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EXPE.OQ - Q1 2022 Expedia Group Inc Earnings Call

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OVERVIEW:

Co. reported 1Q22 YoverY total revenues decline of approx. 14%.

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PRESENTATION

Operator

Good day, everyone, and welcome to the Expedia Group Q1 2022 Financial Results Teleconference. My name is Jason, and I'll be your operator for today's call. (Operator Instructions)

For opening remarks, I will turn the call over to our IR Director, Jon Charbonneau. Please go ahead.

Jon Charbonneau - Director of Investor Relations

Great. Good afternoon, and welcome to Expedia Group's Financial Results Conference Call for the First Quarter ended March 31, 2022. 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 view as of today, May 2, 2022, 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 reconciliation 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 consistently visit our IR website for other important

information. Unless otherwise stated, any reference to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense excludes stock-based compensation.

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

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

Thank you, Jon. Good afternoon, everybody, and apologies in advance. Eric and I are both recovering from cold. So our voices may not be as loud as normal, but we'll do our best and please ask for clarification on anything you can't hear.

Let me start by saying we were pleased with the quarter. We continue to see strong demand coming back. We continue to see efficiencies in the business. And in general, it pretty much had the shape we expected, which is to say that we went into the quarter with Omicron looming. Last quarter, we mentioned that we expected that to have some impact early in the quarter, which it did. But we're very pleased that demand came back post-Omicron and Omicron hasn't lived up to sort of our expectations, which were -- that it would be the shortest wave. It would be the least impactful. And I think as we now go into BA2 and other things we're seeing, it's really hard to even detect the blips anymore.

So that's great to see. We also -- then we're hit with the war in Ukraine, which did have some impact on the EMEA markets. But again, the market -- the consumers seem to absorb that information and now EMEA is back to its highest levels since COVID hit. So again, we've seen these impacts. But in each case, a recovery that seems too strong to be held down.

So the recovery has been strong. And nicely, we have seen it beyond just domestic travel, which, of course, have been the bright spot for a long time during COVID. We're now starting to see city business pick up, business travel pick up, international travel vectors pick up. And I would say, broadly, while some geographies lag, all geographies are, in general, growing and returning.

So despite the usual caveats for COVID, now a rising inflation to worry about and of course, the geopolitical situation, the pent-up demand that's out there for travel seems to be outweighing anything the market can throw at it, and we continue to be feeling very good about a summer recovery that should be very robust.

And as I've said before, we've been spending into that recovery, particularly with an eye towards driving long-term customer engagement, buying the right customers, having the right mix of marketing to attract direct and long-term valuable customers. So with an eye towards lifetime value, we are investing into that strong recovery, and we'll continue to do so.

As an example, our teams have done a great job of driving Vrbo and app downloads. Vrbo, according to our third-party data from a company called Sensor Tower, was the #1 downloaded app in North America in the first quarter of the year, and that's a place where we've had emphasis. Obviously, our emphasis will change through the year, and we'll push into our other brands as well. But app particularly is a place where we feel like there's a lot of long-term customer value. We're improving that product dramatically, and we think that's a great place to put capital right now.

Importantly, our direct-to-consumer business, known part of the business, and we have our big EXPLORE event coming up over the next few days in Las Vegas, where I am right now, and I'm pleased to say it is packed and the business seems to be booming at the hotels. But that event is with our business partners, all our supply partners as well as many partners with whom we drive demand. And I've talked about this a little bit before, but we have a thriving B2B business. I haven't spent a lot of time on it, but this is the week where we will now come out and display all the work we've done to reimagine the future of our business and our place in the travel ecosystem and what we've been doing for the last 2 years. So we're going to share that with our partners with general focus on overall traveler experience, how we're rethinking our marketplace and how our platform technology will not only drive our B2C business, but will enable our partners to do much more with their own businesses.

And even though I haven't spent a ton of time talking about, I just want to reframe that our B2B business is a terrific business was before COVID remains a strong business, and we've made a lot of progress during the time of COVID to continue to expand that business, including one example, which is optimized distribution, which I think I've touched on before, but this is a product that we started in partnership with Marriott. We now just had IHG joined this year, which was the largest global hoteliers in the world as well as many others testing on it. And what it does essentially is it

cleans up the wholesale business for these partners. So wholesale rates have been a huge issue in the meta universe. They get bled out into the world and then find their way back into meta, and they end up hurting hotel companies because there are prices out there that are under the brand.com prices.

We created technology towards this and basically help our partners get the same B2B business and more in the wholesale markets, but do it in a way where their prices would be protected and they make sure they weren't undercut by their own prices out in the world. So it's been a hugely successful program for Marriott, now IHG. Again, we hope many more partners will take advantage of the technology. But that's just one example of the many things we are working on, talked about externalizing our technology before. We've had a white label template in a lot of ways where our partners can sell other products. We have airlines with whom we power packages and hotel path. We recently added Delta to power their car path. We've expanded our offline travel agent business and our share of wallet with our API partners. So it's a great business. We see expansion for it. And as we'll talk about a lot more this week at EXPLORE. We have a lot more ways, we think, to help our partners and expand the addressable market there.

So as we move into that, we will continue to accelerate innovation in our platform and that innovation will drive not only our B2C business, but also our B2B business, and that's why we're so excited about how we're rebuilding our platform. But all in, we expect '22 to show continued recovery. We expect a robust summer. We expect to continue to drive efficiencies through the business. And the real work this year is on delivery, on delivering on the brand work we've done, which looks great so far. We're rolling out new Hotels.com brand work right now, and I think the brand teams have done remarkable work. We've got a lot of new product innovation coming this year, and we're doing a ton of work on the back-end platform. So all of those things will be rolling out this year and will have some impact on this year, but really the impact is much longer term and we see great things ahead as those products all gets delivered.

So with that, I hope all of you can join us at EXPLORE. It's going to be a great event. Our team has worked their butts off to put on an amazing event for close to 3,000 partners who are here. And if you can't make it, I invite you to watch the streaming, and it should be really exciting. And it's a chance for us to really display the work our teams have been working on for the last 2 years and all the pains taking time and effort they've put into changing our direction for the future.

So with that, I will leave it to Eric.

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

Great. Thanks, Peter, and thanks, everyone, for joining the call as well. While the first quarter did have some volatility, travel demand has proven resilient, and I remain optimistic around summer travelers, as Peter mentioned as well.

And with that, I'd like to start by reminding everyone, this is the first quarter without any direct contribution from the Egencia business. As a reminder, we completed the sale of Egencia to Amex GBT on November 1, and our EPS business entered into a 10-year lodging supply agreement with Amex GBT.

I'll provide certain growth rates, excluding Egencia, which also excludes any contribution from the Amex GBT deal in the first quarter. These pro forma numbers are intended and included to give you more visibility into overall recovery and also our financial performance.

Shifting now to bookings. Overall, for the first quarter, total bookings for all products net of cancels were down 17% versus first quarter 2019 or down 11%, excluding Egencia. This was a sequential improvement versus the down 25% we saw last quarter.

Vrbo performed well during the quarter and continued above 2019 levels, and our hotel businesses rebounding with city and international travel coming back. While ARS still lagged lodging in the recovery, we saw improvements throughout the first quarter, which held in April. Again, this quarter, we're going to provide more details into our monthly booking trends.

Our total lodging bookings net of cancels, which includes hotel and Vrbo was down 11% in January versus 2019, up 8% in February, up 7% in March and up approximately 10% in April.

Now on to the P&L. Total revenue was down approximately 14% versus the first quarter 2019 were down 10%, excluding Egencia, a slight improvement versus the 17% decline we saw last quarter. On sales and marketing, direct spend in the first quarter was roughly \$1.2 billion, down 6% versus first quarter 2019 levels compared to the 12% decline last quarter.

As we've mentioned and Peter mentioned a few minutes ago, we will continue to spend into the recovery into Q2.

Moving on overhead costs, excluding Egencia, were up approximately \$13 million versus fourth quarter 2021. Looking ahead, we expect a higher-than-normal annual compensation increases discussed last quarter, which took effect on April 1 will result in a notable sequential step-up and overhead costs in Q2.

In total, adjusted EBITDA of \$173 roughly flat versus 2019 levels despite revenue still down 14%. Excluding Egencia, adjusted EBITDA grew by 14%, which suggests we are much more fully recovered and you can see from our reported numbers.

Free cash flow totaled roughly \$2.8 billion in the first quarter on a reported basis. Excluding the change in restricted cash, which is primarily driven by the change in Vrbo's deferred merchant bookings, free cash flow was approximately \$1.9 billion. In terms of the balance sheet we are committed to our investment-grade rating reducing leverage and further reducing our cost of capital. We continue to take important steps towards it as announced last quarter in March, we completed the early redemption of our 650 million Eurobond. This follows the full repayment of our preferred stock last year. And in total, we have repaid over \$1.9 billion in debt since last May. And if current trends continue, we will actively look to further reduce leverage moving forward.

Recently, we also entered into a new \$2.5 billion revolving credit facility, which was a real positive outcome for the company. When compared to the old credit facility, it added \$500 million of liquidity to the balance sheet and removed many of the restrictions we have been operating under during the pandemic.

Overall, I'm pleased with the financial performance in the first quarter and remain quite optimistic about the recovery heading into the summer travel season.

And with that, we are ready for our first question.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Eric Sheridan with Goldman Sachs.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - Research Analyst*

I hope you both feel better from being under the weather. Maybe 2 on the marketing side of the equation. Longer term, you guys are moving towards trying to align marketing dollars towards more brand, more direct-to-consumer. Can you give us an update on the progression you're making there beyond just the summer travel season in '22? And how to align those marketing dollars, where you want for the longer term? That would be number one.

And number two, when you see things like the mobile app side of the business continue to take off, how much increased confidence you have in being able to mine the element of activity we're seeing ahead of summer '22 to again create higher ROI loops in '23 and beyond?

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

Yes. Thanks, Eric. I'll take the first one first, which is, yes, we believe we can drive, over time, more efficient return on our marketing dollars. And we do believe that places like brand and app present real opportunities. But the main idea is that we're trying to find and mine the best veins of long-term return. I think we and the industry has been very transactionally focused. And we haven't been great historically at measuring lifetime value and the different value of different customers coming in through different channels. We are getting much better at that and finer at that, and we will look to build the long-term high-value customer base that has the repeat characteristics and the high lifetime value that we want to drive as opposed to just chasing transactions and hoping the rest takes care of itself.

So I think that's really the change. So many of these areas offer opportunity. I mean, brand, we've always spent a lot on brand, but I would argue not always with the best creative, not always with the greatest impact, not always with a clear message. We're getting much, much better at that as the people we've added are driving great, great product there.

And likewise, we have to improve the product, which goes to your second question, which is the higher ROI is really about not only bringing people in through the right channels, but it's also having the right engaging products. So all the work we're putting in to create a new app, which basically will be largely new over the course of this year and a number of other things we're doing to engage travelers. We have -- we're announcing a couple of new product features coming out this week at our event. So we're trying to create much higher engagement. Obviously, we'd prefer to be through the app, all things being equal and then we can drive all those other channels, we'll spend the money where we think we're getting the greatest return and we're driving those people into the right products.

So it's hard to say where it's going to balance out. I would say, until we get to more normalized times, it's really hard to get a perfect read as compared to history in terms of percentages spent on X or Y or Z. But I would say our mindset is that we're looking for those veins, including app and many other things, where we believe we are driving the long-term customer -- the type of customers and acquiring the types of customers that drive long-term value into business. So that's our approach.

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

Just to add -- this is Eric speaking. Just around Peter mentioned the concept of our -- the improved quality and performance on the brand spend side, there's also -- with a clear value proposition, a product that delivers against it and then the third formula that I would add to it as well as around our loyalty program. We previously announced that we'll be launching that loyalty program. And these components then come together because ultimately, we can acquire customers, give them a great experience, reward them for building a relationship with them and then create an ongoing dialogue with the loyalty program. So that obviously, some of those components are still in development and relaunch, but that's another component that we move forward that we're excited about.

Operator

Our next question is from Lloyd Walmsley with UBS.

Lloyd Wharton Walmsley - *UBS Investment Bank, Research Division - Analyst*

Two, if I can. First, just sticking on the marketing theme, what is the, I guess, the latest update on the effort to consolidate the marketing data and operations? Are you finished the operational part of that effort? And any further clarity around the opportunity to drive better marketing returns at some point from just a more coordinated effort across brands?

And then second one, you talked about the cost step-up in overhead. You guys have flagged that last quarter as well. But can you help us understand how to think about that kind of fixed cost inflation rate? What is that kind of annualized basis? And how does it flow into the P&L in 2Q and for the rest of the year?

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

Yes. Thanks, Lloyd. I'll take the first one, and Eric can take a crack at the second one. On the consolidation, we're a long way along in actually bringing together the data ops, algos and everything that goes to drive performance marketing. There's a long tail, obviously, because we're in lots of geos and lots of places that aren't terribly impactful economically. But over time, we want to get much better in. So I would say we're a long way through that.

As I mentioned before, getting that operationally right is great. Now we have to test a lot of things to get the benefits you're referring to, which is how do we optimize for multi brand, how do we optimize in different geos, et cetera. But the big heavy risk, I would say, on the 80/20 rule, we're probably -- we've gotten the big stuff. And now it's really about moving those tests through, as I just mentioned, finding these new veins, testing all these new veins, that's the critical work. And right now, we're seeing a lot of demand, and we want to drive growth, not just to like historic levels with better margins, but higher growing levels with better margins, too. So we want to invest into growth. And if we see the opportunities with the right returns, we will do that.

So I think we can drive better returns and better growth, and that's the goal. Again, the shape of the curve may change a little bit as we invest into these high-value, lifetime value veins of opportunity. But we have the operational side, I think, a long way along. It's not perfect yet, but it's a long way there. And now it's just about testing everything and getting sharper on the readouts. And of course, these are not exactly normalized times yet. So some of the data is still -- there are places in the world where we can't test yet because the recovery is not sufficient and so forth. So it will take us some time, but I think the big part of it is behind us.

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

Well, thanks for the question. I'll take the second part of it. No worries, Peter. I'll take the second part of it. Thanks again for the question. So again, we're not going to get into any specifics on what will necessarily flow through, but hopefully, a couple of framing will help you as we move forward.

Just the first one is around the annual wage increase. Again, just as a reminder, coming into or went into effect on April 1. So that will impact the second quarter. What I would do is I would go back and look at previous increases that you've seen us flow through in similar timelines in the past. And as we mentioned, there is a step-up wage increases relative to prior years. So in effect, I would go and look at what that step-up was, gross it up, if you will, and then take that throughout the year.

And then secondly, we talked about this a bit last quarter as well, which is our hire in Q4 slower than we anticipated and would have liked. We did see some positive momentum in hiring in the first quarter and project that continue in 2022 as well. So from an overhead perspective, I suspect that there will be some increases as we go through the year as we want to invest in our technology platform products and other areas of the business, as Peter has mentioned. So those are the 2 primary components that I would call out and the relative timing for the usage increase. Hopefully, that's helpful to look.

Operator

Our next question is from Kevin Kopelman with Cowen & Company.

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

Could you give us some more color on Vrbo and how it's trending as the year goes on and maybe touch on the supply and Vrbo and how that's growing, if you feel supply constrained?

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

Yes, sure. As Eric mentioned, Vrbo remains nicely above 2019 levels. We are somewhat sublicensing. We will certainly sell out of many of our top locations for this summer. We're already seeing that. That is where our focus on supply has been to add supply in the markets where we know we're most constrained, and that's been really good in terms of when we add supply. We know we can move it and our suppliers get great outcomes and everybody wins. We haven't had as much focus, though we are turning our attention to that now of the broader overall supply gains. And again, we're going to stick to what we do well, which is whole home vacation areas not compete -- we're not going to pivot and go after cities, except if they're vacation cities essentially.

So we're sticking to our main product line here and what we know works and what we know our travelers want. But I would say the answer is yes, we are a little bit supply constrained. We could certainly move more supply in our most high-demand markets, but that is where our focus on supply has been, and we are kind of gearing up the machine more broadly to go after not just that, but more broad supply in places where we think it will now come back more globally.

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

And a quick follow-up, if I could. Looking at the lodging recovery, it's been pretty stable, improves a little bit February through to April. Underneath that, are we seeing Vrbo seasonality play out in that? Or is it just that it's just been pretty stable?

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

Yes. I would say Vrbo has been relatively stable. There's been some funkiness over COVID with month-to-month where demand has been high in certain area because of where the waves were and other things. But I would say broadly Vrbo's performance has been strong. We're seeing lots of new customers coming to the product. I think the first quarter, we're around 50% of it was new customers. So we're getting a lot of new customers. We're getting a lot of repeat, and we're building that base of customers who have had great experiences with the product. So I think we feel like that will continue. Obviously, as hotel comes back more strongly, that's another mix factor that will potentially change where the strength is, but we think Vrbo will stay strong, just hotel will get better.

Operator

Our next question comes from Deepak Mathivanan with Wolfe.

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

So first, just, Peter, I wanted to ask a little bit more about the last question. The cadence of accommodations bookings seems like somewhat flattened out between March and April around like high single digits, low double digits. Curious, any additional color you can add to that maybe geographically or maybe something specific?

And then secondly, kind of related to that. I wanted to ask you how you think about the travel demand sensitivity to consumer spending levels and maybe other macro variables? It clearly doesn't seem like it's an issue right now, but how do you think and even plan for second half, if cyclical trends start to become more impactful?

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

Yes. I mean so far, let me take the second one first, Deepak. I'd say so far, notwithstanding what we all read about or watch on NBC, so far, the macro economic environment has not appeared to have a noticeable impact on the recovery in travel. We could all make our hypotheses about people had lots of savings during the COVID, been underspent in leisure and hospitality. But people are spending into it. And our general assumption

right now is that, that will continue and that perhaps as things get -- as people feel the impact, they may downscale what they're trying to do for holiday or go to a cheaper alternative, but not that they won't travel.

So we expect that demand to continue. Obviously, impossible to say long term, what happens with inflation and everything else. And obviously, that could have an impact on ADRs, but ADRs, particularly in the middle and upper end of the market continue to be really, really strong. So there's no noticeable like, "Oh, that's something really pivoted in the last few months." But of course, long term, it's hard to say.

As far as bookings flattening out in April, again, challenging to say with the ups and downs of the various travel factors and what's going on in the world, we don't think there's anything to be much to be read into that. I think we feel good about where April is. It continues to show relative momentum, and we expect that to continue through the summer. So I wouldn't -- at least, we're not reading much into that right now. It's been bumpy all the way along, ups and downs and I think holidays and other things start to impact and back to work is starting to impact things. So we'll see in another quarter, but I don't think that suggests anything that makes us perk our eyes up or get concerned.

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

Deepak, I'll just -- you used the word planning, so let me respond to that from a planning perspective. Generally, as you think about our marketing spend, a large percentage of that, of course, is on the performance of variable marketing side. We now have instrumentation, which we've talked a lot about that allows us to see on a real-time basis what that demand footprint is looking like, what the CPCs are looking like, where we can allocate capital across the different performance channels, different geographies, et cetera. So ultimately, we have the ability to see it in real time and ultimately make capital allocation decisions based on what we're seeing. Of course, brand spend is a bit more batching. But at this point, what we're seeing and everything that Peter just walked through, we continue to be optimistic about the summer and beyond at this point. And if that changes, then we'll adjust how we think about investment in market if we need to.

And I guess maybe the last comment is, we've dealt with a lot of volatility before over the last few years and built a lot of this implementation based on that. And so if things get more volatile, we will be in a position to make appropriate decisions in real time.

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

Yes. No, makes a lot of sense. Thank you so much. Hope you will feel better.

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

Thanks. It's what happens when you start traveling again and shaking people's hands, you're bound to get a cold.

Operator

Our next question is from Naved Khan with Truist.

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

Yes. I just wanted to dig a little bit into the commentary on the new users on Vrbo. I think Peter you mentioned roughly 50% of the bookings came from the 50% of users renew. I'm just trying to figure out how are you trying -- how are you getting the -- how are you acquiring the new users? Are these through word of mouth? Or are these primarily through performance channels? Just any kind of color commentary would be helpful.

The second question I had is just on the return or the -- at least the improvement in urban and cross-border and business travel. Maybe can you give us some sense of how the bookings in these subsegments and compare versus 2019 levels?

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

Yes. Sure. Thanks, Naved. First on Vrbo, I would say, remember that we largely pulled out of performance in North America on Vrbo. We still use it in some other markets. But -- so it's not generally coming through performance marketing. It's coming through direct channels. But as you know, we've spent up considerably in brand marketing on Vrbo. We were in the pregame show for the Super Bowl. We've been aggressive there. We've been aggressive in app marketing and some other vectors. So I think we've done really nicely there, and the team has been very effective in that. And again, I think Vrbo is becoming -- as it has grown and grown through COVID, it's just become more of a known and all the brand has landed finally, which the initial work on that 3 years ago was maybe not as good as it could have been. But over the course of COVID and with the benefit of better, bigger spending, we've done really well with it. So I think we're just riding the momentum of all of that good work.

As far as the return of urban and cross-border travel, I would say, it's all directionally up and to the right in varying degrees. Big cities remain still considerably below where they were, but moving in the right direction, and we're seeing those recoveries coming back. We're seeing some of the booking trends for summer in terms of big international city destinations, holiday destinations coming back. Cross-border, certainly domestic out of North America -- sorry, cross-border out of North America has now recovered above 2019 levels.

So again, that's not true for everywhere. It's not true for EMEA yet. It's not true for some other places, but certainly for APAC. But all markets are generally up and to the right, and all products are basically up and to the right. So it just depends how far behind kind of they started. So business, big cities, still a ways behind. But coming back, I think international will be the first to break out and come back to historic levels, and then we'll see the other 2 categories follow. And of course, international is good for us. That's a market, both in the U.S. and in EMEA where we tend to over index.

Operator

Our next question comes from Mark Mahaney with Evercore.

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

Two questions, please. First, just we haven't mentioned IDFA on this call. So just any quick commentary on whether you -- the efficacy of your app marketing campaigns and whether you think you're back to parity or wasn't a major issue for you in the first place? And then I think, Peter, you talked a lot in the beginning about the B2B opportunity. I think click down a little bit more than you typically do. Can you just spend a little bit more time on helping us size that opportunity for Expedia versus the core market that you've been in? Just talk about the relative attractiveness of that opportunity.

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

Yes. Thanks. First off, easy one and the first one. It hasn't been a major issue for us. We weren't probably where we wanted to be in app marketing before. Now we're in a much better place. We've been much more effective. And so far, IDFA has not had a material impact on -- we're ahead of where we were historically. So it hasn't been an issue for us.

On B2B, thanks for the question because it's my favorite topic. I think this is an area of our business that's been underrated by the markets and is an opportunity -- a significant opportunity for us. And we've talked about it before, but we power many of the biggest financial institutions in the world and their rewards programs where they have travel and we'll power things like ARP membership travel all kinds of things like that. We have a huge base of offline travel agents, of regional players in regions where we don't play with our brands, who we power on and on and on. And there's a bunch of interesting opportunities in FinTech and other areas that are coming online. So we had this traditional business which has been about templates about giving people early access to our supply so they can sell it. So imagine an Airline sells a package with a hotel, et cetera. We're driving that hotel in that package very often. So there's all kinds of that business that's been down there.

But historically, we've only been able to do it for the largest partners because it took a lot of bespoke work to get the integrations to work. But what's really exciting and what we're all excited about is we're rebuilding the platform now in a way where it will be much more self-service, much more able to go for the biggest down to the smallest partners so that anybody who wants to be in the travel business or any of our partners who want to sell incremental products or use our technology to drive incremental benefits to their business, we'll be able to access it. And we think that's really going to dramatically enhance the potential size of the market. We have to deliver it. There's a lot of work still to do.

But every day, as I talk about optimized distribution, we have more and more partners coming on to products like that. And these constitute really significant opportunities for us broadly. In 2019, our B2B business was very sizable. I don't think we broke it out, but it was significant and it measured in the many, many billions of dollars of GBV and we see the opportunity to grow that significantly over time. And I would say we think our B2C business will accelerate beyond where it was growing historically, but we think the B2B business will accelerate even faster and we'll outgrow, on a percentage basis, the B2C business for the next several years.

Operator

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

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

A couple of questions on your monthly growth rates. If I average the first quarter, it's around plus 1% or 2% for lodging and I think the total is minus 11%. So let's call it a gap 12 points or so. I think it's been somewhat consistent for the last few quarters. Can that gap start to close as air recovers? And what other drivers are at that gap? And then the second question, it looks like growth is pretty stable on a monthly basis for the last 3 months. I guess I would expect a little bit better as international reopens, how did the comps look going forward from here over the summer?

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

Yes. I'll probably take those. So on the first one, yes, the way that you're dealing rates that on the GBV line that not all products have recovered at the same rate. Air does continue from a recovery standpoint for us. We have seen an acceleration, however, in air. As Peter went through a lot of the different intersections or vectors, I would add, to that one as well, we have seen that to start to recover as well. But it's going to -- it does hit a number of the intersections that are still, call it, behind where we've been benefiting from in the last few quarters, which of course, are U.S., Vrbo, et cetera, et cetera.

So over the course of the year, we'd expect for that air continue to come back as there are more planes in the air, as there are more international flights, et cetera. But there's some headwinds there as we all have heard from the airlines around staffing and other associated issues. What I would say here is the primary driver, as you pointed out. On the comps for the summer, I would say there's nothing particularly that I would call out. Obviously, there are a few months there where depending on what year you're comparing against, Vrbo had some particularly strong month. And if you go back to 2021 or maybe to 2019. But from a comp perspective, I think there's nothing over it.

Operator

Our next question comes from Tom Champion with Piper.

Thomas Steven Champion - *Piper Sandler & Co., Research Division - Director & Senior Research Analyst*

Just curious if you could talk about international travel a little bit more. Domestic is entirely and exceeded 2019 levels on the revenue side for domestic travel. Just what do you think is kind of an appropriate timeline or pace of recovery to get back to pre-pandemic levels on the revenue side? And then Eric, I'm wondering if you could talk a little bit more about the balance sheet. It sounds like debt reduction is your focus for now. But just curious if there are any thresholds to keep in mind that you're looking to achieve before you shift back to buybacks or another use of cash?

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

Yes. Thanks, Tom. On the international front, as I mentioned, we're already seeing, for example, out of North America, that international levels have recovered above 2019 levels, at least, on a dollar volume basis. So -- but again, it is driven market by market. So EMEA trails that. APAC is far worse, and LatAm is in between. So the trajectory of when it's all back and what is that -- what is the -- how does that comp over a normalized pre-COVID year. It's yes, we had to do more with COVID than anything else. But I think as we've seen before, the bigger travel markets in the west have buoyed the category and particularly for us since we've concentrated more there. I think we could easily get to pre-COVID international levels of volume in dollar volume before the whole world recovers, but it's a little hard to predict because without the whole world recovering, other areas have to over index.

So right now, we feel good about it. I mean norms our home market, and it's great that it is leading the charge. But obviously, to really comp to prior periods in totality, we could use the rest of the world coming back a little more. But I expect it's entirely possible that by the summer, we could be at levels. And again, mix would be different and some of it would have to do with dollar volumes and ADRs, but we could be at levels above where we were in 2019.

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

And on the second part of your question, thanks for the question, Tom, around the balance sheet. I think you should assume and also have discussed in that we are having that conversation regularly when it comes to our balance sheet, our cash position, our debt position and ultimately, returning cash to shareholders in one form or another. As mentioned numerous times, the investment-grade rating is important to us. We're committed to stay in investment grade that does require us to delever initiative where we are right now and also from an attractiveness standpoint of reducing our interest expense. And as we do that, we are then also contemplating what other capital returns would look like. I don't have anything to announce necessarily today.

To guide you on the mile posts or whatever the -- we're currently at 4.5x trailing EBITDA from a leverage perspective. It's a bit different on our current leverage ratio for our revolver, but that's our sort of headline number. And if you look at our historical level of leverage that was around 2.5x, and so I wouldn't necessarily state that 2.5x it was is a clear marker, if you will. So that is certainly the order of magnitude that we're looking at from a get our debt down, get our debt leverage ratio down as that I think opens up the opportunities for capital returns in other forum.

And also, remember that there's 2 primary ways that we can get that ratio down. One is paying down debt, which is something that we are actively thinking about and second growing into it from an EBITDA standpoint. We do expect EBITDA to be robust as we get into this year as we get more fully recovered. And if trends continue, and we're certainly going to look at proving our ratios in this area to open up some more options for EBITDA.

Operator

Our next question comes from Lee Horowitz from Deutsche Bank.

Lee Horowitz - *Deutsche Bank AG, Research Division - Research Analyst*

Two, if I could. I will kind of strikes us that the U.S. hotel business has grown increasingly competitive kind of through COVID and in recent months. I wonder if you can comment at all what you're seeing from a competitive standpoint in the U.S. specifically, say, now versus the pre-COVID environment? And then maybe on take rates. With take rate this year being a function of both the pace of the overall industry recovery as well as the relative recovery rates of some of the products that we've talked about at this point, how do you think about how take rates may evolve in '22, say, relative to the levels we saw in 2019?

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

Yes. Maybe I could ask you, in your first question, are you asking competitiveness between us and other players or the competitiveness between hotel? I'm not sure I understand the question.

Lee Horowitz - *Deutsche Bank AG, Research Division - Research Analyst*

No. I guess, between you and other players within the U.S. hotel market.

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

Yes. I mean, look, I think as we've talked about before, our main competitor has been highly aggressive. This is obviously a market where we are relatively dominant and they want more of the business. And we talked about how COVID and the kind of changes in demand patterns were helping them and hurting us in terms of long-tail properties in smaller markets as against our relative strength in big cities and international travelers, et cetera. So they're certainly focused on it and competitive. We always watch what they do, but I think we feel pretty good about our opportunity to continue to grow in the U.S. and obviously, we expect them to compete hard, but it's our home market and we're strong here, and we think we have the tools we need to be competitive. And when demand patterns return to more normalcy, I think you'll see that they were pretty much where we were. We may each make slightly different choices about where we think the long-term value is in customer base, but -- but I don't think there's any -- there's not really something to see there from our perspective right now.

In terms of take rates, all I can say is that we've renewed a lot of deals throughout COVID. They've been good renewals, not big bites. And our take rates have been pretty consistent and held. So I think there's no -- the sky is falling. So we can't pay anybody. And equally, I don't think it's going the other way, but we're also building in more opportunities in places like air and things like that, where we think there's opportunity to help our partners sell more premium products, sell ancillary products with their air tickets. We historically have not really been able to sell things like seat assignments and bags and other things. And now that increasingly, we are direct connecting with airlines, we are now able to sell those things.

And actually at EXPLORE this week, we'll have a demo of a new product that we used to help shoppers shop smarter and pick the right product for themselves, and it's helping drive more premium products and attach rates. So we have a lot of opportunity to do better there. We got to make it happen. But I think -- but in terms of the core deals with our partners, I think we're in fine shape.

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

Yes. And just to add a quick comment on just around -- yes. Just a reminder that Q1 take rate tends to be our seasonal low for the year. I think you can see that in Q1 relative to Q4 and some of our historical numbers. And so as you're modeling, we ensure that you're taking a look at the seasonal curve that we've experienced in the past and expect that curve to be similar this year than it has been.

Operator

Our next question is from Brian Nowak with Morgan Stanley.

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

I have 2. I appreciate the color about the monthly bookings trends versus 2019. I was wondering a lot of investor questions about this. Can you just help us understand a little bit where the core hotel business bookings trends are versus '19 even versus those 11, 8, 7 numbers you gave us so we have a better -- a rough idea of how that business is doing through Vrbo and all the other pieces that go on in bookings. That's the first one.

And then second one, sort of a big picture question. You have a lot of improvements you've made in the site like there's a lot more improvements to come. Can you just talk to us about progress you've made around traffic conversion and where you still more low-hanging fruit opportunities. however you look at it, whether it's searches, conversions, app opens, et cetera? What are you seeing on the conversion front? And where do you see the biggest opportunities to kind of further fix that going forward?

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

Okay. Maybe I'll take the second one first, and then Eric can give a little color on the first. But I would say -- thanks, Brian. On the low-hanging fruit side, let me just kind of route everybody on where we've been, which is when you're rearchitecting the whole platform and finally consolidating these different tech stacks and everything else, there's a lot of like foundational work that goes into that. And as a result, there's way less feature work and test and learning going on every moment of every day because you've got these big heavy lifts to move on to the same stack.

In fact, this quarter, we've made huge progress in moving Hotels.com onto the Expedia Stack, and we will be consolidating that over the coming months. And then those things unlock huge opportunities for us from an efficiency standpoint, from the opportunity to innovate across a wider breadth of travelers and we get more benefits to every traveler. So we've just started to ramp up -- ramp back up our sort of historical AB testing into conversion. And the exciting part is increasingly, we can do that with machine learning and not just with people designing different products.

We've had a lot of wins. Some of the products we're rolling out of EXPLORER. We've mentioned the smart shopping idea where we're getting people to buy more premium products. All those things are helping with conversion and helping with, if you will, dollars per transaction and those kinds of issues. So we're seeing it in a number of places. But I would say we're still like just reigniting that work because we've been so busy on foundational work. So I think there's probably a lot of low-hanging fruit to be had. We do have some exciting products rolling, features rolling out this week, and we will continue to do that. But that's a few things. It's really the day in, day out AB test and machine learning, driving better conversion. It's really impactful when you get it right. And when you're not doing it, it certainly slows it down.

So I think there's a lot of opportunity, but I can't -- I could give you 1,000. It's hard to give you 2 that are going to be the difference makers. It's a bunch of little things that make a difference. And we're in a much better place -- if you think about even just the Hotels.com example I gave you, we would have to test things on Hotels.com, test different things on Expedia, test other things on Vrbo, we will get to a place where we'll be able to test everything across everything and that's just a much more impactful way to make change and drive better traveler outcomes and better conversion. So that's what we're focused on, on that front.

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

Yes. Just to add to that, and then I'll take the first part of the question just around one of the things that I think Peter and I are so excited about is that we're starting to see some of the power of our data come through the use of machine learning on the site as well. We now have real models live on the site that is starting to drive more personalized experiences to our for our travelers or customers. And what that ultimately means is you can imagine the entire site ultimately, as we work through it, we'll be the team learning and the more that we know about customers more than we know about travelers. The more they sign up for our loyalty program, interact with our -- interact and book with us that ultimately that we're able to provide more and more personalized service. What's exciting is that we're seeing those models live and starting to see some good early returns from those. So that would be 1 component that I would add to what Peter mentioned.

On the core hotel side, I think on this components. I think we've talked about them a little bit already. One is ADRs are strong in the core hotel business. We're seeing that in the U.S. and in North America and other places as well. And then is secondly, just around core hotel volume. We're not going into specifics necessarily between Vrbo and Hotel, but we are seeing that vector of hotel improve across nearly or if not whole geographies. So it had improved in the U.S. that continues to increase over that will continue to improve over the future and other geographies. So I think that the hotel business, the core hotel business is much healthier as it's been and are excited to continue for you to come.

Operator

Our next question comes from Jed Kelly with Oppenheimer.

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

Just talking -- just going back to some of the gains you made in customer service efficiencies, you've talked about on past calls. Can you give us an update on the progress there in terms of driving more leverage to the business? And then just this week at the EXPLORE conference, any update on providing on putting more Vrbo inventory on Brand Expedia or Hotels.com?

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

Yes. So go ahead there.

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

Yes. One on the I take the first question, and Peter, feel free to add any color and then you can take the second one. I think you'll note number our results this quarter as our cost of sales and -- which was down pretty significantly relative to 2019, and that's driven by a number of different opportunities that lower headcount within that cost of sales across the revenue. Also, that's the use of technology as well. So we just continue to add use case after use case in regards to using our communications, our learning and that type of opportunities with customers. And that results in a better customer experience. We're getting improved NPS scores while also driving more efficiency in the business as well. So again, good results there. We can start to see those coming through the numbers as well.

I do want to point out on the cost of sales side. There are a couple of other moving parts. And again, just for everyone's edification cost of revenue across the sales consists of merchant fees, customer service, cloud fulfillment, which are largely volume driven. In the quarter, this was the first quarter where we did not have Egencia. And we did have Egencia for a month in Q4. So when you're comparing against Q4, just remember that there was some of that Egencia came out.

Another thing that we're seeing on the cost side, which is a great improvement as we've talked a lot about the number of complex calls that we're getting due to the COVID disruption. So particularly on the air side, which are particularly difficult to manage, and we're starting to see this come down throughout the year and the quarter as well. We're getting -- one is we're just cleaning them up. So there are a few of them. We're getting better technology, and we have some new technology that's being released around more automation where the traveler can manage the process for her or himself. So all good progress on the cost of sales side. And going forward, and of course, is influenced by seasonality, and we'll see call center volume increasing in the summer again. At this point, we feel pretty good about the projects we're making.

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

Yes. And I'll just close on that point before I take the other one. As things normalize and we get out of these COVID tons, as Eric mentioned, all these old flight cancellations, there's a high -- much higher propensity of flight cancellations still than there was pre-COVID and major disruptions like when we get to normalized then, we should see more benefit even than we've seen so far in our service economics. So that's more to come, but should be good news.

As far as the Vrbo on Expedia, et cetera, as I mentioned, we are consolidating the front-end platforms right now. We've come a long way on Hotels.com. Vrbo is next to go for us.

And when those things come together onto 1 front-end platform, it's going to be a much, much, much better experience for all our customers coming through whatever channel they come through to get to book Vrbo content. And this is another place where our B2B business will benefit because we know we have many rewards programs and other places who want our Vrbo content. So we will have yet again another way to drive

demand through our B2B partners with products we haven't always been able to deliver to them because of the complexity. So this is a foundational thing we're doing. It's not so much about the tip of the spear, like can we put more properties on Expedia. It's really about merging those stacks and get them all on 1 front-end stack. And when we do that, which is coming this year, but still work to be done. That will free up a lot of opportunity for us to drive that and innovate around how that experience should work in terms of booking Vrbo's through our other brands.

Operator

Our final question comes from Brian Fitzgerald with Wells Fargo.

Brian Nicholas Fitzgerald - *Wells Fargo Securities, LLC, Research Division - Senior Analyst*

We want to ask your view on some of the shifts in the regulatory landscape with DMA in the EU and some similar proposals elsewhere? It sounds like these could introduce some friction between Google Search and some of their vertical products like hotels. I'm wondering if you could give us a view on how Google Hotel has impacted competition in search auctions. And if you're seeing lower volumes going to Google, hotels, Meta, if that could be a tailwind for your customer acquisition costs.

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

Yes. Not so much. We haven't seen the volumes really decrease. I think directionally, what they used trying to do makes sense, but it hasn't been very impactful. And there's a lot of debate going on with the commissioners about how to wrangle Google Meta and whether the industry has a view on whether it's fair or not, but how the EU might go about and EU is generally been more aggressive than the U.S. in terms of regulation, but how they might go about trying to get Google to deliver a fairer marketplace. But so far, we have not seen any real reduction. Google Meta continues to be extremely strong and an important -- obviously, therefore, an important place for all of us to have to deal with. So I don't think we're going to see much change there, not yet.

And with that, I think that was our last question. I just want to be clear if -- I think some of you might be able to make it or might be making to our EXPLORE conference if you can't I invite you, if you can to make time to watch it streamed or taped. We've been a little cagey because we have a lot of rollouts coming in terms of product delivery and some exciting things that are coming out. And I think if you get a chance, you'll get a better understanding of what our B2B ambition is. But suffice it to say that we think this is an important time for us to pivot in the industry and really explain to the industry how we're going to be a different player in the market and an enabling player in the market, and we believe it's going to allow us to expand the marketplace for our partners and ourselves dramatically.

So if you get a chance, please tune in. And otherwise, thank you all for your time, and we will talk to you in a quarter. Take care.

Operator

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

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