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EXPE - Expedia Group Inc at Morgan Stanley Technology, Media & Telecom Conference

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PRESENTATION

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

All right. Well good morning, everyone for the final keynote we have this morning of Day 1. So before we get started, we have Mark Okerstrom here from the Expedia Group. So thank you so much, Mark, for joining us.

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

Great to be here. I have disclosures to read.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. Here we are. Please note that all important disclosures, including personal holding disclosures and Morgan Stanley disclosures, appear on the Morgan Stanley public website at www.morganstanley.com/researchdisclosures or at the registration desk.

So Mark, you've been President and CEO of Expedia since August of 2017. Previous to that, you were the CFO and had a variety of roles throughout the company. You were a consultant at Bain in the past. You have an MBA from Harvard, a law degree. You're the first lawyer I've talked to today, so...

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

I'm sorry. Sorry to break your streak.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes, exactly. So thanks for joining us, though, I mean...

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

Yes, good to be here.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

You've really sort of brought a new energy to the company. So I really appreciate it.

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

I'm very grateful.

QUESTIONS AND ANSWERS

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

So what I want to start with. I wanted to start with sort of, since you've taken over the reins as the CEO. So you sort of talked about 3 primary objectives. You talked about being locally relevant on a globally basis, you want to be more customer-centric and then really executing faster, accelerating the pace of execution. But here we are, I guess, almost 1.5 years in, 16 months in. Give yourself a grade so far and how would you rate what you've done so far. And sort of what are the areas you still see for further improvement from here in those 3 areas?

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

Well I'm a hard grader, so I'll give myself a solid B, a solid B. So yes, I mean we -- 3 big priorities that we set out right at the very beginning: locally relevant on a global basis; be more customer-centric; speed up the pace of execution. Honestly, we're very pleased with the progress so far.

On locally relevant on a global basis, the concept here is essentially making sure that as we think about markets outside of the U.S., outside of Canada, that we're delivering a market-leading product like we do in the U.S. and like we do in Canada. And that means having all of the supply assortment, that means having local content in the local tone of voice, payment types that our marketing is locally relevant. That's been a big push for us this year. We signed up 200,000 new hotel properties this year and we're seeing good underlying results in terms of the underlying metrics we're watching in terms of customer repeat and conversion rates, et cetera.

The second big push was around being more customer-centric. And the big start here or the big new thing at Expedia Group is getting what has been an Internet company, it still is an Internet company, although we do a lot more, and getting people to think not so much about traffic and conversion but actually remember that behind that traffic, there's customers. And starting to think about new metrics, like lifetime value, like customer repeat, like customer acquisition costs, things like that, user engagement. And so 2018 for us, a lot was about mindset, but it was also about building new metrics for us to be able to track our customers, to know our customers, to enable us to deliver more tailored experiences to them, et cetera.

The third piece was around speed and the pace of innovation and execution. And that was a broad umbrella. Part of it was around essentially changing the mindset of everyone in Expedia group to recognize that, collectively, we are the world's largest and most diversified travel platform out there. That we're not a collection of individual divisions, but that we have to work collectively. And putting in place new operational rhythms and goalsetting across the whole group. So we get line activity between our supply teams and our brand teams, for example, and our payments and [protector] teams. So that was a big piece of it. That's been a huge change, including the new logo and name and identity for all of the Expedians out there. And then the second piece was really on the tech infrastructure side, which was continuing to build out our presence in the cloud. And in doing so, allowing us to deploy code significantly faster, to allow us to do things like we've been doing on the marketing front in terms of optimization, put ourselves in the position to be much more of an AI-first driven organization. And these are things we're going to reap the benefit of for multi-years, many years to come. So a good start, a solid B and lots of room for improvement.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. A grade of B. You mentioned -- I guess that you mentioned lifetime value and repeat rate analysis. So are those the main metrics that you sort of increased the focus on internally? If not, what other metrics are you now paying a lot more attention to than you were, say, 2, 3 years ago when you were the CFO?

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

Well, certainly, customer repeat rates, lifetime value as I mentioned. We are looking at customer acquisition cost, of course, and the flip side of that. User engagement is another metric we're increasingly looking at, recognizing that in many cases, our customers come to us because they're just thinking about a trip, they're never going to book this month or next month, but they are 3 months from now. And so there's certain value to having engagement of customers on our mobile apps and delivering them value in ways that are not really spoken of in terms of the conversion metric, but rather, user engagement. And it seems to be paying off. Again, we're on the early stages here, but we disclosed in our investor deck last quarter that we had 50% year-on-year growth in our app transactions on Brand Expedia and Hotels.com. So things are starting to work. But those are some of the key metrics.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. Some people who write about the industry, myself being guilty, you would say that the -- we would argue that the industry is relative -- it's more mature than other industries, 40% to 50%, we think, of overall leisure hotels are booked online. We think that is sort of a potential challenge to forward room night growth. So I guess my question is, what's your reaction to kind of that point of view? And then this is sort of a higher-level, how do you think about sort of the key hotel room night growth rubric going forward?

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

Analytically sloppy, that's what I'd say for now. I'm joking, of course.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes, no, it's fine.

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

Listen, I think if you look at the overall travel industry, it is a massive industry. And yes, you can look at lodging in the U.S. in total or in Western Europe and say 40% to 50% online penetration is near maturity. I would argue it's not. And if you look at things from an Expedia Group perspective and you think about the -- even in that case, the percentage of all of the lodging properties that exist in the world and the percentage that we have, we've got 1 million, there's got to be at least 6 million, 7 million when you include alternative accommodations, if not more. We're going to continue to penetrate into that. And again, even if you don't take the 50% as a given and you say, "Well, what could it be?" If you look at our corporate travel business, Egencia, which is operating in environments where everyone has a mobile device, in-office, it is all broadband. Online penetration there is somewhere between 85% and 95%. So we think there continues to be lots of room to -- for things to go online. We haven't really gotten started in areas like groups, we're very small in corporate on a relative basis. And the luxury segment is something we haven't targeted that significantly. So we think there's lots of room to go, just in online lodging in the U.S. and in places like Western Europe. And then if you take emerging markets, Latin America, Asia, again, from an Expedia Group perspective, we're very nascent. Now the last thing I would mention though for Expedia Group is we're not just an online player. We have an Expedia Partner Solutions business that powers off-line travel agencies. They power other airlines. They power other hotel companies with our technology. They power big corporate players with our inventory. So if you look across all of the segments, customer segments, we are everywhere. If you think about beyond lodging, all of the lines of business, being air, car, activities, cruise, we are everywhere. So we're just getting started.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I'm just double-underlining sloppy.

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

I've been wanting to say that since your initiating coverage report when you joined Morgan Stanley.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

So one other topic that comes up a lot with our investors is the macro lodging environment. And even -- I think on the fourth quarter call, you talked about a little bit of uncertainty in Europe. I think your tone in Europe was well heard by investors. So a couple of things. Sort of talk to us now about sort of your view on the macro travel environment. And then just based on what you've seen in previous cycles, how would you expect any type of lodging downturns kind of manifest itself throughout the down business lines?

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

So firstly, we did, on our call, call out that we had seen some softness in, particularly air booking trends outside of the U.K. and into the U.K. we believe because of Brexit. Certainly, our teams on the ground in the U.K. are saying that people are concerned, that people are concerned will they be able to get back into the country once they actually leave. And so people are holding off booking flights. It all makes sense to us. Importantly though, we exited 2018 in one of the strongest travel environments that we've ever seen. I mean, RevPAR has continued to be very strong and growing, passenger volume up, ticket prices relatively stable, things look pretty good. And certainly, we -- on that call, we're not trying to make an Expedia-specific comment there, but rather just to say that we've seen some signs here in the U.K., aren't big enough to move our numbers overall. We certainly read the headlines, Brexit is a concern, U.S.-China is a concern. Overall, if you put ourselves and our position a year ago, we're probably incrementally more cautious about the overall macro environment, simply by the atmospherics. It's not by metrics that we're specifically focused on with the U.K. exception. That said, to the latter part of your question, this is a business that has been incredibly resilient during downturns. It's not completely inversely correlated with economic health, but it is countercyclical to some degree and a decent degree. And the reason is, is that we are essentially the spot market for travel. So if you think about the big travel segments that are out there, you got corporate, the negotiated rates. You've got meetings, incentives, then you've got leisure. In downturns, what generally happens is that meetings get canceled, corporates pull back and we are the place where prices can change instantaneously and inventory can be added and taken out instantaneously. And so what we saw in the last downturn, 2008, 2009, was that we saw that our partners who had excess capacity were essentially giving incredible prices into our platform for participation in our packages, product for distribution to our corporate clients. And Egencia grew essentially other products that we offer, like the Hotwire product for example. And what that did in turn was stimulate more consumer activity because what we found is that travel is one of the last things that people give up. They may change where they go, they may change how long they stay or where they stay, but they go. They take the trip, and we were certainly the beneficiary of that. Our ticket revenues are generally on a per ticket basis. So when average ticket prices go down, as long as we sell more tickets, we're unaffected. Our lodging revenues are a percentage of average daily rate, so our unit economics can get worse on that side. But volumes were very strong through 2008, 2009. And 2009, I think, is one of our strongest-profit years on record because in addition to this countercyclical top line impact, we also have a very variable cost structure, which allows us to adjust as we go.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. Over the course of the last few years, you've grown both organically and inorganically through a series of deals and different types of acquisitions. I guess 2 questions to that. So one, as you sort of -- going back to your grading, which of the deals or the M&A do you think sort of really worked the best and just kind of integrated? And what were the factors that kind of allowed it to thrive? And then as you sort of step across the whole portfolio now, where would you like to get bigger from here?

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

Yes. Well, so we had a number of, I would say, pretty game-changing acquisitions in, call it, the 2013, '14, '15 period. I would certainly put Travelocity into that bucket. I would put Orbitz into that bucket. Those were acquisitions where we had essentially built up this global tech platform and this global supply position, which was simply better than that of our competitors. And so we were able to buy assets that were at reasonable valuations and essentially, put them onto our platform, lift and shift. And in doing that, improve revenue growth rates and significantly change the cost structure. Those were highly successful acquisitions. I would put HomeAway in the bucket of another transformational-type acquisition. Closed that at the end of 2015, really on the thesis that we could take a business that was a listings business, and I think at the time, was doing $500 million in revenue on $120 million in EBITDA, and ultimately triple its EBITDA and triple its revenue over the course of 3 to 4 years. Certainly, that's something that we've been on track to do by moving it online. Again, utilizing a lot of the tech infrastructure that we have at Expedia Group, such as our payments platform as well as just our expertise to actually make that happen. And I think, given the importance of alternative accommodations, the performance we see when, even though it's on a small scale, bringing that inventory on to the core Expedia, Hotels.com, et cetera properties, that was strategically important, and we think, again, a financial success. I think going forward, we have essentially everything we need from the perspective of being able to go after this $1.7 trillion opportunity. Like I said, we are in every line of business. We have a presence from a customer perspective in about 75 countries around the world. We have supply presence over 200 countries around the world in terms of lodging inventory, et cetera. Again, we are in corporate, we are in leisure. So we really do have a horse in every single bet in this industry. That said, there are places where we want to go faster, we want to get bigger. Activities is one. We cited a couple of quarters ago that we do about $0.5 billion in Activities business, and we've been in that business for 20 years. So this is not new to us. But with the advent of mobile and the importance of mobile that becomes an incrementally interesting activity for us. Our corporate travel business continues to be something we want to get significantly larger. Our international presence, something we want to continue to beef up. Of course, being locally relevant globally is the organic path to do that, but we want to get bigger internationally. And alternative accommodations, we think continues to be a huge opportunity. All of those things, again, are things that we can do organically. But like we have in the past, we'll be opportunistic. And if there's an inorganic way to accelerate our growth in a way that makes financial sense, we'll absolutely do it.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. You mentioned earlier the 200,000 new properties added from a supply perspective. Now, I think for a lot of us sort of externally, we look at it and we see the press release and say, "Wow, these properties are added, so they must all be in the sort and we should just assume immediately faster -- or better conversion." Maybe talk us through -- so talk us through kind of the implementation of those properties into the actual sort order. How long does it actually take before you really get a real change in room night contribution from them? And is that part of the 2019 guidance, or too early?

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

So it is part of the 2019 guidance. And we've become pretty good at estimating what revenue we're going to get from a new property, how much of it is incremental, what property density will do in terms of conversion rates for an overall destination. That said, when you go from, call it, 5 years ago adding 30,000 properties a year to 2 years ago, 90,000 properties a year, to this year, 200,000, there's a pretty steep learning curve. Add into that the fact that we've now integrated 370,000 properties for HomeAway into that same mix. And you've gone from having just over 300,000 properties, call it 4, 5 years ago, now to having 1 million. So there's a lot of work that the teams are doing to -- to your point, to not only make sure that we can on-board and manage those properties effectively. When you've got a 1-room property, you can't have a human calling that property every day and say "Hey, can you give me the best rate?" You can't do that. You probably can't even have a human contact them to contract. There's got to be a lot more automation. And then you've got to be great at making sure that when you've got that property, that you're delivering volume to them. Making sure that they appear in the sort order, making sure that you are marketing them in marketing channels, like meta search, that allow you to have property-specific demand. That -- those are skills that we've been working on building over the course of the last 3 years, but we've got a ton of improvement to make. We do have a big data science team, which is optimizing our sort order. Again, that is something that we think there's huge opportunities for improvement there. And one of the things that our migration to the cloud has enabled us to do is to be able to do a lot more work real time in terms of customer segmentation, and in many cases, personalization of search results. That is the thing that will start to unlock really what we call flattening out of the search results. For a place like London, it doesn't matter if you've got property 2,035. What matters is that in Kensington near Hyde Park, you've got the 2-bedroom apartment for someone who wants to spend between $1,000 a week and $1,500 a week. I don't know if we'd get that property there, it sounds pretty nice. It's affordable, but that's the type of granularity that we've got to get to in terms of delivering relevant search results, and we've got teams dead-set on working it.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Got it. I know the supply initiative, it still feels like it's kind of early though in the overall initiative. So you talked about sort of more markets to come this year. You want to share how many or where those are? That would be fantastic. But if not, maybe just talk to us about sort of as you were sort of analyzing where to focus on next, what are the factors that drove sort of which new markets you want to add more supply on in 2019?

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

Yes. So it's kind of a pretty simple way to look at things. But it's the way we look at it, which is what's the size of the opportunity to us and how easy is it for us to go get it. And there's a lot of work that goes into sizing the unmet opportunity and a lot of work that goes into assessing the ease in terms of how good is our customer experience already. How strong are our brands? Are these markets adjacent to ones where we already have strength, where we could send travelers to? Et cetera. So it is very analytically rigorous, like you are, and we give you a hard time. And it's really focused on making sure we get the best bang for our buck and that we're operating in an efficient way.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Yes. Which markets is it again? 2018 is quite the year for marketing and advertising spend in the online travel industry. A lot of moving unexpected pieces between optimization, the way to spend on performance versus the way to spend on branding. So I guess my question for you is how have the analyses that you do when you decide how to optimize your ad spend, how have they changed over the last 18 months? What are you really focusing on now within each bucket of ad spend?

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

It's just the whole thing has become much more tech-driven. I mean, the -- and I won't talk about the last 18 months. But if you think about the last 5 years, you've gone from a world where people, humans were looking at keywords and bids on Excel spreadsheets to a world where you've got real-time algos that are sorting keywords and setting bids, and in many cases, doing things pretty close to real time to the extent that an ad platform would allow us to do that. And that has allowed us to harness opportunities in 2 primary areas, which has shown up and shown up in our results in 2018. One, is it allowed us to get much more disciplined around understanding what marketing spend was incremental and what wasn't. And if you take a market like the U.S., it's hard for us to imagine a scenario where the majority of people who are online are not visiting one of: Expedia, Orbitz, Travelocity, Hotels.com, VRBO, Hotwire, et cetera. And as long as that's the case, then you have to have systems that can help you understand, is this ad buy that I just did in marketing channel x, did that actually cause that customer to book with me or were they going to do it anyways? And so incrementality has become a bigger piece of, call it, the analytical toolkit. The second, is that we become much more granular in the way that we are actually bidding for traffic. So instead of using averages, we're starting to get to actuals. Instead of having large ad groups in Google that have a bunch of keywords we're trying to get into, distilling true customer intent and matching that perfectly with the right landing page and the right bid, based upon what that intent represents in terms of expected value per transaction. And again, that has yielded good performance for Brand Expedia, increasing Hotels.com. Even VRBO has become much more sophisticated on that than they were early days in performance marketing.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Very rigorous. Not talking. Direct traffic. I'm sure you're asked about this a lot. The direct, good business, is I'm sure quite profitable, in particular relative to the performance-acquired customers. I know you've said in the past, about 2/3 of the gross bookings from Brand Expedia and Hotels were direct branded channels. And then you mentioned the 50% stat from the app last quarter that you guys cited. So I guess my question is, what is sort of the limiting factor that holds people from not becoming direct? You mentioned that they visit all of these sites. So what would hold people back from becoming direct? And how do you change that?

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

Well, I think it's a few things. I think if you think about what customers care about, generally, they care about having the right assortment, whether it's lodging or car rental or air rentals. And they care about having a great price. And they care about what happens when something goes wrong. And what we are doing, and we're particularly good at in the U.S. and Canada, are making sure that we've got great assortment, making sure that we've got great prices and making sure that, in addition to making our websites and mobile applications very easy to use for booking, that if something goes wrong or you change your plans, we make that incredibly easy as well. And that is the best loyalty program in the world, is delivering an incredible customer experience, so good that people go tell their friends how great it was. Not just because you had the right property or the right flight at the right price. But if something went wrong, Expedia really take -- took care of me. And so that's how you build a direct loyal customer base. Yes, we do have rewards programs as well, which we spend a fair bit on. A lot of that is to allow us to deliver great value to our top-tier customers and also increasingly give them differentiated value. And our whole strategic themes of locally relevant on a global basis and customer centricity are all about building that direct relationship in markets where we don't yet have all of the properties or all of the inventory, et cetera, et cetera, et cetera.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I think it's interesting you brought up loyalty at the end because we think you do invest quite a bit in the loyalty program. It even looks like the Expedia rewards doubled roughly over the last few years, which is impressive. Of all the areas where you're sort of investing, where does sort of growing that loyalty program fit in your priorities? Is it the front burner? Back burner? Like, how do you think about the loyalty program?

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

Mid-burner.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Mid-burner.

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

Yes. It's part of the whole suite of offerings. I mean, the loyalty programs can become incredibly expensive when you don't have a great product, because then, essentially all they are is a veiled attempt at discounting. And they can be a very successful attempt at discounting. That's not good for business if you have to do that plus acquire all of your customers through expensive channels. So it really does have to be part of an overall suite of offering, where you're making sure that you've got, again, the best product in a given customer segment or a given country and you couple that with an incredible rewards program, and that's a winning combination.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

You mentioned expensive channels. I have a question on Google. Over the past, so one of my favorite lines said, Expedia's Google strategy is to build better products and to serve customers better.

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

So CEO speak?

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Very, very good line. But maybe sort of Google is consistently coming out with new travel products and new travel ad products, pushing down on organic reach. I'm making these statements, not you. Maybe talk to us about how your relationship and use of Google has changed over the years. And what's sort of the priority of traffic coming off of Google now?

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

Yes. Well, firstly, let me say that we have always had a very diversified portfolio of marketing channels. For better or for worse, maybe we'd say for worse versus one of our competitors, we haven't been overly reliant on search engine marketing and Google, but rather have been quite broad, not only just in the U.S. but around the world. Part of it is because we weren't really that great at it. We've become a lot better at it. So not to brag, it was sort of by default. And I think that's going to continue to be the case in the future, a broadly diversified set of marketing channels. Now as it relates to Google specifically, the relationship is complicated. But firstly and foremostly, they are an important partner to us and they actually have been a great partner for us. We talked about incrementality and, sure, in the U.S., Google is one of many channels for us to get our brands out there for customers who may not know about them or are just trying to navigate, and they type in Expedia. I mean, that, in reality, happens. They're less important to us in the U.S. in that case. But in other markets outside of the U.S., where customers don't know us as well, they're an incredible marketing channel where we can sign up properties and market them instantly like we can with other marketing channels, like trivago, and we can slowly but surely build up strong, new customer bases all with the help of Google. And so in that respect, they have been a great partner. The part that makes it complicated is that, of course, they do have a pretty dominant position in the top of the funnel. Many people who are infrequent travelers, or just because they have the habit, start their search with Google. And Google is, as you would expect them to be, being an economic animal, is trying to find ways to make sure that not only customers continue to go to Google, but advertisers have reasons to pay them more to acquire those customers. And so they continue to innovate on the product front to make their search more relevant, to expand their trip planning capabilities. And they continue to find ways to take what used to be free and make it not free. And that's the part that makes it complicated. And the best way that we can combat that is, again, through building better customer experiences and deliver great service to our customers. And that's what we're focused on doing.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

One of the channels that I'm asked a lot about is meta. Kind of not naming any specific players in meta, but maybe if you could just explain to us sort of what value do meta players bring to you? And how do the customers or the traffic or the transactions you get from meta, how are they different than what you get from Google, from affiliates, from social, from anywhere else?

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

Yes. So the big thing that metasearch provides is it provides customers that, in many cases, have narrowed down not only where they want to go to, but they usually are narrowing down their choice into a handful of hotel properties. So from a purchase intent standpoint, they're lower in the funnel and you can actually access those customers when you've got just a handful of hotels. You don't need all of the hotel properties in the destination to go after, rather to be competitive in their option. So in that respect, they're very -- it's a very valuable channel for advertisers, particularly as you're expanding into new markets and building out inventory. From a customer perspective, again, it continues to be a very valuable product. And if you go back to, again, what are customers looking for? They're looking for broad assortment; they're looking for the best price; and of course, they are looking for a partner who will take care of them if something goes wrong. Metasearch is not going to help them on that third, that gets outsourced to whatever hotel supplier and airline supplier and car-rental provider and customers have got to sort that out. But for the price-sensitive customer who cares about pricing assortment, as long as you have heterogeneity in pricing and heterogeneity in the lodging portfolios of all of the different players that you could possibly book a hotel room or an alternative accommodation through, you are going to have value in metasearch. And I think what we've seen in, call it 2018, the latter part of 2017, is that what has not happened is advertisers have not said, "You have no value." And customers have not said, "You have no value." The only question is, how much am I willing to pay you from an advertiser's perspective for that customer? What's the lifetime value of that customer truly? Are they going to be loyal to me? Are they going to be loyal to you? And that has created some imbalance in the economics of those businesses that has had knock-on effects into Google options and other things. And I think you've seen trivago certainly, TripAdvisor, trying to pivot around adjusting into this new model. But the model still has a lot of value. I think it's going to have a lot of value for many years to come. And I think with alternative accommodations becoming more and more important, provided the metasearch players can tap into that, and they are tapping into it, I think they're going to be relevant for a long time to come.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Complicated. Like a Google spreadsheet.

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

Complicated.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

So it's complicated then. Speaking of complicated, HomeAway. So on the last call, you talked about some of the near-term headwinds, slow international growth, some SEO challenges and more normalized ADR growth. On top of that, you are continuing to invest in it because it's a big long-term opportunity. Maybe just sort of talk to us a little bit about how we should think about the top line and the bottom line growth for HomeAway throughout 2019 in this sort of complicated year. I'll say it again.

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

I'd say, listen, the HomeAway VRBO is actually relatively simple to get your head around as long as you take the appropriate time horizon, which is this is a massive opportunity. HomeAway VRBO is a leader in the area, particularly in the groups and family segment. They are very strong in resorts and ski destinations, particularly in the U.S. and Canada. They are expanding into more international markets. They will be expanding to more urban market and integrating that urban inventory onto Expedia and Hotels.com. And so we think there -- they've got a long runway ahead of them. Now what we did see in Q3 and Q4 is we saw a deceleration in their top line growth rate. And as you called out, that was driven by a few factors. One was essentially, we had, had a pretty big ADR tailwind in 2017 as we brought some of the larger homes into online booking on the platform. Two, as we were ramping up performance marketing pretty aggressively throughout 2017, they started to lap over that. Three was there were some SEO headwinds, predominantly in the international, but also in the U.S. as we had done some more replatforming efforts. And that created a little bit of a slowdown in the top line. And then I think, too, we're at the tail end of a migration of a pretty big offline business to online. So where they are in the S-curve, we don't know exactly, but they're probably, in their core market, tapering off. We think that those essentially tapering-off tailwinds, that is going to continue to be some factor for HomeAway VRBO in through Q1, Q2. But again, those will clear and those are short-term issues. Underlying it all, we see a big market, we see a very strong player who's executing very well on marketing and product and all of their opportunities to sign up new properties. And we're very excited about what they can do over the long term.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

We have [Mike Renards] who's running around for questions for Mark. Before, I ask one more on alternative accommodations and HomeAway. As you think about the long-term competitive environment in alternative accommodation, what do you see as being the really key differentiator to compete against all the other players? And do you see a situation where you may have to reduce the consumer fee to really compete and/or drive faster adoption?

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

Yes. Well, I think the key differentiator for VRBO/HomeAway has always been its large home, group, family-type offering. Groups has been this area in the travel market that's been incredibly hard to go after. And really, the only player that's been able to do it effectively has been VRBO/HomeAway over the years. So that has been a key differentiator that got a number of properties, lots of properties that really only work with VRBO/HomeAway. And I think that's going to continue to be their primary focus area, whether or not it is in the U.S., it's not going to be just in the U.S. in the future. That opportunity exists also in the international market, larger places where you can sleep someone on the sofa and in the bed and in an apartment in Manhattan. That also exists as well. So I think that, that's one of their big differentiators. And then, of course, being part of the Expedia Group, when you think about it from a host standpoint, being able to sign up with VRBO or just Expedia Group and show up on VRBO/HomeAway, have your property show up on Expedia, have it show up on Hotels.com. In the future, have it show up in corporate, that's a big differentiator for them. And I think as we start to think about what Expedia Group as a platform means and the ability for some of our divisions to more effectively collaborate with one another, you can imagine big benefits that might accrue in the future in terms of inclusion in rewards programs or inclusion in packages that, again, we haven't really begun to tap into.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Consumer fee?

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

Well, the consumer fee, I just about passed that one over. We're confidently tasking on the consumer fee. What we have done with VRBO/HomeAway deliberately is made sure that we've got essentially almost every monetization model that exists. So we've got straight commission rates that looks a lot like our big European competitor. We've got consumer fee with low booking or payment fee that looks a lot like our San Francisco competitor. And we've got a subscription kind of fits in the middle. And all of those things have rolled up to, in the case of VRBO/HomeAway, a take rate that's been closer to 10% than it has been 15%. We think there's an opportunity over time for, in a market as fragmented as this is, for it to actually go up. Now whether it's going to be less consumer fee and more commission or lower subscription and higher consumer fee, we don't know. We're experimenting with all of it. We don't think that we need to start discounting consumer fees aggressively to be effective in this market. We think there's lots of other reasons to book on VRBO/HomeAway.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

Time for one in the audience. Right there.

John Frank

John Frank with Fort Baker. Just a quick few questions on the proposed Liberty Expedia share change offer. Curious kind of how you're thinking about the benefits of that potential transaction as it relates to Expedia shareholders. If I look at the amount of shares that you'd be getting back versus the amount of shares you're issuing, versus the assumed net debt, pretty nice accretion on your proposed terms. And there's even still some accretion on the counter from Liberty. So I'd very much appreciate you talking a little bit about that aspect. And then also how are you viewing the benefits of taking that 53% controlling interest back into the public float and being a fully controlled public entity?

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

Yes. I hate to do this, but I really can't comment on it because it's a live thing. We put out an 8-K. We will -- there's 13D filings. We will be able to comment on it more as things progress, but I really can't comment further.

John Frank

It seems like a great transaction for Expedia shareholders, given kind of what I just outlined. And I'm just -- maybe if you could talk a little bit about your confidence in being able to get something done. Any sort of characterization would be great and appreciated.

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

Yes. Again, I can't comment on it. I hate to do it on stage, but I wish I could comment. I really can't say anything further. Obviously, we've disclosed that discussions were ongoing, so we believe that there's some value there. But beyond that, I can't really speak to it. I'm sorry.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

All right. Thank you so much. Thanks, Mark.

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

Thank you.