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EDITED TRANSCRIPT

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PRESENTATION

Operator

Good afternoon. My name is Christine, and I'll be your conference operator today. At this time, I would like to welcome everyone to the Expedia Group Third Quarter 2020 Conference Call. (Operator Instructions) Thank you.

I'll now turn the call over to Michael Senno, Vice President, Investor Relations and Treasurer.

Michael Senno - *Expedia Group, Inc. - VP of IR*

Thanks, Christine.

Good afternoon and welcome to Expedia Group's financial results conference call for the third quarter ended September 30, 2020. I'm pleased to be joined on the call today by our CEO, Peter Kern; and CFO, Eric Hart.

The following discussion, including responses to your questions, reflects management's views as of today, November 4, 2020, 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, we are optimistic or confident that, or similar statements. Please refer to today's earnings release and the company's filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You will 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 Investor Relations website at ir.expediagroup.com. And I encourage you to periodically visit our IR website for other important content.

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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 2019. Please note that depreciation expense is now reported in a separate line item and prior periods have been restated to reflect this change.

And with that, I'll turn the call over to Peter.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Thank you, Michael, and good afternoon, everybody. I hope you're well. We appreciate we are not the most newsworthy thing going on right now in the country, but thank you for spending a little time with us. And hopefully, we can help give you some more color on our quarter.

I'll start by saying, as I said before, that travel generally performed in this period as everyone has expected. And in general, closings, openings, worries over the pandemic have the exact influence you expect. But we were pleased to see in the third quarter that with stabilizing travel trends and significant improvements on our cost structure, we were able to post markedly improved performance.

I'm going to get into some of the internal workings, including margin expansion, which actually Eric will cover in his remarks. But first, I just want to make a few comments on the recent trends in travel.

What we saw over the third quarter was basically a stabilization, as I said. July was down in lodging gross bookings, net of cancellations. This was a function of 2 things. You may recall there was a slight increase in COVID cases being reported then, and that had some impacts on travel, along with Vrbo for us, which had a very, very strong June. And that strength subsided a bit. It still was strong in July. So July, again, lodging gross bookings, net of cancellations, was [down] (corrected by company after the call) about 65%. And in the months that ensued, that got to the low to mid-50% range down. So a reasonable improvement, a steady improvement, and that obviously helped with our third quarter results.

Vrbo continued to be quite strong, as I said, coming off that June high which was a lot of pent-up demand. But the third quarter was strong. We were up year-over-year, which branded travel business, of course, is terrific in the world we're living in. And we think it bodes well both because we brought in a lot of new customers and we believe those customers will have long-term value for us. And it's helping to land the Vrbo brand and making people more familiar with it.

On the hotel side, North America actually has been pretty steady and improving since July. But Europe for us, in general, has been a little rockier. Cases were rising in the ensuing months. And of course, in the last week or 2, we've seen lots of changes, and I'll get into that in a minute. So North America was generally positive during the period in conventional lodging and Europe was slightly subsiding over that period.

Air continues to lag lodging. Obviously, international air is very injured at the moment. But I think generally air has been improving. We've seen that across domestic air. And we think that people are getting more comfortable with the safety protocols and understanding the safety of flying, and we think that's good news. And obviously the airlines all reported and they have higher hopes, subject to this third wave, of course, for the holiday season.

The last couple of weeks, which we're all acutely watching, again, have had the impact that, I would suggest, that pretty much most of us would expect, which is to say, Europe has been acutely hurt by it, but North America has remained pretty strong. It's down, but still showing relative strength compared to Europe. Obviously, in our case, that's a little beneficial given our mix of business towards North America, but nothing can be known yet about how these trends will continue. And of course, if there are more closures, if there are closures in the U.S. in any way or if there are other lockdowns in Europe, that will have an impact on the overall business.

I want to talk a minute about market share because you may have observed that in some cases, market share has been shifting around in weird ways during COVID. And for us, certainly, that is true. There's a few things to note here. One is obviously alternative accommodations have been quite strong, not just for us but for others. Obviously, that's been great news for Vrbo. We've been a big beneficiary of that, but that has shifted lodging share significantly across geographies.

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We've also seen that there's a lot of unique use cases during the pandemic, much more not only domestic and not only secondary and tertiary market travel, but very purpose-driven travel: going to visit family, needing to do specific work, needing to go to one of these small markets. There's much less discovery going on and price shopping. And there seems to be more direct bookings in these smaller market independent hotels as people are calling to make sure they're open, make sure that safety protocols, et cetera, are happening. And conversely, the places where we typically have the most share of spend like big urban markets, international travel, international packaged travel, et cetera, have obviously been among the most impacted. So we have seen some share shift in that.

And I want to reiterate and I've said it before that, we've combined our performance marketing teams during this period. And we are doing a lot of plumbing work to retool and recalibrate all the algorithms and everything we do so that we can optimize for multi-brand instead of brand against brand. There's a lot of work going on. It is a significant effort. But during this period while we do that and while there is so much uncertainty in the market, we clearly have a bias towards profitability, which you've probably seen in our numbers, and a bias towards caution given that cancellation rates and other things are very volatile and very hard to predict.

So we are not chasing share that might be unprofitable or the brick wall we might run into with closures and COVID cancellations. We're trying to be very prudent here while we rebuild everything on the theory that we will be at our end state by the time COVID is over or more precisely, travel trends come back to more normal levels. And we believe, as I said before, that once that plumbing is rebuilt and once we're ready for multi-brand that we will be able to not only maintain but grow share at similar or better profitability as we have had before.

Moving on to what we are doing internally. Again, I won't belabor this, but we're focused on several areas, one of which I've talked about before. But that is our brands and how we join those groups together. We're focused on brand differentiation, clearly showing and demonstrating what those value propositions are to the market and how they differ from one another, making choices about which brands we market where geographically and how we lean into all the marketing channels for different brands. And there's a lot of work going on for the coming out of COVID and through COVID brand marketing side.

We're obviously leaning heavily into Vrbo. We think it's having a moment. All the research shows that it has gained share and it has gained awareness, and there's some very positive things going on with that brand.

But we are also looking out, and we'll start to leg in. We're obviously being cautious given the last couple of weeks' news. But we will leg into our other brand marketing, including Hotels.com. And Expedia just signed a long-term sponsorship with Liverpool, the soccer team in the U.K., that we think will be important to landing that brand and pushing it in the U.K. and EMEA particularly. And there's a brand-new raft of creative coming out on the back end of the virus. So a lot of work going in there, to be really clear on what we're doing, where we're doing it and how we're investing behind each brand.

We're also heavily interested and excited about the opportunity in the B2B side and in helping our supply partners. We've talked before about our Expedia Partner [Solutions] (corrected by company after the call) business. We are a leader in this space, and we feel very good about our opportunity here. In fact, we believe we can grow share here during COVID as we help our B2B partners come out faster and help more partners over time. We have expanded our partnership on the supply side with Marriott in terms of their wholesale distribution partnership. And we are extending that partnership to similar partnerships to optimize distribution with other chain partners. And we think that's going to be a great opportunity to help our supply partners and also build our B2B business.

So a lot of exciting things going on there, including extending a lot of the technological advances we've made on our platform. Things we've talked about before, like our voice, our conversation platform, which we had externalized to some of our B2B partners. And now we've done that with our advertising platform, media services, MeSo, we call it. So there's a number of places we've been able to take advantage of the improvements technologically in our B2B business, so lots more to go there.

And finally and perhaps most importantly, the underpinning technical platform and architecture that we have talked about, that work continues. It is big, structural, foundational work. It is part of what helps us on the efficiency side. We've had great wins on the cloud and licensing areas, which we've talked about before, but there's a thousand small wins across the business. I'm getting out of the business of talking about little wins here and there until they're really noticeable and impactful. But the whole idea of putting that platform together, rearchitecting it for the future was so

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that we could be agile, make these improvements that we'll win across much more of the business, not just the brands, but the B2B businesses. And we're starting to unlock those things, and obviously a lot more work to do here. But we're doing as much as we can, as fast as we can while we suffer through COVID.

And with that, I will turn it over to Eric, except to say that we obviously can't control what's going on there, out there in the travel market or in the scientific community. We are hoping for all the same things you are in terms of vaccine and other treatments that will help us get through this. We do believe that people have been, up until this recent wave, getting increasingly comfortable with the idea of traveling. This will obviously have an impact, this recent wave, but it will remain bumpy and unpredictable. And we can't control that.

In the meantime, our teams are highly focused internally. And I'll just say, I want to thank our teams that have done tremendous work in a very unpleasant environment and really done a lot to help our customers, help our suppliers, help the company do better, and also importantly done some very hard work around how we manage our human resources and how we structure our organization. And unfortunately, we had to make some significant moves on people, which is, of course, the worst work we do. But the teams have done a terrific job, and I'm very optimistic about the work they're doing for the future.

And with that, I'll turn it over to Eric.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Thanks, Peter. And thanks, everyone, for joining as well.

While we continue to see significant year-over-year declines in our business in the third quarter, taking into account the impact that COVID is having on travel, our financial performance was better than we expected, with over $300 million in adjusted EBITDA and reaching essentially cash flow neutral in September for the first time since February. As you know and I've discussed in previous quarters, we are keenly focused on driving margin expansion, which largely falls within 3 buckets: resetting the fixed cost base, reducing variable cost of revenue and increasing marketing efficiency. I'm going to touch on each of those individually.

So first on fixed cost base. As you'll recall, we started the year targeting $300 million to $500 million in annualized savings. And we were tracking ahead of that amount as of our last call. Since then, we've identified additional headcount reductions in certain areas and incremental opportunities across the P&L to drive efficiency in areas like real estate and software and licensing.

We are now targeting $700 million to $750 million in annualized run rate savings compared to our 2019 exit rate, and we've already actioned over $550 million. As you project this forward, please keep in mind, we'll have annual increases in the remaining cost base and also make targeted investments in some areas. But overall, we've made great progress on fixed cost. And longer term, our platform operating model will position us to scale the business far more efficiently going forward.

On variable cost of revenue, there are 3 primary areas we're targeting. First is on our payments platform. We're lowering our transaction fees and improving economics on our virtual cards that we use for merchant payments. Second is we're extending the conversations platform to handle more customer calls through self-service and virtual agents to lower our customer service costs. And we're reducing our variable portion of cloud spend with the optimization efforts we've already executed and will continue to do so.

Given the variable costs are volume-based, these savings will not be fully evident until we return to normalized operating levels. We still have work to do in these areas, but I wanted to give some context. But if we overlay what we believe we can achieve on these initiatives on our 2019 business level, they would collectively deliver savings of over $200 million, which is incremental to the $700 million to $750 million fixed cost savings that I mentioned previously.

The third area of margin improvement is around marketing efficiency. As we've discussed, we expect the combination of operating at higher ROIs, the benefits of lower variable cost and optimization across our brands to result in lower direct marketing expense as a percent of revenue over time.

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Turning to our Q3 results. The impact from COVID-19 continue to distort some areas of our P&L, but the bookings improvement that started in the middle of Q2 led particularly by Vrbo and the progress on cost initiatives led to the improved profitability in the quarter. ADRs in our lodging business increased 8% due to solid ADR growth at Vrbo and a mix shift to Vrbo, which carry significantly higher ADRs than hotels. Hotel ADRs declined double digits, but improved sequentially from Q2.

Revenue per room night grew 14% in the quarter, also boosted by the mix shift to Vrbo. In addition, with Vrbo's shift to merchant of record over the past year, we now recognize transaction fees as revenue, which added to the growth in revenue per room night. Do keep in mind that the fees recognized as revenue are largely offset by merchant expenses and cost of revenue. And lastly on take rate, the product mix shift from air to lodging as well as the incremental merchant-related revenue at Vrbo contributed to the elevated 17% revenue take rate in the quarter.

Moving on to cost. The progress we made on the margin expansion initiatives I've mentioned are becoming evident in our P&L. On overhead costs, which include indirect selling and marketing, tech and content and G&A collectively declined 29%. Excluding trivago, about 2/3 of the overhead savings stemmed from our fixed cost savings initiatives, with the balance from temporary cost savings related to the current environment.

On cost of revenue, they declined 32%. Two items impacted the year-over-year comparison. First is incremental transaction costs related to Vrbo's shift to merchant of record, which are highest in Q3 due to Vrbo's seasonality. And then second, they were offset partially by a benefit from the disposal of Bodybuilding.com. Excluding these 2 factors, cost of revenue was down 40% year-over-year. And as we noted, we expect to deleverage on cost of revenue until booking volumes return closer to normalized levels.

On direct marketing, we continue to see leverage on direct marketing expenses. We are prudently increasing activity and brand marketing campaign and in performance marketing options where we see demand, but intend to remain disciplined and lean toward profitability.

On our segment results, our retail segment performed significantly better than B2B. Retail benefited from growth at Vrbo in the quarter and the higher mix of business in North America, which has seen stronger recovery than Europe. Meanwhile, the slower recovery in corporate travel impacting Egencia is a drag on the B2B segment.

On cash flow and balance sheet, our reported free cash flow was nearly negative USD 1 billion in Q3. The biggest driver was approximately $670 million working capital impact from Vrbo's merchant bookings, mainly due to a seasonal decline in Vrbo's deferred merchant bookings given the increased stays over the summer. But as we've noted, Vrbo's merchant bookings largely flows through restricted cash. If you exclude the working capital impact from Vrbo merchant bookings, free cash flow was approximately negative $325 million as the seasonal working capital impact from the decline in deferred merchant bookings, plus other cash items such as CapEx and interest, more than offset our adjusted EBITDA in Q3.

On deferred merchant bookings, they declined a total of $1.4 billion in Q3 to $3.2 billion or $2.5 billion excluding deferred loyalty. Vrbo was the biggest contributor to the decline as it ended Q2 with a relatively higher balance, and the seasonality of its stayed room nights is even more weighted to Q3 than the rest of our business. In addition, booking windows have been significantly shorter than usual, which reduces our outstanding deferred booking balance.

On our capital structure, as we noted last quarter, in July we opportunistically raised $1.25 billion in debt. Subsequently, we repaid the $750 million notes that matured in August and used the funds raised in July to repay $1.25 billion of our outstanding revolver draw to reduce interest expense. We currently have $650 million drawn on our revolver.

As at the end of the third quarter, unrestricted cash and short-term investments totaled $4.4 billion. Excluding the capital markets activity I just mentioned, cash declined roughly $325 million, similar to our free cash flow, excluding the Vrbo merchant activity. And total cash was essentially flat in September for the first time in February. In addition, amounts held in restricted cash and other noncash balance sheet assets covered nearly 60% of our deferred merchant booking balance, excluding deferred loyalty.

Looking ahead to Q4 adjusted EBITDA, as you can imagine, it's a very difficult environment in which to forecast or predict the business and also will result in a wider range of outcomes. With our current trading volumes and what we're seeing in the business, we do expect Q4 adjusted EBITDA to be negative.

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There are 2 primary factors that are contributing to it. One is Q4 is seasonally a quarter with lower revenue and profit, so it's just lower relative to our cost basis. And then number two, given the recovery in lodging bookings has essentially plateaued relative to the recovery over the summer months, we currently expect the revenue decline to be in a similar range as it was in Q3.

In closing, this remains a tough environment for our business, and we're going to be dealing with the COVID impact for the foreseeable future. But as Peter mentioned, we have clear priorities that our teams are making great progress on, and we're confident the actions we're taking now will benefit us through the recovery and over the long term.

Operator, we're ready to take our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Lloyd Walmsley from Deutsche Bank.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Two, if I can. First, just wanted to make sure I understood you correctly earlier. When you said, I think you said the core fixed cost savings target is now $700 million to $750 million. But then you said you've been able to reduce variable costs, if I heard you right, which overlaid on 2019, for example, would be an additional $200 million in savings, so approaching $1 billion on kind of a normalized basis. So the question is just, did I catch that right? And does it feel like you're getting to the kind of edges of the scope of savings there given the magnitude we're talking about?

And then the second one would just be, as you work to bring all the marketing data from separate brands into kind of a consolidated kind of new data storage for marketing, is it early enough that you can see some early learnings or is it too soon to say? And any sense for the timing on when you guys will be in a place where you feel good about that transition?

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. Peter, do you want me to take the first? Yes. I'll take the first, you take the second.

So on the first, yes, you did hear correctly. So the $700 million to $750 million is on a fixed cost basis. It's in relation to the $300 million to $500 million that we spoke of earlier in the year. Of the $700 million to $750 million, we've actioned $550 million of that. So we are feeling like we are making good progress against it.

We, of course, continue to leave no stone unturned. And just as we continue to work through it, we get more costs that we've identified. We get confidence in those that we get better line of sight in. And then also obviously we've actioned a fairly large percentage of it.

So yes, it's the $700 million to $750 million on a fixed cost basis. And then the incremental $200 million on the variable costs of sales, which then approaches, to your math, approximately $1 billion in savings.

Now you mentioned it, but I just want to reiterate it as well. That is on the 2019 exit rate, if you will, so that those numbers presume that we're back in a range that is approximately at the 2019 levels.

And then lastly, there will be some offsets to that over time. You can imagine inflation on contracts or increases in headcount costs, et cetera. So there will be some offsets, but we feel pretty confident in the numbers that we're going after and the teams are doing a great job.

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And I guess there was the last part of your question just around, are we reaching the edge of it? And I would say, we're still flipping over rocks, but it's diminishing returns to a certain extent. So I would say the range that we shared with you is sort of the probability of just where we think that we'll get.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. And Lloyd, I'll just jump in on the other question. I would say the answer is no. It's not wired together yet in a way that we can see the early wins. I think we are getting closer, but it's not simply a matter of taking 3 different groups and putting them together. I've mentioned on previous calls that we've been also consolidating all our data and the dozen -- 17 data lakes into hopefully one soon. And all of these things are kind of linked together.

So there's a lot of great work going on. I think we are getting closer. And I'm excited about what we're going to be able to see when we can see the granular level of detail and profitability by customers, by geos, by everything, which we haven't had the granularity we'd like. And that has made us, I would say, a blunter instrument than we'd like to be. And we believe there's significant big gains from getting us all wired together. And that again is why we're willing to make short-term trade-offs to do that important work to get that done, but we haven't seen any early returns yet. It will be a while still.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Impressive job on the cost side, guys.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. And just one other quick add to that, and thanks for the question again is, we are still taking the actions to achieve those numbers. So I just want to make sure as you're building those in, there's the lens of, we need the volume to come back to see particularly on the variable cost side. And we are still actioning these. And as I mentioned, the $550 million on the fixed cost side is going to take us still some time to get to the gap of that in the $700 million to $750 million. And the same thing on the cost of revenues as well. It will take us a bit of time to get there, but that's what we're shooting for and what we think we'll get.

Operator

Your next question comes from the line of Naved Khan from Truist Securities.

Naved Ahmad Khan - *Truist Securities, Inc., Research Division - Analyst*

Yes, just a couple, one on the cost side. Eric, you called out the incremental $200 million in variable cost savings, and you named 3 areas. If you try to think about the relative magnitude of savings in each of these areas, how would you stack them up or a number of them?

And then I had a question on the gross bookings side. So you talked about plateauing in October versus Q3. Is that overall for the business or just the U.S.? How should we think about that? And is that plateauing on gross bookings or on net basis? How should we think about that?

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. I'll take the first one. And Peter, perhaps you can take the second one, but I'm happy to take it as well.

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But on the cost of revenue, there's 3 components. There's the conversation platform, the cost of savings, the credit card and the variable [cloud] (added by company after the call). And I would effectively put them in that order to a certain extent. But I think the one that has the largest opportunity for us is on the conversation platform.

We are historically primarily a phone-based contact center type of conversation with customers and with our supply partners as well. And with the technology that we've developed, we have the ability to move a lot of those either to self-service or virtual agent. And on the virtual agent side, you're able to get more, service more customers, if you will, per agent.

And so both of those add leverage to the system. And we've really started the rollout into that. We've gotten good NPS scores and good returns, if you will, from doing that. And it's really a process of rolling that out, making sure that we have more and more use cases, we get it embedded into the right flows into the site, into the mobile apps as well.

And I think that is likely the largest opportunity. And then credit card costs and variable cloud as well are meaningful, but I would say that those 2 are a distant second, if you will, after the conversation platform opportunity.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. And then I guess, Eric, you can follow on, and I'll do color commentary on that one.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. On the volume side, like this recovery is going to be a series of many stories. And so if you take hotel, for instance, and I could say that, that's been flat for the last couple of months. But if you deaverage that number, what you actually end up seeing is that there are areas that are flat to declining and there are areas that are gradually improving.

And so using a hotel as the example, Europe has been more challenged. Peter already mentioned that. And they've got even more challenged over the last week or 2 just given the increasing lockdowns that are reoccurring. Whereas the U.S. has a more steady increase over time on the hotel side. We will see what happens with the Wave 3 that's occurring right now and something that we're looking at very closely.

But as we say it's plateaued, it's actually many stories underneath. And I think we're going to see the same thing. We've got international versus domestic. And we wait in some regions of the world and one versus the other. And that's the series of many stories that will make up how we see overall the business is performing.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. And the only color I'd add to that is our numbers also include bookings from B2B partners and people in other parts of the area. So it makes the many stories even more vast in terms of our exposure to different geographies or exposure to different types of business.

So I would say thinking of it as a whole is probably the simplest way, but all things being equal with the trend the way they are in the last 2 weeks, probably good news that we're weighted towards North America. But there have been times when it's been something else. And we wish we had more China business since domestic China is doing quite well relative to the rest of the world.

Operator

Your next question comes from the line of Mark Mahaney from RBC.

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Mark Stephen F. Mahaney - *RBC Capital Markets, Research Division - MD & Lead Internet Research Analyst*

Two questions, please. You mentioned market share, but in North America, do you see any evidence of material market share shifts amongst the different providers, Airbnb, Booking, Expedia?

Secondly, you mentioned those 3 areas of cost efficiency, the fixed, the variable, and then you talked about performance marketing. Can you just drill down a little bit more on performance marking? I know you've had some pretty bold robust plans for bringing performance marketing efficiencies. And then all of a sudden, we had COVID. Is it clear to you that you've got enough evidence that there are newfound efficiencies in performance marketing? It's still TBD to when we get real robust recovery in travel conditions. Just spend a little bit more time, please, on performance marketing efficiencies.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Peter, are you there? Did we lose you?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Oh, sorry, sorry, sorry. Yes. I'll jump in. I was saying I'll take the second one first, and then you can remind me the first one.

I would say on the Performance marketing side, you are correct. We have talked historically about bringing more efficiency out of it, getting our return on marketing better, more precise, et cetera. The problem was I think that was to, to some extent, wishful thinking because we did not have all the data, all the tooling and all the approaches synchronized, if you will. We let brands compete. That has some dis-synergies that never were quantified, but certainly existed. We did not have the benefit of all the data because each brand had its own data and on and on and on.

So I am positively optimistic that when we have all data flows right and we have all the algorithms rewritten for that and when we have the tooling right, there should be significant upside for us in actually bringing out that return that you've heard about over these many years. I think that is what is required. And it is real, and we will get to it. We have to do it obviously. We haven't done it yet.

But to otherwise sort of mess around the idea of taking one brand higher or lower, doing this with a very blunt set of instruments, and I think candidly it was optimistic to think we could do a lot better. We certainly could have run more profit at the expense of share. That we certainly made some trades for share over a profit historically. And we certainly make trades like that in certain geos and for certain reasons over time.

But I think more broadly, the opportunity to just perform better is really unlocked by stringing all of those work together and really making it powerful. So I'm a total believer in it and I think it will happen. But we haven't done it yet, so we have to do it.

And then sorry, Mark, your first question? I apologize.

Mark Stephen F. Mahaney - *RBC Capital Markets, Research Division - MD & Lead Internet Research Analyst*

Yes. Do you think that there's clear signs of a market -- you brought up market share. Have there been any signs of market share shifts in North America?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. I think, well, definitely, you've seen alternative get an outsized share relative to where it was. And we've been beneficiaries of some of that. Airbnb have been beneficiaries of some of that. So the more concentrated you are towards the things, the use cases that are working well, I think you're going to get share benefits.

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More broadly, I think share has moved around for a lot of little reasons, and you're dealing with low volumes. So I look at markets where we points move around. And then you look at the dollars related to it, and they're tiny. And you say, okay, it doesn't really matter. It could just be a bad weekend or good weekend.

But I think nothing we're seeing portends to anything for the future for like a long-term effect. I don't think there is anything that suggests anyone's winning or losing in a way that will give them long-term benefit. I think for us with Vrbo, we believe it's really good for the brand and people are getting a lot of exposure to that use case. And people are seeing how nice that vacation can be. I don't think that means that people will never go back to hotels, but I think it helps us relative to Airbnb. So that's good for us.

And I think beyond that, we don't expect anything going on in any single geo or overall is really a long-term effect, which is partly why we're not overly exercised if we're not perfectly tuned as a machine on the performance marketing side because none of this is, with levels down 50, 60, whatever, plus percent in certain markets, it's hard to think that any of that is sustainable or meaningful for the long term. So that's been our approach.

Operator

Next question comes from the line of Eric Sheridan from UBS.

Eric James Sheridan - *UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst*

Maybe two, if I can, following up on some of the topics talked about so far. On Vrbo, with the success you're seeing in terms of the demand and the new customers that are coming into the platform, is there anything to call out in terms of your go-to-market strategy, your marketing strategy, that you might think portend for sort of longer term better returns on marketing spend or margin structure in Vrbo as a business?

And then on your brand strategy and sort of the realignment of the marketing platform, are you also at the same time thinking through whether you need to be in the same number of brands? What I'm saying, scope of brands on a multiyear view towards an eye of like managing a mix of sort of growth versus profitability?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Sure. So let me do Vrbo first. Yes. Well, a few things.

One, there's a lot of work that's been going on over the last several months on Vrbo and its margins in terms of -- Eric mentioned or we've mentioned in the past. Bringing it on to our payments platform, that's been good for us, saves us money with a third-party provider, allowed us to use power of Expedia's payment platform, which itself is getting stronger every day and more efficient. So those kinds of benefits are there.

There's work being done on the consumer process, on the fees and other things where we think we're under market. So I think we've had opportunity and we found opportunity to expand margins at Vrbo.

But to your bigger question, we definitely think that we did not land the Vrbo rebranding as strongly as we wanted to, that there is opportunity now, given that so many people are using it and the use case is so attractive right now and that we are concentrated in whole home, which is like the most effective part of the alternative market right now, that we intend to and are already pushing into a much more aggressive plot to broadly push the brand. We've turned the brand over in a few more markets in Europe just a few weeks ago, and we will keep pushing. But yes, there's an opportunity there, and we think that is a place we want to be more bold even in a down market, and we will continue to be pushing into that.

To your second question about how many brands we have, yes, we have a lot. We certainly won't keep any that we don't think makes sense. But right now, we think the number of brands creates opportunity as long as we have segmented them and thought about them geographically, et cetera, to their greatest effect. So my big push has been if we have a brand frankly that maybe none of you have heard of, like Wotif in Australia,

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that is our strongest brand for the moment in Australia, then we need to concentrate on building that brand and not worry about whether it's Expedia or Hotels.com or anything else. Likewise, Vrbo has a different brand, a different company that acquired in Australia that we're not going to change that brand because it's a strong local brand and we should push into it.

We have historically had this record of, okay, we have existing brand or we buy brand. We're also going to push Expedia into that market. We're also going to push Hotels. And that kind of, I would say, took away the value of multi-brand because it didn't allow us to optimize for each one.

So that's why we're doing the segmentation work. That's why we're trying to figure out what the proposition is for each brand. Some brands, admittedly, we have historically run for more profit, whereas obviously we have pushed -- we are looking at the whole kind of plate of options and driving the best result by country, by brand that we can. And that may mean we close some brands in some countries. That may mean potentially some brands will stop. But we have no intention right now to do that, but we are looking at the whole thing and trying to optimize for it all. But we think, in general, having more gives us the opportunity to do more if we do it smartly.

Operator

Your next question comes from the line of Deepak Mathivanan from Barclays.

Deepak Mathivanan - *Barclays Bank PLC, Research Division - Research Analyst*

Just a couple of ones on Vrbo. So first, can you talk about where you are currently in terms of in a merchandising Vrbo's augmented accommodations inventory on Expedia and Hotels.com? Is that something that you're seeing benefits from currently? Is like this is a perfect time to kind of channel logo inventory at a higher level into your other strong brands since consumers are looking for that type of inventory?

And then second question related to it, how you feel about the inventory levels on Vrbo, particularly given the strong demand that's there for alternative accommodations? Are there any markets where there is inventory pressure on Vrbo at this time?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Sure. So a couple of things there. I would say on the latter part, no. We've seen some pressure over the summer, a little bit in a few markets, but we haven't generally seen literally no inventory. There's a few spots. But in summer, recall, was everybody heading headlong into the only alternative they were comfortable doing. So there was a really acute demand spike there.

We do think there's more opportunity to serve whole home opportunity. And I think we will continue to try to grow our inventory. The question is, and obviously anywhere we see demand, we will want to drive inventory. The question longer term is, we have historically had deficit in pricing studies and those kinds of use cases, and that is a bigger strategic question for us. It's a place where Airbnb obviously has made great hay, although it hasn't helped them during COVID. Likewise Bookings has done a nice job with city-based inventory, and to your point, a more integrated experience.

And so sort of moving on to that question, the product is not great when it comes to surfacing vacation rental opportunities or alternative foundations through our main OTA brands. We've been slow to get there and it's not where we want it to be. It's definitely an opportunity, but we have found that there is a little bit of a conflict from the standpoint of, people don't generally go to our OTA brands for alternative accommodations. It's not what they think of. So even though it's there and present, it hasn't performed perhaps the way you or I might think it would.

So I think we've got a combination of work we need to do on that front, which is we can definitely make significant improvement in the product and how the content will surface, how people see alternative accommodations and where they see it and et cetera, but also we need to lean into it. And we need to market particular places where our big OTAs have good reach and brand recognition and Vrbo does not. It may well be more sensible for us to lean into -- get a vacation home on Expedia as opposed to trying to introduce the Vrbo brand.

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So we are looking at all that. I would say dual work streams where we're trying to materially improve the product experience with alternative accommodations on the main OTAs, and then how do we market that and how do we test to push that into those markets.

And I'll say that seems like that would be job one, and we'd be all after it because of the appeal of alternative right now. You have to keep in mind that we are rearchitecting literally our entire technical infrastructure and platform. And some of these things have to sort of get prioritized. And it's in the works, but it's not the only thing we're working on.

Operator

Your next question comes from the line of Justin Post from Bank of America.

Justin Post - *BofA Merrill Lynch, Research Division - MD*

My first question on hotel supply, are you seeing any inroads there or good deals on Expedia that you might otherwise get any reason for consumers to come directly to Expedia versus other sites?

And then secondly, thanks for the Vrbo update. I know you said it grew in 3Q. I'm assuming that's bookings and revenues. Can you give us a year-to-date update on Vrbo?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Eric, you want to start to answer the second one, I'm not sure we can.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

I don't think -- we've not shared or disclosed on the Vrbo. The year, I would say, we are healthily up for the year. We clearly had the spike in June just given the summer compression where people felt comfortable traveling. We [were] (corrected by company after the call) up year-on-year in Q3, let's call it, at more reasonable levels than June. But both revenue and gross bookings were up year-on-year, and I think you can extrapolate back to the start of the year as well.

Justin Post - *BofA Merrill Lynch, Research Division - MD*

Got it. And then on hotel supply?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. On the hotel supply side, we have obviously among the most competitive hotel supply in the world. There's not a lot of discounting that is unique to them. The hotels are discounting, but I don't think there discounting is unique to us. And I think what we provide, what Expedia provides obviously beyond just very good value, is a bunch of ways to find what you want, a bunch of ways to book multi-product, a way to do everything in one place. So there are a lot of offerings with Hotels.com Hotels.com, you get very robust rewards. So there's other offerings that are differentiating for us on the brand side, including where we're trying to go with a product to get a much better personalization, helping make good value choices, et cetera, so.

I would say that is where we have to push our business, the differentiated hotel supply, even when we can get it is usually not sustainable. It's not like something that's consistent, but we do want our hotels to be in a better position to optimize our platform. So we are doing an inverse, which is trying to give them better data so that they can be much more effective at pricing and moving into where they want to move on our platform.

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So if that's suites or certain kinds of rooms or whatever, we want to be giving them inbound information, so they can understand the market, understand where there's opportunity to price up or down to gain both rooms, et cetera.

So that's where we're pushing, and we think that's going to make us a much more valuable partner for the suppliers. But I don't think it's going to be about if you get a $5 better deal than the next person. I think it's really going to be about how you can help them build their business.

Operator

Our next question comes from the line of Kevin Kopelman from Cowen.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Former VP*

I just have a quick follow-up on Vrbo. If you could comment on the seasonality patterns there that you're seeing into Q4 and the current environment, are you seeing any change there, any kind of continued shift into Vrbo even as we get outside of what is typically the peak season?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Sorry, go ahead.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

No, no, no.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Thanks for the question. Vrbo is I mentioned earlier, it is much more seasonal than the rest of our business. So it's concentrated in the summer months, even more so than North America given summer. So we would naturally expect to see it come down into Q3 and into Q4, and that is what we're seeing. It continues to be at healthy rates and continues to be a product that I think consumers, in the environment that we're in, in particular, find compelling to be able to continue to travel. So you can think about the normal travel seasonality of looking in the early part of the year to stay in the middle part of the year and then less activity in the latter part of the year just magnified in Vrbo relative to the rest of travel.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Former VP*

Right. And then -- go ahead.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

No. I was just going to add that, that is an area we believe there's opportunity. And a lot of the advertising and marketing we've been doing with Vrbo have to do with sort of staycations, if you will, in North America where kids may not be going to school, people may not be going to work. Sort of take your life somewhere else, and we think there is opportunity to break some patterns while this going on, but that is just a COVID-centric issue.

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Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - Former VP*

Got it. And then longer term I think on a like-for-like basis, Vrbo's take rate has been a little bit lower than traditionally you would get with hotel. How do you see that playing out longer term in terms of revenue take rate?

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes. I'm happy to take that one. Thanks for the question again. There is a gap between us and Airbnb in particular. And it's something that we do feel that it gives us a bit of an advantage with consumers, but it is something that we are looking at. This is something that we test. We do think there are opportunities to increase monetization over time. But I would say there continues to be a gap. We are actively looking at that. We are actively testing it. And I do think that there is upside in our monetization over time.

Operator

Next question comes from the line of Jed Kelly from Oppenheimer.

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Thanks. Just on Vrbo just circling back, I mean can you talk about the supply into the winter travel season? It seems like that's going to be premium supply, and how you think you're there.

And then just a follow-up on virtual agent, I mean, what's your confidence level in virtual agent as travel volumes start to normalize? Like is that just around handling normalized volumes?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. So just on the Vrbo supply, I think we are well equipped and well put. We think we have lots of good value, high value inventory show up in lots of places people want to go in the winter, be that for Thanksgiving, Christmas, et cetera. And we think there's an opportunity that those trips will be longer in duration than they typically are given school holidays, et cetera, around the U.S. in particular. But we don't feel like we're deficient on the inventory side. That does not mean we don't have opportunity, and it doesn't mean we have parity everywhere on everything. But we think we have plenty of inventory to power a very robust winter season if the demand is there. So we're not worried about that. And sorry, the second part was...

Jed Kelly - *Oppenheimer & Co. Inc., Research Division - Director and Senior Analyst*

Confidence around virtual agent.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes. The confidence in the virtual agent. So I would say to you a couple of things. One, despite the fact that our volumes are down, given COVID, given cancellation rates, given all the issues that travelers have, I wouldn't necessarily assume that our servicing volume is proportionally down because there's been a lot of traveler issues going on in the world that have created huge relative spikes in traffic. So we've been testing the conversation platform into all kinds of use cases. And we will ultimately have it in virtually everything we do, including our dealings with supply partners and other things. So it is being rolled out broadly.

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As Eric said, the NPS scores have been strong on it. People generally like to deal with a machine if they can and just get it over with and not have to talk to a person. It's not true universally, but that seems to be true for most people. And we feel very good about it. So it's scaling up. It's a platform tool. It's the kind of tool we want to have in our company, across the company, that we have a platform technology that needs to be taught and taught different use cases and applied consistently. So we have high confidence in its ability to continue to roll out and handle as much traffic as comes in. So no issues there.

Operator

We will now take our final question, Lee Horowitz from Evercore ISI.

Lee Horowitz - *Evercore ISI Institutional Equities, Research Division - Co-Head of Internet Research*

Just one if I could. Peter, you had mentioned some of your North American suppliers seeing greater direct bookings perhaps as people shop less. I'm wondering if you would comment at all on your mix of direct bookings in the quarter, how that may be trending, what you're seeing through this crisis and perhaps your view on how sustainable those trends may be beyond COVID?

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Yes, surely. I would say that what we've seen is, mix-wise, we've mixed towards a lot more direct traffic. App bookings are up considerably. Direct is up considerably. But I would caution anyone from taking too much from that because we have been less aggressive in the performance market.

So it's a little bit of self-blending, if you will, down to a mix that is more free, which, of course, has helped all our margins and helped us post the numbers we posted last quarter. But that is inherently in part because we have taken our foot off the gas in certain areas in terms of performance marketing and unprofitable performance marketing.

So I think again as we blend back into normalcy, assuming we will be more proficient and have these tools we've discussed about on the performance marketing side, et cetera, my sincere hope is we can grow more share through those performance channels at attractive levels and attractive profitability. And I believe that will happen. And if that's true, of course, we'll mix our way back to a more historical balance.

But the trends have been very good. It's a credit to our brand loyalty or brands loyalty, I guess. And app has been very strong. And of course, we are putting lots of energy into improving the products for all those things and making them stickier because while it has gratefully not been a topic today, we do want to have more direct traffic, avoid the performance marketing pools as much as we can and create recurring business. So that remains a core goal for us.

Eric Hart - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Hey, Peter, before we end, I just wanted to clean up one quick comment I made earlier just on Vrbo on the year-to-date. Year-to-date, we have seen declines due to the impact earlier this year on COVID. But Q3 was up year-on-year, and we were growing early in the year before COVID. So just wanted to clean up the fact that in the early days, if you will, of COVID that if you aggregate them for the year, it is down relatively, but was up before and up during. I just wanted to clean that up.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Good. Thank you.

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Operator

I will now turn the call back over to Peter Kern.

Peter Maxwell Kern - *Expedia Group, Inc. - CEO & Vice Chairman*

Great. Well, thank you, everybody. Appreciate the questions. Hopefully, it helped give you some clarity.

Again, we're keenly focused internally still on everything we talked about. And I suspect our next call will sound a lot like that. And hopefully, the world's health will get better, and that will help our business along the way.

But appreciate the time. Thanks again to our people and appreciate you listening and the questions today. So take care. Bye.

Operator

This concludes today's conference call. You may now disconnect.

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