PARTICIPANTS

Corporate Participants

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Dara Khosrowshahi – President, Chief Executive Officer & Director, Expedia, Inc.
Mark D. Okerstrom – Chief Financial Officer & Executive Vice President, Expedia, Inc.

Other Participants

Tom Cauthorn White – Analyst, Macquarie Capital (USA), Inc.
Naved A. Khan – Analyst, Cantor Fitzgerald Securities
Eric J. Sheridan – Analyst, UBS Securities LLC
Douglas T. Anmuth – Analyst, JPMorgan Securities LLC
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Kevin C. Kopelman – Analyst, Cowen & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen. Thank you for standing by. Welcome to the Expedia, Inc. Fourth Quarter 2013 Earnings Conference Call. [Operator Instructions] This conference is being recorded today, Thursday, February 6, 2014.

I would now like to turn the conference over to Alan Pickerill, Vice President, Investor Relations. Please go ahead, sir.

Alan Pickerill, Vice President-Investor Relations

Thanks, Britney. Good afternoon and welcome to Expedia, Inc.'s financial results conference call for the fourth quarter and full year ended December 31, 2013. I'm pleased to be joined on the call today by Dara Khosrowshahi, Expedia's CEO and President; and Mark Okerstrom, our CFO.

The following discussion, including responses to your questions, reflects management's views as of today, February 6, 2014, only. We do not undertake any obligation to update or revise this information.

As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we expect, we believe, we anticipate or similar statements. Please refer to today's earnings release and the company's filings with the SEC for information about factors that could cause our actual results to differ materially from these forward-looking statements. You'll find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's IR website at expediainc.com/ir. I encourage you to periodically visit our Investor Relations site for important content, including today's earnings release.

Finally, unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense exclude stock-based compensation. And all comparisons on this call will be against our results for the comparable period of 2012.

With that, let me turn the call over to Dara.

Dara Khosrowshahi, President, Chief Executive Officer & Director

Thanks, Alan, and hi, everyone. I'm actually joining you from Geneva, Switzerland, which is the headquarters of our global lodging group. So if you hear a little discontinuity between me and the team, it's because I am offsite.

Talking about 2013, we expected 2013 to be a year of heightened competition. And while we encountered our share of challenges, I'm happy to say that our teams responded well. As a result of their efforts, we finished the year with positive momentum in both the top and bottom lines, and feel good about our overall competitive position.

From a brand and geographic perspective, we're happy with the Q4 results pretty much across-the-board, with most of our major brands and all major regions showing healthy revenue growth. The lion's share of the revenue growth in the fourth quarter came from Brand Expedia, trivago and Hotels.com, but other brands like Expedia Affiliate Network, Egencia and eLong contributed as well. The environment for Hotwire remains challenging but the teams deemed to have found its footing and we believe that they can deliver stable results in 2014 while setting the foundation for long-term growth.

From a product perspective, we were pleased with 25% room night growth, accelerating from the 20% we posted in the prior quarter. In addition, although it's a much smaller component, we saw improved volume trends in our air business as we invested in and continue to improve that product.

Our teams have worked very hard on the implementation of the Travelocity agreement that we announced in the third quarter, and our progress so far has been strong. We began to ramp traffic on the U.S. hotel path in Q4, subsequently ramping the air path and now packages. The vast majority of Travelocity U.S.'s traffic is now on Brand Expedia technology and early performance indicators are as expected. We'll continue ramping additional products and traffic, as well as the Canadian website, and expect to complete the full implementation within the first half of the year. We view this as a strong testament to our technology and our teams, and a great example of how we can drive additional returns on the investments that we made over the last several years.

We're also pleased with the progress that trivago is making as it continues to expand globally, with revenue growth over 85% for the full year. As I mentioned last quarter, we expect the formula for trivago to remain the same in 2014; with steep selling and marketing investments in the first half of the year as we head into the peak travel shopping season, and profits delivered in the back half of the year. Notably, we do expect trivago's revenue growth rate to slow down as the business scales. Operationally, trivago's seen strong results in mobile web, exiting the fourth quarter with over 30% of its leads on mobile devices.

In closing, although the environment remains intensely competitive and will likely continue to present us with challenges, we remain confident in our competitive position as a leader in the global online travel space. The worldwide travel market is vast and spend continues to move online, now boosted by mobile adoption, especially in developing economies. Our core travel transactional brands Expedia and Hotels.com are growing nicely, with great teams executing effectively and advanced technology platforms in place that are delivering innovation at a faster pace than ever. And we continue to execute effectively and invest aggressively in trivago, eLong and Egencia big long-term growth engines that we believe can meaningfully drive value.

All in, we believe that we're building a business that can have strong top and bottom-line growth over a number of years, which when combined with smart capital allocation, can build real long-term value for our shareholders, employees and partners. Mark?

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

Thanks, Dara. Strong performance in our hotel business, along with growth in advertising and media revenue, drove nice results for the fourth quarter. Room night growth accelerated to 25% year-on-year on a difficult comp. Recall that the 33% growth posted in the fourth quarter of 2012 was a record for the company, the negative impact from Superstorm Sandy notwithstanding. Domestic room nights were up 18%, and international room nights grew 31%, both nicely faster than third quarter growth rates. Hotel room nights in Europe grew faster than the growth rates for the last couple of quarters, and though a significant opportunity remains for us in this important region, we are pleased with our progress recently.

Room night growth was partially offset by a decline in revenue per room night of 9%, a trend driven by the same host of key factors that we've seen for a while and which, in aggregate, we expect will continue through 2014. We now have approximately 45,000 hotels signed up for the Expedia Traveler Preference program, with the vast majority of them live and in production. In 2014, ETP will shift from its initial rollout or project phase to business as usual, and just another key part of how we do business around the world.

Suppliers who have adopted ETP continue to see an improvement in room night growth of as much as 10 percentage points or more compared to the period just before they went live. We anticipate that in the ordinary course of business, we'll sign up additional hotel partners on the ETP program as we move through the year. Remember that ETP drives both merchant and agency room nights. And for reference, excluding eLong, agency room nights represented over 15% of our global room nights in the fourth quarter and grew in excess of 100% year-over-year.

Air revenue grew 17% with solid growth in both domestic and international markets. Brand Expedia drove overall ticket volume growth of 13%. Regarding advertising and media revenue, Dara mentioned the revenue growth that we're seeing from trivago and we're pleased with these results. While we're primarily focused on trivago's global expansion and top line growth, we're happy that they delivered healthy adjusted EBITDA for the year, broadly in line with our expectations. Additionally, Expedia Media Solutions, which is responsible for the ad and media revenue for our global OTA brands, continued to perform well and drove strong revenue growth in the fourth quarter.

From an overall P&L perspective, we are pleased to deliver a Q4 largely in line with the target P&L that we laid out two years ago at the time of the TripAdvisor spin. Healthy top line growth, leverage across cost of revenue and G&A, tech and content expenses growing in line with, to slightly slower, than revenue and de-leverage in selling and marketing as we aggressively push our overall global growth plans. To be clear, due to the seasonality of our business and discrete decisions to make incremental investments or to shift the timing of planned spend from time-to-time, it is unlikely that every quarter will take this shape.

Turning now to key expense items for the fourth quarter. Cost of revenue grew slower than revenue, with growth in credit card processing costs, including fraud and chargebacks, partially offset by strong efficiency gains accruing from our global customer operations platform. Selling and marketing grew faster than revenue, largely as a result of the addition of trivago, and our aggressive global expansion efforts. trivago added approximately 6 percentage points of growth to our selling and marketing expense in Q4.

Tech and content expenses grew 15% in the fourth quarter, continuing the trend begun in the third quarter where this expense line grew slower than revenue. And G&A expenses were down slightly year-over-year as we pushed for overall cost efficiency in our business and benefited from some easier comps in legal fees and in bonuses. Taken together, these factors helped drive robust adjusted EBITDA growth of 31%.

We continue to drive incremental shareholder value through capital allocation decisions, and for full year 2013, we deployed over $1.1 billion towards a combination of acquisitions, our dividend and share repurchases, including the 9.3 million shares we repurchased over the course of the year for an average price of $55.59. It is also worth noting that since our Q3 conference call, we repurchased almost 2 million shares, a portion of which occurred in 2014.

Turning now to our financial expectations for 2014. We are expecting full year adjusted EBITDA to grow in the range of 13% to 16%. In terms of how the year is likely to play out, we expect adjusted EBITDA to be down year-over-year in the first quarter and for the vast majority of total adjusted EBITDA dollar growth to come in the back half of the year. On that note, I would like to highlight a few important points to consider as you reshape your models for 2014.

Easter will be much later in 2014 than it was in 2013, which will push some revenue and profitability into the second quarter. Early in the year, especially in the first quarter, we expect significant growth in selling and marketing expenses for both eLong and trivago. The trivago acquisition closed in early March of 2013, creating a difficult expense comp in Q1 2014, especially with the steep first half investment profile highlighted earlier.

The pressure on revenue per room night that we have seen for some time will continue in 2014, with some risk to the downside as we continue to focus on growth and share over unit economics. Remember, that one of the drivers of the pressure on revenue per room night was the rollout of the Expedia Traveler Preference program, which ramped as we moved through 2013.

Lastly, I would remind you that our business is very seasonal and a significant portion of our cost of revenue and direct selling and marketing expenses are incurred ahead of, or in conjunction, with our gross bookings, while the revenue is recognized later when the travel occurs. The result of this dynamic is that in a growing business, profit growth will generally skew towards the second half of the year where the distribution of annual revenue is greater than the distribution of these annual variable costs.

Lastly, I would note that we expect our full year effective tax rate to be around 25% for 2014.

With that, let's move to Q&A. Operator, will you please remind participants how to queue up for questions.

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QUESTION AND ANSWER SECTION

Operator: Thank you, sir. [Operator Instructions] Our first question comes from the line of Tom White with Macquarie. Please go ahead.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Thanks for taking my question, and nice quarter, guys. On the room night growth re-acceleration, I was hoping maybe you could just parse out a little bit about how some of your various channels performed? It seemed like your visibility on some of the big metasearch properties was up quarter-over-quarter. Curious how that performed relative to, say, your direct navigation traffic in some of your other channels. And then just quickly on hotel count, it seemed to be picking up again. Is that sort of a function of the lowered commissions that you guys highlighted over the past couple of months? Or is it maybe a change in the way that salespeople are attacking the market? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Tom, thanks for the question. As far as our channel performance and the improvement in room night growth Q4 versus Q3, it was pretty strong across-the-board. So most of the channels that were performing in Q3 performed in Q4. The direct channels performed a bit better in general, and also, the meta-channels continue to improve. As you remember, we told you in Q2 that we thought that our performance in meta left something to be desired. And in Q3, we improved and we saw a better Trip. Our spend on TripAdvisor in Q4 will be up on a year-on-year basis, and it was. So I think we're getting into a better operational rhythm here. We like our channel performance pretty broadly and, obviously, we are hoping that we can take the momentum that we built into Q4 and continue into the balance of the year. But the performance has been pretty broad and pretty good and we hope that it will continue.

As far as the hotel count goes, it's the increase of the combination of factors. One is that in China, in eLong, we are on an aggressive hotel acquisition path. And when you look at the EI brands as well, we are a bit more aggressive on the hotel acquisition path as we're seeing strength on the room night production. So what you want to do is add hotels as you're adding room nights because you don't want to spread out your demand too thinly across hoteliers. We're pretty confident as far as our room night growth goes, and as a result, we are picking up acquisition. And I would expect, unless things change significantly, is that I would expect for acquisition pace for hotels, both in China and the rest of the world, to pick up as we enter into 2014. It's a pretty important part of our formula.

<Q – Tom White – Macquarie Capital (USA), Inc.>: Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Next question.

Operator: Thank you. Our next question comes from the line of Naved Khan with Cantor Fitzgerald. Please go ahead.

<Q – Naved Khan – Cantor Fitzgerald Securities>: Hi. Thanks. Just on the Travelocity rollout. Can you guys talk about the contribution to revenues and maybe room night growth in Q4 from this relationship? And then I have a follow-up.

<A – Mark Okerstrom – Expedia, Inc.>: Sure. Yes, I would say the contribution is nothing meaningful. We ramped up towards the back part of the quarter and it didn't have a significant impact on our results at all. Did you have another question?

<Q – Naved Khan – Cantor Fitzgerald Securities>: I do, actually. So on TripAdvisor, it seems like your performance has been improving. Do you think you're at sort of at a stable state or do you more room improvement from here?

<A – Dara Khosrowshahi – Expedia, Inc.>: Well, it's very difficult to tell. Our performance on TripAdvisor is a function of our own performance, but it's also a function of the competitive environment, how aggressive other players are in the TripAdvisor marketplace, as well as TripAdvisor's growth, in general. So when we look forward to 2014, we definitely want to ride the TripAdvisor wave. They're a very big partner. They have been growing traffic pretty consistently over a long period of time. So we will look to keep or build our share. But I think the most meaningful growth over the long-term for us with TripAdvisor is going to be TripAdvisor and our working with them to keep our share, and grow with them as they grow internationally.

<Q – Naved Khan – Cantor Fitzgerald Securities>: Okay. Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Eric Sheridan with UBS. Please go ahead.

<Q – Eric Sheridan – UBS Securities LLC>: Sure. Thanks, guys. Congrats on a good quarter. Two questions, one on ETP. If we could drill down a little bit on how broadly deployed it is now and what you think that means as a tailwind for opportunity on revenue and bookings as we move from 2013 into 2014 and beyond? And then the second question, for Dara, given all the choices you have in front of you around capital allocation, whether it be reinvesting back in the business, return capital to shareholders, possible M&A, maybe you could just help us understand a little bit better about how you look at those choices, again, from sort of 2014 and beyond? Thanks guys.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yeah. Why don't I take the first – actually, the second question, and Mark can talk a bit about ETP. As far as capital allocation goes, I would tell you that history should be a guide as to what we do going forward, which is we're opportunistic. And we will look to allocate capital based on our anticipated long-term returns. And you're not going to get kind of consistency from us on a quarter-on-quarter basis. We are going to look through – to grow through acquisition. We've done that in the past. We'll be opportunistic on the acquisition front.

And then we will look to consistently pay dividends over a long period of time, and over long period of time, we'll hopefully look to increase those dividends to the extent that the company can pay those dividends, and we certainly think it can because of the free cash flow nature of the company. And then on an opportunistic basis, we'll buy back stock. We've certainly been aggressive and opportunistic as the market took a negative turn, gone up in the middle of the year. And over a long period of time, we think that the business has the kind of free cash flow where we can hopefully shrink the capital base. So there's no reason why things are going to change, but we'll look to allocate capital everyday based on the best value for that next dollar spend. Mark, do you want to talk bit about ETP?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So ETP is rolled out across just about 45,000 hotels. Most of those are live and up and running. We're happy with the performance that we saw in 2013 and, importantly, the hotels that have signed up are generally very happy with our performance and are really seeing better performance in our channel versus their peers that aren't signed up.

Listen, in terms of go-forward impact on our overall business, I'd make a couple of points: One is that what we've essentially done is removed a few barriers from the growth of our business. Barriers, whereby, hotels who didn't want to be part of the merchant model found it difficult to do business with us without the agency model. Those barriers are gone. And consumers that wanted to do business via the agency model in markets where we didn't offer that, wouldn't do business with us historically and, now, they can. So we view that certainly as a very positive catalyst for our business. Going forward, it's going to be really difficult to really discern the specific impact of the Expedia Traveler Preference program versus all of the other great innovations that we're making and the strides we're making in building world-class online marketing capabilities. I would say, though, that going forward, because ETP is business as usual, because we have spent a lot of effort in 2013, a lot of the resources of our market management team, which just does a fantastic job around the world on converting existing hotels, with a lot of that work behind us, the focus for 2014 is going to be around redeploying those resources towards acquiring new hotels and making sure that we really got the best prices and availability across our new hotels and our existing hotels. And we think that could be a great catalyst for the business, in addition to, again, just having these barriers removed for both supplier and consumer adoption to our platform. Next question, please.

Operator: Thank you. Our next question comes from the line of Douglas Anmuth with JPMorgan. Please go ahead.

<Q – Douglas Anmuth – JPMorgan Securities LLC>: Great, thanks for taking the question. I just wanted to ask two things. There have been some recent reports about Expedia losing some natural search visibility on Google. I was just hoping that you could comment on that. And then secondly, just within your 2014 EBITDA outlook, can you comment on what you're expecting from Travelocity? I think you said $42 million to $60 million previously? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, as far as Google goes, listen, we're not going to comment on speculative articles about our Google trends. What I'll tell you in general is that our traffic from Google, both on a paid and an organic basis, continues to increase on a year-on-year basis. We look at all of our practices in Google, our SEM practices, we make sure that the content on from our side is great, our SEO practices, et cetera, and we're constantly auditing them and making sure that our practices are industry-leading. So really, that's the only comment I'll make. Google's a big partner. We continue to grow with them. And from a long-term basis, we look to continue to grow with them going forward. Mark, do you want to answer the second question?

<A – Mark Okerstrom – Expedia, Inc.>: Sure. So we're not going to, on this call, are really going forward, break out specifically what Travelocity adds to our business, just like we don't give specifics on other large affiliates that we have sitting on the platform. I will just reiterate a couple of things for you, though, which were true on the last call and they're true on this call. We are expecting run rate adjusted EBITDA from this program to deliver in the range of $40 million to $65 million. Again, that's full year run rate once we got everything up and running and, essentially, optimized. The other thing I would say is that when you look at public disclosures around the Travelocity business made by Saber or other public sources, generally, that includes the Travelocity-branded business in the U.S. and Canada, which is part of this deal.

But also generally includes their Last-Minute business and the Travelocity partner network business that is not part of this deal. So I would just encourage you to make sure we just think about the overall size of the business that's actually in scope. Third thing I would say is that the – there are a number of unknown that still remain with this transaction. We highlighted a few on the last call, and those were essentially the timing it would take to implement. On that, we feel reasonably good and things are on-track and we're pleased with the progress.

Secondly is we just don't know how well these websites will convert, and really, how well the Travelocity consumer will take to something that looks different from what they have seen before. And again, on that front, it's just too early to tell. And then thirdly, we are entirely dependent upon the marketing spend that the Travelocity team puts against this new platform. It's something that's outside of our control. It's something that we just don't have a track record on yet to assess against. And so again, there's a whole lot of uncertainty around that. The other thing I would note is that there has been some disclosures around the incentive payment that is payable on us hitting certain milestones per implementation. I would say we feel good about the prospects of us earning into those incentive payments. But the accounting treatment of those incentive payments are such that their recognized over the life of the contract, which is over 8 years. So I would not expect a significant windfall as a result of those incentive payments should we be able to earn into those. Next question.

<Q – Douglas Anmuth – JPMorgan Securities LLC>: That's all I've got. Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: Thanks.

Operator: Thank you. Our next question comes from the line of Mark Mahaney with RBC Capital Markets. Please go ahead.

<Q – Mark Mahaney – RBC Capital Markets LLC>: I wonder if you could talk, please, about alternative accommodations and your efforts at maybe building that out as a larger market opportunity for Expedia in the future. I think you've been working – started to begin a little bit of work with one or two of the major providers in that space. Any color on that? How exciting you think? Or material you think that opportunity could be long term for the business? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Mark, I think it's too soon to tell. We're very optimistic about our partnership with HomeAway. And really, we are in the early stage of the testing and learning, understanding whether and how our consumers are interested in alternative accommodations, what percentage of them click through and then what percentage of them convert into alternative accommodations, and how that affects our overall conversion rate.

So we're pretty early into this experiment. We're just starting to gather some data. HomeAway is a terrific partner. And to the extent that we see interest from the consumer, we will expand it. We certainly think that it can be a good thing for the Expedia or Hotels.com or other brands for us to expand the scope of accommodations that we have. But it's really too soon to call. I think we will have better data towards the second half of the year, and then based on that data, we'll decide whether this is an area that we are going to invest in or not. I would say that in general, we do want to broaden our supply base on the lodging side. Our greatest focus, obviously, is going to be on the basics and adding significant numbers of hotels that we don't have in the Expedia and Hotels.com and EAN marketplaces, and then we'll look to also add alternative accommodations to the extent that our consumers are interested. And the good news is we can test and learn, and based on the data that we find out, we can either move forward or we can slow down.

<Q – Mark Mahaney – RBC Capital Markets LLC>: Thank you, Dara.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Dean Prissman with Credit Suisse. Please go ahead.

<Q – Dean Prissman – Credit Suisse Securities (USA) LLC (Broker)>: Thanks for taking my question. So I think it's been a couple of quarters since you migrated to the new vacation package platform. Any color there you can share in terms of the degree to which you're contemplating a re-acceleration from this revenue stream within your EBITDA guidance?

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, I think on the vacation package side, we are actually seeing very nice revenue acceleration on the vacation package side. When you look at the package business, there are headwinds and tailwinds to the business. In general, because vacation packages tend to be an opaque kind of a product, as the economy gets better, it becomes a bit more of a challenge to acquire package inventory at a discount to retail, especially at significant discounts to retail. So that's a headwind, I'd say, that the supply teams, in general, are fighting. There are significant tailwinds in that the package business is an enormous business, especially in Europe, especially beach destinations in Europe where our penetration is very, very low.

So we think that there's a lot that we can do to increase our vacation package business. Our re-platforming has definitely worked. This is a business that has been flattish to down for a number of years, and it's absolutely turned positive. And it's a function of a better a product, it's a function of the supply groups acquiring better inventory, both on the lodging side and on the lift side, especially in Europe going to beach destinations. There's a lot of optimization that we can do around this product, including dynamic pricing, et cetera. It's a unique differentiator for the Expedia brand, and we think it's a long-term growth vehicle for us. So we're looking forward to the product developing over a period of time. But again, a recovery is a little bit of a headwind on the supply side, but we think we're certainly up for it.

<Q – Dean Prissman – Credit Suisse Securities (USA) LLC (Broker)>: Great. Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Ken Sena with Evercore. Please go ahead.

<Q – Ken Sena – Evercore Partners (Securities)>: Hi. So our agency discussions are suggesting that travel is starting to come up or starting to step into social and programmatic and some of the emergent display areas, in a bigger way. So I was just wondering if that's the case for Expedia, and if you can maybe comment on any top line contribution or margin – or marketing leverage that you might have seen in the quarter from that effort? Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure, Ken. We're certainly experimenting with these alternative, call it, display in advertising platforms. We were always looking to diversify our traffic sources. We're always looking to diversify our marketing spend. At this point, the spend, the traffic and the transactions aren't of a material nature, but we're working quite aggressively with a number of players, including Facebook, who's very, very innovative in this area, and we're hoping to increase our spend over a period of time. At this point, it's not a material spend or material in the overall context. I'd love it to be.

<Q – Ken Sena – Evercore Partners (Securities)>: Great. Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Brian Nowak with Susquehanna. Please go ahead.

<Q – Brian Nowak – Susquehanna Financial Group LLLP>: Thanks. Great. Dara, you mentioned that Europe grew faster in this quarter than the prior few quarters. I was wondering if you could talk a bit what drove that? I mean, is that trivago traffic that you're gaining, or is it better paid search or something else? And given these improving trends, does the 2014 guidance assume the European business actually accelerates throughout 2014 as the compares get easier?

<A – Dara Khosrowshahi – Expedia, Inc.>: Brian, on the European side, again, the strength was pretty broad. So metasearch definitely worked in Europe. trivago is a very fast-growing channel for us, chiefly because trivago is just growing in very, very fast speeds and the trivago brand is a really powerful brand in Europe. So we're certainly taking advantage of trivago growth there. TripAdvisor numbers improved for us, which helped us both in the U.S. and Europe as well. So there's a lot of things that we're doing to improve the business and when we make platform improvements as we are now on conversion on marketing, they typically work across geographies. So our European growth has been pretty broad across different brands, and across channels and we're hoping that it continues. Mark, do you want to talk about 2014 guidance to the extent that we want to give any details?

<A – Mark Okerstrom – Expedia, Inc.>: Yes, I mean, I would say that our guidance reflects, essentially, our view of the business right now just given all of the trends we're seeing. We're not expecting extraordinary things out of Europe, but we are expecting continued strength in that region. I would also just add that the Expedia Traveler Preference program, in addition to the things that Dara mentioned, does generally have a disproportionate benefit in Europe. Those consumers are more interested in the agency product generally than consumers in North America. And so that's looking to be a nice tailwind for us, and we do expect that to continue through 2014. But I wouldn't again assume that there is a huge amount of acceleration. I would just expect continued stable health to that business going forward.

<Q – Brian Nowak – Susquehanna Financial Group LLLP>: Okay. Great. Thanks.

<A – Mark Okerstrom – Expedia, Inc.>: All right. Thank you. Next question.

Operator: Thank you. Our next question comes from the line of Ron Josey with JMP Securities. Please go ahead.

<Q – Ron Josey – JMP Securities LLC>: Great. Thanks for taking the question. So I wanted to ask about domestically. Bookings grew 19%. Certainly, very strong accelerating. I was wondering if you could talk a little more about the competitive environment domestically? Perhaps highlight what channels worked well. I know you've talked about TripAdvisor. And then also, if you could highlight just progress at Hotwire. I know it stabilized in 3Q. Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: Absolutely. I feel like a broken record in that domestically, the strength was pretty broad. The pay channels worked well, the metasearch channels worked well and our direct channels worked well and you saw the results in the bookings acceleration. One additional feature of our bookings growth is that the air business is starting to work. And historically, air ticket volume, other than Egencia, for a couple of years, was flat to down. And with the really good work that the teams are doing on the air side and on the package side, we're seeing air ticket volume increase as well. And that has certainly helped our domestic bookings growth. So it's a good hotel story and it's good air story. And along with that, we've seen a pretty consistent ADR growth and pretty consistent ATP growth.

As far as Hotwire goes, the progress that we've seen is that the business has stabilized. I think the team has a good handle on the business. We believe that there are some dials that we can turn on the business. We think that we can improve our mobile product pretty significantly, and we think we've got a significant opportunity there. And we think that car can be a grower over a period of time, both through Hotwire and through our car rentals business as well. So at Hotwire, we're really looking for stability in 2014. We're looking for solid execution from the team. And Q4 has been certainly a step in the right direction and we hope to see more in 2014 and beyond.

<Q – Ron Josey – JMP Securities LLC>: Great. Thank you very much. Very helpful.

<A – Dara Khosrowshahi – Expedia, Inc.>: All right. Next question.

Operator: Thank you. Our next question comes from the line of Michael Millman with Millman Research Associates. Please go ahead.

<Q – Mike Millman – Millman Research Associates>: Thank you. So following up on your car rental comment. I was wondering if you can give some more details regarding what you're seeing or what you saw in prices and mix, the impact of Firefly and Payless and those discount brands and general availability? And then I had a question on what you're seeing on your new flight data and Scratchpad, the impact that, that's showing?

<A – Dara Khosrowshahi – Expedia, Inc.>: Sure. Thanks, Michael. As far as cars go, I'd say that the trends are stable to good to improving on the – both as far as unit growth. Now we do have some upside from the Hurricane Sandy comp last year, but I'd say the unit trends are good. The pricing trends are fairly stable, and supply improvements, in general, helped a bit, too. We've expanded our supply a little bit in Q4 and we hope to continue on a go-forward basis. So I'd say in general, moderately positive trends coming out of the car business and we hope to continue that into 2014. So we haven't seen really significant changes there.

On the Scratchpad product, we're really excited about that Scratchpad product. We're seeing very high levels of production and engagement from the folks who interact with our Scratchpad product. So when they work with Scratchpad, they come back to the site much more often, frequency increases and in general, with higher frequency, we get stronger buying behavior. We're very early in the test and learn on Scratchpad. This is the first generation so, we think it's a product that is great for consumers and it's a product that has a whole lot of potential and a product that we want to work into many different parts of our site, including our mobile experience. So we're looking forward to really developing the Scratchpad product. It's a promising start.

<Q – Mike Millman – Millman Research Associates>: Thank you.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Brian Fitzgerald with Jefferies & Company. Please go ahead.

<Q – Brian Fitzgerald – Jefferies LLC>: Thanks, guys. A couple of quick ones. You mentioned 30% of leads are on mobile. Qualitatively, are you seeing anything unique with respect to the dynamics around conversion rates there? Are they improving? Are you finding people are both sourcing and doing discovery there but then they're converting there also? And then quickly, any impacts from the weather in the quarter at the margin? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, as far as the mobile goes, I'd say qualitatively, we don't want to specifically comment on conversion. But as a lead generator, in general, mobile monetizes at lower rates than desktop. But other than that, it's a significant growth driver and growing very nicely for trivago. Our brands, in general, are investing aggressively in the mobile channel. In downloads, we got over 90 million app downloads. So I think the mobile trends continue as they are. And we think it's a big opportunity and we'll continue investing into that opportunity. As far as the weather goes, no significant impact at this point. Remember, last Q4, we did have Hurricane Sandy. We've had some bad weather in January, obviously. But you have bad weather sometimes, and with the global business you tend to be able to work your way through it.

<Q – Brian Fitzgerald – Jefferies LLC>: Great. Thanks, Dara.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Justin Post with Bank of America Merrill Lynch. Please go ahead.

<Q – Paul Bieber – Bank of America / Merrill Lynch>: Hi, guys. This is Paul Bieber for Justin. Thanks for taking my questions. I was just hoping you could provide some qualitative color on the biggest drivers of the room night growth acceleration? Is it conversion rates, is it mobile, is it ETP, a little bit of everything? And then secondly, I was hoping you could characterize just the European and Asian demand environments? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, Paul, it really is a little bit of everything. And usually, conversion, which has been generally positive for Hotels.com and Expedia over a period of time, higher conversion allows you to invest more aggressively in marketing channels, especially variable marketing channels, which then, obviously, leads to more traffic, which leads to more transactions. So we have that flywheel, so to speak, working at some of our major brands. And it's really about executing on that flywheel and then adding to your supply base and making sure that your supply is of high quality, your availability is strong and you're adding to your supply base. So we're just really focused then on the base execution of the formula and it is a little bit of everything. And it's not one particular channel, it's not one particular geography or it's not just conversion-led or traffic-led. It's a combination of all of those factors.

As far as the demand environment, I think general macro trends are stable as far as we can see in. Despite the uncertain economic environment and the GDP numbers that you read about, travel spend, on a year-on-year basis, on a global basis, was up 5% on a year-on-year basis. Overall travel spend in the U.S. and in Europe was up above that of GDP. Travel spend in emerging economies continues to be strong. So travel tends, what we're seeing with travel is it seems to be immune to some of the variability that we've seen in the overall economies. And we're certainly hoping that, that continues. And for us, we're riding the wave of travel growth and then on top of that, we've got online penetration and mobile penetration. So as long as we keep executing as a team, I think we can do quite well. Next question.

Operator: Thank you. Our next question comes from the line of Ross Sandler with Deutsche Bank. Please go ahead.

<Q – Ross Sandler – Deutsche Bank Securities, Inc.>: Thanks, guys. Great quarter. Just two quick questions. First on mobile, just wanted to hear your thoughts on Google and Trip smartphone booking paths. Are you likely to participate in that channel, and how do you think the unit economics will look compared to your other channels? And then, Mark, guidance – so if we strip out Travelocity, I know it's kind of a wide range, you're probably looking at like 10% to 12% organic growth for the base business, which has like the Hotwire, the 2Q comp in 2014. So is that the right way to think about longer-term organic growth, or is there any reason why it could potentially be higher than what you've laid out?

<A – Dara Khosrowshahi – Expedia, Inc.>: So I think on the mobile side, I don't want to specifically comment on how we're going to work with various players there. I think there's going to be a lot of testing and learning. We're testing and learning different booking paths. Our partners are going to be testing different booking paths, and we're going to be working with them. And in general, our goal is pretty simple, to build the best experience for consumers and provide great coverage and volume growth for our supply partners.

So I think you'll see plenty of experimentation going forward, and all we're looking to do is improve the product in every single channel. In general, the mobile channel monetizes at a lower rate than desktop channels. A big part of that is because the average number of nights for a mobile booking is significantly lower than a desktop booking. As you might expect, the mobile booking tends to be last-minute and is often for a single night. And that's very different from desktop kind of vacation planning, which can be for a number of days or for a week. So that's just the fact with mobile. And what we look to do on mobile is to invest based on ROI guidelines and based on lifetime value. And what we're continually looking to do is to build conversion and find new sources of traffic with all of our partners, including Google, including TripAdvisor, including a lot of other players out there. But our approach is going to change based on significant experimentation going forward. Mark, do you want to talk about guidance?

<A – Mark Okerstrom – Expedia, Inc.>: Yes, sure. So Ross, I don't want to try to get into the game of sort of long-term sustainable growth rates. But let me just highlight a few specific things and then just reiterate how we're thinking about this business. First, very specifically, around Q2, I would just urge you guys to take a look at our commentary on Q2 where we said that, with the exception of some incremental investments that we made against trivago and eLong, from a bottom line perspective, the quarter came in broadly in line with our expectations. So when we look at it from an adjusted EBITDA perspective, we actually don't view Q2 as a particularly easy comp. We pulled a number levers during the quarter and further to the year to make things work. And those can create some more difficult comps, notwithstanding the share price reaction on Q2 specifically.

Secondly, in terms of the just sort of the long-term outlook for this business, I would say that we've got this great core OTA business and brand Expedia, and Hotels.com, and our private label business, which are really in growth and scale mode, and we think we can deliver healthy top- and bottom-line growth in those businesses. They're in a stage now where they've got modern technology platforms. We're sort of through the big investment cycles, they're innovating, working on making sure we've got world-class online marketing. And we've now got ETP rolled out, and that can be a tailwind for us because, really, the barriers on the supply side are gone as well. So we look at those businesses as really businesses that can grow and scale nicely and deliver consistent nice growth year after year.

And then we've got our, what I call, our investment businesses; businesses that, right now, in the near term, we're not focused on adjusted EBITDA growth. We're focused on maintaining healthy, call it, absolute dollar EBITDA levels. But we're really focused on driving the top line and building scale in those businesses for the long term, and that's eLong. Again, it's just a great opportunity in China. We're really happy with our position there. Egencia, which has got a very unique position in the corporate travel space, a huge part of our industry. And we're very pleased with their progress on the VIA integration. They're going to be focused on that in 2014. But again, we're not really focused on bottom line growth.

And then again, trivago, which is going to continue the formula that they've had and worked successful for years and years before they were part of the Expedia family, which is really just maintain a healthy level of absolute dollar adjusted EBITDA growth, and really drive the top line. Our expectations for them is that, that's going to be something we'll continue. And as the business matures, we definitely could see more EBITDA drop to the bottom line.

One last point I'll just make on trivago with respect to profitability because we do get a fair bit of questions around their margins and how to think about their margins going forward. When we look at trivago's mature markets, Germany, Italy, really all of Southern Europe, even parts of the U.K., what you see there is a business that is mature, that has healthy margins, and certainly, margins that are higher than the overall Expedia, Inc. margins, and nice media business margins. And really, what you see with them now and what you see show up in our P&L is a result of that team taking otherwise healthy EBITDA growth and reinvesting that into building new markets. And that's something we support and something we can expect to see going forward. So I hope that gives you some help in how to think about how we're thinking about the business.

<A – Dara Khosrowshahi – Expedia, Inc.>: Yeah, the only thing I'd add is while trivago's EBITDA margins in those core markets are mature, their top line is anything but mature. Did you have another question, Ross?

<Q – Ross Sandler – Deutsche Bank Securities, Inc.>: I was just going to say, the Travelocity channel, is that something you think can build on what you said on the run rate, or is that just going to be kind of out of your control?

<A – Dara Khosrowshahi – Expedia, Inc.>: Yes, a lot is going to be out of our control. And listen, it's very early in the relationship with the Travelocity team, right? We're just moving over to the new platform, we're just looking at our conversion rates, and we're just starting to track user behavior, et cetera. And I think the Travelocity team has to figure out how they're going to market, what channels are working for them, what channels aren't working for them, and we really don't talk to them about that. So it's just very early in the Travelocity integration and we don't have any patterns that we can really talk to you about. So I think as the year moves on, we'll be much more comfortable talking about Travelocity trends, it's just very early at this point.

<Q – Ross Sandler – Deutsche Bank Securities, Inc.>: Great. Thanks for the questions and answers, guys. Nice job.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. Our next question comes from the line of Kevin Kopelman with Cowen and Company. Please go ahead.

<Q – Kevin Kopelman – Cowen & Co. LLC>: Hi. Thanks a lot. I just wanted to follow up on an earlier question about the competitive landscape. Can you talk about what you're seeing in Q1 to date? Are there any important changes versus Q4? And how are you thinking about ad spend versus growth for the year? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: Hi, Kevin, at this point, we're not seeing, I think, anything significant as far as changing dynamics in the competitive environment. But it's very early, right? January is just over, so things could change. And last year, we saw a lot of action kind of in Q2, Q3. So our expectation is it's certainly going to be a competitive environment on a go-forward basis. And we don't see that changing. As far as ad spend goes, the one consistent expectation that I would have is that our revenue from international points of sale is going to probably grow faster than domestic revenue, even though domestic revenue is growing at really healthy rates.

But in general, our marketing efficiencies internationally are lower than that of our domestic efficiencies. And also, in general, our traffic from variable channels, because we are seeing, in general, conversion growth, which can translate into higher spend in these variable channels, our traffic from variable channels is growing quite quickly and as a result, results in a mix of more expensive channels on a margin basis. So I would expect on a go-forward basis for sales and marketing to grow faster than revenue. trivago becoming a bigger part of our business is also going to add to that. And then, obviously, we'll look to leverage our fixed costs as well. Where that comes out is something that's unknown at this point.

<Q – Kevin Kopelman – Cowen & Co. LLC>: Okay. Thanks. And then just one other question. You talked about improvement in the direct channel. Are there any key drivers that you could call out in terms of the improvement in the direct channel in Q4? Thanks.

<A – Dara Khosrowshahi – Expedia, Inc.>: I think that the biggest driver is better product. And as we introduce new consumers to the Hotels.com product, to the Expedia product and other brands, a certain percentage of them and a healthy percentage of them like the product. We've invested aggressively in loyalty programs. We talked about Welcome Rewards at Hotels.com having over 10 million members. I think it's the absolute the best loyalty program out there. So the formula for us is acquire new customers through brand channels, especially through variable channels, and then let the product and our loyalty programs get those customers to come back. And at least, we're seeing good signs of that.

<Q – Kevin Kopelman – Cowen & Co. LLC>: That's great. Thanks a lot.

<A – Dara Khosrowshahi – Expedia, Inc.>: You're welcome. Next question.

Operator: Thank you. There are no further questions at this time. I would like to turn the conference back to Mr. Pickerill for any closing remarks.

Alan Pickerill, Vice President-Investor Relations

Okay. Thanks a lot. Thanks, everybody, for joining us today. A replay of the call will be available on the IR site shortly after the call. Appreciate your interest in Expedia.

Dara, anything you'd like to close with?

Dara Khosrowshahi, President, Chief Executive Officer & Director

No. Thanks, everyone, for joining the call, and a big thank you to all the Expedia, Inc. employees for a strong finish to the year. It is a result of the good work of a ton and ton of people, and we're very appreciative of it. Thank you very much.

Operator: Thank you. Ladies and gentlemen, this concludes the Expedia, Inc. fourth quarter 2013 earnings conference call. We thank you for your participation. You may now disconnect.