia, Inc.>: I think the microphone is on its way. Right upfront in the middle here.

<Q>: Can you talk little bit about the agency versus merchant model? There are obviously competing versions out there.

<A – Mark Okerstrom – Expedia, Inc.>: Sure. Sure. The question is around agency and merchant. So agency and merchant have been, and we believe will continue to be, significant models in the travel agency. Again, for those that don't know, the merchant model is a model where the travel agent collects the money from the consumer at the time of booking. The consumer then stays in the hotel, and then the hotel will invoice the travel agent to be paid. Obviously, that has significant working capital benefits for a business like ours, that has helped our free cash flow generation.

The other side, the other model is the agency model. That's a model whereby we pass on a reservation, the hotel collects the money at the time of stay, and then we invoice them and get paid our commission that way.

Both models are prevalent in the industry. Agency model has been more significant in Europe, in places like Southeast Asia. In India, the merchant model is the predominant model, as it is in the U.S. We have taken a position that we really started with our acquisition of a company called Venere, which is based in Rome. We have been positioning ourselves to be largely agnostic about the business model by which we do business with our suppliers and consumers. We believe that both have a role in this industry.

We have been offering the agency product on Hotels.com, on Expedia, for about the last three years. We think it's a great vehicle by which to get small, independent hotels in secondary and tertiary markets. And we, over the long term, want to be in a position where we are, again, agnostic between the two models. We want to be in a position where when consumers want to work with us a certain way and when we have suppliers that want to work with us a certain way, we are able to offer everything. Again, we're in a business of distributing hotel rooms, not distributing merchant or agency. Yeah, question in the back there.

<Q>: You've said that you're paying TripAdvisor less on a pay-per-click now. Have you seen any traffic ramifications from that? And also, are you agnostic from a financial perspective, whether a visitor comes via Google or TripAdvisor?

<A – Mark Okerstrom – Expedia, Inc.>: So, as we have said, we did with the spin-off of TripAdvisor take down the CPCs we're paying for TripAdvisor. It is an open market, it's an auction. So when that happens, you do see certain other players step up and take placements from us. Over the course of really this year, the Hotels.com team, the Expedia team, Hotwire, Venere teams, are really learning how to be effective third-party bidders in TripAdvisor, and we want to be in a position where we can spend more with TripAdvisor and get more traffic with them, and that's what we'll be doing over the course of the 2011-2013.

With respect to the relevant efficiencies, if you will, of TripAdvisor and Google, not something that we comment on. I would just say that both channels are incredibly important channels. If you want to be in the standalone hotel business, you got to be in TripAdvisor, you got to be in Google, and in both of those channels we are driving to get essentially as much volume as we can efficiently out of the those channels, and we'll spend as much as we can really on an efficient basis to do that. Any other questions? Yeah, up front here.

<Q>: Can you just elaborate a bit more on the bookings growth number in domestic U.S., Europe, and then Asia, please?

<A – Mark Okerstrom – Expedia, Inc.>: So we generally haven't broken out all of those specifics. I will tell you a little bit about some of the things we have disclosed recently. On the Q1 call, we disclosed that room night growth in the U.S. has grown 18% year-on-year, which was pretty impressive from a – just from the fact that we are so strong in the U.S. already. Generally, what you'll see is that the U.S. will generally grow at a slightly slower rate to Europe, because there is still more penetration for us there, slightly faster, and we have disclosed some numbers around APAC. The last time we disclosed for APAC, I think we said Hotels.com was growing in the triple digits in APAC as well.

Any other questions? I think we've got time for probably one more.

James Fehrenbach, Managing Director & Head of Institutional Equity Distribution, Piper Jaffray & Co.

No. Okay. Well, thank you very much.