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EXPE.OQ - Q4 2022 Expedia Group Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 09, 2023 / 9:30PM GMT

OVERVIEW:

EXPE reported 4Q22 revenue of \$2.6b.

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PRESENTATION

Operator

Good day, everyone, and welcome to the Expedia Group Q4 2022 Financial Results Teleconference. My name is Emily, and I'll be the operator for today's call. (Operator Instructions)

For opening remarks, I will turn the call over to Senior Vice President, Corporate Development, Strategy and Investor Relations, Harshit Vaish. Please go ahead.

Harshit Vaish - *Expedia Group, Inc. - SVP of Corporate Development, Strategy & IR*

Good afternoon, and welcome to Expedia Group's earnings call for the fourth quarter of 2022 that ended December 31. I'm pleased to be joined on the call today by our CEO, Peter Kern; and our CFO, Julie Whalen.

The following discussion, including responses to your questions, reflects management's view as of today, February 9, 2023 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 expenses exclude stock-based compensation.

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

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

Thank you, Harshit, and good afternoon, and thank you all for joining us today. This past year was an important one in our company's journey. We did a ton of work and made great progress on many transformational initiatives, all while delivering record EBITDA. Q4 was yet another step in that journey despite the impact to our P&L from the severe weather-Hurricane Ian in early October and the winter storms in late December drove up cancellations, causing bookings and revenue for the quarter to come in behind our expectations despite demand otherwise accelerating through the quarter. The good news is that we have seen those booking trends come back much stronger in January post the disruptions, so '23 is off to a great start. And we were really pleased that our investment over the last several years in service technology and capabilities allowed us to deliver best-in-class service through these difficult travel circumstances.

As I've said many times before, when your strategy is centered around long-term retention of valuable customers, every element of the work must deliver for the traveler. So, a big thanks to our service team for all their hard work, especially over the holidays.

Now as we launch into '23, I'm particularly pleased with how our strategy of investing in and retaining high lifetime value members is showing accelerating improvement across our business. For the fourth quarter of '22 versus '19, our new customers that became loyalty members grew over 60%, and we enter '23 with a record number of active loyalty members, which is 10% higher than any prior year. And just as importantly, our quarterly active app users increased by approximately 40%.

For us, these are the most important metrics to gauge the progress of our strategy. Just to remind you, our loyalty members each drive 2 times the gross profit and repeat business over an 18-month period as compared to nonmembers, and our app users each drive 2.5 times the gross profit and repeat business over the same period. When you combine these 2 and have a loyalty member who also uses the app, this drives the highest production of all, and that group represented the fastest-growing customer cohort for us in 2022.

But as strong as those numbers are for our overall business, they are even better in our Expedia brand in the U.S. This is extremely important because Expedia U.S. is the business where we've been able to make our fastest product and marketing improvements and where we have the most complete set of capabilities to support our strategy. And the evidence is clear.

In the fourth quarter of '22 versus '19, Expedia U.S. grew new customers that became loyalty members by over 300%, and enters '23 with nearly 70% more active loyalty members than any prior year and almost 60% more active app users. Expedia U.S. was able to deliver almost 20% revenue growth in '22 as compared to '19, and there are still plenty of improvements yet to come.

Of course, when you look at our all-up B2C numbers, the accelerating performance of Expedia U.S. has been largely offset by our intentional de-emphasis of some smaller noncore brands, our pull back in certain geographies where we did not have the right model, and of course, our much-discussed technical migration, which required significant work and like all migrations resulted in some short-term friction.

But what I'm really excited about is that with the proofs now very clear that our strategy is working, we will begin more aggressively rolling it out to our other brands and our non-U.S. markets. After years of democratizing travel, we are now taking a leap forward to use cutting-edge technology, a better marketplace, a broader rewards program and best-in-class service to drive true customer benefit and loyalty because when you take care of customers and give them great experiences, they keep coming back, and that's how you win.

In support of this long-term strategy, you will see us maintain a higher mix of marketing spend to channels that attract desirable long-term customers rather than just chasing short-term transactions. Therefore, the parameters of when and who is worth marketing to and winning as a customer will be different.

We have clearly proven the benefit of attracting and retaining the right customers and increasingly, our P&L will reflect that. We're starting '23 with the highest number of active loyalty members and app users for any year, and we will see further momentum in the business this year thanks to a much larger base of loyal customers.

Of course, our confidence in our strategy is ultimately only possible because of the underlying technology that we have invested so much in over the last several years. This is what has enabled Expedia U.S. to go faster. And as all of our brands and geographies begin to ride on that same tech stack, we will expand our ability to compete and win in more places. Work that created a drag on our business in '22, like the migration of Hotels.com to our core platform become big unlocks for us in '23.

As one example of this, we expected our test velocity around optimizing our sites to grow roughly fourfold with the same resources this year as more engineers and product team members are freed up post migration and our tests can be run across our entire base of core OTA traffic. In other words, we will have many more tests where the winners get deployed across a much larger base.

And as we continue to invest further in product and technology and new features and capabilities to take online travel to the next level- these improvements increasingly impact more and more of our customers more rapidly worldwide. No travel player in the world has done more over the last few years to innovate around the shopping and service experiences to improve the travel journey for the consumer.

And just to emphasize the point, all of our advances in technology, in product, and in customer service, not only benefit our direct customers but continue to benefit our expanding base of B2B partners as well. Our B2B business is one of the largest in the world and continues to grow rapidly. The breadth and depth of our products are expanding, as is our partner base, reinforcing the importance of our supply and our technology as the core operating system of the travel market.

To that end, we added many new partners and grew significantly in '22 despite Asia still being greatly constrained. With the return of travel into and out of China in '23 and a robust pipeline of new partners around the world, we anticipate significant growth and a great year for our B2B business.

So as we wrap up what was the most profitable year in our history, we begin what will be another exciting year of growth and the last in our major technical overhaul. This coming year, we will finish moving all of our brands onto 1 front-end stack. Vrbo, the last major brand to come across has already been testing traffic on the new front end and will make the final migration in the coming months. This last step will then allow us to launch our new One Key loyalty program, which will span all of our main brands. It will be the broadest, most flexible loyalty program in the world and for the first time, give vacation home renters the benefits of a loyalty program. And importantly, it will complement our many partners' loyalty programs as well.

So overall, I'm confident that with more technical tailwinds than headwinds this year and with a proven strategy that we will be expanding on, we will once again drive strong financial growth while completing the last of our major changes. It has taken several years and a lot of hard work, investment and patience, but we are extremely gratified about where we are and what we know we can deliver going forward. And I'm even more excited about moving the last big boulders of our plan across the line and driving greater acceleration in the future.

And with that, let me hand it over to Julie.

Julie P. Whalen - Expedia Group, Inc. - CFO

Thanks, Peter, and hello, everyone. 2022 was a year of significant progress on our strategic growth initiatives, and our financial results are evidence that we are on the right path to deliver long-term profitable growth.

The accelerating success of our lodging business, particularly in our Brand Expedia business in the U.S., which is the first of our brands to benefit from our transformative tech and marketing initiatives enabled us to deliver total company record lodging bookings and revenue. And we did this while at the same time, driving significant profitability with record EBITDA levels at over \$2.3 billion and an EBITDA margin of over 20%.

Our fourth quarter also benefited from continued strong lodging demand, but unfortunately, it was heavily impacted by Hurricane Ian in October and the storms in the U.S. during December. Absent these weather-related events as well as FX headwinds, our results on both the top and bottom line would have been at record fourth quarter levels.

As far as the details regarding our financial performance for the fourth quarter, similar to previous earnings calls, I will discuss our revenue-related and adjusted EBITDA growth metrics this quarter, both on a reported and like-for-like basis. The like-for-like growth rate excludes the contribution from Egencia, Amex GBT and the nonlodging elements of our Chase relationship.

As a reminder, on November 1, 2021, we completed the sale of Egencia and our EPS business entered into a 10-year lodging supply agreement with Amex GBT. It is also important to note that our fourth quarter 2022 growth rates as compared to 2019 were negatively impacted by FX headwinds of approximately 250 basis points to gross bookings, 400 basis points to revenue and 800 basis points to adjusted EBITDA or 70 to our adjusted EBITDA margin.

We believe these like-for-like numbers and the disclosure of the negative impact from FX headwinds are helpful in assessing the operational performance of our business. Please note that we will discontinue disclosing these like-for-like numbers next quarter, the first quarter of '23, as we move away from comparing our financial performance to 2019 levels and move towards standard year-over-year comparisons.

Now let's move back to our performance this quarter, starting with our gross booking trends. Total gross bookings were down 12% on a reported basis and down 2% on a like-for-like basis versus the fourth quarter 2019. Total gross bookings were impacted by a spike in cancellations and lost transactions related to the hurricane and the winter storms in the U.S., as previously mentioned. If we further adjust for the approximately 250 basis points negative impact from FX during the quarter, our gross bookings would have been above 2019 levels.

Growth was driven by total lodging gross bookings, which were the highest Q4 on record at plus 4% on a reported basis and plus 6% on a like-for-like basis versus Q4 2019. By month, lodging gross bookings on a reported basis were up 3% in October, which was impacted by the hurricane, up 7% in November and up 2% in December, which was impacted by the winter storms in the U.S.

Excluding the weather-related events, growth versus 2019 for each month in Q4 reached high single digits that accelerated through the quarter. And in January, we saw a step change where our lodging gross bookings accelerated even further, growing over 20% versus 2019. While it is still early in the quarter in 2023, we are pleased to see strong lodging demand continue, including total lodging bookings for stays expected to occur in the first half of 2023 continuing to meaningfully outpace 2019 and 2022 levels.

Moving to the key financial metrics in the P&L. Starting with total revenue. Revenue of \$2.6 billion was down 5% on a reported basis and down 1% on a like-for-like basis versus Q4 2019 and includes the 400 basis point negative impact from FX as well as the financial impact from the weather-related events. Excluding these factors, our reported revenue would have been above 2019 levels.

Total revenue margin also improved to 13% for the quarter or up approximately 90 basis points versus Q4 2019, as we continue to benefit from a mix shift towards our higher-margin lodging business, which as a percentage of the total, has grown approximately 1,000 basis points over the same period.

Cost of sales was \$408 million for the quarter, which is a cost reduction of \$125 million or 24% and 380 basis points of leverage as a percentage of revenue versus 2019, driven by our divestitures and ongoing efficiencies primarily across our customer support operations.

Our customer support operations continue to benefit from the various automation initiatives we have implemented over the past couple of years, and we expect that going forward with the further consolidation of our tech stack onto a single platform, we should be able to continue to drive efficiencies across our cloud and licensing and maintenance costs as we eliminate systems that are no longer necessary to support.

Direct sales and marketing expense in the fourth quarter was \$1.2 billion, which was up 20% versus 2019. The primary drivers of this increase over 2019 were associated with both our B2B and B2C businesses. Our accelerating growth in our B2B business is driving an increase in commissions paid to our partners, and these commissions fall into our direct sales and marketing line.

In our B2C business, we had increased marketing spend to support our accelerating growth during the quarter. Unfortunately, given the storm-related cancellations and lost transactions, and their impact to the top line at the end of the quarter, we did not fully realize the anticipated return of our marketing spend.

In addition, we also have been strategically mixing towards longer-term investments in our marketing spend, which, given the longer-term return profile of the spend, is less closely correlated to demand within any given quarter. As a result of these 2 factors, we saw this marketing spend deleverage versus Q4 2019. However, on the full year, we saw leverage in our total B2C spend versus 2019, inclusive of loyalty and discounting that are contra revenue. And we expect to maintain this leverage or improve it going forward.

Overhead expenses were \$590 million, a cost reduction of \$157 million in the fourth quarter of 2022 or 21% and 470 basis points of leverage as a percentage of revenue versus 2019. We continue to remain disciplined on our cost structure. And with the expected improvement from the consolidation of our tech stack and general growth initiatives, we believe we can continue to maintain this lower cost structure and drive long-term leverage as we deliver accelerating top line growth.

Overhead expenses slightly increased from the third quarter, approximately \$23 million, as we continued to invest in top talent across our product and technology teams to help accelerate our various platform initiatives, in support of our growth strategies that will drive long-term financial returns.

Adjusted EBITDA was \$449 million or down 6% versus fourth quarter 2019 and was down 2% on a like-for-like basis, which includes the negative impact from the weather-related events and FX headwinds. On a margin basis, we are relatively in line with 2019 despite absorbing these negative impacts. And absent these factors, our fourth quarter adjusted EBITDA grew in the mid-teens as compared to 2019.

Free cash flow for the full year was strong at positive \$2.8 billion, up approximately \$1.2 billion and over 70% versus 2019. This strength was driven by our record EBITDA levels on the year and an improved benefit from working capital as well as lower overall capital expenditures as our spend is now primarily focused on our technology and product transformation.

On the balance sheet, we ended the quarter with strong liquidity of \$6.6 billion, driven by our unrestricted cash balance of \$4.1 billion and our undrawn revolving line of credit of \$2.5 billion, which provides us with ample access to cash to operate the business.

This liquidity, combined with our strong free cash flow levels enabled us to maximize our return of capital to shareholders during the quarter by further accelerating our share buybacks to approximately \$350 million or 3.7 million shares in the fourth quarter. This resulted in approximately \$500 million and 5.2 million shares being repurchased since the end of September 2022. Even after these buybacks, we enter 2023 with ample levels of shares remaining under our existing authorization for future repurchases at approximately 18 million shares.

And given our ongoing strong liquidity, our confidence in the business, and the fact that our stock remains undervalued and does not reflect our accelerating business performance, we plan to continue to buy back our stock opportunistically in 2023.

In closing, I couldn't be more excited about what lies ahead in 2023 and beyond. With accelerating demand trends and the proof points that our growth initiatives are working, combined with our strong financial position as we enter 2023 with ample liquidity and a higher margin profile business, all of this gives us the confidence in our ability to deliver double-digit growth and expanding margins as well as long-term shareholder returns.

And with that, I would now like to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

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

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

Maybe 2, if I could. In terms of thinking about moving all of your brands and all of your geographies onto the technology stack as we go through 2023. Are there some elements of either costs that still have to be absorbed by the business model that we should be keeping in mind in 2023? And once that transition is over, how should we be thinking about possible lift from a business momentum standpoint on the other side of that transition?

And maybe one quick follow-up on B2B. I know obviously, we're not guide to the full year. But can you talk a little bit to some of the variables you're seeing in the B2B business that are building momentum or things that we should be keeping in front of mind as we think about what growth in volume might build in the B2B business through 2023?

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

Thanks, Eric. That's a lot to cover. So I'll start at the top. In terms of moving the businesses onto a single technology stack and front-end stack, I think Hotels.com has been an instructive example in the sense that -- last year we talked about this a few times, as we're moving HCOM across, we obviously did less to improve HCOM as a stand-alone entity because all the engineers were working on moving it. So you lose a little momentum as you're moving something.

And then there is typically an uplift period where you've got to optimize the new stack and the new product on the new stack to get back to where you were and then get all the benefits beyond that. So there is typically, if you will, a lull that takes place as you move things and some friction that you have to absorb in the numbers.

So we did that with HCOM, as I mentioned. We're now getting the benefit of much faster testing between all the OTA brands. Vrbo is the next one to move. It will suffer a little bit of the same things, but we think we can absorb that, as Julie said, and still show the growth we are planning for this year. And that unlocks then, of course, being able to do One Key and other things. So there's a lot of unlocks on the other side, but you do have to sort of weather a little friction to get across, and we've weathered it in last year's numbers.

We have a little left to weather this year, again, we think will drive very good growth despite that. And of course, when it's behind us, grow even faster. So that's what we're really looking at.

And then on the other side of it, you get the benefit of testing faster, improving the products faster across everybody, you get the benefit of One Key. And you also get the benefit of being able to then deprecate older stacks that have costs associated with them, engineers associated with them, et cetera, so that you can put all your resources on the most valuable thing.

So that's the big thing we've got left to do. Those are the 2 big hitters we're launching this year, but there's lots of other work going on under the covers constantly, both in optimization and in cleaning up and consolidating other back-end things in the stack.

And then on the B2B front, there's a lot that's gone into what's growing. As I mentioned, we think Asia opening up will be good for us. We've had some big relationships there including China, where we haven't gotten much output during COVID. That will help. But really, we've been growing across many vectors. We've talked in the past about our optimized distribution product that we used to help hoteliers with their wholesale businesses, that's been growing very well.

We've invested in our travel agent product, which has driven a lot of growth. And we've expanded, as I said, the breadth of our partnerships, the number of our partnerships. We continue to power a lot of the biggest supply partners like airlines and others. So we continue to grow kind of in every dimension. So we have more partners, more depth with each partner and new products coming all the time. So that continues to be an exciting area for us.

And as we innovate faster with technology, with AI and other capabilities, those underlying capabilities become more and more valuable to our partners. Hopefully, that answered your questions.

Operator

Our next question comes from Lee Horowitz with Deutsche Bank.

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

Great. So just thinking about the investment plans for 2023 and how that impacts margins. So on the one hand, you obviously have investments in One Key, driving some incremental marketing investments. What are the areas that you see potentially offset some of those incremental investments from perhaps lower fixed cost growth, maybe underlying marketing efficiency via bringing that function under a unified stack or perhaps other areas of cost efficiency that you see across the P&L?

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

Yes. Lee, we will be investing somewhat more in the loyalty program, but we expect, as we've talked about many times, we think about our investment in acquiring and retaining customers as everything from loyalty to discounting to direct marketing spend and performance brand, et cetera. And we expect to balance those things. So we don't expect the all-up cost of that, if you will, to be expanding over the course of the year. It might shift between buckets. And we believe we can underwrite that with the total spend we already have.

So there may be some noise. And when we get there, we'll explain it to you in terms of how the loyalty program will roll out, but we expect to absorb that all in the -- in all those line items, just trading them off one against another.

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

Great. And one follow-up, if I could. Obviously, you're seeing really strong underlying demand for the industry with growth into January, that looks really healthy. Obviously, this is maybe somewhat counterintuitive given the state of the consumer savings rates and inflation. I guess, to what do you owe sort of this strong underlying demand for the overall travel industry given the macro backdrop?

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

Yes. I mean I think you've heard travel CEOs talking about it for a while and maybe it was hopeful. But we continue to see that people are prioritizing travel over just about everything. If any of you have been traveling, I'm sure you've seen it. Rates are still very high. Demand is high. Planes are full.

So I think maybe it's still the effect of COVID and people realizing there's more valuable things to do with their lives and they -- it's not just they like revenge travel, but it's beyond that, like I want to keep traveling. I want to keep enriching my life. But I think we're just -- we're seeing high demand. We obviously think we're doing a good job of capturing that demand relatively speaking. But the markets are strong.

We still haven't seen really Asia come back fully. I'm sure we'll see pockets. I mean, we've all worried about it. But so far, demand continues to be quite robust, and we're really pleased with how '23 is starting. So with any luck, there will be soft landings all over the world and Asia will come back and the industry will remain robust through this year.

Operator

The next question comes from Kevin Kopelman with Cowen.

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

I had a follow-up on that. Could you help us think about or help us better understand the growth that you're seeing year-to-date? Should we think of that as kind of getting back to that high single-digit number? Or have you been able to surpass that?

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

Yes. I think as Julie pointed out, January was north of 20% up in lodging GBV gross bookings. So we're definitely running ahead of high single digits. So far, we'll have to see how the rest of the year plays out, the rest of the quarter, the rest of the year plays out. But it's really been driven by pretty much all quadrants. It's our brands, it's our B2B business. It's geographically dispersed. APAC is coming back a little stronger, but that's a relatively small base for us.

So it's been pretty broad. And right now, it's definitely running well ahead of where we were in the fourth quarter.

Julie P. Whalen - Expedia Group, Inc. - CFO

Yes. And I think just to remember, even if you go back to the third quarter, I mean, through most of that we also had high single digits. So really, the fact that we're holding that ex all the storms and the noise that we've been talking to you guys about and it's been accelerated in the fourth quarter, and we're seeing a step change as we enter into 2023 as well as with our [BEX] U.S. business, we think that's a really good sign that we've got some strength ahead for this year.

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

Yes. And I'd add, Kevin, I talked a little bit on the first question about friction. We spent a lot of last year doing some heavy lifting on things like Hotels.com, having reduced testing, et cetera. We really spooled that up in the fourth quarter and it's accelerating further now.

So just the ability to be back and really innovating in the product and the day-to-day in the product is really valuable, and it's increment by increment. It's small pieces, but when you add them up, it really can drive a lot.

So conversion is improving. Lots of things are improving. So I think we're just starting to multiply those effects of all the work we've done along with the marketing and everything else. And hopefully, also, we're working in a good demand environment, which helps. But I think those things are just more tailwinds than headwinds again, and that's just helping to drive us a little faster.

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

Great. And just one quick follow-up on that. You touched on ADR trends. It was the kind of slower number in Q4. Was that just related to the weather (inaudible)?

Julie P. Whalen - Expedia Group, Inc. - CFO

Yes. That was actually called out in our remarks, but that was pretty much solely due to the weather-related incidents. ADRs have been holding pretty strong. They're still elevated. I don't think we've heard anyone else speak to any issues with ADRs. We've seen a little bit of movement in Vrbo, but again, it's coming off of really high levels, and it's not that significant, slight movement, but ADRs are really holding strong for us across the board.

Operator

The next question comes from Lloyd Walmsley with UBS.

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

Great. Two, if I can. First, just on the -- I think on the marketing -- the all-in marketing side, loyalty, discounting and marketing and the plan for that to kind of be balanced through the year. Is there a point where you get to the other side of kind of some of this longer-dated spend and you feel like you're going to see leverage as this bears fruit?

And then sort of related to that, it sounds like the stats around loyalty and app users are -- show a compelling uplift. How convinced are you guys? Like is it that those boosts are incremental and kind of causal rather than just coincident with your heaviest users just gravitate towards those things? Anything you can share there would be great.

Julie P. Whalen - *Expedia Group, Inc. - CFO*

Yes. So on the marketing side, from a leverage perspective, we actually are leveraging with our all-up spend, which we put as obviously loyalty and discounting, which are contra revenues. When you look at it in the totality on the year, we are leveraging and we expect to hold that, if not improve it next year.

I think we're just wanting to make sure we make the point that on any particular quarter, you can see movement, right, because we're shifting our spend and have started to do that now for a couple of quarters where we're putting more of our spend into long-term investments.

And so you could make that investment today and get the benefit 2 or 3 quarters out. And so it's not about any 1 particular 90 days that we should be judging per se, the total bucket of our spend. So we're really focused on leveraging it in total on the year across the entire spend profile.

So I think that's how you should think about it. I think it's great that we've seen it leverage. We're shooting for that again this year. And I think when you look at things like the types of customers, the high lifetime value customers that we are getting and are getting significantly more in the Brand Expedia U.S. business, and we're seeing that translate into really strong revenue. It's a pretty exciting time to see this all come to fruition.

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

Yes. And I would just add on your question of causal or not. What we've seen, Lloyd is that we've been able to greatly expand the numbers at a pretty rapid pace and bring more and more people into the loyalty plans and into app usage and our historical. Those trends I gave about 2x and 2.5x and with even higher multiple for app loyalty members. Those have held even as we've expanded the pool.

So it's not just the devotee who is becoming a loyalty member. It's really everybody -- excuse me, nursing a cold. Everybody that we can get into loyalty, that we can get into app usage starts to see all the member benefits, start to get the pricing benefits and the points and other things. And that's consistently sticky at bringing them back.

And as Julie says, over time, we'll create more leverage in the model because once we have this bigger and bigger base of loyal customers, then the marketing beyond that, beyond loyalty, et cetera, becomes, again, trying to buy the right customers in given places and add them to the pool. And that we think we can do more effectively once we have a bigger base and more efficiently. Excuse my cough.

Operator

The next question comes from Anthony Post with Bank of America Merrill Lynch.

Anthony Post - Bank of America Merrill Lynch - Analyst

Great. Maybe one big picture and then like a picture -- question about the shape of the year. Your marketing spend is over 50% of revenues. I know you're working on a lot of projects to build a better customer base. Can you help us think about how you think about that long term? And when you said leverage this year, does that mean on that line? Or are you thinking about it as a percentage of bookings for '23?

And then secondly, just a comp question. I know some tough virus comps, right? Easy virus comps right now, a ton of bookings flowed in kind of in the spring. How are you thinking about the shape of the year when -- for our models?

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

I'll let Julie deal with the second one. But to your first one, I think the way to think about it, you've got to break it up a little bit. First of all, we've got the expanding B2B business, which -- where commissions are part of -- are part of our marketing spend. So as that business grows and has been growing currently faster than our B2C business, you've got some movement into that mix where the commissions are higher than this 50% level. So it's pulling the number higher.

At the same time, we're trying to use marketing to build this base of customers, leverage the model. And as the base of direct gets bigger, right? You're driving more business from direct and you start to get leverage in what you're spending to add new people to the funnel because the new people become a somewhat smaller piece of the overall pie of business.

And so that is where I think you will start to see us gain leverage is at the big base of loyalty and app members grows and grows and grows, and we're very focused on retaining them, lowering churn, all the pieces that go into that. That is how we get a bigger direct business that we're driving on top of adding new people to the funnel but that spend is now on top of just a bigger and bigger base of customers that keep coming back.

So that's where we believe long term we get that leverage from. And the better we get at it, who knows how we will balance growth and profitability. But that is the base on which we build. And then I'll let Julie answer the second question was -- can you repeat the second question? I'm sorry, Anthony.

Anthony Post - Bank of America Merrill Lynch - Analyst

Sure. We have easy comps now with virus first couple of months, and then you saw a big flood of bookings into the industry in April and May. Just want to make sure people are thinking about the models right and how you think about that.

Julie P. Whalen - Expedia Group, Inc. - CFO

So for top line comps is what you're suggesting?

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

Comps till last year.

Anthony Post - Bank of America Merrill Lynch - Analyst

And bookings. Yes.

Julie P. Whalen - *Expedia Group, Inc. - CFO*

Yes. I mean obviously, to say that we believe on the gear that we can drive double-digit comps year-over-year. We're obviously not speaking to how it plays out by quarter. But I think what's super exciting is how we've started 2023 at this -- at these levels with greater than '20 on our stated growth looking and really coming out of the year strong. That gives us a lot of confidence that plus Expedia U.S. and how it's performing under the covers. It gives us a lot of confidence for the momentum as we move throughout the year. But I won't get ahead of us right now, still early in the year, early in the quarter, but we are committing to the double-digit growth in the year.

Operator

The next question comes from Brian Fitzgerald with Wells Fargo.

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

A couple of questions, guys. Could you give us an update on China outbound, your partnerships there and how those work in relation to other players in the market? And any early thoughts on how you would pursue that opportunity as they reopen? And then -- the second one was just really quickly on the test velocity, you said that it can grow 4x. Vrbo cuts over in the first half of the year or first couple of quarters, if I got that right.

If you had to put a bow around the amount of testing across all your properties, are we in the ninth inning in terms of -- or eighth inning in terms of, hey, Vrbo just the last thing we go over and then we're humming on that 4x test velocity?

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

No. So thank you for that. I'll take a shot at both of those. So China first. Our biggest relationship there is outbound with Trip.com in China. And then we have some smaller relationships and some offline travel relationships. It's early days.

There's tons of interest. I'm sure you'll hear this from other players, but there's a lot of shopping going on, but it's still fairly challenging for outbound travel between the political issues between airlift, which is challenging, and there's still a lot of unique rules now getting in and out of China that the airlines are dealing with, make it hard to fly direct and so forth.

And then, of course, you've got the issues of Russian airspace, which create issues with European airlift to China. So it's going to take a little while to work itself out. But interest is very high. We expect -- certainly, we are seeing uplift, but we expect a big uplift to be still a little ways out. But it's very exciting, obviously.

And hopefully, some of the things that are going on will quiet down, and we'll continue to see more robust cooperation between various governments to make it more possible. Certainly, the U.S. travel industry is doing a lot to lobby, to get rid of various restrictions.

And then the second piece, we are already planned at 4x velocity. So that has a lot to do with bringing sort of the core classic OTA brands together. So hotels, Expedia and then some of the smaller brands that ride the same rails already. Vrbo is the next thing to come across, and it will benefit from a lot of similar testing, but it will also be a somewhat unique product in its own right. So the 4x has nothing to do with Vrbo coming across or not. It's really around core OTA.

When Vrbo comes across, it will get the knock-on effect of some of these winners and some of these benefits that can go across everything, whether it's in checkout or payments or other things. But on the front end, the Vrbo front end will still be a little different, and it will get some of those benefits, but the 4x is already baked, going to happen.

And I think in terms of what we're capable of as a company, I would say that's less than halfway home because as we get more and more of the whole back end of the stack aligned, as we get our test environment all aligned, we have lots of opportunity to go faster. And a lot of our tests are now really more than what used to be a single test because they're AI-driven with multi variables. And so 1 test might be the equivalent of 10 tests.

So it's really starting to amp up considerably. And there's a lot of opportunity that we haven't gotten to during all our big transitions because we were just so focused on shifting things and moving them into 1 platform. And we're finally getting back to the bread and butter of doing that, and there's a lot of upside there.

Operator

The next question comes from John Colantuoni with Jefferies.

John Robert Colantuoni - Jefferies LLC, Research Division - Equity Analyst

I wanted to start with the comment you made about the Expedia brand performing well, and that some of your smaller brands and geographies have been sort of dragging down the overall business because of sort of intentional decisions to deemphasize them.

So I'm just curious if there's an inflection -- if there's going to be an inflection point when those smaller brands and geographies become less material, so that the overall growth improves as it starts to mirror the Expedia and Vrbo brands?

And then the second question is there's been a big uptick in conversations about AI. And I'm curious if you could unpack where you see the biggest opportunities to leverage AI capabilities across the business? And how that could alter your trajectory in the travel ecosystem. Customer service is obviously one that immediately comes to mind. But curious to get your perspective on that as well.

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

Yes. Thanks. I think we can probably talk about your second question for a couple of hours. But I'll take your first one first, which is, yes, we precisely believe that with Brand Expedia, again, we talked about Expedia in the U.S., Expedia is obviously in a lot of countries. And the issue has been not everything we've developed was immediately available in all languages, in all geographies. Likewise, not on all brands.

So as we start to be able now with Hotels.com on the same stack, with each benefiting from the same goodness that comes from tests and other things, we're going to be able to roll out that playbook to more and more places.

Now there's still some work to do, HCOM's loyalty program is still different than Expedia. Once we have One Key that will simplify that whole ecosystem as well. But we believe that those big brands, inclusive of Expedia, Hotels.com now on the same stack and Vrbo and our B2B business, they will -- they will inflect past the slower growth of some of the smaller things.

But to be clear, we want to move back into geographies. We want to play this playbook out in more places. This is not about like keeping the good and slowing down the bad, and there's no bad, but slowing down the slower growing. This is about keeping the focus on the winning strategy and deploying it in as many places and as rigorous and controlled the way as we can and winning in more places and driving the business that way.

So it's a bit of -- you're right, the big, good stuff overtaking the slower growth stuff. It's also about deploying the strategy to some of the slower growth items where we think we can still drive -- whether it's a geography or a certain brand in a certain market where we believe we can play this playbook out and have the same success. So it's a combination of those things.

As far as AI goes, the big conversation, we already use a fair amount of AI and machine learning in all kinds of products. There's opportunities for sure in some of the newer things we're all talking about like voice and et cetera.

In customer service we're already experimenting with that there in creating content, in answering queries for customers, but we're using machine learning across the board in terms of personalization, in terms of how we sort for you, what we serve up to you. We'll use it in direct consumer communications over time, et cetera. So we're using that.

And as I mentioned, we're using it in testing as well as we develop more sophisticated algorithms to test multivariable test, you do multi-variable tests that expedites all our testing. So we're using it. I'd say it's probably the biggest, highest value is ultimately in personalization.

But you can think about that really broadly in terms of how you get service taken care of, how you search even for properties, natural voice search, which we already have in voice search capability, but that will get better with the benefit of the new AI capability.

So all of those things become big opportunities to advance it. And we -- I think we are, by far, at the forefront in our category in terms of how to use it and how we can use it to best improve the customer experience.

Operator

The next question comes from Tom Champion with Piper Sandler.

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

Maybe two quick ones for Julie. Julie, could you just quickly restate and clarify the guidance and expectations for the year? I think it was double-digit growth. Is that in bookings? Is that versus 2019 or year-over-year? Can you just restate that for us? And I was also curious, your comments around headcount, it seems like a little bit of a different comment than we've been hearing this earnings season. How are you thinking about headcount through the year?

Julie P. Whalen - *Expedia Group, Inc. - CFO*

Yes. So from a guidance perspective, we said double-digit growth that's on both top and bottom line, and it's relevant to year-over-year. So as I mentioned at the beginning, that we're going to be switching next year to no longer be per se, on tracking against a 4-year-old metric. We're going to move to year-over-year, and so that guidance is relevant to that.

Regarding headcount, yes, that is different than probably what you've heard in other places. I think what's important to remember is that the team here did an incredible job taking out \$1 billion worth of cost over the last couple of years. And so we're coming -- assets from a different spot than many other tech companies and so forth. And so we've taken out a lot of that cost already and heads. I think we're down at some point, down to 30% or so.

And so again, coming from a different spot. We're really being thoughtful about what we invest back into for obvious reasons. We're watching the economy just like everybody else. Obviously, we're seeing incredibly strong business, but we're being thoughtful about who we invest back into.

And really, our investments are primarily in product and tech to support our growth initiatives and to get us over this line, as Peter has been talking about, getting this tech stack completed. And so we feel like we're in a great spot to be able to do that with limited levels of headcount growth and maintaining our strong financial discipline, keeping our cost structure below our sales growth.

Operator

The next question comes from Doug Anmuth with JP Morgan Chase.

Dae K. Lee - JPMorgan Chase & Co, Research Division - Analyst

This is Dae Lee on for Doug, I have 2. So [when you stated about demand] comment. Is this something that you're seeing across geos and [accommodation types]? Or are there any particular geos or maybe property types that might be driving some of that strength that you're seeing? And then with regards to your January comment, what's changed from 4Q to January that might be driving the strong margin growth in January? And how sustainable do you think those factors are going forward?

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

Yes. So I think to your first question, we're not seeing anything. I'm sure if we could dissect every variable and find some difference. But there's not anything when you look at it broadly, that says luxury is doing well, but the bottom is doing poorly or vice versa. We are generally a little more biased towards the middle and upper end of the market, and we are seeing fairly consistent strength.

As I mentioned, APAC measured against itself is coming back faster, but it had a longer way to come back. Obviously, the West has been back for a while, but is also seeing nice growth. So APAC for us is not big enough to drive our overall number. So it really is kind of everything. And by and large, it's every class of product and class -- every type within a class of product.

So there's nothing we've really seen that's driving like, wow, luxury is off the board and everything else -- and it's making up for other things. So we haven't seen much movement between products or trade downs or any of that. It's been pretty consistent.

And then January, as I mentioned, we believe it's a combination of a lot of work we've put in, in terms of improving the product, getting through some of the hardest transitions, getting back to testing, getting our marketing machine refined, and that's constantly improving.

And we've been talking for a long time, Julie mentioned it that we've been investing for a while in some of these long-term vectors. And as we've all talked about, we gave up some short-term business to focus on app downloads to focus on getting the right kinds of customers. And we knew it would take some time for this to start to multiply on itself and get the benefit because people don't always book travel 20 times a year.

So I think this is the benefit of time of catching up and stacking up the base of members, this base of app users, improving the product as we've done. We've launched a bunch of great features around flight tracking and comparison shopping and smart shopping and collaborative shopping and a bunch of new products, all of which have been very engaging in their own right. We're rolling those out to more places all the time.

We just recently rolled out flight tracking to the rest of the world outside the U.S. So we're seeing great benefits in those things. And I think they're just starting to stack up now. There's no magic to January 1. So I can't tell you exactly why January. But post all the disruptions of the storms, we've seen really strong robust demand and rebound. And I think it's the combination of a ton of hard work across our entire company.

Operator

Our final question today comes from Deepak Mathivanan with Wolfe Research.

Deepak Mathivanan - Wolfe Research, LLC - Research Analyst

Maybe a couple of ones for Julie. So first, the guidance on margin expansion was helpful, but curious if you can put any more specificity to it. I understand that obviously, macro creates a lot of uncertainty. But is there a level that we can expect should macro trends kind of remain consistent with what you've seen in January and maybe recovery holds up through the year?

And then also another financial question maybe on buybacks. What is a philosophy in terms of maintaining the velocity of buybacks? Is 4Q kind of a good proxy for us to think about given the business is very cash flow generative, and you have plenty of capacity?

Julie P. Whalen - *Expedia Group, Inc. - CFO*

Sure. Yes. So on margin expansion, I think, first of all, it's important to remember that we're ending this year with record EBITDA levels and margins that are 20 expanding 200 basis points, and we're committing to expanding on top of that. So we're really proud of where our margins are.

Certainly, we would love to give a target. But I think at that point, I think I even said this last time that when you give the target, then they want a higher target. So we're really pushing towards driving efficient growth and driving profitable growth. And we think as we're starting to demonstrate when we're getting these lifetime value customers, if we can get more efficient as we have started to do in the year with our marketing spend, and we're driving the top line of the levels that we're seeing that it's accelerated through to Q4 and it's coming in even stronger in 2023. All of that should bode well for us to be able to drive profitability and EBITDA.

And so that's about where we're going to commit to at this point is margin expansion. But over time, we can update you once we move through. From a buyback perspective, as I said earlier, we're really committed to buying back our stock. We believe it's the best use of capital to maximize shareholder returns at this time. Certainly, with that momentum we're seeing in the business, our stock is still undervalued, we believe. And so therefore, we believe buying back our own stock is the best return.

So we're going to continue with that. We're going to buy it back opportunistically. Obviously, as you mentioned and as we said earlier, we did buy it back on an accelerated basis, \$350 million approximately in the fourth quarter, and that was on top of another \$150 million that we had started sort of at the end of September. And so we're going to be continuing with these elevated levels and buying back opportunistically as we go throughout 2023.

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

Thank you. I think that was it. So thank you all for joining us. Appreciate your time, and look forward to our next update. Take care. Thank you, operator.

Operator

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

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