REFINITIV STREETEVENTS

EDITED TRANSCRIPT

EXPE.OQ - Q3 2023 Expedia Group Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 02, 2023 / 8:30PM GMT

OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

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

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

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

CONFERENCE CALL PARTICIPANTS

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

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

Justin Post *BofA Securities, Research Division - MD*

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

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

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

Richard J. Clarke *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

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

Jacob Seed *Cowen & Company - Analyst*

Alec Brondolo *Wells Fargo - Analyst*

Chris Suchecki *Jefferies & Co - Analyst*

Zachary Tempe Morrissey *Wolfe Research, LLC - Research Analyst*

PRESENTATION

Operator

Good day, everyone, and welcome to the Expedia Group Q3 2023 Financial Results Teleconference. My name is Lauren, and I'll be your 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*

Good afternoon, and welcome to Expedia Group's Third 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 expenses exclude stock-based compensation.

We will also be making forward-looking statements during the call, which are predictions, projections or other statements about our 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*

Thank you, Harshit, and good afternoon, and thank you all for joining us today. Our third quarter results came in ahead of our expectations with record revenue and EBITDA. This was particularly gratifying, considering the fires in Maui, which had a disproportionate impact on our Vrbo business and put pressure on the top line overall. Travel demand otherwise remained solid, with broad trends consistent over the last few months. North America and Europe demand remained stable with more pronounced growth in APAC and Latin America. Prices also remained stable by and large. Hotel and Vrbo ADRs are holding up in each region, but mix effects are leading to a slight year-over-year decline in overall lodging ADRs. Conversely, we have seen some modest price pressure in air and car.

We are also keeping a close eye on the escalating violence in the Middle East which appeared to have some impact on global travel in early October.

More relevant to our specific performance, I'm happy to share that we've just completed the final leg of our Vrbo migration onto our single front-end stack, with the conclusion of our global launch of the new Vrbo app this past Monday in the U.S.

This marks the last of our major migrations associated with our multi-year transformation. It has been a long, complex journey, but well worth the effort as we are now in a position to accelerate into the future without the drag of transformation work that forced us to go backwards in order to go forwards. We are now in a position to dramatically increase our test-and-learn capacity and feature release velocity while also providing a scalable and efficient base to operate upon.

We continue to utilize our industry-leading AI and ML capabilities to radically improve all aspects of our traveler experience. And with the launch of One Key and our increasing ability to understand the long term value of our travelers, we can now begin to drive faster, more profitable growth.

Moving on to the key pillars of our performance, starting with our category leading B2B business, which remains on track for a strong year with Q3 revenue growing 26% versus last year. We're winning new deals, increasing wallet share with existing partners and launching new products and features to support our growth. Demand from China in particular continues to pick up with Q3 bookings from China partners up over 150% year-on-year.

We anticipate continued strength from B2B going forward driven by our continuing push into the addressable market, along with the advantages that our platform improvements will bring to the B2B business, whether in core technology, the application of AI and machine learning or in service and payments. As we unify stacks, this will also further enhance the capabilities on offer for our B2B partners.

But as pleased as I am with the continued growth of our B2B business, I'm even happier to see our B2C business picking up momentum with year-over-year revenue growth in Q3 accelerating over 400 basis points sequentially. This is what we've all been working so hard for, so it's very gratifying to see these results beginning to improve. Another major milestone for us was the U.S. launch in July of One Key, our new loyalty program. One Key unifies our major brands of Expedia, Hotels.com and Vrbo, allowing our members to earn and burn one simple currency, OneKeyCash across our vast marketplace. As I've mentioned before, getting dividends from a program like this will take some time given the frequency with which most consumers travel. That said, we are very happy with the early results and traction One Key has with our members.

We have already migrated over 82 million members to the program and with the addition of Vrbo to the mix we have seen 34% growth in new members over the last year. We have already seen many members using OneKeyCash across brands including on Vrbo and have been pleased that Hotels.com members have not been unduly impacted and have already been using OneKeyCash to shop for other products on Expedia.

Overall, these promising results have given us solid learnings that will be useful as we launch One Key in other countries next year. And with the Vrbo migration complete we can now more fully lean into the core differentiation that One Key gives Vrbo in the vacation rental space. One Key, along with our ongoing efforts to more generally attract higher lifetime value customers, is accelerating our mix of loyalty members, app users and app members. And the percentage of bookings coming through our apps continues to grow and was up approximately 300 basis points sequentially in the third quarter. Which ultimately contributed to our year-over-year marketing leverage in our B2C business for the third quarter.

We have also been releasing exciting products and features that remove more and more friction from the planning and booking process. In September, we announced our Fall Release, showcasing a series of new features and products squarely aimed at solving complex traveler problems and enhancing engagement. In case you missed it, I'll give you a few of the highlights. We have simplified group travel planning, providing for the first time one place for friends and family to collaborate on a group trip to see one another's selections and add saved options across air lodging, car rentals and activities, significantly easing the group planning process and creating a better and more successful trip for everyone. Products like these not only enhance the consumer experience, but allow us to utilize a consumer's own network of friends and family to expand our reach.

We've also launched tools to aid research into a given destination - hotel prices, weather, best times to visit, crowd levels, and even generative AI powered tools to determine the best neighborhoods to stay - giving the traveler one place to research where and when to stay in their dream location. We now also leverage generative AI to scrape reviews to answer traveler questions about amenities and property details - So no more sorting through hundreds of reviews to find out how strong the WiFi is, the quality of the pool, or whether you're going to like the breakfast.

We also launched the first project of its kind - EG Labs, which allows interested customers to test our AI-powered beta products, allowing them to play a hand in how we shape the future of travel. I could literally go on and on but the takeaway is no one in travel is innovating faster than us and with so much important platform work behind us and with our leading capabilities and machine learning and AI we will out innovate in the space for many years to come. We have literally worked for years and given up many short term opportunities to get to this place, and I don't believe anyone is in a better spot technologically. Which is not only exciting for our existing business but sets us up to go back on offense in many more markets next year.

In closing, I'm pleased to see our solid execution in Q3 and through 2023 so far. While the geographic mix of business distorts global growth rates, we believe that we have held up or grown hotel gross booking share in virtually all of our key markets and with Vrbo finally completing its migration, and the key differentiator of One Key, we expect our vacation rental share to improve going forward. In addition, we are finalizing our plans for '24, where we expect to drive faster and more profitable growth. Our high-level strategy is not going to change - best product, best loyalty program, best marketplace, and best service. But instead of spending most of the year doing surgery on our own business we will be focused on growth, innovation and efficiency. I'm excited for 2024 and beyond and for what we will bring to our travelers, partners, and shareholders. And with that, let me hand it over to Julie.

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

Thanks, Peter, and hello everyone. Our third quarter results reflect a meaningful acceleration in the business with revenue reaching a record $3.9 billion with year-over-year growth accelerating approximately 300 basis points sequentially from the second quarter to 9%, and with earnings accelerating even further to an almost 31% EBITDA margin, over 110 basis points of expansion versus last year - both of which beat expectations. It is clear, our transformation strategy and growth initiatives are playing out and we anticipate this momentum to continue into the fourth quarter. This is why we have continued buying back our stock at an accelerated level, have announced a new $5 billion share repurchase authorization and are confident to reiterate our full year guidance of double-digit top line growth with margin expansion.

Now on to our results for the quarter. Total gross bookings of $25.7 billion were up 7% versus last year, a sequential acceleration in growth from last quarter. Overall, lodging gross bookings grew 8% and were the highest third quarter on record. And this acceleration would have been even higher but for our Vrbo business, given our hotel business grew at a much higher pace at 14%. Our Vrbo business was particularly impacted by the recent Maui fires, as well as the brand's short-term migration to our single front-end stack and the continued softness from the demand shift towards more urban areas. Despite this impact, we saw our B2C business accelerate from the second quarter primarily from continued strength in hotel. And our B2B business saw continued strength and outperformance consistent with what we have been seeing all year.

Moving to the key financial metrics in the P&L, starting with total revenue. Revenue of $3.9 billion was the highest on record and grew 9% versus last year. Revenue growth was primarily driven by the continued performance of lodging, which grew 12%, driven by our hotel business. We also saw our B2C year-over-year revenue growth accelerate over 400 basis points sequentially versus the second quarter. This growth was partially offset by the softness we have been seeing in our Insurance and Car businesses, which as we discussed last quarter have been impacted by some industry wide changes post pandemic. Both insurance and car have become less of a drag to growth this quarter and we expect that trajectory to continue for the rest of the year as we start to comp these declines in the fourth quarter.

Total revenue margin increased by approximately 20 basis points versus last year, primarily driven by the continued mix to higher lodging revenue which have higher margins. Cost of sales was $409 million for the quarter, which is lower than last year by $42 million, or 10% with approximately 210 basis points of leverage as a percentage of revenue versus the third quarter of 2022, driven by the ongoing efficiencies we have seen all year. And while we will start to comp some of these benefits during 2024, we expect to continue to drive efficiencies as we eliminate redundant systems and reduce key costs in such areas as cloud, licenses and maintenance.

Direct sales and marketing expense in the third quarter was $1.7 billion, which was up 11% versus the third quarter of 2022 due to an increase in commissions in our B2B business to support strong revenue growth of 26%. Again, commissions paid to our B2B partners are in 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 stayed basis and to a contractually agreed-upon percentage, the returns are more guaranteed and immediate.

Our B2C business saw marketing leverage again this quarter as a percentage of gross bookings. These B2C marketing efficiencies resulted from the incremental benefits we are seeing from our continued investments in loyalty and app members, and we expect this positive trend to continue as higher loyalty and app members result in higher direct and repeat traffic that is more efficient. Overhead expenses were $617 million, an increase of $48 million versus last year, or 9% and in line with revenue growth. As we have said, this increase is a result of our year-over-year investment in talent across our product and technology teams to support our strategic initiatives. And as we finish our technology work this year and look to deprecate systems and redeploy resources in 2024, we expect to realize cost efficiencies going forward.

With this strong revenue performance and expense control, with expenses overall growing lower than revenue, we delivered record EBITDA of $1.2 billion, which was up 13% with an EBITDA margin of almost 31%, expanding over 110 basis points year-over-year. Our free cash flow remains strong at $2.3 billion year-to-date. Similar to last quarter, the year-over-year decline is primarily associated with timing changes within working capital. Last year as the business emerged from the pandemic, we saw meaningful year-over-year increases in our deferred merchant bookings balances which has since normalized this year. We remain pleased with our ongoing robust cash flow levels and record EBITDA levels, and we expect them to remain strong going forward.

On the balance sheet, we ended the quarter with strong liquidity of $7.6 billion, driven by our unrestricted cash balance of $5.1 billion and our undrawn revolving line of credit of $2.5 billion, which provides us with plenty of cash to operate the business. From a debt perspective, our debt level remains at approximately $6.3 billion with an average cost of capital at only 3.7%. And, with our expanding EBITDA, our gross leverage ratio has come down to 2.4x. As a result, we have continued to make progress towards our target gross leverage ratio of 2x and expect to make further progress in the coming quarters through EBITDA growth and potentially some early debt repayment.

From a capital allocation perspective, we have been buying back our stock at record levels. We continue to believe that our stock price remains undervalued and does not reflect our expected long-term performance of the business. And given our liquidity and strong free cash flow levels, we believe buying back our stock on an accelerated basis is the best use of our capital to maximize shareholder returns. As a result, we bought back approximately $1.8 billion year-to-date or approximately 17 million shares, our largest level of repurchases to date, offsetting not only our COVID era dilution but in fact, getting us to our lowest share count since 2015. And, given our confidence in the long-term outlook of our company and the cash-generating power of our business, as well as our commitment to maximizing returns for our shareholders, we have announced a new $5 billion share repurchase authorization. And we expect to continue buying back our stock opportunistically going forward.

So in closing, we are pleased to see the continued momentum in the business, delivering our best ever quarter. We have been able to deliver upon what we said we were going to do amid a significant period of transformation and corresponding uncertainty. Looking ahead, we are reiterating our full year outlook of double-digit top line growth with margin expansion. As for the fourth quarter, based on the uncertain geopolitical environment and its potential impact on travel, we expect gross bookings growth to be relatively in line with third quarter levels with modest sequential acceleration in year-over-year revenue and EBITDA growth versus the third quarter.

Overall, our execution and results this year give us the 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. We look forward to updating you next quarter on our plans for 2024. And with that, I would now like to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

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

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

Maybe two, if I can. In terms of Vrbo and the migration, how should we be thinking about post-migration elements of growth and how Vrbo will be tied deeper into One Key as a stimulant for growth on that brand as we look out beyond 2023 and into 2024? And with respect to the new buyback authorization, any guardrails, either aligned against annualized free cash flow or targets around liquidity about how you might deploy that $5 billion in the years ahead?

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

Thanks, Eric. I'll take the first one and maybe let Julie answer the question on buybacks. As far as Vrbo goes, obviously, as I said, we just literally finished the app migration, and it's not even -- people haven't even updated all their apps yet. So it will take a little time for us to be fully across, but we're talking about weeks. And then I think it's a build from there. You have to remember that going through the migration was actually a negative process, right? It was conversion negative for us to come across, switch the stacks, then optimize the stacks and improve them. So we're in the process now of having everything across and working on the improvement part and inflecting past where we were previously.

So one, the product will improve from here. We won't have the drag of the conversion drags we've had during this past year while we were migrating. And then there are many things to drive growth in the future, we believe, obviously, we believe greatly in One Key, it's a key differentiator in the VR space, it allows all our members across Expedia and HCOM, which are many more in number of humans to have the option of using their OneKeyCash on Vrbo instead of on a different VR platform or for other products. So there's a lot -- it's a way to pull out more customers into Vrbo. It's a way to make Vrbo decidedly better as a value proposition than its competition. And I think there's a number of other things we are doing. I mentioned in our last call, we will work to incorporate much more of the multiunit vacation rental properties. We actually have on our OTA brands that don't live on Vrbo yet that we will be moving.

So there's many parts to our growth plan in Vrbo, but I think we're excited now. We had to get across this work so that we could again start optimizing, really push One Key fully and take advantage of some of these other pieces we've been waiting on to finish the migration so that we could then move this inventory and do other things that open up growth opportunities. So we feel good about how Vrbo is positioned. Obviously, this was a tough year of migration, but a lot of optimism for what we can do in the coming years with it.

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

And then as far as the $5 billion buyback authorization, we don't per se have any set guardrails, although I would say that generally speaking, we look to what our free cash flow levels are in the year, and obviously make a decision then where our stock price is and where we believe the valuation of the company is and what our long-term outlook is, make a call as to how much then pivots to buybacks. But at the same time, we've also got excess cash. And so if we wanted to be even more aggressive on what is per se, the free cash flow plan for the year, we could do that as well. So the short answer is it really depends, but we have a lot of flexibility there, and we intend to buy back our stock opportunistically.

Operator

Our next question comes from Lee Horowitz from Deutsche Bank.

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

Peter, you talked about your business next year driving faster and more profitable growth, which presumably underwrite some top line reacceleration, yet you're a bit more cautious on the fourth quarter given some geopolitical concerns. I guess what gives you the confidence in sort of that accelerated outlook into 2024 despite the geopolitical concerns you guys highlighted as well as others in the market perhaps going out some incremental macro headwinds building for the travel industry?

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

Yes. Thanks, Lee. Look, I'm not opining as a world leader on the likelihood of geopolitical acceleration potentially in '24. I certainly hope not for all our sakes, but what we're seeing now, as we referred to, there was some short-term movement in early October that appeared to be from what was going on in the Middle East. That doesn't appear to be an ongoing thing, but there was some noise. So we are mindful of the potential volatility from that. But I would say we're more ambitious and more excited because, frankly, even the fourth quarter is just barely beginning to get the benefit, like when I talk about Vrbo being past the migration, it was like 2 days ago. So fourth quarter, we're in the middle of the fourth quarter. So getting a lot out of that now in the next 8 weeks is a lot harder than what we have ambition for next year. And if you take that across everything and you take that across One Key still being in relatively early days and so forth, it's just -- we're still like this is a big snowball we're pushing and it's starting to turn, but it's going to turn faster and faster.

So we have more ambition about our own ability to drive it next year and our own opportunity there. Obviously, there could be macro things that make it harder or easier on all of us. But we think relative to our competition, relative to where we've been, we're just going to be in a much better place. So that is what gives us ambition. It's not that we think the world will all come down and all wars will go away and everyone will have peace. It's that we think we're just going to be in a materially better spot as we're further along this journey.

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

Got it. And then maybe one follow-up on that. You talked about sort of leading into some international markets perhaps next year. I guess now with all of the tech migration behind you, are there any gating factors as it relates to the timing of when you may put some investment dollars to work there? Or how should we just sort of think about the phasing of sort of those broader global ambitions that you guys have into 2024?

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

Yes. I think technologically, there aren't a lot of gating items. I mentioned that we haven't -- we've only rolled One Key to the U.S. So rolling One Key along with leaning in more energy into certain places will be part of the strategy. But again, not a gating issue, but that has to happen and there is some technical work to getting that launched in other countries. It will come -- it's not a big lift. It's just something that will come as we roll out.

But more importantly, I'd say it's a balance. We believe we're equipped now. We believe we have the tools to compete better than we ever have. We believe we have a winning product. And as we all know, you've got to market back into these countries. I mentioned the better understanding of customers, which customers we want, how we get the right customers, how we find the highest lifetime value customers, things like that. So we're just -- it's really just about doing it in an orderly process. We're not going to just carpet-bomb the world. We're going to go selectively after the most valuable markets to us where we have the most right to win, and we're going to keep chipping away at it. But we're excited to go back on offense in the rest of the world.

Operator

Our next question comes from Kevin Kopelman from Cowen.

Jacob Seed - *Cowen & Company - Analyst*

This is Jacob on for Kevin. So wondering if you can provide some color on the regional performance quarter-to-date? And also, what are the cost savings or levers that you expect to see from the tech migration as we look into 2024?

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

Yes. Sorry, you broke up a little bit, but I'll take a stab at it. I think in terms of the regional, what we've seen is, as I mentioned, APAC and Latin America have been faster-growing markets for everybody. Basically, it's a function of where different regions are in terms of their rebound post-COVID. North America and Europe and APAC -- excuse me, EMEA are more stable they saw their rebound earlier and have been in a more consistent state. We've seen the same in our business, but our business is less exposed to APAC than it is to, obviously, North America, somewhat less exposed to Europe. So there's differences there. But what we've seen and I referred to is what we're seeing is pretty much around the globe, we've been able to hold or grow share even in markets where we have relatively small share.

Again, we're eating into the pie and different of those markets, we have different aggression for -- but remember, we've done this basically with our arms tied behind our back. We're trying to do what we could with the levers we had. And increasingly, we have more and more levers and better and better product and all of that will make us more competitive, we believe, as we go forward. As far as the efficiencies go, I think we've been saying this for a while, but we've had these huge tasks that we've undertaken to get across the transformation, do these migrations, et cetera. Everything gets faster and easier.

So think of it as either more output with the same amount of energy or opportunities, whether it be in cloud, as Julie referred to our other licensing and maintenance and other opportunities and which work we choose to do, that there's this opportunity now to stop. We've grown for quite a bit of time now in our -- particularly in product and tech. We no longer need to grow our base of overhead in order to grow our business much faster. So as those lines diverge, we become more efficient, and that's what we're talking about.

Operator

Our next question comes from Naved Khan from B. Riley Securities.

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

A couple of questions here. So just on the consumer, are you seeing any sign of the consumer weakening or maybe trading down or just taking longer to book anything there? And then on the Vrbo migration, Peter, I think you had earlier talked about how the website piece was done and the app was the one that was remaining and that, I think, has been completed just in the last week or so. But anything you can share on the website migration and how that might be yielding results? Any early signs on that?

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

Sure. So the first part of your question, we haven't seen really anything on the consumer side. We keep looking. But there's definitely nothing obvious and you'd have to squint it really hard and look by subregion to try to - for - and cut it by price point and a lot of things to really see anything noticeable. Interestingly and anecdotally, we've seen that customers who have gotten OneKeyCash where they didn't have it before, et cetera, or in some cases, as part of One Key, we introduced higher discounts for our silver and gold members at certain properties that customers are typically using it to get a better room type as opposed to take the money to the bottom line. So they're actually using the available capital they had in mind just for more rather than saving the money.

So again, that's just an anecdote, but there does not appear to be any major shift going on. Of course, we have historically and still our strongest in the mid and upper parts of the market as opposed to the lowest end of the market. And that, again, may be moving slightly, but we have not seen any broad consumer change in habit.

As far as your second question goes, as I mentioned, the first part of moving the website was going backwards to go forwards, was consolidating it. Vrbo is now getting the benefit of a lot of successful winners that we had rolled out on our OTA brands across Expedia and Hotels.com, and now it will benefit from many of the things that have won there. So we're in the middle of testing in all the things that have won historically on the OTA brands, getting the best-in-class of maps and other things, search and sort and so forth.

So it's -- I'd say we're still in that journey. I'd say we're still behind in terms of conversion, in terms of pre- versus post-migration on the website, but we are on the rise and catching up, and we expect to inflect past where we were soonish and the app so far has appeared to have done better, and our hopes are that we'll see less going backwards and more going forwards faster. So we're directionally going up from here, but we did have to take a little bit of a step back as we migrate.

Operator

Our next question comes from Jed Kelly from Oppenheimer.

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

Two, if I may. Can you just talk about some of the marketing efficiencies you plan -- you think you'll get around brand now being able to use One Key and highlight your three brands? And then just going in now that the tech migration is complete, how do you view growing EBITDA dollars versus EBITDA margin?

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

I'll take the first part and maybe have Julie take the second. I would say that from a marketing efficiency standpoint, you've seen us just begin to market more with the launch of One Key sort of the brands together. And that is a journey that we will continue to learn on and grow on in terms of how to optimize our brand spend and all of our performance marketing spend to optimize the best place to bring a customer in and then the best way to bring them around our universe of products.

But I would say what we're most excited about is the ability to get customers to cross shop and to get them to use -- stay in our group of brands and spend their money there, and that gives us a lot more opportunity to drive direct business because we already have a big base of customers in each of those brands that we can now bring to other brands, whether it's an HCOM customer who needs a flight or a car or whether it's an Expedia customer who needs a Vrbo, that ability to keep everything in the universe, get people to use that currency across. As we all know, the more direct business we have, the more margin it drives and then we have the latitude to invest or not as much as we want into performance marketing, driving new customer acquisition. And again, we're getting smarter and smarter about who we go after, how we go after them and how we optimize for the lifetime value of that customer base.

So I think that's how we think about it. In terms of the practical like have we figured out all the nuts and bolts of the best way to promote the brands together. The best way to promote One Key, I think we're still on a learning journey there, but we're excited about it. And the One Key work was awesome and you're going to start to see the brands more present in other brands as time goes on. But I think the big opportunity, as I mentioned about new members, we took a group that didn't have membership basically, and turned them into new members in a big pool of membership where they can get a lot of benefit across a bunch of different products that they couldn't get before from Vrbo.

So that's what's exciting to us. Our goal is to drive much more direct business through that. And as I think we've said before, we look at spend for loyalty, for marketing, for any kind of pricing and discounting things we do, all as one pool of capital that's focused on the best way to acquire and retain customers, and that's really -- so we're happy to trade those dollars off to the most efficient way to drive the overall business. And that's what you're going to see us do over time more and more.

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

And I think the short answer on the EBITDA question post tech migration is we expect to drive obviously both. We want to have strong EBITDA dollar growth and we want to have margin expansion. We're not going to need to invest as much as we have in the past. As Peter said earlier, now the tech migration is complete. We should be starting to get more efficiencies out of the machine here by deprecating systems, redeploying resources, cutting all the incremental costs associated with that and just getting more output, getting more leverage from all of the goodness that we've been investing in, in the past.

Now we are also wanting to be on the offensive as we said. So there may be times in areas that we think we need to invest, still driving EBITDA growth and maybe not as much EBITDA margin in certain situations. But for the most part, we're committed to both, but this is a year of offense and so we want to have that flexibility.

Operator

Our next question comes from John Colantuoni from Jefferies.

Chris Suchecki - *Jefferies & Co - Analyst*

This is Chris on for John. So there have been some questions around the trajectory of alternative accommodation nights growth across the industry broadly. Could you elaborate on kind of how recent demand trends compared Vrbo and beyond the onetime impacts from things like the tech migration and Maui fires, have you seen any changes in customer preference for vacation rentals?

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

Yes. Thanks, Chris. I think for us, and we're a little differently situated than our competition. But for us, we saw a huge COVID era boom when everyone was trying to be in their own house and rent their own space and whatever. We definitely saw a little bit of pressure on that this past year as that kind of came off. But in terms of how things are progressing, once you kind of reset for that, we think demand is pretty stable, and there's lots of opportunity for growth. In the other parts of the business, our friends across the way, they play in urban much more in shared accommodations. We do think there's opportunity in urban, and we are seeing -- we are building supply in many areas, but we are sticking to our knitting of the whole home/whole apartment experience as opposed to shared spaces, et cetera. We think there's lots of runway there, and there will be probably more supply coming on as homeowners struggle with mortgage rates and other things. There's a good opportunity for supply there.

So we still see plenty of opportunity in compressed places and compressed time, banded time periods in different areas. So I think we feel good about going back on offense. We've been playing, this is one of the areas we've been playing a little bit with our hands tied behind our back. But macro in the whole home space, we expect there to be growth again, barring geopolitical, who knows. And I can't speak for the other shared accommodation spaces and other things, that's not where we're focused.

Operator

Our next question comes from Anthony Post from Bank of America.

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

With bookings growing 7% this quarter and you're suggesting similar growth next quarter, how do you think that positions you for top line growth next year? You mentioned maybe accelerating off of this year. So just thinking about the bookings growth rate and implications. And then second, I know there's been a lot of effort to increase app users versus maybe using search marketing. Are you seeing anything in the customer metrics, and I apologize if it's already been asked, but anything in the customer metrics that show better repeat rates or better return on that ad spend than you were getting, say, a few years ago?

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

I'll take the first one. I mean as far as the bookings, I think this past quarter and the subsequent Q4 guidance that we gave, those are both indicative of some shorter-term things that have occurred. So as we mentioned, we were unfortunately impacted by the Maui fires that brought down gross bookings lower than we had expected in Q3, and we're being thoughtful in our Q4 guidance of what could potentially be an impact associated with the uncertainty in the geopolitical environment.

So we'll see how that plays out for the quarter. So early in the quarter, we've seen very little noise at this point, but that doesn't necessarily provides an indication of what's going to happen in 2024. And for all the things that Peter mentioned that we have completed and all the momentum we have in the underlying health of the business and coming out of the tech migration and all the goodness that's coming from the One Key launch and the growing base of app and loyalty members and all of that kind of adding on top of each other, as we incrementally roll through the year, should drive that gross bookings up.

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

And I'll just add, and I'll take the second part. But I wish I could tell you that this migration is like we flip a switch when it's over and everything goes 2x, but it is -- you're growing out of a period of lots of change with all the tools you need to go faster, but they build on each other over time. So our first week out of the gate is not going to be like our 52nd week out of the gate. And so this is something where there's some noise in the numbers as we alluded to from geopolitics and other things, we'll see where it ends up landing, but our enthusiasm for what next year can bring is built on the underlying building blocks, not on the -- what is the trend line today or what is the macro.

So that's where our enthusiasm comes from. As for the metrics you're asking about, yes, absolutely. I mean it was the understanding and knowing that app members, in particular, our highest producing customers have the highest return rates, the highest CLV et cetera, was the reason we leaned so heavily into app. It may not be that surprising, but that's the case. Obviously, they have a propensity to come direct more, which saves us money is remarketing them.

So there's lots of elements that make those members better for us. We have invested both directly and acquiring them through marketing as well as doing much, much more in the product to move customers into the app for all of those reasons. And we're still seeing that those cohorts still perform better even as we pushed more and more people, they still perform better than a guest or a member who's not on the app, et cetera. So those statistics have held up. We keep pushing it. You're going to see us keep pushing it. We are going to be app first in terms of product, in terms of where you see the most innovation coming and coming fastest.

So we are fully leaned into getting customers into our best product, making our app our best product and experience and making sure all of that innovation I talked about is happening first and foremost in the app, so we get more people in it, more people into the state we like and then, of course, hopefully, working between our apps as they enjoy the benefits of our loyalty program. So that's, yes to all of that, the numbers hold up, we've seen the benefit, and that's why we keep pushing it.

Operator

Our next question comes from Tom Champion from Piper Sandler.

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

Peter, I was wondering if you could talk a little bit about the growth you're seeing out of China. Maybe it was on the B2B side. It sounded quite strong. And then, Julie, a question for you. Going back to the buyback, the size is kind of eye-popping. How did you arrive at that amount being appropriate? And what's the total in the plan as of today, including the existing plus new?

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

Yes, I mean our B2B business, we have a nice business in China. China, as you know, is a tough place to compete on a B2C basis and really none of the Western companies do anymore. So we don't have that benefit. On the B2B side, we're seeing a nice pickup. But I'll remind you that airlift out of China is still well below pre-COVID levels. There were some recent announcements in the last week of increasing flights between China and the U.S., which is a good story, but it's still not a massive story. So you still have substantially less airlift out of China into most of the west. And -- but -- so it's not going to be -- again, it's not going to be a snap your finger and it's back to 2019 levels, but I think it's going to be a nice tailwind for a long time as hopefully, relations improve and more travel opens up. There's visa issues in China and other things.

So we're seeing some good progress there. We power some of the local players in our B2B business, off-line travel agents and online. And there's definitely a pickup of travel. Some of that is intra-Asia. Some is even intra-China, but for the big pickup, there is a piece that we really haven't gotten to yet, which is getting China back to real international travel at pre-COVID levels, which will take some time. But it's a nice tailwind, obviously, mainly for our B2B business, and that business has a lot of tailwind, so it's just another one for us.

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

And as far as the $5 billion buyback, I mean, if you look at how much we've bought back just year-to-date, it's what, a little over 2x of that, so this is meant to be a multiyear, but we feel definitely very comfortable with this level and with the fact that we know we're going to be having growing free cash flow. And so we thought this was the right amount to go out with. So we're not doing an annual review, if you will, but not also making it so far out. So we thought it was a good healthy balance. As far as what's left in the plan today, there's very, very, very little. So this is really, I would see this as sort of the new and existing launch.

Operator

Our next question comes from Deepak Mathivanan from Wolfe Research.

Zachary Tempe Morrissey - *Wolfe Research, LLC - Research Analyst*

This is Zach on for Deepak. I just wanted to ask about how Hotels.com, like consumer behavior has been performing, given the change in incentives from the One Key launch?

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

Yes. Thanks, Zach. As I mentioned in my comments, we've seen -- we were prepared for some dislocation and some people being upset. Obviously, there have been a few, but actually, it's been considerably less than we expected and the behavior of the customer base has been frankly better than we anticipated. Partly we had a number of ways we were going to make that right with our customers and continue to do. But in general, we've seen less unhappiness and generally behavior that's consistent with their prior buying behaviors by and large.

There are some exceptions, and we've had some programs to help with our most valued customers there. But again, we think we're moving that into a really good state with being a gold or even platinum member of One Key and ton of benefits that come with that. And as I alluded to, we're starting to see them use their OneKeyCash on Expedia to buy other things. So it's the beginnings of what we are trying to ferment, which is this idea that while it may not be quite as rich, it's much more flexible. You can use it for many more things and with the improved member discounts and other added benefits we've added to the program, you can get just as much benefit out of the program, just built slightly different way and now way more flexible.

So in general, we were pleased. I'd say if we took the over-under, it was definitely better than we had hoped and (inaudible) it remains that way, and we feel pretty good about how it's trending.

Operator

Our next question comes from Richard Clarke from Bernstein.

Richard J. Clarke - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

Just the first one, thinking about your growth into 2024 and beyond and the ability to keep B2B revenues growing in the double-digit level. What visibility do you have of future deals or upside within your current deals to keep delivering that level of growth?

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

Yes. I'd say we feel quite good about our continued growth of the B2B business. As I mentioned, we're still finalizing our plans for next year. So we're not committing to any numbers or anything. But in terms of double-digit growth, we feel confident that the B2B business can continue to grow based on a number of reasons. One, we are constantly adding new partners. And like same-store sales, first year new partner doesn't perform like a second year partner, and so people mature into performance. So we've got a runway of that.

We have an expectation of what we continue to sell into in the marketplace, whether it's offline travel agents, new partners on our APIs or on our platform. We've got a number of initiatives designed to make our products even more appealing, whether it's new flexibility and how our technology works for our partners, how they can choose the best price, how they can put the best pieces together. So we have a number of initiatives that are all kind of built -- that all build up to what we think is good visibility into continued strong growth in that business.

Richard J. Clarke - *Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst*

And maybe if I can just ask one follow-up to a question someone asked earlier. Just on the One Key launch, I guess there's been some questions around what's the cost to you of rolling that out? And maybe could you quantify what's been the level of contra revenue you've had to include to fulfill the decent growth you've seen there?

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

Yes. Well, I would say that in principle, when we were rolling it out, the idea was that between our collective loyalty programs, it would not be net additive to the cost. It would be allocated differently among our customers and the benefits would be spread more evenly across our base of customers. So you can think of it as kind of a zero-sum game in terms of total expected dollars expended in contra revenue.

Now there were other benefits, as I mentioned, more member discounts, other things built into our platinum level and other. So there are some other pieces that added other value outside of just what you see in kind of the contra revenue space. But that was designed to kind of be a zero-sum-ish game. And as I alluded to, we held some back to help bring along our Hotels.com customers, et cetera, some of which we've expended. But all in all, it's basically been as good or better than we thought in terms of a cost exercise. We still have a long way to go to get all the benefits on the growth side of it. That's something we continue to work on.

And as I mentioned, it takes some time to come through the numbers. But in terms of the cost side, I think we've made that transition, we are incurring roughly a similar -- think of it as a similar overall cost against the revenue margin across the whole business. And now we just have a lot more people engaged in the program. So we think the net positive on the growth side and shouldn't really cost us in terms of -- think of it as revenue margin, shouldn't really cost us any more than we were expending before.

Operator

Our next question comes from Mark Mahaney from Evercore ISI.

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

The feature that you had on the app for quite some time, I think, maybe on the website, too, with ChatGPT, can you just talk about what kind of traction that feature is getting and what you'd like to get out of that in the future?

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

Yes, sure, Mark. I would say -- well, so first of all, we were the first to launch it. We've been learning a lot as we've gone. We've talked at a few conferences about how we've learned to help customers engage with it. Sometimes they don't know what to ask. There's a lot of discovery going on in the world of generative AI around prompts and how to get people into the right questions, et cetera. So we're doing a bunch of work on that. We've recently, frankly, just highlighted it more, so people could find it.

We weren't necessarily certain it was a net conversion winner or net anything winner. We just knew customers were curious. We wanted to see if we could help them with planning, et cetera. So we've -- since we've highlighted it more, we've gotten much more engagement. But again, it's early days, and it's not really -- I wouldn't think of it as impacting the business materially other than keeping us on the forefront of technology for our customers and the customers who want to experience it and discover through it.

Now as I mentioned, we are using generative AI in many other ways besides just that, hey, I want to go to Paris, when is a good time to go to Paris question, but we're using it in our reviews to help customers sift through reviews and ask a simple question. We're using it in service. We're using it in a lot of places. So generative AI is a bigger story for us long term and for everybody. But I think in terms of that one feature on the home page, it's still pretty small. People like -- the people who like it really like it. I wouldn't say it's moving the business one way or the other, but it's a feature we want to have up there, and it's a feature we want to enhance. And ultimately, we want to use AI broadly and generative AI to take you more easily through the collective journey.

Whatever part of it you want to -- you can use it best for, whether that's home page, discovery, kind of greenfields trying to figure out a trip or anywhere through search, sort, purchase, comparison, all of those places that are complicated areas for customers, we want to help use AI, use generative AI where appropriate to just take friction out of that journey end-to-end. And that's a journey we're on, and homepage is just one part of it.

Operator

Our final question is from Ken Gawrelski from Wells Fargo.

Alec Brondolo - *Wells Fargo - Analyst*

This is Alec on for Ken. It seems like the business journey over the last couple of years has been focused on centralization, centralization of the tech platform, centralization of the loyalty program. How do you think about centralization of brands? Specifically, it feels like Orbitz, Hotwire, Travelocity, the legacy brands have been a drag on nights growth over the last few years. Could it make sense to clean that up in '24?

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

Yes, I would say, again, we are happy to have customers on any brands they enjoy. But if you look at how we've invested capital, we have not been really investing in those smaller brands for the last few years. There are still customers who enjoy those brands. We're not planning to turn them off or make them go somewhere else. We obviously think they'd be better off in our main brands with the best-in-class loyalty program and everything else. But at this point, and really, to your point, as we've centralized the technology, the lift of maintaining those things has gone away. So as we get rid of having multiple stacks and old stacks to keep up and other things like that, we get to an efficient state where one or 21 doesn't really matter.

Now it's a matter of brand marketing, it's a matter of consumer experience, we are focused on the big 3, and we will keep doing that. And in different parts of the world, that may look slightly different. We may have fewer than 3. We may have one or 2 that's under a different name. But in general, we are going to be focused on a small group of brands where most of the -- where all the spending goes and then to the extent we have these other brands, we don't want to run customers off. As you say, that's been a drag. It's increasingly small drag, if I can say that, like it's getting smaller and so the drag is getting smaller, which is helping us, honestly, as we start to accelerate the bigger pieces and they outrun the drags. But we're also not trying to accelerate their drag on us, and we will maintain those as long as customers like using them, but you should expect those to continue to shrink and for virtually all our energy certainly spending energy to go into the core brands.

I think that's it. So thank you, operator. That was the last question. Thank you all for joining us today. We look forward to talking to you after the end of the year. Take care.

Operator

That concludes today's call. Thank you for joining, everyone. You may now disconnect your lines. Have a nice day.