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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to the Expedia Group Q2 2023 Financial Results Teleconference. My name is Colby and I'll be the operator for today's call. (Operator Instructions).

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

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

Welcome to Expedia Group's Second Quarter 2023 Earnings Call. I'm pleased to be joined on today's call by our CEO, Peter Kern; and our CFO, Julie Whalen. As a reminder, our commentary today will include references to certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most comparable GAAP measures are included in our earnings release, and unless otherwise stated, any reference to expenses exclude stock-based compensation. We will also be making forward-looking statements during the call, which are predictions, projections or other statements about future events. These statements are based on current expectations and assumptions, which are subject to risks and uncertainties that are difficult to predict.

Actual results could materially differ due to factors discussed during this call and in our most recent forms 10-K, 10-Q and other filings with the SEC. Except as required by law, we do not undertake any responsibility to update these forward-looking statements. Our earnings release, SEC filings and a replay of today's call can be found on our Investor Relations website at ir.expediagroup.com.

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

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

Thanks, Harshit, and good morning, and thank you all for joining us today. Travel demand has remained robust, and we are pleased to see our continued execution result and solid performance for the second quarter. As gratifying as those results are, I'm even more excited with the progress on our platform transformation journey, having just launched One Key in the U.S. and continuing to be on schedule with our Vrbo migration.

We are particularly pleased that we were able to meet our second quarter financial goals while electing to move some marketing spend from Q2 to Q3 where we believe it can better -- can be better spent in support of the launch of One Key, and our accelerated growth in the back half of the year. Industry trends have remained broadly consistent with the first quarter. Demand in North America and Europe has remained stable, with stronger growth in APAC and Latin America.

Travelers worldwide continue to favor shorter stays in urban locations versus longer trips in sun and ski destinations. As far as pricing, both hotel and vacation rental ADRs are holding up year-over-year. While international cross-border air fares are stable. U.S. domestic, air fares have seen some declines as capacity increases. Rental car rates continue to decline as inventories normalized from compressed levels last year, resulting in more attractive prices for consumers and more transactions. Overall, the data continues to show that travel remains a top priority for consumers. As I've explained before, our B2C strategy is to build products, features, and customer propositions that attract and help us retain valuable customers, and to move those customers into loyalty membership and app usage to amplify their value.

These travelers drive higher profits per transaction and higher repeat rates, ultimately leading to higher lifetime value. In addition, as these customers have a higher propensity to come to us through direct channels, this helps us drive future leverage in Sales and Marketing. As a combination of all of these factors, these travelers have a much higher return on investment and ultimately drive more profitable and faster growth as they stack up over time. As we continue to move from a purely transaction/room night focused world to one in which we focus on customers and life-time-value, we've been able to build a bigger, more valuable base of these high ROI travelers.

Our focus on acquiring and retaining loyalty members and app users to drive this strategy continues to show good results. This quarter, active loyalty members continued to hit new highs and were up 15% year over year in our core brands, and the percentage of bookings coming through our apps was up 300 basis points sequentially versus the first quarter. We know that members with the app have the best economics, which is why we have been so focused on growing this segment of customers. In our Expedia brand in the U.S., I am pleased to say that we have seen this cohort of customers increased to roughly 135% versus 2019.

As we roll out our strategy across all our brands and all our markets, there remains significant opportunity to accelerate further. A couple of weeks ago, we took another major step forward with the launch of One Key in the U.S. This is the most flexible travel rewards program in the industry, with our core brands unified under one loyalty program offering our customers the ability to earn and use One Key Cash, a simple common currency across our vast breadth of flights, hotels, vacation rentals, car rentals, cruises, and activities.

In addition to the breadth of this program, this marks the first time any major vacation rental marketplace will have loyalty which is a significant differentiator against our competition. It's early days, but as we have seen historically, our loyalty members are much more productive and with this now best in class program spanning our biggest brands, we expect to drive many more customers into the program and substantially increase our base of loyal travelers. Overall, our B2C business is finally nearing the end of its major changes and piece by piece getting the benefit of new capabilities and greater agility that comes from a unified stack. With One Key out the door, our last major tech lift is the Vrbo migration to our main platform.

We have already moved 100% of our Vrbo U.S. web traffic to the platform and are on track to complete the migration during the fourth quarter. As we've explained before, we expect some modest headwinds to conversion as we transition, but ultimately the payoff is well worth it with better conversion, increased feature velocity, and ultimately, better performance from Vrbo overall. Our single tech strategy is designed to give all of our brands the benefit of our entire suite of product features, including our latest advancements in AI and machine learning to personalize and enhance the customer experience.

On the topic of AI, earlier this year, we launched conversational trip planning powered by ChatGPT in the Expedia iOS app. And last month, we launched it on the Expedia Android app. We have been learning from consumer interactions and are adding a number of new features to help

consumers on their journey of discovery. Travelers can now start a new conversation by choosing from suggested prompts and soon they will be able to return to a conversation at any time and even respond throughout a conversation by simply choosing a suggested response. All of which is designed to bring them one step closer to booking their desired trip.

Beyond the growth and progress, we've seen with our brands, we continue to see tremendous momentum in our B2B business, which grew revenue 32% year-over-year in the second quarter. Our B2B business has greater exposure outside the U.S. and has benefited by continued opening of markets around the world. The engine for our B2B business is fueled by the same technology, supply, and service that serve our own brands, and as we have advanced in all areas over the last several years, this has only added to the velocity of our B2B business.

We believe we have the most successful and differentiated B2B business in the travel world, with a large addressable segment still available to penetrate further. And our wins in the marketplace continue to demonstrate that point. In the second quarter, we announced a new partnership with Mastercard where our tech will power Mastercard's global network of issuers, so that their customers can spend their loyalty points on great travel experiences. And in another huge development for this segment, we teamed up with Walmart, where we are now powering their first-ever travel benefit for Walmart+ members through our white label template solution.

We also continue to expand our tech delivery to our existing partners, not only through our core travel OS products but through our expanding offering of solutions. After recently commercializing our fraud prevention capability, I'm happy to announce that our Revenue Performance API is now in pilot with one of the largest hotel management companies. As our tech continues to advance, driven by our industry leading AI capabilities and the acceleration of our single platform strategy, there is much more opportunity to gain wallet share with our existing partners and to scale further with new partners.

So overall, I'm very pleased with the momentum we now have and our accelerating product improvements as we move towards the second half of '23 and beyond. Over the last few years, we have taken on many difficult challenges in order to transform not only our tech but our entire strategy. As we begin to emerge from this period of massive change, it is clear that we are building the best offerings for travelers, a better marketplace for our partners, and overall, a better company. It is great to see so much finally coming to fruition and our entire organization is excited about the future.

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

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

Thanks, Peter, and hello everyone. Our second quarter results, with record revenue and EBITDA, demonstrate that our strategic initiatives are working and that we have a significant opportunity for long-term growth and profitability. And it is this ongoing strength in the business that enabled us to deliver another quarter of accelerated levels of share repurchases resulting in approximately \$1.2 billion repurchased year-to-date, our largest buyback to date. Before I jump into more of the details, I wanted to remind you that going forward all financial comparisons will be on a year-over-year basis.

It is also important to note that our second quarter 2023 growth rates as compared to 2022 were impacted by FX headwinds of approximately 40 basis points to gross bookings, 170 basis points to revenue, and 530 basis points to EBITDA. We also saw an approximate 80 basis point headwind to the EBITDA margin. Now as far as our performance this quarter, let's begin with our gross booking trends. Total gross bookings of \$27.3 billion, were up 5% versus last year, and in line with our mid-single digit top line guide. Growth was driven by lodging gross bookings, which were up 7% and were the highest second quarter on record.

The strength continues to be driven by our hotel business, which achieved record gross bookings primarily from strength in our B2B business, as well as in Brand Expedia which saw 15% increase year-over-year. This was partially offset by our Vrbo business which was impacted by the shift in consumer demand toward urban markets and shorter length of stays, as well as the impact from Vrbo's tech platform migration that we mentioned on last quarter's earnings call. However, given the size and strong growth of our hotel business, we were pleased that we were able to deliver record lodging bookings in total.

Moving to the key financial metrics in the P&L starting with total revenue. Revenue of \$3.4 billion was up 6% versus last year, in line with our mid-single digit top line guide and was the highest second quarter on record. Revenue growth was primarily driven by the continued strength across our lodging business, which grew 12%. This was partially offset by softness we have been seeing in Insurance and Car, two categories that have been impacted by some industry wide changes post pandemic.

For insurance, we are seeing lower attach rates as consumers' appetite for insurance normalizes. And for Car, we are continuing to see rates decline as supply has increased. Total revenue margin increased 10 basis points to approximately 12.3%, versus last year primarily due to an increased mix shift to lodging revenue which has higher revenue margins. Cost of sales was \$403 million for the quarter, which is lower than last year by \$13 million, or 3% with approximately 110 basis points of leverage as a percentage of revenue versus the second quarter of 2022, driven by ongoing efficiencies across our customer support and other operations.

Our customer support operations continue to benefit from the various automation initiatives we have implemented over the past couple of years. And we will continue to find more efficiencies, in such areas as the cloud and license and maintenance costs, when we finalize our migration to one platform and eliminate redundant systems accordingly. Direct sales and marketing expense in the second quarter was \$1.6 billion, which was up 2% versus the second quarter of 2022. The primary driver of this year-over-year increase was related to an increase in commissions in our B2B business to support its strong growth of over 32%. As we've noted in the past, commissions paid to our B2B partners fall into our direct sales and marketing line and overall are more expensive as a percentage of revenue than our B2C business. But as they are generally paid on a state basis and to a contractually agreed upon percentage, the returns are more guaranteed and immediate.

This increase in B2B direct marketing costs was mostly offset by marketing efficiencies in our B2C business this quarter and resulted in marketing leverage as a percentage of gross bookings as compared to the second quarter of 2022. These B2C marketing efficiencies resulted from the benefits we are seeing from our continued investments in loyalty and app members, as well as our decision to move some of our planned spend from the second quarter to the third quarter to tie it more closely with One Key launch and to support our accelerated growth in the back half. While marketing will fluctuate quarter-to-quarter, we were pleased to see this marketing leverage. Overhead expenses were \$627 million, an increase of \$77 million versus last year, or 14%.

While we remain disciplined on our overall cost structure, as we have said, over the past year we have continued to invest in talent across our product and technology teams to support our strategic initiatives and we're pleased we were able to more readily fill these positions given the surplus of top tier tech talent in the market. We also saw higher salary expense associated with our annual compensation increases this year which went into effect during the second quarter and was the primary driver of the overhead increase from the first quarter.

As we finish our technology work in the coming quarters and look to redeploy resources and deprecate systems next year, we expect to realize cost efficiencies going forward. Despite this overhead pressure, we are pleased to see that with another quarter of strong revenue and overall expense discipline, including our decision to shift some marketing spend, we delivered record second quarter EBITDA of \$747 million which was up 15% with an EBITDA margin of 22.2%, expanding approximately 190 basis points versus the second quarter of 2022.

Our free cash flow remained strong at \$3.8 billion year-to-date. The year-over-year decline is primarily associated with changes in working capital from the timing of payments. Last year as the business emerged from Omicron, we saw meaningful increases in some of the working capital drivers like payables which has since normalized this year. We remain pleased with our ongoing robust cash flow levels and we expect them to remain strong on the year. On the balance sheet, we ended the quarter with strong liquidity of \$8.8 billion, driven by our unrestricted cash balance of \$6.3 billion and our undrawn revolving line of credit of \$2.5 billion, which provides us with ample access to cash to operate the business.

From a debt perspective, our debt level remains at approximately \$6.3 billion but with our expanding EBITDA, our gross leverage ratio has come down from the first quarter to 2.6 times. We have started to make progress towards our target gross leverage ratio of 2 times and expect to make continued progress in the coming quarters through EBITDA growth and potentially some debt repayment. As far as capital allocation, given our strong free cash flow levels and a stock price that we believe remains undervalued, we have been buying back our stock on an accelerated basis to maximize our return of capital to shareholders.

As a result, we bought back approximately \$1.2 billion year-to-date or nearly 12 million shares, our largest level of repurchases to date. We continue to believe that our stock price remains undervalued and does not reflect our confidence in the expected long-term performance of the business. Therefore, considering our ongoing strong liquidity and free cash flow, we expect to continue buying back our stock opportunistically throughout the remainder of 2023.

Looking ahead, we are reiterating our full year outlook of double-digit topline growth with margin expansion. As it relates to the third quarter, we expect year-over-year gross bookings growth to accelerate to high single digits. This acceleration is driven by Brand Expedia and HCOM, partially offset by Vrbo which continues to face short-term headwinds from its migration. While we expect revenue growth to be lower than gross bookings growth, driven by the prior quarter's reduced Vrbo bookings converting to stays and therefore, revenue in the third quarter, which is historically our highest revenue quarter for Vrbo, we expect revenue growth to see modest sequential acceleration. We expect EBITDA margins to stay relatively in line with last year. While we expect to see continued cost of sales leverage, as previously mentioned, we will be investing in marketing to support the One Key launch and to set us up for a strong back half.

Overall, we expect fourth quarter will see a more meaningful acceleration in both topline and bottom-line growth as Vrbo finishes its migration, the One Key impact starts to kick in, and the growing base of app members drives more production. All of which gives us confidence to reiterate our full year outlook. In closing, we finished the front half of 2023 on a strong note with record second quarter revenue and EBITDA. We are pleased to see the continued momentum even while we continue to transform the business and navigate associated headwinds. Our accelerating product improvements give us confidence that we are on the right path and that there is a huge opportunity in front of us to drive long-term profitable growth and to maximize shareholder returns. And with that, I would now like to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Eric Sheridan from Goldman Sachs.

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

Two, if I could. In terms of forward booking trends, I understood on the commentary broadly about the summer, but the industry obviously had some tailwinds from elements of longer booking dynamics as we've come out of the pandemic. Are we seeing more normalized behavior with respect to forward booking? And is there anything to call out either in consumer behavior or geography in the forward booking trends that you want to highlight? And then in terms of thinking about the exit philosophy for Vrbo, is there a way to quantify elements of what One Key mix and easier comps might mean in terms of the reacceleration at Vrbo as we end the year?

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

Sure. Thanks, Eric. I'll take a crack at both of those. I'd say, broadly yes, I mean, what we're seeing is a relative -- what I would call, a relative normalization of seasonal trends and booking trends. There's obviously some dynamics around what is opening or more newly opened and what has been open for a while as we've seen, for example, this year, this summer with lots of travelers going to Europe where maybe they didn't go last summer, Asia opening up and more travelers going there. Of course, parts of Asia, like China still don't have full airlift out of China. So there's still differences.

But I think broadly, in terms of the effect of like COVID -- last year, we had COVID first quarter and then the second quarter was a huge quarter because things opened up after Omicron, that's kind of normalized out. And I think in terms of booking windows, booking trends, they're moving around a little bit. But by and large, they're normalizing to what, I would call, generally pre-pandemic patterns. So I think that's the main thing. In terms of geo, again, Asia will open up more that will -- there will be more travel there. We're seeing APAC and LatAm growing faster because of those things opening more recently. So that's certainly a trend. But again, I think that normalizes once it's been open, call it, a year or so.

And then as far as Vrbo goes, very hard to quantify. I mean, obviously, the switch -- the sort of consumer switch from Vrbo or vacation rentals generally to more hotel started happening in the back half of last year and earlier this year. So that's sort of a macro trend as far -- so we'll be lapping some of that now as we get into the back half of the year. But as far as our journey goes, yes, One Key, we think, is a big opportunity for us. It's the first time that Vrbo customers will have loyalty. It's a chance to get them involved in our whole universe of products so we can bring them into the other products.

Obviously, now Expedia members, Hotels.com members can use their points on Vrbo. So we think that becomes a very attractive reason to use Vrbo. So we definitely think One Key will drive a lot of cross-shopping between the products. Hard to quantify yet, but that's a core belief in what we are trying to do with One Key. And then as far as the migration goes, as we've talked about, you're changing the product, you're moving it across, the last piece will be moving the app, which is very binary, so you tend to do it at the end, that's still coming.

But we're excited about what the product we'll be able to do. We're excited about having all the products on one stack, and being able to innovate across all of it together. And as we've talked about for a long time, that will eventually lead us to be able to sell much more easily Vrbo products across all brands, across our B2B products, et cetera. So we don't have a number for you, but I think -- broadly, I think we're going to lap the macro trends of shift from vacation rental to hotels later this year. And then the migration stuff will still be around for a few more months, but we're excited about being past it and the opportunities that presents.

Operator

Your next question comes from the line of Lee Horowitz from Deutsche Bank.

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

So you talked about some of your marketing spend getting pushed from the second quarter to the third quarter in order to support the 1Q loss. Can you maybe help us better understand how this may have impacted the bookings in nights in the second quarter relative to your expectations? And then maybe relatedly, can you talk a bit about how you think lodging share paced throughout the second quarter? And what your expectations are for share as you move through the balance of the year and you drive that accelerated growth across a number of your properties?

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

This is Julie. I'll take the first one. Yes, I mean, obviously, I'm sure there was some impact to the second quarter as a result of our decision to shift the marketing. At the end of the day, our top line was hitting our expectations and obviously, what we had told the Street about mid-single digits. And so we thought the right choice of action was to take that spend and to get the best return to tie it nicely with our One Key launch and also to set us up for the back half. So we made the decision to take that money and push it into the third quarter. But sure, could we have spent more and maybe gotten some incremental nights and bookings in the second quarter, sure, but we thought this was a better path to take.

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

And then I think the share point plays into that. We feel like we've been holding share in our core markets. We've been gaining some of our outside North American markets, outside U.S. markets in a number of places. So again, as Julie said, it's all sort of plays in together, which is we're trying to, of course, drive the best return on our investments. We thought there was better return when we had the extra hook of One Key. We felt like we were holding in places, and we could have spent the money to drive some more bookings into Q2, but we felt like the return was better, literally waiting weeks, several weeks, many weeks to push it into July when we were launching with One Key.

So it's a small movement in the scheme of things. Of course, it moves around margins a little bit, and it moves around. Yes, it moves some bookings from maybe Q2 into Q3 and yes, it moves some EBITDA maybe into Q2 instead of Q3. But in the scheme of things, we're trying to spend that money as efficiently as we can. We launched One Key as soon as we could basically, and it would've been nice to obviously launch it sooner, but this is

when we could get it out the door. And we think that there's better returns attached to that hook in getting customers in, getting them engaged in One Key, getting those return dynamics and direct dynamics where we want them. So that's why -- in the scheme of things, not huge dollars or anything, but we moved a little money and sure that cost us a little bit of GBV and revenue in Q2 and will mean a little bit of extra spend in Q3.

Operator

Your next question comes from Kevin Kopelman from TD Cowen.

Kevin Campbell Kopelman - *TD Cowen, Research Division - MD & Senior Research Analyst*

As you think about the acceleration that you're looking for in the third quarter, do you see that as being focused in U.S. and B2C given the One Key launch? Or is it going to be more broad-based?

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

I think it's a number of things. So as I mentioned, Kevin, we are seeing good growth as we push back into some of our foreign markets where we saw opportunity and that's been going reasonably well. In the scheme of things, obviously, U.S. being so big for us to accelerate broadly, we also need the U.S. to accelerate. So that's a combination of a number of things, which have to -- which are -- yes, One Key starting to kick in. But Q3 is early days, right?

One Key is a loyalty program designed to instant return, certainly attractive in terms of make your first purchase and get valued. But I don't think -- we're not expecting massive impact in Q3 from One Key. We're just seeing good acceleration in the market. Obviously, the Q2 comps were tough because of last year. And as Julie alluded to, some of the insurance dynamics and other things normalize out in the Q3 as we lap that in Q4. So the acceleration is really just a continuation of -- we see strong demand.

We've built this base of consumers that we continue to build on that are repeating more and having behaviors we go out more, and that just keeps building, and One Key enhances it. And that's really the core of it, but it's not just in the U.S. The growth is also outside the U.S. But I will say a lot of the acceleration certainly is coming from B2C as opposed to more acceleration in B2B.

Kevin Campbell Kopelman - *TD Cowen, Research Division - MD & Senior Research Analyst*

Great. And then could you just touch on the CapEx expectations for the rest of the year and drivers there?

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

Yes. I mean, we've seen CapEx come up even in the last quarter, and we had expected this. We are putting more into capitalized labor in order to hit our strategic initiatives this year. Obviously, there's a lot of transformation that we have still been pushing through this year, i.e., One Key's launch and the Vrbo migration and things like that. And so literally, this is just a function of higher capitalized labor to complete out these projects. And as we go forward, we don't expect it to be as much in these elevated levels as we will, and we'll start to get the return from these projects that we're putting in place.

Operator

Your next question comes from the line of Mark Mahaney from Evercore ISI.

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

Okay. Let's see. I want to ask 2 questions. One, the travel bond or the chat GPT experience that you have on the site, what have you seen so far in terms of -- I think there's enormous potential here. I just don't know how long that takes and whether there's just a ton of tweaking that needs to happen in order to really get it right, how do you feel like what have you seen so far in terms of engagement? Has it kind of led to increased conversion rates? And if not, maybe it's just way too early, but what's a reasonable expectation for when you could actually see that?

And then the other thing is on One Key, now that you're rolling it out, can you set an expectation for when you think we'll see kind of the impact that has? I know it's just recently launched, but is that something you take one quarter or is it one full year before you really can tell how successful that's been in terms of deeper engagement and maybe attracting newer users?

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

Yes. Thanks, Mark. So on Chat GPT, I agree with you, it's interesting. It has a ton of promise. It is early days. We've been studying it. I won't say it's moved the numbers in any way that you could see and the customers who like to engage with it, like to engage with it, lots of customers don't need it or don't choose to. I think the future, though, lies much more in a better integration, which will come as more large language models come out, and we figure out how to embrace them with our own data. Right now, they kind of live separately, and you can do a bunch of discovery with the tool and then save things and come investigate with us.

Over time, there will be ways I think where we're not sharing your personal data with ChatGPT, but we can combine their capabilities with our data and use that to serve you better. So this is going to be an evolution of experience. That's why I mentioned, we've been learning, we've been studying where customers get stuck, what they can't seem to do, some of them don't exactly know how to engage or start a conversation. So there's a lot of work not just by us, but by the industry around large language models on prompts and other ways to get customers through it more easily. And I think all of those pieces will add up to more impact, but the impact now is basically de minimis as you wouldn't see it in the numbers.

As for One Key, I think that's more of a gradual build. Obviously, there's a couple of different things you're looking for. There's the appeal of having a strong, broad, best-in-class rewards program to attract customers and make them choose us over other people and then there's the back-end part of when do they come back directly once you've got them in the One Key program and hopefully, once you've got them to download the app and how do they exhibit the behaviors of coming back. So that second part takes longer because as we all know, people don't -- some people don't travel all that often, so it takes time for them to come back and book again, et cetera, even though many book a lot.

And then the first piece, we should start to see as we literally just launched it, you may have seen the ads, the campaigns are out there starting to put the messaging into all our performance marketing and all our streaming -- anything that's out there digitally, et cetera, and to our out-of-home. So it will continue to build, and you'll start to see it show up in all our marketing for all our brands. And we believe that's a hook that we'll continue to make intelligent consumers choose us because we'll be of better value if that gives them more back for their travel. So that part we should begin to see sooner, and that's why we think that will start to have a bigger impact into the back end of this year. But the longer-range part of return and direct and driving those things, that will take a little longer to play out in the numbers.

Operator

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

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

Could you talk about the customer and the B2C customers? It seems like you're trying to improve that quality base and maybe the Street doesn't see it in the numbers yet. What gives you confidence there? Are you seeing higher repeat rates? You said you had some leverage in the quarter. Was that timing? Is there some real improvement you're seeing on the B2C side on marketing leverage? And then one question on One Key, starting to see some discounts on the site. Do you think that allows you to better compete against Booking? And who's funding those?

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

Yes. Maybe I'll take those in reverse order, take the sort of factual ones first. So yes, one of the pieces not that relevant necessarily for the investment community, but that's important for the consumer is we've expanded our member discounts as part of this One Key launch. So where we used to have one level basically of member discounts, we now have Blue, Silver, Gold levels, and there are more discounts for higher-tiered members, and that is part of the value proposition that we give to our consumers. Those are funded by our supply partners. It's a way for them to get to better and better higher-value travelers.

And that is an important added feature that we launched with and we will be expanding over time. So that is certainly -- Bookings has had tiered discounting from some of their supply partners. And that is a feature we have not had before. So I think, yes, that is a -- it's good competitively. I will say that we also think we have those discounts on more valuable hotels that are worth more value to our customers who are more valuable, which goes to your first question, which is, yes, we have confidence that we are building a pool of more valuable customers in large part because we are getting them into more valuable sites.

So as we get them into membership, as we get them into app and we follow how those cohorts perform, we know those cohorts perform for lots of good and thoughtful reasons, much better. So a member, of course, sees the member discounts, gets the loyalty rewards and so forth and app member does even more typically and comes back more directly, all good things. So as we build up those pools and our blend of total consumers and total transacting consumers is blended towards these pools that have higher repeat rates, higher LTV, et cetera, we're essentially building a bank of more value that's left to play out in the future.

So that's why we do have confidence in what we're doing there. Obviously, we've done it particularly well, as I talked about before, in Expedia U.S. Now we're doing it in more countries. Now we're working on doing it with HCOM and then examining that to more countries. Now we'll be able to do it in Vrbo as well. So there's a lot of -- that's why we say we have a lot of runway left here, but we can see it happening where we've had intent, where we spent according to that, where we've driven the product to move more customers into membership and to sign up into the app. Every step in that journey creates more value for us.

Operator

Your next question comes from the line of Lloyd Walmsley from UBS.

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

Anything you can share in terms of just early feedback going back to One Key on maybe cross shopping? And then changes in conversion rates at Vrbo now that you have loyalty, anything interesting there? And then as part of that, anything in terms of cross currents from HCOM customers given they're getting diluted there as part of One Key? Would love some help understanding that.

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

Sure. I think to the first one, the short answer is it's too early. I mean, we've converted more than 70 million, I don't have today's count, but over 70 million consumers into the One Key program, these are existing members and also new members that have joined in the last few weeks. We've had lots of new members join in Vrbo. We've been able to activate some -- a customer who may be using Vrbo and may have been a customer of one of the other brands a long time ago, but now they're in a program where they'll see the benefit in the other brands. So we've done a lot of sort of the core work of getting customers aligned, getting their accounts right, getting their accounts consolidated if they had reports in different places, which was complicated.

So we made huge progress. It's too early to say that we're -- there's not enough signal yet to say people are doing acting -- behaving differently and doing lots of different things. And even in Vrbo, there's a lot of crosscurrents with the migration happening at the same time as launching One

Key and a lot of our Vrbo customers even though they're getting a great benefit, they're having to understand like wait a minute, there's a membership program, what is it, do I sign up to it? So there's the usual issues of launching something new in a product experience that people are accustomed to, but we've seen a lot of great response and millions of sign-ups and I wouldn't say necessarily massively incremental in terms of the velocity, but just a lot of people engaging with it and signing up.

And then as far as HCOM goes, yes, we have -- there is a little bit of noise from our heaviest users about what does it mean for them. But I will say, we've taken care of them. We've made sure that the value they had did not get diluted and our view of the new program is that they get much more value through flexibility, they get value through the deeper discounts we just talked about and member discounts. So while it might not be constructed exactly the same, our heaviest users will get massive benefit and, in our opinion, more benefit than they can get anywhere else in travel.

So it's not like we went from -- we love you and we give you all this and now we're going to devalue your program and not give you that, we're actually carrying over their value and we're giving them huge incremental flexibility, ways to spend their value on flights, on Vrbo, all kinds of things they couldn't do before and far more member discounts and other high-end benefits for our heaviest users Gold and Platinum, et cetera. So they're going to get a ton of value and they just have to make the -- I think the industry has trained people to think they're going to lose out every time loyalty program changes. This is not one of those circumstances. I won't say there's not a single customer who won't find that -- they don't like this one as well as the last one. But this is a great program with a lot of value for the heaviest users, and I think they will all come to understand it and love it and appreciate the benefits what they got even though it might be slightly different than it was.

Operator

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

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

Just a couple of questions. Peter, I think I heard you say you might have gained share in some of the international markets. And I'm a little intrigued what may be driving that? Any color or commentary there would be helpful. And then I have a follow-up.

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

Yes. I think it's really just intent on our part. As we reacted to COVID and we started rebuilding things in a number of markets in the rest of the world, we backed down spend a little bit and we got a little more conservative as we wanted to build our new mousetrap as it were. And I think now that we have greater confidence in all the things I've talked about, be it membership, the value of app downloads and so forth, we've been driving back into a number of international markets where we think there are good returns, and we've been seeing nice returns.

Now these are modest changes in the scheme of things. There's nothing dramatic happening, but we're just seeing, what I call, low-hanging fruit and opportunity for us to move back into some of these markets in a smarter way. So again, not a huge story there, just that we feel good about share in the U.S., we feel good about what we're seeing early signs as we push back into these international markets. So on share, we're feeling reasonably good with more...

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

Understood. Yes. The follow-up I had is just around advertising, and we are hearing some commentary from other players about maybe some increased competition maybe in Europe or other markets. Just curious if you're seeing anything there or anything to say about Google's new ad format. I think they recently introduced profit listing even in the main search?

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

Yes. I think on the last part, you're talking about vacation rentals. Is that what you're talking about?

Naved Ahmad Khan - *B. Riley Securities, Inc., Research Division - MD of Internet Equity Research*

No, still there's hotels, but I think this has introduced the new format into the main search.

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

Yes. I mean, I would say, look, we're working with them and working in the auctions around the world all the time. I don't think we've seen anything particularly different in terms of inflation or not in the auctions. I mean, the auctions have been inflating over the last several years. And of course, they're highly competitive, particularly amongst the biggest of us. But no, I don't think we've seen anything that's of any concern, et cetera, over what's happening in terms of pricing in those markets.

And of course, we are trying every day to find better opportunities, higher long-term return opportunity to invest our advertising dollars, be it in app downloads or other kinds of environments, I would say, that encourage those behaviors as opposed to just Google option. So I think we're probably not alone in that, but that's been a core part of our strategy as we've tried to get away from simply trying to buy transactions and getting much more focused on what consumers we buy, getting them into the right state in the app and so forth. So that's an ongoing journey for us, but that's the direction that journey will keep going on forever.

Operator

Your next question comes from the line of John Colantuoni from Jefferies.

Your next question comes from the line of Jed Kelly from Oppenheimer & Co.

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

Great. Just 2, if I may. One, just -- the airlines have recently called out weaker domestic trends. Is there anything where there's just softening underlying demand? Or is that the pattern shifts that you kind of mentioned earlier? And then just thinking about your back half brand spend, can you just talk about the efficiencies you plan to get on being able to market all your brands under one loyalty program versus marketing it all separately? And are you going to continue to market each of your key brands separately?

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

Sure. So I think, yes, as far as the airlines go, I mean, we have seen -- you've no doubt heard that pricing has softened a little bit in domestic air in North America. There's a little bit more supply and yes, there's been high demand for international. So I think it's been mostly a shifting of patterns. It's not total consumable dollars. Obviously, in every industry, not everybody participates the same way. Some are more domestically focused. Others have bigger international exposure. But in terms of consumer demand, I'd say, it's broadly been steady and good, and that there hasn't been -- there are places that fall and other places that rise. But overall, the consumer has been acting healthy and strong.

So I don't think there's anything to see there other than moving geographical trends and consumer trends in terms of what they're looking for. As far as brand spend and again, this isn't -- I don't want -- I wouldn't get focused on the word brand spend as we conventionally think about it. It is spend against our business, which could be brand spend, it could be performance marketing, it could be app, it could be a lot of things. When we say we wanted it to support the One Key launch, it's not in the sense of like we needed money to buy TV spots, it's in the sense of we got our money

with the hook of One Key out the door would be more efficient as we drove consumption, be it through Google options or be it through digital advertising of various kinds or television. So that's what we're talking about.

As far as how we're going to spend, we have a campaign out now that's very focused on One Key as a concept and the 3 of them coming together. But our intent is, at least for now, to keep marketing each brand, they will then -- they will all have a touch point to One Key and make clear that they are sibling brands and part of one big umbrella loyalty program, but they will each have their own brand identity in terms of what their consumer proposition is and how they deliver it to the consumer.

Operator

Your next question comes from the line of John Colantuoni from Jefferies.

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

Sorry about the drop earlier. Wanted to talk a little bit about the One Key rollout. Can you help us understand what's changing from a loyalty perspective across each of the individual brands and how we should think about the sort of collective impact to take rate from these loyalty changes and perhaps some sort of other potential merchandising changes related to the rollout? And can you also help sort of talk a little bit more about the puts and takes of the acceleration in bookings growth next quarter? There's -- the Viator slowdown, the shift in marketing spend, and maybe some pull forward into last quarter into 1Q from 2Q. But I'm also curious if -- you started to see an inflection point in some of the smaller brands where they've gotten small enough to not have as material an impact on the overall business?

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

Thanks. A lot of good questions there. I would say starting with One Key. Basically, I think the simplest way to think about it is One Key is closest in what it offers to what the Expedia program was -- the Brand Expedia program was historically and that you earn points, the points are worth money, you can spend the money. Some things have changed. I mentioned the member discounts. We now have Silver and Gold member discounts. There's added benefits for those Silver, Gold, Platinum members that they get. But it's most similar.

So that's, I would say, the least change, in the sense that you could already use that currency across many products and you couldn't really use -- you couldn't use it in Vrbo but that was the one missing piece. So maybe the way to think about that is you've added Vrbo to the pot and those consumers can now benefit when they want a rent -- vacation rental. Hotels.com, many of you are familiar, had a very rich program for the super user. If you book 10 rooms, you get a night free. And that was a very valuable benefit for super user. But the vast majority of users didn't get a benefit because they never stayed enough nights. So we're trying to make that program much more attractive to all users while still keeping it very attractive to the super user for all the points I went into a moment ago as to why they would find incremental value there.

And again, you could only use that on hotel product. Now you can use it on anything, and that's a lot more flexible, a lot more vast and you can do a lot more with it. And then, of course, Vrbo had nothing. Now Vrbo will have rewards, which -- maybe it doesn't have, et cetera and you'll be able to use it for your next Vrbo stay, but you can also use it to go to a hotel or a resort or take your family on a flight or whatever. So again, it just gives all of our customers a lot more ways to use it for a lot of different occasions and for a lot of different products. And ultimately, we're trying to build a base of loyal customers that use us for all their travel needs that can go across whatever they need and spend more with us, buy more products from us, et cetera.

So that's the game. We have all these brands, all these capabilities, we wanted the customers to benefit from all that. So the patterns we're looking for is cross shopping, more items per customer, higher LTVs, more direct -- more app direct, et cetera. So that's where we think One Key really helps drive. As far as the puts and takes, in the back half of bookings, your point about the smaller brands as part of it, yes, the smaller brands that we have deemphasized for some time now are getting smaller and that drag is getting lighter all the time. We mentioned some of the things going on with insurance normalizing post COVID and a few strange effects there, that's normalizing in the back half of the year.

And lodging continues to grow, B2C lodging continues to grow, most through BEX, but both brands are getting stronger in the back half after the tough comp. And so you're basically getting the strong pulling more weight and getting bigger, the sort of noisy stuff making less noise. And overall, we see good velocity in the business right now, and we're seeing it continue, and we feel good about all the product improvement. I mean, this has also been a journey of improving product, improving conversion, improving signing, improving app download, like all of those things are part of that journey. So every day, they're literally getting better and stacking up on themselves. So I think that's a long journey, and there's no magic to why it's going to hit next Tuesday, but with Vrbo's migration done with One Key which had a huge amount of resource for us out the door, these things, the velocity of other innovation gets faster and faster, and that's what we're focused on.

Operator

Our final question comes from the line of Deepak Mathivanan from Wolfe Research.

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

Julie, can you help us with the full year guide on margin expansion? We're almost, I mean, into the peak travel season, and you said that for 3Q margins should be flat year-on-year. But anyway, you can frame us -- frame for us what the full year margins can reach to? And then kind of related to that, how should we think about the headwinds from fixed cost growth? You obviously have a little bit of duplicative costs right now with all the replatforming efforts. Is there a time line when we can expect this to somewhat sort of like start to show leverage and maybe you can deploy them for other projects.

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

Sure. On the margin side, the EBITDA side, obviously, this quarter's leverage certainly helps on the full year. We did guide to next quarter being more in line with last year, and that is, as you mentioned, the shift from the marketing spend that we have. But for all the things that Peter just alluded to and the strength of the business in the back half, particularly in the fourth quarter, we expect to see strong margin expansion in the fourth quarter that will help us on the year.

So it's our accelerating top line, which will leverage the entire P&L, including marketing leverage in the fourth quarter that we think will drive that expansion. From a headwinds -- from a fixed cost perspective, certainly, we are going to be aggressive as we move out of this year and come out of the transformation phase to finding efficiencies across the P&L. As we've said, we have got redundant systems for very good reasons while we're going through the migration.

But it's time that we'll be starting to deprecate those systems and pulling cost out of the P&L and whether that's cloud costs, licensing and maintenance, repurposing some of the product and tech staff to now go on the offense and go after optimization and innovation instead of migration, there's a lot of opportunity to really dig through the costs and pull that out as we move forward, but that's probably more of a 2024 going forward focus. But certainly, with all that optimization as well, we should be able to leverage the P&L next year. So super excited about that.

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

Okay. I think that was the final question. So thank you all. Have a good Thursday. I appreciate your time. Take care.

Operator

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

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