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EXPE.OQ - Q2 2021 Expedia Group Inc Earnings Call

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OVERVIEW:

Co. reported 2Q21 total revenue decline of approx. 33% vs. 2Q19.

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PRESENTATION

Operator

Hello, and welcome to the Expedia Group Q2 2021 Earnings Call. My name is Emma, and I will be the operator for today's call. (Operator Instructions)

I'll now hand over to SVP and CFO, Retail, Patrick Thompson. Please go ahead.

Patrick Thompson - *Expedia Group, Inc. - SVP & CFO of Retail*

Good afternoon, and welcome to Expedia Group's financial results conference call for the second quarter ended June 30, 2021. I'm pleased to be joined on the call today by our CEO, Peter Kern; and our CFO, Eric Hart.

The following discussion, including responses to your questions, reflects management's views as of today, August 5, 2021 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 plan, 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.

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.

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And with that, let me turn the call over to Peter.

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

Thanks, Pat. Good afternoon, everybody, and thank you for joining us today for our Q2 earnings call. I'll be relatively brief. And then Eric will take over, and we'll take some questions.

I'll open with saying that, in general, Q2 was quite strong and a major improvement on Q1, and we were pleased with the progress we made with particular strength in North America and the U.S. As I've said before, the market has been driven by a lot of COVID-related changes in patterns. Domestic travel has been stronger; VR, stronger, whereas international travel, corporate travel, even big city travel has been relatively muted comparatively. The good news in that is that we find ourselves in a relatively stronger position in the U.S., our largest market and the largest travel market. But in places like APAC where we have a largely international business, that obviously has not responded as quickly.

So as we look across our performance, there's all those moving parts in the mix. And together, what that delivered in the second quarter was general improvement in the April, May time period and another step up and a significant step up in June, not unlike what we saw in the first quarter with a step up in March. July has been impacted somewhat by Delta -- the Delta variant, and we've seen some backwards movement in July, but in general, still relatively stronger performance compared to earlier parts of COVID.

As it pertains to travel patterns, I think it's important to keep in mind that, obviously, we don't know where Delta is going. Places like Australia have had shutdowns. Whereas other parts of the world, including parts for EMEA, things are opening up somewhat more. But there's a lot of unknowns, including in the U.S., and we're starting to see some of that percolate through cancellation rates and more volatility in the numbers.

I think it's also important to keep in mind that as we move into the fourth quarter, where traditional trends would have had leisure coming off and corporate coming up, et cetera, there remain a bunch of unknowns across the globe in terms of back to school, back to work and how people will travel in this portion of our COVID times.

That being said, as we focused on marketing, Q2 was obviously a time of relative strength, and we aggressively pushed into marketing. We saw the opportunity to get in front of the building momentum in travel. And as we've talked about before, we have a long-term goal of building more brand recognition and pushing more into brand marketing, creating longer-term relationships with customers.

Performance marketing, on the other hand, remained considerably volatile, especially as we've seen cancellation rates more recently growing slightly. So, we were relatively leaned in, in Q2. We expect to be leaned in, in Q3, but with a bias towards brand building for the long-term relationships with customers. And we do believe whenever COVID subsides in a way that gives people real comfort, there's so much pent-up demand that travel will outstrip anything we've really ever seen before around the globe.

And as we move [brand] building, I just want to emphasize that this is an area where we felt there was opportunity to be stronger. Jon Gieselman joined us in middle of the quarter. Jon is a great talent, coming to us from Apple. He is a terrific brand builder. And brand and performance marketing work together. We have to really define and build our brands and I've talked extensively in the past about rationalizing the brands, making them work together and allocating capital appropriately. And we have great confidence in what Jon will bring and has already brought to the organization.

Likewise, on the tech side, we brought in a new CTO, Rathi Murthy from Verizon Media. This again, is an emphasis, I've spoken about this several times, but we have to be a technology-first company. And to do that, we need great technology leadership. Rathi brings a world of experience to us. And as we move from our multi-stack, multi-domain enterprise that we've had historically into one platform that can service all our brands and all our business partners, it was really important to have great technical leadership across the organization. So, I won't belabor every technical gain, but we are making real progress. We have plenty of work still to do, but we are feeling quite optimistic about Rathi and the changes that she is bringing.

So in general, as we watch COVID play out, we're focusing really on investing in our technology and people, organizing our brands and out getting capital appropriately among them, simplifying our business and of course, maintaining the rigor we've had around driving margin improvement.

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And more broadly, we believe that as vaccines continue to roll out across the globe, that will bring greater security, greater comfort and greater willingness to travel, but the road may still be bumpy for a while as we watch all the variants play out and various government responses to them.

I'll just close by saying we launched today something very important to us that our employees are passionate about, which is a partnership with UNICEF wherein we will drive for every app transaction we have in the company, we will donate to UNICEF to drive vaccination into the developing world. It's clear that not everyone has the access that the Western world has to vaccines, and it's our view that until the world is more fully vaccinated, we really can't expect travel broadly to be back to normal. So we believe in the movement, we believe in the equitable distribution of vaccines, we want to drive that for all the obvious societal benefits and ultimately because it's good for our long-term business goals.

So, with that, I will turn it over to Eric. Thank you.

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

Thanks, Peter. In early 2020, I outlined multiple areas of focus, and I wanted to provide updates on them. This is around driving margin expansion through better unit economics. And since that time, we've made significant progress reshaping our cost structure through the fixed and variable cost initiatives we've outlined in detail on previous calls. Another major focus has and will continue to be on simplifying our business to help enable the company to do it faster and also ensure we're focusing on the most attractive opportunities for future growth and profitability. This has included selling or shutting down businesses we viewed as non-core to the business going forward. To put this into perspective, since the beginning of 2020, we have either shut down or sold eight businesses, and these simplification efforts have continued with the sale of Alice last month, which I would point out will have an immaterial impact to our financials.

In addition, in early May, we announced the binding offer from Amex GBT to acquire our Egencia business. Since then, we have been diligently working through different aspects of the offer, and this week, we officially accepted GBT's offer. Based on where things currently stand, including all relevant regulatory, authorities have cleared the transaction and all relevant employee consultations have been completed, we now anticipate closing the transaction during this year 2021. As a reminder, the deal includes two major pieces we outlined last quarter and remain very excited about. First, we will have a minority position -- ownership position in the combined business. And second, we will also enter into a 10-year lodging supply agreement between Amex GBT and EPS. Finally, this deal further illustrates the continued progress on simplifying our business.

Now shifting to the P&L. On revenue, total revenue was down approximately 33% versus Q2 2019, which was a meaningful improvement from last quarter with revenue down approximately 52%. We saw continued strength from Vrbo and improving trends within our hotel business, while ADRs were effectively up across the board from last quarter. From a geography perspective, on a revenue basis, the U.S. showed meaningful sequential improvement Q2. EMEA revenue also improved and LatAm and APAC revenue remained roughly flat versus Q1.

On our cost basis and overhead, we have significantly improved our cost basis versus pre-pandemic levels, which is reflective on the considerable progress we've made on the cost initiatives outlined in detail over the past 18 months or so. While we won't see full benefit in the financials until we return to more normalized business levels, we remain confident in realizing largely all of the fixed and variable cost savings targets by the end of this year. Overhead costs totaled approximately $544 million in Q2, an increase of approximately $40 million versus last quarter, which was in line with our expectations. The increase sequentially was largely a result of the shift in compensation structure from bonus to salary, which took effect April 1, and we outlined on previous calls.

As it relates to sales and marketing, we increased our spend in Q2 driven by signs of a recovery, although total marketing spend was still well below pre-pandemic levels. For Q3, we are balancing investing into the recovery to build our brands with recent softening trends and bookings that we've observed in July that Peter mentioned. The net of all of this is we anticipate that we will further close the gap versus pre-pandemic spend, although it will still be well below Q3 of 2019.

In total, adjusted EBITDA was $201 million and included a negative contribution from Egencia, which showed some improvement but continued to lag our retail business. We attribute the approximately $260 million of sequential improvement in adjusted EBITDA to typical seasonality as well as the improving trends we've mentioned throughout the call. On the free cash flow, which totaled approximately $2.3 billion in Q2 on a reported

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basis, excluding the change in restricted cash, which is primarily driven by the change of Vrbo's deferred merchant bookings, free cash flow was approximately $1.8 billion.

Moving on to the capital structure. In terms of the balance sheet, we continue to be investment-grade rated today and would point out that Moody's recently changed our outlook to stable from negative. There is also no change in our financial strategy going forward. We remain committed to delevering back to more historical levels as the recovery continues to progress, while also continuing to look for ways to reduce our cost of capital, with the underlying goal to be in a strong enough position to restart our capital return program to shareholders.

In May, given the positive trends we were witnessing combined with the confidence in our liquidity position, we paid down 50% of the preferred stock that we issued in 2020. We have the right to pay off the remaining balance at any time, and we're closely monitoring and intend to pay off when it's prudent to do so. So that's again something that we'll continue to watch over the course of the year and going forward. That said, I remain confident in our liquidity position, which includes approximately $5.5 billion in unrestricted cash as well as $2 billion untapped revolver.

In closing, we're pleased with the further stabilization of our business in Q2 and remain optimistic about the future of travel, and that it will come back, as Peter mentioned earlier, and will be like something that we haven't quite seen before.

And with that, Emma, we're ready to take our first question. Emma are you there?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Naved Khan from Truist Securities.

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

Yes. A couple of questions. Maybe just one for Eric. If I look at the deferred merchant bookings, they're up 25% versus 2019. Reported bookings are down 26% versus 2019. Can you just maybe help us understand the gap there? What is driving the differences in the two numbers? And then I have a quick follow-up, maybe just on the simplification of the business. Are there other opportunities that you see on the horizon to simplify the business further?

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

How about if I take the first one and, Peter, perhaps you take the second one. So, on the first one, we -- our deferred merchant bookings balance was approximately $8.24 billion as of the end of June. And if you compare to June in the previous year, it was approximately $4.6 billion. There was an increase in what we call the core deferred merchant bookings, which is our more traditional or conventional lodging business, and that reflects, obviously, improvement on our -- I guess, that's compared to 2020.

So, I think you'll see on the core business that it's largely in line with. Where the real difference is, is coming on the Vrbo side of the business that ultimately -- and remember, that is restricted. So, there's approximately $4.26 billion that's in that deferred merchant bookings for Vrbo, and that just reflects the healthy growth that we've seen in Vrbo that we've talked about a number of times before. But I would say that there's no increased risk, if you will, in that core DMB relative to, I think, where we were in 2019.

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

Yes. Thanks, Eric, and I'll just add that in terms of continue to simplify, I don't think that we expect many more sales or mergers or those kinds of simplifications. But there continue to be opportunities for us to simplify how we do business. And I think what I referenced about some of our new

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leadership, the opportunity to simplify how our brands work together, what we're doing on the technology side. We believe we'll continue to unlock opportunity for us, but it's not as simplistic perhaps as a sale of a business or something like that. I don't think we have many of those left.

Operator

Our next question today comes from Kevin Kopelman from Cowen.

Kevin Campbell Kopelman - *Cowen and Company, LLC, Research Division - MD & Senior Research Analyst*

Great. Could you give us a sense of where lodging bookings shook out relative to 2019, both in the second quarter, and then what you're seeing in the Q3 quarter-to-date?

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

Yes. So, I'll take it and Eric can add color. Basically, we saw, as I mentioned, a good step function improvement in the second quarter, particularly into June. And we're feeling quite good about that. July started out a little down, and as Delta had -- relative to June, and as Delta has reared its head, we've seen some more volatility and July is sort of in line with the earlier part of the quarter -- of the second quarter.

So hard to tell how the rest of Q3 will shake out. It's been very responsive to the new cycles. But we're obviously optimistic that more openings, talk of the U.S. opening to international vaccinated travel, et cetera, will create more opportunities, particularly, as I mentioned, in the international business, which has been a relative strength of ours. So, June was a high point, July is looking a lot like April and May.

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

Yes. And then in regards to Vrbo in particular, and we're not going to go into the detail, if you will, on the trends in Q2, but as you think about it going forward, the business continues to perform well. We continue to be excited about it. We're seeing terrific consumer engagement. And one of the things that we are seeing is that there continue to be longer booking windows associated with Vrbo. And as we project forward into Q3 and beyond with those longer bookings, our hypothesis is, is that people have been exposed to the category. They've had a great experience. They're looking to book again. They also saw compression that was occurring, particularly during the summer. So, people are going in and reserving the house that they want for, whether it's the holiday season or even into next year as well.

So again, time will tell in Q3 and Q4 going forward what seasonality looks like in the state of the world that we're in, but we continue to see some really interesting trends from longer date of bookings for Vrbo.

Operator

Our next question today comes from Mark Mahaney from Evercore ISI.

Mark Stephen F. Mahaney - *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Internet Research*

Okay. Maybe I'll try two. One, I just want to ask, just a numbers question. Sales and marketing as a percentage of revenue, and I know this is a shortcut, but it was higher in the June quarter than we've seen in quite some time. I think it was the highest we've seen in the June quarter in several years. I know you've gone through a lot of efficiencies. I think, Peter, I think the expression you used was volatility in performance marketing. So just talk about how illustrative the June quarter was in terms of the optimization that you want out of your brand and performance marketing spend. You look at that number and you say, well, that's the opportunity and -- or do those -- do that level of sales and marketing spend come in largely as you had expected?

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

Yes. I think -- sorry, go ahead.

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

Yes. Peter, maybe I'll just give a little bit of context. I think one of the things to keep in mind, Mark, is that remember that our revenue is on a stayed basis and oftentimes our marketing spend is generating bookings that we're not going to get revenue for until another period, if you will. And as I just talked about on the Vrbo side, we're continuing to see very long booking windows as a higher mix of our overall transactions. So it is quite -- and we're seeing other shifts in booking windows across different products as well. And so being able to compare quarter-over-quarter to, again, historical quarters, it is quite difficult. So I just caution you that, that simplified form that you admittedly said was simplified, we have to be a little careful of that because of those booking windows looking around and the difference between marketing spend, booking and stay days.

Mark Stephen F. Mahaney - *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Internet Research*

Fair enough. And then the second question has to do with -- go ahead, please.

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

No, no, go ahead. Go ahead, Mark.

Mark Stephen F. Mahaney - *Evercore ISI Institutional Equities, Research Division - Senior MD & Head of Internet Research*

The second question has to do with brands. And you still have this stable of brands and you talk about different strengths in different regions, and you talked a little bit about Vrbo. What about some of the other brands? And would you call out ones that you think are doing -- in this environment are doing particularly well and those that seem most challenged from a -- just comment on the business just from a brand perspective and the brands other than Vrbo?

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

Sure. I think broadly, the brands are acting within a range, I would say, of performance. But we have seen, as I've mentioned, I think, before, opportunities, for example, in Australia, where our local brand, Wotif, and our local VR brand have performed very well because they had a domestic travel bias in that market and therefore, in a world where there was much more domestic travel, we leaned into those brands relative to leaning into, let's say, Expedia brand, which has more international appeal or an international travel appeal.

So we've seen regional moves like that. I think broadly, though, and you see some reactions and we believe Hotels.com has a slightly higher percentage of unmanaged corporate travel within it. And of course, corporate travel has been greatly reduced during COVID. So we're seeing some movements like that. But I would say, broadly, the brands have performed within a range of one another. We are doing a lot of work to figure out long term how we want the brands to work together as a family of brands rather than as competitors. I've mentioned some of that within performance marketing, but I think you'll see that broadly across the enterprise as Jon and the team get to rationalizing how those -- how we can make those brands all additive to one another as opposed to competitive.

And we are continuing to market, again, fairly aggressively behind the brand spend. And my comment about the volatility in performance marketing is just to say there continues to be a lot of risk in getting over your SKUs in performance marketing because of the volatility and cancellation rates, shutdowns, other things. So on balance, we are slightly more biased towards brand building. And yes, this is a time where we feel, for the reasons

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I said, that travel is going -- when it can rebound fully, it is going to be extremely robust, and this is not a time where we want to be quiet in the market.

So we are doing lots of things, including our recent move to support UNICEF, et cetera, to get in line with our customer base, get them invested in our brands and in the relationship and drive that for when the future comes pouring in. And while that is volatile, and we don't exactly know when that will be, we know it's coming. So we want to make sure we're there for it.

Operator

Our next question today comes from Deepak Mathivanan from Wolfe.

Deepak Mathivanan - *Wolfe Research, LLC - Research Analyst*

Great. Just a couple of ones. So first, Eric, can you help us think about take rates and booking window dynamic for the second half? With all the moving pieces, it's a little bit of a challenge to kind of translate bookings to revenues. Any additional color that you can provide there on take rates and booking windows, based on what you're seeing in July, would be great.

And then the second question, can you talk about the supply acquisition campaigns on the Vrbo side? How has supply side generally has been at Vrbo? And how should we think about the benefit of this translating into bookings maybe in the back half and then also into next year?

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

Yes. Thanks for the question. Listen, I understand your question on the first part when it comes to take rates and booking windows, and it's something that we -- causes a lot of work and volatility, if you will, in our assessment on our side as well. And I would love to be able to give you more granular responses on what that projection would look like into Q3 and beyond. But truth be told that things are just moving around quite a bit when it comes to those booking windows.

And then from a take rate standpoint, it's really going to depend on those mix. And as Peter and I both mentioned, Vrbo continues to be strong. We've seen conventional hotels come back. Sequentially, we've seen that in air. We continue to see that in car, which has been quite strong as well and has a nice take rates associated with it. And again, we'll kind of stop there, but you get the point through the various products. And so between a combination...

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

I don't know what happened there. Apologies. I think Eric cut out on us. Hopefully, you can still hear me. I'll just finish by saying where he was going is the combination of mix has been really different during COVID. So it's a hard thing to tie back to historic levels. Air and other things are down more considerably than lodging, car, et cetera. So it's a little hard to give you much guidance there, except to say we expect to see continued mix shift during this somewhat COVID period we are in, but we also believe that over time, and broadly, everything will revert to the mean in terms of mix, and we should see more predictable take rates in that period.

Deepak Mathivanan - *Wolfe Research, LLC - Research Analyst*

Okay. And then the second one on supply acquisition campaigns related to Vrbo, can you talk a little bit about that?

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

Yes. Sorry about that. Yes. We have been focused -- I think we said it last quarter, but we've -- our principal focus has been on compressed markets, and we've seen good growth there and good additions. And when we can add inventory there. We see very good return on that effort. We have not gone to sort of a broad global, return to everywhere acquisition strategy because we just don't think it's a prudent use of resources and so many places are still closed down, but we are taking a much more targeted approach. And as the world opens up, I think you'll see us expand those targets. But in general, when we've been able to add inventory, again, focused on compressed areas, that has been quite productive for us.

Operator

Our next question today comes from Justin Post from Bank of America.

Justin Post - *BofA Securities, Research Division - MD*

Great. I think we're all trying to figure out what your earnings could look like on the other side of this. And so market share is important. People are going to compare. You're down 26% bookings versus 19% to booking, which is in the low double digits. So just wondering if you can help us understand how you think about market share in your core U.S. and Europe markets right now. And second, maybe you could explain some of the differences, maybe your percent of air bookings or how much of your bookings are international versus domestic?

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

Yes. Thanks for the question, Justin. And I'll just say, so a couple of things to think about there. First of all, as I mentioned, broadly, when you look at conventional lodging plus VR, we believe our position is stronger in the U.S. than pre-COVID. But again, that's not the same for all markets. And if you look at a market like EMEA, which came back strong over the summer and came back principally in domestic, that obviously favors some of the other players. And our business in places like EMEA and APAC, as I mentioned, are more international focused. Now that goes to airlift as well because we're very good at delivering long-haul air, which has been virtually nonexistent during the COVID period.

So you've seen, again, a bunch of these principles at play where we benefited from some, others who have benefited from others. And we generally believe that international will be the next major thing to open up, and that favors our position in many of those markets. And we will see that rebound through that side of our business and through air and all the pieces that are attached to that. But that's really what's going on in market share. More than anything is this domestic versus international exercise.

There's also more bookings into small markets as people have stayed domestic and gone to the equivalent in the U.S. of the small motel near a national park, et cetera. That has not been a traditional strength of ours. We have been better in big cities. Big cities have lagged somewhat, New York, San Francisco, et cetera, Paris, London. So those factors are all at play. And I would just say that there's been a lot of activity at the lower end of the market because of the domestic thing, and that's been driving a lot of room nights, but not necessarily a lot of dollars. So you're seeing shifts like that.

We feel pretty good about our position definitely in the U.S. We'd obviously love to be strong in all dimensions of our game across the globe. But we think, again, that most of this reverts to the mean over time. And as it does, we will benefit from the return of international travel significantly where in many places in the world, that is the biggest part of our business.

Justin Post - *BofA Securities, Research Division - MD*

Great. And maybe one follow-up. Have you disclosed ever how much air bookings were as a percent in 2019?

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

No, no. This is Eric. Am I back? Can I get a thumbs up?

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

Yes, you are. Yes. Yes.

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

No, we've not broken that into detail at this point.

Operator

Our next call today comes from Brian Nowak from Morgan Stanley.

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

I have two. Just to go back a little bit, kind of drill into the U.S. Can you just help us better understand where your U.S. lodging business, excluding Vrbo is now versus 2019? And then secondly, kind of again focusing on the U.S. ex-Vrbo and lodging. What can you sort of tell us about the customer dynamics? Are you -- is it mostly existing customers? Talk about contribution from new people you're bringing into the platform? What has sort of driven the growth of the core lodging business in the U.S. ex-Vrbo so far?

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

Yes.

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

Perhaps I'll take the front end of that. Peter, if you want to take the back end of it. I understand the part of trying to parse Vrbo and the conventional lodging, we're not going to go into detail on it at this time. On the Vrbo side, I think you've heard us a couple of times anyways, continue to see -- we're seeing nice performance. We continue to gain share in our primary markets in that business and feel really good about it.

And on the conventional lodging side, we have seen continued improvement each month of Q2. We've seen a bit of a softening in July. But again, at this time, we're not going to go into detail on the breakdown between those two. But net-net of both of those is how we feel good about where we are and the recovery that we're seeing during the quarter.

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

Yes. And I'll just go into the customer dynamics a little bit here, Brian, which is to say, I think during COVID broadly as everybody was marketing somewhat less, we saw a lot of direct business. We all -- we're happy about that, but it's more of a function of not going out and searching the market unless we let people out in the market searching. I think as it has rebounded, it's headed more towards usual norms. But again, we've been perhaps somewhat more conservative on the performance marketing side because we -- with cancellation rates so high and other factors going on and closures, et cetera. It's easy to spend a lot on performance marketing and not get the return because people don't end up traveling.

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So we are seeing, I would say, a mix relatively towards existing customers. I think that's what you see across the industry. It's why app usage is up and other things are growing. But again, I think as the market is rebounding and more people are out in the market searching, you'll start to see us get back to more normal relationship between old and new.

Now I will say, a big part of our focus as an enterprise is to create longer-term relationships and greater lifetime value and stickiness and love for our brands with our customers. That involves many things. Obviously, on the marketing side, on the product side, on the service side, all things we're focused on improving. So that sort of 360 kind of enterprise effort, but we do intend and we do plan to build those customer relationships in a different way, we hope than historically, where we've all had to go fishing in the Google pond or whatever, and that was the only place to find their business. So we're hoping to change those dynamics over time. But we have been -- we have seen, in general during COVID, a greater performance from existing customers.

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

Got it. And just to go back to Eric's -- that's really helpful. Just going back to Eric's answer. So the bit of softening in July, is that more pronounced on the traditional lodging side than it is the Vrbo side? Or is it sort of evenly spread between the product sets?

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

Yes. I think we're seeing it largely across even expanded beyond the lodging across all of the product types and whether that persists or not, TBD.

Operator

Our next question today comes from Stephen Ju from Credit Suisse.

Stephen D. Ju - *Crédit Suisse AG, Research Division - Director*

Okay. So Peter, I think you wanted to talk about potential permanent changes to consumer behavior. I think vacation rentals versus hotel is fairly well understood. But are you noticing any change in terms of folks favoring agency versus merchant because I'm sure they probably learned last year, they're paying ahead of time and trying to get refunds later on. It's probably something that they probably don't want to do again. So are there kind of, hence, sort of meaningful differences in the conversion rate between the two types of transactions you can call out? And does that positively or negatively influence your customer acquisition strategies going forward?

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

Yes. Stephen -- go ahead.

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

Yes. I'll take the front end of that as well. I would think about it less about merchant and agency that we have seen continued. I think we talked about this a couple of quarters ago, waiting to the agency side of the business as consumers want more flexibility. But ultimately, what they're looking for is that flexibility. So it's more of nonrefundables -- or sorry, refundables is what they're looking for, given the uncertainty in the environment.

And here, feel free to add, but that hasn't necessarily changed our customer acquisition strategy, our sort strategy or whatever else. In the end, we're a marketplace running a travel company, and our job here is to meet with customers and what they're looking for, that meets the needs and the use cases that they have, and we'll continue to do that. But as I said on the front end, there is continued waiting to the refundable side and the agency side.

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

Yes. And I would just add, Stephen, that we're not trying to drive -- as Eric said, we're not trying to drive the customer to any particular outcome. We provide choice by and large, and we let the customers do what they want. There has been a relative bias during COVID for pay later, as you say, perhaps just a greater sense of security around the idea. But there's nothing that I think suggests that that's necessarily a permanent thing. I don't think we know enough yet and we'll see as we come out of COVID. But certainly, we've seen merchant rebound considerably and that may well persist.

Operator

Our next question today comes from Mario Lu from Barclays.

X. Lu - *Barclays Bank PLC, Research Division - Research Analyst*

Great. I have two on ADRs. They're up 21% this quarter year-on-year, I believe, 22% versus 2019 levels. So any further breakdown you can provide in terms of this growth, whether it's deal mix, organic rate increases or shift to Vrbo? And how sustainable do you think this is for the back half of the year?

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

Yes. Peter, I'll take that one. Thanks for the question. And I think the 3 categories that you laid out, the answer is yes, yes and yes. So it is a geo mix into the U.S. It's a mix into Vrbo, which typically has higher ADRs as well. And then we're seeing for core ADRs increase in some products more than others. So a bit more color there. On the Vrbo and car side, I would say, in particular, I have seen meaningful increases in their ADRs, whereas air has started to recover, but clearly not to the extent of those other two and would say the same for conventional lodging as sort of somewhere in between, let's say, higher than air, but not to the Vrbo and car side.

Projecting forward, we are, as I mentioned earlier, on the Vrbo side, for instance, continue to see bookings with those long booking windows. And if you end up with any kind of supply compression and/or that, that's what customers are comfortable traveling with. And again, as I mentioned earlier, I think people have really enjoyed that product experience. You can continue to expect that -- it's very possible to expect that you would see that in Vrbo going forward.

On the car side, listen, they got a supply issue. I think that's been discussed in various forms before, and that's going to take some time to work through. But how much demand remains for car as we get out of the summer season is a bit TBD. And as -- generally, presuming that July is a bit of an anomaly, if things start to recover again, I think you would continue to see ADR increases or healthy levels, if you will, going forward. So again, I'm not going to get into specific. I'm trying to predict where exactly those are going to land, but that gives you a sense of the trends that we're seeing across the different products.

Operator

Our next question today comes from Jed Kelly from Oppenheimer.

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

Great. Two, if I may. Just can you give us an update on the Vrbo integration with Brand Expedia? How is that trending? And how are you trying to think about that ahead of the winter? And then as you kind of look out in terms of like the international travel recovery, I mean, has your thoughts changed and you even see countries like Iceland and Israel that are really highly vaccinated dealing with higher spikes, higher case counts? How

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is like the change in the interim? How do you view the international recovery, if it looks like we're going to have changing -- a multitude of different government policies towards COVID?

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

Yes. Thanks, Jed. I think I'll do your second one first. It's frustrating and confusing and complicated. Countries have taken different approaches even within the EU. We spent a lot of time with EU commissioners about trying to synthesize the rules and make them consistent because people traveling within the EU have issues with what the protocols are. So it remains a big unknown. I would say we know that vaccines are definitely the biggest part of the answer, at least that we can see so far. And of course, there's lots of work going on, on other treatment protocols, et cetera, for COVID. So I think we'll continue to see improvements and ultimately, COVID will be something the world learns to live with. And people will be traveling again.

So we're starting to see international travel. It's not zero. We're starting to see conversations. Today, the U.S. government -- it was quoted that Biden is considering opening up the U.S. to foreign travelers who are vaccinated. So I think we'll continue to see that push as countries want to get their tourism businesses back and their business travel businesses back. So they're countervailing issues, and I think there will continue to be pressure for people to find ways to make it happen. But we're clearly not done seeing pockets of issues with COVID and reactions from local or national governments to that issue. So I think that's why I say there's a variety of unknowns out there, and we're just playing it out and trying not to end up upside down over marketing to a market that ends up with a problem. So that's one part of it.

And then on the Vrbo integration, I would say, it's work that continues. It's not where we want it to be. We have more content on BEX and actually on Hotels.com. But the end-to-end customer experience is not where we want it to be. So we are iterating on that as we continue to make progress towards unifying our tech stacks for our lodging business. It's a core part of that process. But I would say it's not the most important thing in that, rather it is a good opportunity for us and something we believe in, but there's a series of steps as we bring those stacks together. And it continues unabated, but it is -- but it's not where we want it to be yet.

Operator

Our next question today comes from James Lee from Mizuho.

James Lee - *Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst*

Can you talk about, with the new CTO coming in, maybe talk about some of the top priorities that you'll be undertaking? And also, secondly, I think last quarter, you guys talked about the success of integrating the marketing platform. Something like 75% on that platform. Can you give us an update and maybe a little bit of implication on the efficiency of the marketing in the back half?

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

Yes. So thanks, James. In terms of the CTO's top priorities, it's really as we move to one unified technology team and one unified architecture, the role of the CTO is to define where we're going, how we're doing it, what the rules of the road are and how we do this integration from going many stacks to few and we create this multi-tenet extensible kind of set of capabilities. And I think that's a -- it's a broad process. It cuts across all the technology in our enterprise. And Rathi is hard at work driving that.

There's also -- as we get the back end, right, there's also the customer-facing side, which is all about the UI and UX. We want to be an app first company, and we're driving progress to be there. We want to be design focused and we have a focus on a new Head of Design, building our back capability in the enterprise. So it cuts across many things. And it's really about bringing excellence to all those disciplines so that we can just give the best customer experience we can and drive improvements across all the pieces, conversion, engagement, all the things we want to have.

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As far as the marketing question goes and bringing our performance marketing together, I would say that number is up from 75% to probably closer to 85% to 90%. But again, that's sort of a benchmark, which is to say it's how we're getting everything, common tools, common data sets, common algorithms, but it is -- what's exciting now is the opportunity to begin to test new algorithms, test opportunities across brands, test the opportunity to gain efficiencies and how we market multiple brands in performance marketing, et cetera. We're in the early days of that, but that is what these achievements of getting to the state have given us.

And I would say we're in a funny time where traffic patterns are unusual because of COVID. So you're sort of testing it, the new algorithms and doing a lot of new performance marketing against a backdrop that's a little bit unusual and confusing. So we don't always have the volumes to test everything. But there's a lot of exciting work going on there. And as I said, we believe that will generate meaningful efficiencies and better operation in terms of performance marketing, but it is hard to benchmark because we don't have normal traffic levels and normal patterns. So it's hard to say it's going to give us x percent more efficiency or y. We have to see it in action against a more typical backdrop. So more to come on that, but we're making steady and strong progress, and we're a long way down the consolidation of tools and data and all the things that those percentages referenced.

Operator

Our next question is from Andrew Boone from JMP Securities.

Andrew M. Boone - *JMP Securities LLC, Research Division - Director & Equity Research Analyst*

On marketing, on brand spend specifically, can you talk about what brands and where you're investing? Is this supporting brands that are a strength? Or are you guys building brands anywhere else? And also, should we think of this as more of a permanent change to your marketing strategy? Or if cancellation rates normalize, are you guys going to shift the spend back to more of just four whole type levels?

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

Yes. Thanks, Andrew. I would say a couple of things. One, yes, we're investing in relative strength. So for example, Vrbo has been an area of considerably increased investment. During the past several quarters, other opportunities regionally where we've put money, whether that's in traditional brand spend or social or other things. So regional brands, in some cases, have seen increases as well. I would say while we are leaning into that, and we are leaning into our biggest brands, obviously, in strong markets like the U.S., we believe we can do a lot better in terms of brand messaging, getting cleaner on the brand propositions.

And as I mentioned, getting all the brands to work together as a family of brands as opposed to as sort of traditional almost competitors. So we think there's a lot of opportunity to not just spend into brand with a bias towards brand building, but spend that money more efficiently against even stronger creative and more efficient ways to build brands. So I think there's a lot of opportunity there. And yes, we intend to also grow in new geos as we refine our capabilities there and pick markets where we are going to go on the offensive.

And then I think as far as performance goes. I think what we're talking about when I say we have a bias towards brand building is we want to build long-term relationships. But brand spend and performance work together. The stronger your brands are, the better performing your performance marketing is. And as long as performance marketing can return the kind of returns and bring us the kinds of customers that are sticky and build long-term value, we will spend into that, and we will spend as much as that makes economic sense to do.

So I don't think it's an either-or question. It's a question of right now having a bias again towards that brand building while we see how performance marketing shakes up. But as we get better, we believe we will be able to continue to invest in performance marketing more efficiently than we ever have and bring it right down to customers with the backdrop of brand building that really creates sticky customers for the future.

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So I think you'll see us do both. Don't exactly know where the ratios will bear out. We think the company was over biased towards performance marketing because we just didn't have all the tools, we needed across the brand enterprise, but we think now we are in a much different place. So that's where we're going to go.

And I think with that, I thank you, Andrew. I think we're at the end. So, I just want to say thank you, everybody. Thanks for your time, and I hope we got all your questions answered, and we'll speak to you in a quarter. Take care.

Operator

That concludes today's call. You may now disconnect your lines and have a nice day.

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

Thank you, operator.

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