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CORPORATE PARTICIPANTS

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PRESENTATION

Unidentified Analyst

We're going to go ahead and get started in about 1 minute. Expedia here with us today. We've got Mark Okerstrom, the CEO, was the CFO, now the CEO; and Alan Pickerill, who is now the CFO of Expedia with us here today. I think it's a great time to have the company, given the changes in the online travel sector over the last 6 months, so really appreciate you being here with us today. Thank you.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Glad to be here.

Unidentified Analyst

And I'll just do Q&A for about 20 minutes, and then we'll see if there's some questions out in the room and we'll wrap up from there. So go ahead.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Great.

Unidentified Analyst

So thanks for being here. It's great to have you.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Great to be here.

QUESTIONS AND ANSWERS

Unidentified Analyst

I guess, I think, given all the recent controversies in the sector and what's going on, just maybe talk about, since you've taken over, your high-level investment philosophy, has it changed much in the company? And how do you think about some of the controversies and growth opportunities moving forward?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Well, the overall investment philosophy, honestly, hasn't changed significantly. The financial policy, if you will, and investment policy of this company was set by Dara and I. And obviously, I was a big part of that. And so it really hasn't changed. What has changed is the way that we're executing against it, which is that I am very involved in essentially about the operations of the organization, particularly around our geographic expansion efforts. We have aligned the organization together into essentially a new leadership group, which includes Expedia, Hotels.com, our lodging team, our eCommerce platform team. It's chaired by me, and we are carefully orchestrating our geographic expansion efforts, including the big supply investments, et cetera, in such a way that we can actually build leading products in a given market, and in doing that, just creating much stickier customer relationships and ultimately deliver better products for our consumers. So it's a similar investment philosophy, but executed with, I think, much more focused and a much more targeted and metrics-driven approach, which I'm very involved in. And listen, in terms of all of the other noise that's surrounding the online travel space, it's crazy. It's just this confluence of rumor and numbers that all point to, like, I'm not sure what it is, but something significant has changed. And I think from our perspective, there really hasn't been any big changes to the way we think about the opportunity ahead, which is very significant to the way that ultimately, we operate. Again, with the exception of what I said, what we have seen is some very isolated events. We've seen our big competitor pull back their spend on trivago. We've seen a continued shift of Google away from free traffic towards their hotel metasearch product. But the underlying fundamentals of the business are solid. The underlying fundamentals of the industry are solid. And internally, if you ignore what's been happening with the stock price in the industry, people feel very good about the way that we're operating and the prospects ahead for us.

Unidentified Analyst

Great. Maybe a question for Alan. I think after the quarter, a lot of controversy on 1Q EBITDA. There's a lot of commentary in there, maybe sell side didn't capture it all. But just can you go through the puts and takes again on Q1, just because there's so much discussion on it? And then why do you feel confident, with the down EBITDA outlook, that you'll be able to make the full year 6% to 11% growth?

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Yes, good. So listen, no, I think -- I don't think the sell side has it. I think that's clear in looking at the numbers, and I'll begin by saying nothing has changed in terms of our view of the year either in terms of the guidance that we gave for full year, the 6% to 11%, or the shape of the year. I tried to lay out some puts and takes at the Goldman conference recently, and I think probably easier if I just get a little clearer on what we're expecting for Q1. So we are currently modeling, call it, between $50 million and $100 million of adjusted EBITDA for Q1, and The Street, the sell side, obviously, is well higher than that. Again, we are still fully comfortable with the shape of the year. We're fully comfortable with the 6% to 11% for the full year. The components of that are, a, it is already the smallest quarter in terms of profit generation for the business. That's always true and it's true again this year, makes it difficult to forecast, but also makes it so that small changes in the business can have meaningful impacts on the year-over-year EBITDA generation. The main things that we've talked about that are impacting that are the spending that both the core OTA business, or probably more importantly this year, the HomeAway business, is doing in performance-based marketing to generate bookings that will come in early in the year, but for revenue that will come later in the year. And we'll see revenue and payback on that later in the year. And if for HomeAway, some of that payback doesn't even come for longer than that. We also talked about the fact that we're ramping the supply team so that we can increase the pace at which we're adding supply. That has an outsized impact, if you will, on Q1 because of the fact that it's a small-profit quarter. We've talked about the fact that cloud spend will be up in Q1 year-over-year in a meaningful way, and we talked about the fact that we are expecting trivago to generate a loss in Q1 relative to profitability last year. So on a year-over-year basis, again, a meaningful impact. So all of those things together combine to make a low profit generation in Q1, the $50 million to $100 million. But again, we're very comfortable with the 6% to 11% that we've given for the full year.

Unidentified Analyst

Got it. And let's dive in, first part, you talked about HomeAway. Maybe go through some of the take rate pressure in Q4. Is subscription revenue going to have the same sequential declines as we go through the year? And then why is EBITDA so negative in Q1? Just...

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Yes, so let me just hit the subscription bit first. So there's 2 things that have happened that are driving the subscription business for HomeAway. The first was that we had to break the tiers. For those that don't know, HomeAway previously had a whole host of tiers, all the way up to, I think,

$1,500 for a platinum subscription. We broke those in the middle of 2016, and so we were recognizing revenue for those all the way since then. And so in the year-ago quarter, in Q4, we were still getting -- we were over earning on subscription and we had essentially a full quarter of service fees that we had added. So the comp there is quite difficult. As we move into 2018, that part is largely behind us, but we do expect more and more of the business to move into the transaction side of the business. And so we are expecting subscription revenue to continue to decline throughout 2018 on the back of volumes essentially moving off subscription and on to paper booking.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

But I think important to call out that the underlying monetization trends of this business are excellent. And we're taking a business that had a 3% to 4% take rate to something that's double digits. And what you're seeing right now is largely just a lot of accounting noise associating with revenue recognition and the transition from the subscription business to a transaction-based business.

Unidentified Analyst

Got it. And it gets us to take rates, how do you feel about where HomeAway take rates are? I think last quarter, it was around 10%, but -- maybe if you look at it on trailing 12 months. But how do you feel about that?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Listen, we feel pretty good about them. I think there are -- there's certainly room for them to climb, and I think we're definitely competitive on the consumer fee side. We're definitely competitive on the supplier fee side. We have launched and we've developed and we're kind of in testing right now, an accelerator-type product which allows properties to pay more and get more exposure, like we've launched on our hotels side. I think that provides an opportunity for us. And we're constantly testing our consumer fee curves. So we feel good about it. And again, the underlying dynamic here is this is a highly fragmented industry and HomeAway is -- if you include the offline portion of the bookings and you look at what it was when we bought them, just $14 billion to $16 billion of bookings volume being generated on the platform, it's the largest player in this space. And so largest player with huge scale and a fragmented market is intermediary, it suggests healthy take rates for that business for a long time to come.

Unidentified Analyst

Okay. All right. Let's move into another one of the headwinds, it's the cloud migration expense. And maybe this is better for Alan. But $170 million, it's quite large, it's up from $95 million. Are you seeing -- why is it so large? And then are you seeing any savings yet? Or how is that going to go from here?

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Yes. So let me start with -- well, first, I just want to make sure everybody understands the characteristics of that spend. That's essentially paying Amazon for compute power. And so that -- so I'll come -- let me come back to that. But the way to think about our -- the kind of the equation that we go through when we think about running a data center versus being in the cloud, we have, call it, roughly $650 million of hardware sitting in data centers that's required to be refreshed every 3 to 5 years. That's growing with the business, and so a number that you would expect, over time, would continue to get larger and larger. Before we decided to move into the cloud, we were having discussions about the possibility of building out a third data center. We've avoided that entirely. And so basically, what this has become it just a trade-off of CapEx in the data center, eventually some operating expenses once we can shrink the data centers, in exchange for spend on the Amazon to get the compute in Amazon. We spent about $95 million last year. We said we'd spend about $170 million this year. How much we spend is really just a direct product of how much compute we get into the cloud. At some point in the not-too-distant future, we'll have everything that we want to be in the cloud in the cloud. And then at that point, then it becomes a much more normalized kind of variable expense that we would expect to grow kind of as the business grows with a potential offset being pricing because historically, pricing has been -- for compute in the cloud has been coming down. Now I can't guarantee that will continue, but that's what we have seen historically. So we're not quite at the point where we can stick a pin in exactly when we can start to shrink and/or take out the data centers. But this year will be a very instructive year for that because we're planning to move the lodging stack into the cloud. That will be very instructive for us on how well that went, how confident we are with the cloud compute environment. And then we can start to make some decisions about the data centers themselves.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

I'd just say, too, that these are large numbers, but this is a large business. If you look at gross merchandise value for Amazon, it's around $300 billion. They're a big business. Our gross merchandise value last year was $88 billion. So we're, I think, one of the largest e-commerce companies in the world. And so we get this question, like, well, other people haven't talked about numbers this big. And the answer is there's not really many other people that are in this category of operating at this scale and actually migrating compute into the cloud. A lot of them were born there. Netflix did it when they were much smaller. So we're in unique category.

Unidentified Analyst

Got it. I think what people would love to hear about is why the ROI on this is making sense, and where -- if it's running in parallel or costing you more each year, when you get to the other side of that, where you can see some savings or the costs come down a little bit? Could you talk about that at all?

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Well, I mean, we did share a data point on the last call, which is we had spent $180 million in data center CapEx in 2016. That's come down to $50 million now, so that's already $130 million of savings, not to mention the fact that we avoided building another data center. Now there's other puts and takes in the CapEx, and so it's not all entirely crystal clear from an external perspective. But the truth is that we've taken our CapEx down substantially already. And then there's a whole host of benefits that we think will come in terms of the product and the speed and data analytics that will come from being in the cloud that we think will accrue to us as well.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Again, I mean, the simple math, and Alan said it, you've got a hardware asset base of $650 million growing 15% to 20% a year. So you're already in the $100 million to $130 million a year in growth CapEx, and then you've got to replace everything every 3 to 5 years, and you're running redundant infrastructure everywhere. We're basically getting rid of that. We're replacing it with the cloud with the goal that we don't have to have redundant infrastructure because provided by AWS. We're writing code which is much more efficient because our engineers actually get real feedback on the actual cost of the code they're writing. And it's allowing us to do things that we couldn't do before, like real time big data computations that are going to allow us to get to much closer personalization, much more precision in our search engine marketing algorithms, for example. So it makes sense from just the cash perspective. But then also from a business perspective, it has the opportunity to be even better.

Unidentified Analyst

Got it. All right. Let's move on to the hotel supply investment. Third thing in the quarter, and you've (inaudible)

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Off of the advertisement for AWS that Andy Jassy's quite happy about, I'm sure.

Unidentified Analyst

I'm sure. You've got all the -- well, 95% of the people are now working building supply. You might be further along now -- yes, hired.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Hired. So they will be in-seat, the majority of them, by the end of this quarter.

Unidentified Analyst

Okay. So we can see the opportunity to add a lot of supply, given how many hotels are out there. Maybe talk about why this is a good investment and maybe some data points that make you confident that you can either increase conversion rates or improve growth down the road.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Sure. So we've been ramping up our ability to add supply for, call it, the last 5 years. And one of the most compelling data points that we have observed is really across 2 very important metrics to our business. Because we have been adding properties that have allowed us to actually have a more compelling product in every country in which we're operating in, we've been adding properties around the world. Hotels.com's in 65 different countries around the world. We're adding hotels in 220 company -- countries around the world. But what we have observed is that as we've been adding these properties, our ability to actually generate repeat, loyal customers continues to go up. There's a very tight correlation between property coverage in a given country and customer retention rates. There is also a very tight correlation between conversion rates and improvements in conversion rates and the ratio of loyal customers to new customers. So ultimately, what we've observed over the course of the last 5 years is this slow improvement in our repeat rates and our conversion rates across 65 countries around the world. Now you could say, "Hey, let's just keep doing that because 20 years from now, we're going to have it all and we're going to create business. But what we're doing instead is we're saying, "You know what, let's go get those benefits in terms of, ultimately, faster growth, more efficient sales and marketing spend in a discrete number of countries so that we've got a compelling competitive product. Again, conversion rate's up; loyalty up; sales and marketing efficiency, much better. And then we'll move on to the next set of countries." So look, we see the results in our data, we just haven't been getting there fast enough because we've been doing it across so many different countries simultaneously as opposed to just being focused. So the goal here is not to make a massive bet. If you think about what supply investments that we're making, think about in the ballpark of $50 million. Last year, we spent about $8.3 billion in total, those are our total expense base. So it's not a big bet. What it is, is just being much more concentrated with the desire to be much more efficient with our headcount, much more efficient with all of the people that are involved in building content, and ultimately, much more efficient in our direct sales and marketing spend.

Unidentified Analyst

Okay. Maybe to help us understand how this could go from here. Obviously, the U.S. is farther along in the supply investment. Any thoughts on how U.S. margins look versus international margins? Can an international margin inflect and catch up over time? How do you think about that?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Well, that's the goal. So the U.S. margins are very attractive, and there would be some of the most attractive that exists in this industry of ours. The international markets are less so. And the reason they're less so is because, again, we haven't built that loyal repeat customer base. In the U.S., we've got everything. So we are, in essence, already the Amazon of travel in the U.S. It's very compelling. We've actually said, on a global basis, last time we updated in our March 2016 investor deck, 2/3 of our business in our core OTA business comes to us via direct or branded channels. So you know that the U.S. business, if that's the global number, has got to be even more attractive than that. So the goal here then is to put other countries in that same category. Now we can -- it's not rocket science. We can look at it and we can say, "Listen" -- if you're a customer that lives in Malaysia, for example, and compare our product in terms of what consumers experience, selection, translation, content, et cetera, and you compare it versus our competitor, I can look at it and say, "I think their's is better." Well, when that's the case, you've got to change that. And so the inefficiency of our sales and marketing spend in markets outside of the U.S. compared to the U.S. is completely explained by things that are visible to us, which we know we can change. And we're dead-focused on doing that. And should that improve margins in these international markets? Absolutely. Can I guarantee you a certain time zone or time frame for that to happen? Not yet.

Unidentified Analyst

Okay, okay. In the last month, we've seen Airbnb be pretty aggressive marketing and reaching out about their hotel initiatives. But they're also very strong, obviously, in alternative accommodations, and Booking.com talks about that a lot. And you have HomeAway and other assets. So talk about why that's such an attractive industry for people right now.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Well, it's large and it's growing and growing in awareness, growing in adoption. It's a $120 billion industry growing much more quickly than the overall travel industry. And increasingly, when you think about the way -- again, if you go back to the economics of our business, our business is driven on the back of our ability to get customers to come to us directly again and again and again. And the more selection we have across all categories, the more likely is it for us to build, again, a very loyal customer relationship and have very attractive economics. So alternative accommodations, for us, is just one additional leg of that stool. And not only are we integrating the HomeAway inventory onto Hotels.com and Brand Expedia, but we're also supplying hotel inventory into HomeAway. We've started with the hotel inventory which is the most directly substitutable for alternative accommodations, stuff that has kitchens and other things that HomeAway's seen great results. And so I think, in the spirit of the player that has everything, looks like Amazon, Amazon is successful, I think you're going to continue to see the lines blur and you'll see more players adding more products, and Airbnb adding boutique hotels is just one other piece of that.

Unidentified Analyst

Right. And in that industry, how do you see your HomeAway transition from subscriptions to transactions? How's that gone versus your expectations? And how do you feel about both the supply side, are they happy? And the user side?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Listen, the transition has gone exceptionally well, I think better than we had expected. Now we did, at the time we gave our $350 million guidance, we didn't anticipate the cloud spend, so we had to come off of that number, which is obviously regrettable. But we wanted to lay it out there, we didn't want to do things unnatural to basically hit that number because the underlying fundamentals look great. Consumers are very happy. I would say that the individual property owners are generally very happy. The property managers are generally very happy. But as a reminder, when you take a business that structurally had take rates of 3% to 4% and you take them up to double digits, there will be participants in the industry that don't like that. But the core value that we're adding is very substantial. And you can just look at what's happened to the property listings and you look at what's happened with online bookable properties. When we bought HomeAway, they had about 1 million properties in total. HomeAway has not at all been focused on adding new properties. In the last 2 years, they added 500,000. Like, the gravity that exists that is drawing vacation home owners and property managers to the platform is pretty compelling. So we're really happy with the transition, and they continue to do really great things.

Unidentified Analyst

Got it. And when you bought it, I think there was $15 billion or so of offline bookings, but never a real number.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes, estimated.

Unidentified Analyst

And we have an online number now, which is nice.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes.

Unidentified Analyst

And how do think that opportunity is on the online portion as you think about capturing more of that offline? Or is there going to be a level off? How do you think about the bookings growth from here?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Well, we -- again, the $14 billion to $16 billion which was the estimate at the time of the deal was just that as an estimate. And I think we felt pretty good about the estimate. I suspect that if you look at what's happened to the overall property count, which has gone up very significant, I expect if you really had true visibility into what has happened to platform-facilitated bookings, I bet you it's higher. We don't know what it -- we haven't reestimated. We don't know what it is. But we got ourselves in the spot here at the end of 2017 that we're already up to $8.7 billion in bookings that has migrated to online. We've been growing in the 40-plus percent range in terms of booking value, 30-something from a estate property night basis. And we feel very good about our ability to actually penetrate into that overall platform bookings number at very healthy growth rates for a long time to come. And then, of course, we've got the add new property dimension, which again, we haven't been very focused on. So we feel good about the progress. We think there's tons of runaway just to get more bookings onto the platform and then also add new players to the platform.

Unidentified Analyst

Got it. All right. Before I go to questions in the audience, I do want to kind of address 2 or 3 or maybe 4 recurrent concerns that you hear all the time. And the first one really is industry penetration.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes.

Unidentified Analyst

And Booking.com said they're still below 10%, they think. But if you factor in business travel and the direct bookings through hotels and airline sites, where are we in the travel penetration? How do you see it? And you think there's still good industry growth to go?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Well, I think the U.S. is relatively well penetrated, both in terms of just online adoption and overall having essentially all of the lodging inventory; alternative accommodations inventory, although there's still runway there; airlines, essentially online. So it is getting to the spot where it is a bit more mature. That said, if you look at our share, which by the way, we're in all aspects of the travel industry. We power over 150,000 offline travel agents, like, traditional offline travel agents. We have the fourth-largest corporate travel business in the world, Egencia. We power airlines with hotel inventory. We -- that we're really in all aspects of the overall travel industry, not just the online piece. But if you look at us in the U.S., if you look at our lodging share as a proxy for our overall market share, I mean, we're low double-digit share of the overall lodging market. So we see there is lots of room there, but the U.S. is the most mature. Outside of the U.S., from our perspective anyways, online penetration in Europe is, call it, in the 40s, gets a little bit lower when you go into certain parts of Asia and Latin America. So you still got an offline to online shift that's happening. And then we simply look at it in terms of how much of the overall spend do we have versus what segments are we a player in, $1.6 trillion, $88 billion, we got a ton of runaway. The other way we look at it is look at the number of hotel properties that exist in the world. Not exactly sure the total number, but somewhere between 1 million and 1.5 million. The important thing is that people are staying in these properties. They're just not booking on us because we don't have them listed. It's just really a matter of us adding them. So we feel like there's tons of runway there as well.

Unidentified Analyst

Okay. Maybe we'll go into direct initiatives by the hotels and take rates. A couple of the chains have said they're going to be renegotiating their OTA agreements. I guess, how important is the chains for your business? And I know on the last conference call, you said you don't see kind of the incremental impact that you've seen in the past. So if you want to cover that a little bit.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. So let me start by saying we run a platform that we want to have essentially all the hotels, whether independent hotels or chain hotels. We do value having that inventory. That said, less than 0.5% of Hotels.com shoppers are actually shopping for the largest chain by name. Our shoppers are really agnostic. So even though we do a good bit of business for the chains, we -- for the largest chains, we are driving billions of dollars of revenue for the hotel owners. And (inaudible) hundreds of millions of dollars of franchise fees for the chains. I mean, we're important to them and we like them to be as part of our business. At the end of the day, it's got to be economical, and we're creating a lot of value and we deserve to get a fair bit of value for that as well. We started, 5 years ago, taking our overall commission rates down to kind of market levels from where they were when we started Expedia. That work is done now. The chains, like the independent hotels, were a great recipient of that. But that work is done now. And what we're really focused on without relationships with the chains is creating real win-win situations. I mean, we're done with reducing the compensation. But what we have been looking for is ways where we can just run a much more intelligent marketplace where our commission rates, that are structural, can actually be lower when chains need us less, and give individual properties or getting central revenue management the ability to pay more to get more or to pay more to use our travel ads or other media products to drive more bookings when they're needed. I always think about it this way, which I don't talk to Sundar about my commission rates with Google, we just bid. And that's how intelligent marketplaces work. And I think there's more opportunity for us to build more flexibility into a lot of these contracts to create real wins. And we've got a number of forward-looking chains that we've done contracts with recently who absolutely structured in that way. And so far, I think they seem happy with it and we seem happy with it. And our hope is in the future, we can have constructive discussions with the rest of the chains who may not be there yet and create further win-wins.

Unidentified Analyst

Got it. All right. You did bring up Google. I'll ask just one more before we go to the audience. But Google, it's kind of interesting. People wonder, if they can win and you can win in the sector.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes.

Unidentified Analyst

But maybe think -- how are your thoughts about then getting deeper into the funnel and taking bookings? Can you participate in that? Is that a bad environment for you if that's the way it goes? Or how do you think about that?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Well, I think there's a question of what does taking bookings entail? Right now, anyone that is taking bookings in the real sense generally has to be able to service those bookings. Otherwise, it's just a different type of advertising. There are really only 2 global-scale players that can take bookings in the way that we service bookings and change/cancel and solve real customer problems. And for us to do that, we have to answer 60 million phone calls for each of the different languages around the world. Our largest competitor probably does the same, if not more. We've got to have real lodging operations teams that are dealing with the hotels when the hotels inevitably overbook and we've got to relocate customers. Like, we're providing real value in the industry that maybe Google wants to go and hire all those people and solve those problems. Probably not the best use of their resources, given how much they're already making off the industry. So we'll see. And as a reminder, Google has listings of all of the hotels with all of the inventory and all of the prices because ourselves and another large competitor give it to them because we are the real-time inventory repository for prices and availability, as is our competitor. And that data does not actually reside in the Google systems unless we give it to them. And for them to get them themselves, they've got to create independent relationships with all of these individual properties that exist. Now will they get there with some of the large chain hotels? It's a lot easier. Will some of the large chain hotels realize that maybe it's better to be doing business with Expedia than it is to fight it out with Google? Possibly. So we think they'll continue to move down. But again, we feel very good about our position in the ecosystem.

Unidentified Analyst

Got it. Why don't we -- I think we have some microphones out there. We have a question here and one here. Let's get the microphone, sorry, and then we'll go here next.

Unidentified Analyst

On the update for the Q1 guide, that's really helpful. I'm just trying to understand. So if we look at the full year, which stays the same at 6% to 11%, I think The Street is at the midpoint of that. So if The Street is too high on Q1, that means they're too low on the back half. So you talked about, like, the reasons they're too high on Q1. Can you just talk about the reasons they're too low in the back half that they're missing?

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Well, I think -- yes. I think it's a combination of factors. I think the first factor for the early part of the year is the fact that it's just such a low profit producing part of the year, and you get all your stays, not all of your stays, but a big bunch of your stays in Q3. That's true for the core OTA business, it's especially true for HomeAway. And so just by nature of when the investments come in, which are much more kind of flatlined throughout the year relative to when the stays occur and the revenue is recognized, that's the nature of the back half loading. And then the second bit is that we did start to make some of these investments in the back half of '17. So the comps will see some relief on the comps as well in the back half of the year.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

And hopefully, we will not have whatever it was, $30 million to $40 million, of impact from storms, which was pretty huge here in the third and fourth quarter of 2017.

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Right.

Unidentified Analyst

Got one here. Right here.

Unidentified Analyst

Three quick questions. One on Hotel inventory. What's a reasonable number of new hotel adds to think about for this year and next as you ramp up the teams to sort of bring those guys on board? Secondly, how quickly can you get the 1.5 million properties on HomeAway online bookable and then instantly bookable? What's a reasonable time line to think about the vast majority of those being instantly bookable? And then lastly, OpEx at HomeAway. Recently, it was speculated that Airbnb does $2.7-ish billion of revenue and their EBITDA was roughly $100 million or breakeven. So their cash operating expenses at $2.7 billion, give or take, which is nowhere near where HomeAway is currently, right? It's a lot lower. How do we think about the required level of cash operating expense required at HomeAway to be competitive with Airbnb when they're spending -- outspending you guys by a multiple at this stage for a GMV that's roughly within shouting distance of each other.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. So let me take those in order. In terms of new hotel adds, 2017, we added 95,000 roughly. We've said we're going to add about, if not more than double that, in 2018. Incremental to that will be incremental HomeAway inventory that we integrate onto the core platform. Right now, HomeAway is 1.5 million online bookable listings, about 1/3 of them, ish, are instantly bookable. And our goal is to drive that significantly higher through 2018. And the way that we view it is that any property on HomeAway that is instantly bookable becomes a candidate for integration onto the core platform. In terms of Airbnb's overall OpEx base, I haven't seen revenue numbers or heard revenue numbers that big. But let's say those are what they are -- all I would say is that when you're a private, well-funded company, you often don't have the pressures to really run things, like, really efficiently. So I don't know what they're spending all of that money on, if that's the right number or not. But I don't anticipate a need for HomeAway to invest that type of level. Now if they -- HomeAway had $4 billion in revenue, then maybe we'll have that type of expense base. But that seems high to me. And we have been very significantly ramping up the product and tech teams at HomeAway, but we feel like we've pretty much got the teams we need. We will be, as we add more volume and as we start to acquire more properties, we will be staffing up more outbound call centers to sign up new properties or help them through the on-boarding process and more customer service, but all of that comes with new revenue. So yes, I can't get my head around that number. It's a big number.

Unidentified Analyst

Got one right here.

Unidentified Analyst

So looking out to 2019 and maybe the back half of this year, given that you're investing a lot more in HomeAway, you're doubling the property additions on the OTA side. What would the reasons, outside of just general macro weakness, be for bookings or room nights stayed not accelerating into '19?

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Well, if we are successful -- again, we are heads down in execution mode. We are -- even though we're doing it in a limited number of countries, even though we're doing a limited number of countries, we are anticipating to see, in the back half of the year, some benefit in room night growth through what we're doing on supply acquisition. Certainly, macro factors could take that away. But remember, we've got big base of room nights and we're doing what we're doing in a limited number of countries. So the impact is there. It could be possibly taken away by other factors. Right now, we can't anticipate, but we do anticipate that we will actually see stronger room night growth in the back part of this year. And then in terms of HomeAway. I mean, HomeAway's been growing very quickly and very nicely over the course of 2017. And we anticipate them to continue to grow very quickly and very nicely in 2018. We don't see any reason to suggest that they're going to necessarily accelerate. They are ramping up their paid search capability. And they have -- that is an incremental catalyst for them. But we don't -- I wouldn't guarantee you that, that's going to actually drive acceleration. It is driving healthy growth rates on an already pretty darn big base.

Unidentified Analyst

Any more questions? No. I'll wrap up with the question I'm sure you get all the time, and that's capital.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes.

Unidentified Analyst

Stock has been under pressure. I don't know how you factor in buybacks versus dividends versus M&A, but how does that factor into your decision-making? And what's -- what are you thinking right now on the capital -- use of capital.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Do you want to take this one, Alan?

Alan Pickerill - *Expedia, Inc. - Executive VP & CFO*

Yes. I mean, I think our philosophy on capital allocation has been pretty consistent, which is we generate a good, good bit of free cash flow every year. We do keep a pretty solid balance sheet, and we do that because we're in the travel industry and we want flexibility. We want to be able to weather any tough situations if there were big world events that slowed down travel. But we don't need to accumulate more and more cash. And so we look to deploy that against M&A and against share repurchase. We have been -- since the spin from IAC back in 2005, we have repurchased about 38% of the shares that would have been outstanding otherwise. And we kind of balance them off each other. So we do -- in years where we've done more M&A, we've done a little bit less share repurchase. And in years where we do less M&A, we've done more share repurchase. Of course, the price of the stock factors into that. But we're trying to be balanced across the opportunities. And then typically, we just -- we make those decisions as we go, and then we report them at the end of the quarter.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

But over a long period of time, I think we have a track record, and certainly, go forward, you should expect that it is our desire to shrink our share count over time. We think that's a key part of the overall growth story of this business.

Unidentified Analyst

Great. Thank you, and thank you so much for being here today.

Mark D. Okerstrom - *Expedia, Inc. - President, CEO & Director*

Yes. Thank you.

Unidentified Analyst

Thank you. Thanks.
