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EXPE - Expedia Inc at Goldman Sachs Technology & Internet Conference

EVENT DATE/TIME: FEBRUARY 11, 2015 / 10:00PM GMT

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PRESENTATION

Heath Terry *- Goldman Sachs - Analyst*

My name is Heath Terry. I cover the Internet sector for Goldman Sachs. We're really happy to have with us Mark Okerstrom, the Chief Financial Officer from Expedia. Mark, obviously an incredibly interesting time in this space, but to just maybe start from a high-level perspective, with the acquisition of Wotif and the investments being made in Trivago and now the acquisition of Travelocity, what's the right way to think about Expedia as a Company?

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

Well, I think it starts with the industry that we're in, which is an absolutely massive industry. Travel is now estimated to be about a $1.3-trillion industry. In that industry, there is, obviously, a wide host of intermediaries.

One segment is the OTA space, which we consider ourselves a part of, but also other people who are trying to do what we're doing, which is, very simply, to connect travelers to owners of hotels and airplanes and rental cars, et cetera. They include Google, they include TripAdvisor, they include the big chain hotels, they include corporate travel agents, traditional travel agents.

And I think from a big-picture perspective, our perspective and our plan is really just to continue to expand into that really big opportunity. We're fortunate to be in a segment of the industry, the OTA space, where we actually think that an OTA, a global OTA run well -- I'd put ourselves in that bucket. I would also say that Priceline has done a great job -- has created an efficient market within that segment that actually does great things for consumers, gives them great deals, does great things for hotels and airlines to fill their planes and hotels, and therefore the OTA segment itself is gaining share, and we think that we are gaining share within the OTA segment.

And really, if you look at everything we're doing -- the acquisition of Wotif, the acquisition of Travelocity, the big media business we're building in Trivago, which hit $410 million of revenue in 2014, growing 68% year on year, what we're doing with Egencia -- is all along the same vein of us just expanding our presence as a distributor of travel -- a marketplace, a platform for travelers to meet up with travel suppliers.

Heath Terry *- Goldman Sachs - Analyst*

And so you started by talking about the industry. We tend to get bogged down in talking about ADRs and room nights and all of that, but if we look at where online travel is from a development standpoint, whether it's in terms of penetration or technology, where do you feel like we are as far as this maturation process for online travel?

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

Well, I think it's remarkably still in the early innings. If you look at our overall share of the travel market, again, we do about $50 billion of gross bookings in a $1.3 trillion market. We're sub-5%, and we think really of that $1.3 trillion market, a big chunk of it is actually addressable by us, so we think there's -- on a grand scale, there's a lot of runway.

If you take a look at, for example, the number of just hotel properties that are live on a TripAdvisor or a Trivago, it's 800,000-ish, and we have got somewhere above 400,000, so we're not even penetrated into the hotel base, let along being penetrated into the hotels that we already have. So at a big picture, we think there's tons of runway to go.

Obviously, in places like the US is probably one of the more mature markets. Even in the US, we think we're still single digits of the overall travel market, and really the opportunity and headroom gets more and more as you move out to Europe and Latin America and other parts of the world.

Heath Terry - *Goldman Sachs - Analyst*

So we always see within the travel space this kind of back-and-forth between the agents and the suppliers. Where do you feel like we are right now in terms of that shifting balance, and what are the real priorities for the suppliers as they think about their online strategy?

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

Well, I think that we are at, over a long period of time, reaching, I would say, a relative state of equilibrium. I think in the early days of online travel, there were some power plays that were made. I don't think that Expedia in the early 2000s can be excused from the list of people who made power plays, but it also went the other way, and you see that go up and down with the cycles.

I think there's actually less of that that goes on now. I think that the market has matured to the state where, by and large, the suppliers and the big chain hotels, for example, recognize the value that we bring. And I think we have also matured to the point where we are very much taking less and less of an us-versus-you type of approach and more and more taking the approach that is I think in line with the value that we provide, which is that we allow hotels to actually gain share from their real competitors by operating in our marketplace more effectively. It's not us-versus-you. It's we can help you, Mr. Hotel, fill your hotel ahead of your competitors.

So I think we're in an equilibrium, and I think there are ups and downs. I think we're in a pretty hot lodging cycle right now, which can put some pressure, but I think we're -- we feel good about the trajectory.

Heath Terry - *Goldman Sachs - Analyst*

On the earnings call last week, you signaled that you were starting to see some weakness in the US part of the business because of the strong dollar. How much of an impact do you ultimately see that having? And at some point, do we get the benefit on the other side of starting to see US travelers taking advantage of the strong dollar to take bigger trips overseas?

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

Well, that's exactly what we are seeing, and what we call that specifically is that we are seeing an increased proportion of US travel going internationally. The world is on sale for the US traveler, and they're certainly taking advantage of it.

For us, that's about half of our business, is sending US travelers to both the US and international. US to everywhere about half, and the other half is everywhere else into everywhere else essentially, and what we're seeing is that most of the major markets that have been impacted by currency -- Europe, Asia, for example, the UK -- we're actually seeing a shift away from US travel into more either inter-regional travel or domestic travel. But given the mix of our business, they're, by and large, offsetting each other.

Heath Terry - *Goldman Sachs - Analyst*

Okay. That's great. And as you look at sort of the macro environment, at least what you're expecting when you talk about the guidance that you gave for this year, what's Expedia's view of the world in terms of how this year is going to progress from a macro [strength]? You mentioned the lodging cycle that we're in right now. How does all of that play into the way that you're thinking about your business?

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

Well, we continue to see a travel market where the fundamentals are pretty darn strong, and I think leading that strength is the US, and certainly we are more exposed to the US than the other large players in our industry, so certainly that plays into our strengths. That said, there are certainly foreign exchange headwinds, which for us, by and large, is translation as opposed to pure economic, and we quantified that as being about a 500-basis point headwind on our adjusted EBITDA. Growth range was 10% to 15%.

So I think we continue to view it as a healthy market. I think we're fortunate to be in a position where come what may in the overall travel market. We believe we're gaining share in every major market in which we're operating, and so to some extent, that can isolate us a little bit from what's happening in the macro environment. But nonetheless, we see a pretty good environment ahead of us.

Heath Terry - *Goldman Sachs - Analyst*

So over the last few years, the focus from the team has really been on growing your international exposure, growing your exposure to the hotel segment of the market, but if you think about the next five years, where is the focus from a growth perspective going to be? Is it segments? Is it geographies?

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

International hotels. I mean, honestly, I think there's definitely more to it than that, but I think, again, we just see a hugely fragmented industry on the side of the distribution side, which is kind of our role, and then we also see a huge amount of fragmentation in the hotel business generally, and we think we can add a ton of value there. We've got a ton of headroom. We are still over-indexed to the US, as you can tell by our 50% number, and we think there's tons of room for us to go internationally.

And we've engineered our technology platforms, our online marketing platforms, our supply platforms to be truly global to enable us to penetrate into that opportunity pretty significantly, and I think that is the story of the core business. The core business has got tons of runway. It's very, very healthy. And it is driven, from a profit perspective, from hotels.

But the interesting thing that we have found with brand Expedia, which is our flagship brand, which is, we think, incredibly unique for brand Expedia versus other competitors -- is that we are getting increasingly sophisticated at being able to tap into this huge asset that brand Expedia has, which is its air traffic, to be able to upsell and cross-sell hotels and cars and insurance, and that's been a big boost for us.

And again, I think we are very, very uniquely positioned to do that, and that traffic is traffic that is very uniquely ours. People type in Expedia to search for flights. They don't always buy from us. Sometimes they go to the airlines, but they always come to us to search, and to the extent we can offer them something on the hotel side, that's a huge opportunity. So I think the core business is standalone hotel for sure, but we're finding other ways to get to really supercharge that business.

The other interesting things or growth factors, focus areas for us are media. You saw how we grew TripAdvisor from a small business when we bought it in 2004 to a really substantial business and one that created a ton of value for our shareholders. We certainly see the same trajectory, if not a little bit steeper, from Trivago.

Trivago is a business that is very, very uniquely positioned in the meta-search market. It's been doing meta-search from time immemorial compared to someone like TripAdvisor or someone like Google with their HPA product. And as a result, they're just really good at it, and they seem to be gaining share in every market they go into, and they've got a huge amount of traction, and we're super happy with what we see -- again, $410 million in revenue, 68% after the (inaudible) headwind that they saw. And I think we're going to continue to put our mindshare and capital behind that business to the extent we continue to see the returns we're getting.

And then I think the last leg of the story is Egencia, and Egencia this year signed up $1.2 billion in new business. That's not insignificant. It was a record for them. They hit $5 billion in gross bookings -- fifth largest corporate travel business in the world, a unique animal in corporate travel. I mean, they show up to an RFP, and there is no one that has anything like them. It's online. Call center calls go from 50% to 5%. It's cheaper. It's better.

Again, it's better for suppliers, it's better for the corporate clients, and we think that's going to continue to be a great standalone growth story, but it also gives us the added ability to go to our suppliers and offer them the ability to distribute high-yield products.

So those are kind of the three legs, and I think the great news for us, the great news for our investors is that all of them have just a ton of runway ahead of them.

Heath Terry - *Goldman Sachs - Analyst*

How meaningful is the alternative accommodation part of the market to Expedia, particularly with your partnership with HomeAway? And does the strategy that Expedia has for alternative accommodations go beyond just that relationship?

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

Well, right now I would say for us that opportunity is relatively small. We do have some directly-contracted vacation rental properties -- count them in the thousands, if you will, predominantly in beach and ski destinations, predominantly the more professionally managed properties.

And then we've got a partnership with HomeAway. We've got about 160,000 properties that are online bookable, live right now, and what we're doing is we're testing to try to understand the answer to a couple of key questions. One is can we cross-sell our traffic into the vacation rental property? Two is will that lead to better conversion overall on our website? And three, is there any cannibalistic impact between our hotel business and that business?

And we're basically running a series of tests in terms of how we place the properties, whether they're in line and banner, separate tabs, to really start to answer some of these questions to the extent that it becomes interesting and meaningful for us. I think we could have something very interesting, and in that case, I think we would deepen our partnership with HomeAway, get more properties live, we may start to go direct. There are lots of things we could do, but it's pretty early right now. We're hopeful it becomes a big opportunity.

Heath Terry - *Goldman Sachs - Analyst*

So when you do think about the business longer term, what role does eLong play?

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

Well, it's difficult for us to get a ton of visibility into exactly how successful eLong will be over a long-term basis, but there are a few things we know. One is that we have an asset in a 65% equity interest in the number two OTA in China, a market that's $100 billion, has got low online penetration, is growing very quickly, and that asset is worth something.

You would judge by our stock price reaction that maybe it's worth negative $1 billion. I think that's probably not the case. I think it's probably worth something, and we are dogmatic about one thing at Expedia, which is creating shareholder value, and I think the way that eLong fits into that is that, again, we've got an asset. We've got a CEO there who we think is an absolute tiger, a guy that took a business that was small and made it a business that was a real contender in that marketplace, to the spot where we thought for a time that eLong was going to be bigger in online hotel room sales than Ctrip in the course of five or six years.

He's got a great track record of execution. He is very intense on continuing to be a real player in China and for eLong to be a real player in China. He's got a very well-capitalized business. He's got $300 million in cash, which looks to be around the same amount as available, if not a little bit more, than [Chunar], who's really the player who's come and caused a huge amount of disruption in this marketplace, and we're happy to be a part of it.

How ultimately this all pans out, we don't know, but what we do know if we've got a great management team who is local, who is aggressive, who is going to continue to be very tenacious in that market, and we know we have an asset in eLong, our position in eLong, that is worth something. And we hope it's going to be a lot, and we think it's going to be a lot more than negative $1 billion.

Heath Terry - *Goldman Sachs - Analyst*

I think you might be right. Google gets a ton of attention anytime they do something in travel. They actually get a lot of attention even when they're not doing things in travel.

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

True.

Heath Terry - *Goldman Sachs - Analyst*

But how do you think about the relationship there and sort of what role that that partnership plays?

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

Well, I think the story there continues to be a tale of two cities. As I describe to you our role in this travel market, we are very much a competitor with Google. We are both trying to connect travelers with hotel and airline owners and operators. And in that respect, we're mortal enemies.

Now, we think the OTA model is just a much more efficient way to do that, and we are very focused on it. And I think if you look at our efforts in travel over the last three years and compare them to Google's efforts in travel over the last three years, I think we've made pretty darn good progress on a relative basis. But nonetheless, we are competitors in that respect.

On the other side, they are a great partner of ours. The products that they've introduced in RLSA and DSA, their hotel price app products I think are all products that we've been happy with, that we've been able to work with them on and get much more sophisticated on, and we like the direction that they're going.

I think that our relationship has come a very long way from five years ago, when booking.com was in position number one and we had no idea why and we were concerned about advertisement in Google cannibalizing our margins to the spot where we are right now, where we think that is an absolutely great source of new customers for us. How can we get more, and let's get as much as we can for reasonable efficiencies, and let's turn those customers into repeat and loyal customers, and let's just turn that formula again and again.

I think once we've shifted to that position, put all the infrastructure in place to do that, I think our relationship with Google just keeps getting stronger and stronger on that side. Meanwhile, they're definitely a competitor. They're a dominant player, and we watch them very closely.

Heath Terry - *Goldman Sachs - Analyst*

No, that makes sense. When we think about kind of that broader meta-search space, obviously TripAdvisor, who just reported a few minutes ago, is trying to make some changes in the way that they do business. You guys have been relatively vocal about how you think about Instant Book. Strategically, how does that relationship with TripAdvisor look, and do things like Instant Book eventually play a role in that relationship?

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

Well, again, our position on Instant Book has been that the way that they introduced the product was not interesting at all to us -- strategically, not interesting to us. Economically, it looked a lot like you've just made a booking with TripAdvisor, unless you have a problem, and if you've got a problem, call Expedia, and that's not a model that is attractive to us.

It was -- it looked like a channel that had none of the characteristics of a customer acquisition channel that we like to see, which is we go there, we have a good experience with the consumer on our site, they like us, they come back to us directly. Rather, it more like a purely transactional transaction. So, provided that the product continues to look like that, we continue to be completely disinterested. In that respect, there's been no change.

Heath Terry - *Goldman Sachs - Analyst*

Gotcha. So we do have microphones around the room. If there's anybody that has a question, just raise your hand. We'll get a microphone out to you. So while the mics are getting around, when we -- when you think about the growth in travel, how important is the express deals side of the business? Do you see this whole sort of instant booking -- not to reference that, but instant booking, last-minute travel phenomenon as being a way to sort of grow the addressable market for online travel?

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

I think that -- I think there are a couple of questions in there. With respect to last-minute travel, particularly on mobile, we think that mobile has opened up an opportunity there. It has opened up an addressable market that maybe used to had been walk-up or drive-up traffic to roadside or in-town accommodations. Now people are using the app, and we think that's incremental.

I think with respect to express deals and sort of the opaque product, we have Hotwire that has an opaque product. Listen, I think there is -- there continues to be opportunity in that business, absolutely. It's under pressure because of the stage we are in the lodging cycle. We think that will turn around, and we think that at some point, that's going to resume growth and be a great opportunity for us.

Heath Terry - *Goldman Sachs - Analyst*

You've been working through this transition towards a hybrid agent merchant model with ETP, Expedia Traveler Preference. What have you learned so far in that process, and how optimistic are you or how aggressive do you want to be about pushing that transition given what you know now?

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

We've learned that it's a great thing. It's been a great thing for consumers. It's been conversion-positive. It's been a great thing for suppliers. And I think, importantly, we've learned that any time we can remove friction from either travelers who might otherwise use our platform or suppliers that might otherwise use our platform, that's a good thing.

And I think with the Expedia Traveler Preference program, we eliminated the barriers that we used to have for customers who, for whatever reason, didn't want to pay us in advance, and we removed barriers for hoteliers that, for whatever reason, wanted to get paid directly by the consumer. And at the same time, we still have all the advantages of the merchant product for those people who like that.

And by the way, the -- however you cut it over a long period of time, it's always surprising to the investors we speak to who are very personal working capital conscious. There are about half of the people that like the merchant product. They like to pay upfront, and it seems crazy, but it's true, and we don't know why. To be honest, we don't care. We have opened up the aperture, and that's done good things for our business.

We're really using that now as business as usual. It's our primary way of contracting with hotels. We still have the agency-only and merchant-only options, and generally what we find is that hotels will sometimes come on an agency and then they upsell into the UTP product, and when they do that, they get more volume, they get better volume, they take share from their competitors and good things happen.

Heath Terry - *Goldman Sachs - Analyst*

If you have any questions, raise your hand. We've got one up here on the right -- or left.

Unidentified Audience Member

(inaudible - microphone inaccessible)

Heath Terry - *Goldman Sachs - Analyst*

Do you want me just to answer it, or do you want to ask it?

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

Well, listen, with respect to our approach to capital allocation, I would just say no change. I think that we remain and have got a track record of being buyers of our own stock, and I think over a long period of time, we're going to continue to want to reduce our next share count. Over the course of the last five or six years, in terms of total shares issued over that period, we've reduced it by about 30%. I think net reduction in share count over that period has been, you know, 10% to 15%-ish.

There are no guarantees from year to year. We always take a look at all of our uses of capital, and it's a relative decision, not an absolute decision. But our stance is consistent, which is over a long period of time, we're huge believers of this Company. We want to, in a very responsible way, continue to reduce our share count. We think it could be a nice little topper on the bottom of some very nice adjusted EBITDA growth, and I think it's going to continue to be part of the story for a long period of time.

Heath Terry - *Goldman Sachs - Analyst*

You talked on the call about making investments into Trivago. You've come out of a period where you've been making a lot of investments into technology. When you think about where we are sort of in your spending cycle, how representative are the margins that investors are seeing now compared to where you think margins long term for Expedia settle out?

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

Well, to be honest, we don't give a lot of thought to adjusted EBITDA margins. We give a lot of thought to adjusted EBITDA growth. We give a lot of thought to adjusted EPS growth. We give a lot of thought to free cash flow growth. We're less focused on margin.

I think if you take a look at our track record over the course of the last three years, with one momentary exception in a quarter in 2013 when we saw Hotwire deteriorate pretty significantly, our growth rates in the core business have been relatively consistent. Our room night growth has been steady to actually accelerating, and we are doing that at the same time as making significant investments in this business.

So come what may in terms of what the result is to our margins, we believe that we can make very appropriate investments for the medium and long term in this business that sustain a very healthy growth rate at the same time as deliver nice adjusted EBITDA growth over time.

Heath Terry - *Goldman Sachs - Analyst*

What are you seeing in -- or I guess I should say what kind of impact is the mobile channel having on cost of customer acquisition, the stickiness that you see, particularly with customers that download an Expedia app or a Trivago app? What do you think the long-term impact on your business is from this shift in mobile?

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

Well, net-net, we think it's going to be a positive, and there are a couple of reasons for that. One is that in the app world, we certainly see characteristics of a channel and a product which are characteristics we love, which are great share of wallet, don't have to pay the Google tax, strong engagement with the product, ability to push notifications, ability to give value adds on flight times, et cetera, maps.

We think long term, that can be -- that can continue to be a great walled garden, if you will, for our loyal customers. And as result of our hypothesis that that might be the case, we did go pretty heavy into apps right out of the gate, and put less of a focus on mobile Web.

We have now completed largely a project that was aimed at really getting our full website responsive so that it renders on a smartphone and it renders on a desktop with the same code base, and we did that so that we didn't lose the huge scale advantages that a global player like us has from using all of our traffic to basically run tests -- 50, 100 tests a month to enhance the product, and we didn't break that scale on mobile.

We're there now, by and large, and that opens up the opportunity for us to be significantly more aggressive in mobile marketing, something that has been not very efficient, or certainly than desktop. And as we make the product better, we think we're going to be able to be more capable there, and we're also working very hard on the cross-device attribution problem, where people are searching on their phone and booking on their desktop.

So we think that app is great. We think that mobile Web can be a big growth opportunity for us, and we think that anytime in our industry that there's been technological change such as we've seen here, players in the OTA segment that are technology companies as opposed to travel companies -- we're very much a technology company -- generally do better versus the other players in that segment that aren't and generally those players that are technologically savvy and can move well in that, take share from other places in the value chain -- supplier direct, Google, et cetera. And I think that's our hope.

Heath Terry - *Goldman Sachs - Analyst*

So we do have time for one last question. If somebody has one, just raise your hand. The thing that I would ask is -- you guys have made acquisitions in Asia, you've made acquisitions in Europe, you've got Australia covered now, you've made several acquisitions here in the US. When you think

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about sort of that next pipeline, Latin America is an area that you haven't done anything else. Where do you see sort of the biggest greenfield opportunities for a Company like Expedia?

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

Well, there are a couple of areas, and we've been pretty specific. In fact, it's written in our strategy statement we want to own and power the best travel brands in the world. And I think if you look around the world, there are a number of travel brands out there that are great, that have loyal customers that come to them directly, that maybe have fallen behind in technology or some other way have found themselves at a disadvantage versus the global players, and I think those types of things remain interesting to us.

And I think the transaction we did with Travelocity, our ability to integrate that very quickly, I think was a testament to the team and the technology and the business process that we've built in the core business. It's a healthy core business that we're able to do that. I think Wotif we're doing something -- as an example, we're doing something similar, and I think there are other opportunities around there in the world that follow along that similar theme, although we certainly took some of the low-lying fruit early.

Corporate travel is another place that we continue to see a lot of opportunities. The Egencia business is still pretty busy -- consolidating platforms and integrating the Via Travel acquisition that we did in 2012. And yes, those integrations take a long time, and I think once they finish that, I think we're going to continue to look at ways to beef up that business. And then, gee, if I could find another Trivago, I'd definitely buy that too.

Heath Terry - *Goldman Sachs - Analyst*

Great. Mark, thanks so much for spending time with us.

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

Great. Thank you.

Heath Terry - *Goldman Sachs - Analyst*

We really appreciate it.
