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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone. And welcome to the Expedia Group Q4 2023 Financial Results Teleconference. My name is Lauren, 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 and 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 Fourth 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*

Thank you, Harshit and good afternoon and thank you all for joining us today. First of all, I just want to acknowledge the news that I will be stepping down in May as CEO after my contract ends and will be passing the baton to Ariane Gorin, who currently heads our Expedia for Business.

As many of you know when I started this unexpected journey during COVID, travel was at a standstill, money was flowing out of the company faster than we could replace it, and our people, our shareholders, and most of the world were unsure how and when we would ever come back. Strangely, those days never really worried me - maybe I'm an optimist, but I always believed we'd get back to life and travel would follow. While you might assume that COVID was the defining part of my tenure, in reality, we quickly saw an opportunity to use our COVID time to embark on one of the most audacious and ambitious transformations I think a company of our size has ever attempted.

It was always my hope that we would finish this massive task by now, but I'd be lying if I didn't say that was sometimes in doubt. We had many fits and starts as we took on this massive overhaul, but when you do something as bold as we were attempting you have to be prepared to deal with some mess. And as much as anything, I'm proud that we were not afraid of the mess, and we pushed through. And as the work began to accelerate in the back half of last year, I could finally see that we would in fact meet my timetable.

Over the last 4 years we built a tremendous team who in turn accomplished amazing things. I have to say that what started in an unlikely and difficult way, turned out to be one of the most compelling and challenging opportunities of my career. Now, I'm not going anywhere yet and I intend to sprint through the finish line on the way out. Among my important tasks between now and then is ensuring an absolutely seamless transition to Ariane and making sure none of our team misses a beat.

I just want to say that I've had the pleasure of working with Ariane closely for the last 4 years and I believe she is a terrific choice to take the company forward and build on what we have created. She is a seasoned leader with a very successful track record at Expedia Group, including most recently as head of our market leading B2B business. I look forward to working with Ariane over the next few months and I will not be going far as I return to my perch as Vice Chairman.

Now that I've addressed that, let's move on to our results. I was generally very pleased with our performance in '23. We met our guidance despite what was a year of tremendous change. It is really difficult to fully appreciate the breadth of change and the volatility that such change can create. We've discussed this many times but when you have to willingly take steps backward to go forward you create a lot of inherent unpredictability - and yet despite that we delivered and landed the year.

In the fourth quarter, we saw strong revenue and EBITDA performance, but we did see some softness in gross bookings, driven primarily by air, which in turn was largely driven by a reduction in average ticket prices. As you all know, air does not impact revenue or profitability very much, but it does have an outsized impact on our overall gross bookings. While air has been showing some signs of macro softening, we continue to improve our air product with new AI driven features and pricing capabilities, and like many areas of our business we see significant opportunity to grow regardless of any macro headwinds.

Our Lodging business held up very well and had yet another record quarter, with our hotel gross bookings growing 13% year over year. Vrbo finished its planned front-end migration in Q4 and suffered expected conversion degradation, but it now has more tests running than ever in its history and we are clawing back conversion at a breakneck pace. We also cut back last year on Vrbo marketing in concert with the expected conversion degradation but are now really excited about our new brand work that is designed to punch our main competitor squarely in the nose - and we are leaning back into spend.

There's a bit of a lag effect as we ramp back up, but we are excited to get Vrbo back on offense, with the product improving every day, the impact from improved and increased marketing, and of course our secret weapon in One Key - whose effect will only continue to build. We did an awful lot in '23, from the launch of One Key to the completion of the Vrbo migration. From the plumbing of machine learning and AI into more and more of our customer experience, to the launch of ChatGPT assisted trip planning. But more important than any win in '23 is the sheer magnitude of change we have driven since we embarked on our transformation journey at the beginning of 2020.

Over this period, we rationalized investments in over 20 brands, to 3 or fewer in every region. We eliminated dependency on 76 different agencies around the globe, and instead built an entire full-service marketing, creative and media buying team internally. We consolidated all performance marketing into one group, with unified data and tools allowing us to optimize across brands and bring programmatic approaches to everything we do in metasearch, social, SEO, and everywhere else. And we fundamentally shifted the business from transactional web arbitrage to app-first focused on acquiring and retaining the customers with the highest LTV and return on investment.

On the tech side, we decommissioned 17 CRM systems and built one universal messaging platform linking all brands. We went from 7 different loyalty stacks to One Key. We consolidated from 13 machine learning platforms and 4 experimentation platforms to one. We converged 300 million customer data profiles into one common identity platform. We have meaningfully reduced the number of developer tools and optimized our IT footprint. And most importantly, all our brands are now on a single front-end stack, with a unified test and learn platform that gives us the ability to rapidly launch tests and features across brands, platforms, and geos.

It is hard to fully conceptualize how much we have changed, but perhaps one simple way is to double-click on how all these elements allow us to massively accelerate our test and learn capability and drive faster feature deployment and better performance in the product. Our unified front end now allows us to deploy features around the globe and on any brand at a pace we could not contemplate just a couple of years ago. What used to take months, even years now takes weeks and sometimes just days. Our recent launch of cars on Hotels.com in the U.S. is a perfect example of something that never made the cut list because of the massive engineering lift but post unifying the front-end stacks it took literally weeks to deploy.

That same unified front-end allows us to massively increase the breadth and impact of our test and learns, while our single test environment, along with ML and AI woven throughout the customer experience now allow us to run many multiples of the tests we used to and call them much faster. The combination of which will allow us to effectively 8x our test and learn impact in 2024. It cannot be stated strongly enough - we are just at a completely different place technologically and the effects we have seen so far are only just scratching the surface of what is possible.

And while there are endless achievements to be proud of in our transformation, it is equally remarkable that even while swapping out our engine mid-flight, we were able to deliver consistently solid financial performance. We grew our business throughout our transformation, notably reaching record levels of lodging gross bookings and revenue despite having sold off and shuttered a number of businesses along the way. Our continued operating discipline has driven EBITDA margins to the highest levels in over a decade. We have used our strong free cash flow to aggressively buyback our stock at attractive prices, and as a result, our share count today is down to 2015 levels.

We have closed over 100 office locations, and we have 30% fewer heads than our 2019 peak. And meaningfully we have gone from approximately 30% of people working in product and tech in 2019 to 50% today. Again - we are at a truly different place as a company as we launch into '24. Which does not mean that it's all just linear improvement from here. That learn in test and learn, is a big part of our journey and we will still get things wrong in our tireless effort to improve the customer experience. But we can afford to get a lot more wrong as we in fact get a lot more right. Ultimately more at bats, the sheer power of going fast and simplifying our ability to innovate, is what puts us in a position to once again lead our industry technologically for the next decade.

So - what does all that mean for 2024? On a macro level, we expect travel demand to remain relatively healthy, but we expect growth rates across the world to decelerate, especially early in the year as we lap the post - Omicron tailwinds we saw last year. We are still expecting much faster growth internationally outside North America and Western Europe that we expect the gap to continue closing. We may also see some softness in prices across categories. This past quarter, both hotel and vacation rental ADRs grew very slightly, but the mix effects led to overall lodging ADRs declining year-over-year.

And as I mentioned earlier, air ticket prices have declined particularly in the U.S., and we are seeing some continued pressure on car rental rates. Against this backdrop though, we are well positioned to go back on offense, gain share against competition and ultimately grow our top and bottom-line meaningfully this year. Our strategy will remain largely unchanged, but we can finally stop doing surgery on ourselves and instead execute without the numerous distractions we have faced in recent years. We will be laser focused on 5 strategic priorities which broadly translate to all parts of our business.

First, we will continue our focus on acquiring and retaining high-ROI travelers. We've become much sharper about measuring customer lifetime value and targeting who to go after and which channels. With a greatly improved product driven by the latest ML and AI capabilities and One Key, which now has over 100 million members, we will continue to drive greater retention, repeat and direct business. All of which underpins our shift towards more loyalty in app members. In fact, we ended the year with our highest ever percentage of business coming from the app, up nearly 600 basis points year over year. We will be scaling One Key internationally this year and expect to see our mix of app members continue to increase in those markets. With better customer targeting, constantly improving a stickier AI driven products, and One Key - we feel really good about continuing to build momentum and value in our member roles.

Our second priority will be to increase our share of wallet with our travelers and partners. Again with a product that uses AI and ML to predict the consumer's best next action in order to sell complementary items - be it in the booking flow, post booking, and in CRM communications - our core experience will continue to drive more items and more dollars into the consumer's basket. We will also drive more cross-brand and cross-product engagement through One Key which enables cross-earn and redemption across all our key brands and encourages consumers to stay in our ecosystem for all their travel needs. We are already seeing early signs of this with an increasing number of customers who cross shop our brands in the U.S. since the launch of One Key. And as we continue to roll out One Key outside the U.S., and now have the ability to roll out new lines of business on different brands, we expect all of these moves to allow us to capture more wallet share from our consumers.

Our third priority will be to accelerate our global market expansion. We've talked before about how we retrenched back to the U.S. during the pandemic while we were overhauling our tech platform and marketing model. We pulled back in certain countries where we did not have the right product market fit and had been spending more but losing share. Now, after changing virtually everything from how we market, to how we retain customers, to our entire product experience, we have what it takes to go back on offense. In the back half of '23 we were able to hold or build share in most of our core markets and now we have the opportunity to be more aggressive. In '24 you will see us spend up in a number of markets to reclaim real share where we believe we have the right to win.

Our fourth priority will be to continue cementing our leadership in the B2B segment. Revenue in this segment grew a stellar 33% in 2023 versus 2022. While it benefited from the APAC reopening and we expect those geo tailwinds to moderate somewhat this year, we are still expecting very strong growth given our differentiated capabilities and a huge TAM to still penetrate. As I have explained before, our B2B business benefits from all the work we have done in product and technology to win in B2C along with all the B2B specific innovations we have rolled out over the last few years. We are seeing a strong pipeline of new customers globally, and we continue to find ways to gain wallet share in our accounts. And beyond just offering supply, we have achieved good early results in externalizing components of our technology to our partners as well. Overall, I'm very enthusiastic about reinforcing our leadership in powering the travel industry.

Our fifth strategic priority will be to drive efficiency and effectiveness across our business. As I mentioned, we have grown our EBITDA margins to their highest levels in a decade - growing over 300 basis points since 2019 - but we are capable of much more. All of our transformation work was not only to enhance our consumer experience but also to allow us to do more with less. We have significant opportunity to run more efficiently across the company, to eliminate redundant systems, to keep optimizing in the cloud and utilize the latest productivity capabilities from AI. In addition, we will keep leveraging our technology leadership to find opportunities for decreasing costs while increasing customer experience. The work we have done in improving our customer service operations is a great case study. By building better technology and self service tools we have both improved our NPS and created massive efficiencies all while maintaining our best in class service. And Generative AI will only accelerate this trend.

So in closing, I'm incredibly pleased and proud of everything we have accomplished over the last few years, and I'm really excited about our path forward. Thanks to our massive transformation, we are now a very different company than we were 4 years ago. We are set up to out-innovate our competition for the next decade and efficiently deliver the best experiences for our customers and partners. And if we do that the business and shareholder returns will take care of themselves.

While you have to kick me around for one more earnings cycle, let me just say that in addition to the gratitude I feel for the team and all that we have done to foster our collective interest, I'm also grateful to our Chairman, our Board and our shareholders for supporting the ambition we had and helping us get to this point. And with that, I will hand it over to Julie.

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

Thanks, Peter, and hello everyone. Before I get into our financials, I do want to take a moment to thank Peter and to express my confidence in Ariane as our new CEO come May. I've had the pleasure of knowing Peter since I joined Expedia Group's Board in 2019 and of course in a more detailed manner since assuming my role as CFO in 2022. Throughout this journey, Peter has done an amazing job navigating us through the pandemic, driving our massive business transformation, and setting us up for a very successful future. I am so thankful to have had the opportunity to work for Peter. He will be missed. But I am glad he'll continue to support Expedia Group through his ongoing role on our Board as Vice Chairman.

At the same time, I look forward to working alongside Ariane as she assumes her new role as CEO this May. Ariane and I have partnered closely together since I first came to Expedia Group. She's an accomplished operator who has been on our leadership team for many years. And it will be great to have someone so familiar with our business and our ecosystem lead us into this next exciting phase for our company.

And now, let's turn to the financials. Our fourth quarter results once again reflect another quarter of accelerating performance on the top and bottom line with revenue and EBITDA growing double digits to record levels. This continued strong quarterly performance resulted in full year results at the highest levels we have ever seen across lodging bookings, and overall revenue and EBITDA.

For full year 2023, we delivered over $104 billion in total gross bookings growing 10% versus last year, including almost $74 billion in lodging bookings growing 11%, with the hotel business growing even faster at 18%. We drove $12.8 billion of revenue, growing 10%. And we also generated $2.7 billion of EBITDA with an EBITDA margin of 21%, which grew faster than revenue at 14%, and resulted in year over year margin expansion of almost 75 basis points.

In addition, our B2C business saw a meaningful sequential acceleration in year-over-year revenue growth in the back half of the year and generated marketing leverage for the full year. And our B2B business went from strength to strength, having its most successful year in our history, with both top and bottom-line growth of over 33%. And this overall strong financial performance resulted in us meeting our full year guidance of double-digit top line growth with margin expansion.

Now I will discuss more of the details regarding our fourth quarter results. Total gross bookings of $21.7 billion, were up 6% versus last year. Gross bookings were impacted by some pressure in our Air bookings in the quarter primarily driven by lower average ticket prices as more capacity came online, as well as overall gross bookings pressure at the beginning of the quarter from the crisis in the Middle East, as we called out on our last quarter's earnings call. Gross Bookings for Lodging, our largest business, had another record quarter growing 8%, relatively in line with our third quarter growth rate. And we saw even faster growth in our hotel business at 13%. We also continued to gain, or maintain, share in our hotel business across our key markets around the world, consistent with last quarter.

Moving to the key financial metrics in the P&L starting with total revenue. Revenue of $2.9 billion was the highest on record and grew 10% versus last year. This was an approximate 160 basis point acceleration from the third quarter driven by both our B2C and B2B segments. Revenue growth is primarily driven by the continued performance of lodging, which grew 14%.

Total revenue margin also increased by approximately 55 basis points versus last year, primarily driven by the continued mix to lodging which has higher margins. Cost of sales was $336 million for the quarter, and $72 million, or 17% lower than last year, which, combined with our strong topline growth, drove approximately 390 basis points of leverage as a percentage of revenue versus last year. We were pleased to see that our ongoing initiatives to deliver an improved customer experience and increased automation are resulting in continued operating efficiencies, resulting in lower cost year over year despite higher topline growth.

Direct sales and marketing expense in the fourth quarter was $1.4 billion, which was up 14% versus last year largely due to an increase in commissions in our B2B business to support its ongoing strong revenue growth of 28% year over year. As we have stated previously, commissions paid to our B2B partners are in our direct sales and marketing line and are more expensive as a percentage of revenue than our B2C business. However, because they are generally paid on a stayed basis to contractually agreed upon percentages, the returns are more guaranteed and immediate.

In our B2C business, our marketing spend as a percentage of gross bookings was flat. Overhead expenses were $654 million, an increase of $64 million versus last year, or 11%. As we have stated previously, this increase is a result of our investment in talent across our product and technology teams to support our strategic initiatives. With our strong revenue performance and expense discipline, with expenses overall growing slower than revenue, we delivered record EBITDA of $532 million, which was up 19% year-over-year, with an EBITDA margin of 18.5%, expanding over 130 basis points year-over-year.

Both EBITDA growth and margin expansion accelerated sequentially from the third quarter. This strong earnings growth enabled us to generate another year of robust free cash flow at $1.8 billion. Free cash flow year over year would have been even higher but was impacted by 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 balance which has since normalized this year. These strong free cash flow levels enabled us to complete our largest ever level of share repurchases at $2 billion, or over 19 million shares.

Moving on to our balance sheet. We ended the quarter with strong liquidity of $6.8 billion driven by our unrestricted cash balance of $4.2 billion and our undrawn revolving line of credit of $2.5 billion, which provides us with plenty of cash to operate the business. Our debt level remains at approximately $6.3 billion with an average cost at only 3.7%. Our gross leverage ratio, at a further reduced 2.3x, continues to make progress towards our target gross leverage ratio of 2x driven by our ongoing strong EBITDA growth.

As we look ahead towards 2024, we anticipate that market growth rates will moderate in '24 given the absence of COVID-driven tailwinds that were prominent last year. But despite this backdrop, given the operational changes we have made to our business over the last couple of years, we expect to have another strong year with topline year over year growth relatively in line with what we saw in 2023. On the bottom line, we believe we have further room to optimize our cost structure and therefore improve margins. We expect to continue to drive operating efficiencies and cost of sales across our customer support and other operations.

And with overhead expenses, as we have said, we expect to drive savings this year as we deprecate systems and redeploy resources now that the bulk of our re-platforming is in the rearview mirror. These efficiencies and overhead will also translate over to reduced CapEx levels. Overall, we are taking a very close look at streamlining our cost structure to align with the next phase of our journey. And based on our initial estimates, these actions are expected to result in approximately $80 million to $100 million in one-time GAAP expenses on the year, heavily weighted towards the first quarter. We are still finalizing the details, but we expect to have more to share this quarter.

As far as marketing, we are investing behind our global expansion efforts to reignite our international growth and drive further market share gains. This will naturally drive some shorter-term pressure on marketing efficiency for our B2C business. But despite this incremental investment, we expect to still drive overall B2C marketing leverage on the year as a percentage of gross bookings, as we continue to improve direct transactions, retention and conversion with more scale.

Putting this all together, we expect to deliver another record year of EBITDA with EBITDA margin expansion at levels relatively similar to what we saw in 2023. This EBITDA growth and some possible early repayment of debt should enable us to hit our target leverage ratio of approximately 2x this year. We also expect this EBITDA growth, combined with the benefit we expect to see from the CapEx efficiencies I mentioned earlier, to drive strong free cash flow growth. And we aim to leverage the strong free cash flow to further maximize shareholder returns.

While our stock price has increased in recent months, we continue to believe that it remains undervalued and does not reflect our expected long-term performance of the business. As such, we will utilize the strong cash generating power of our business and our new $5 billion share repurchase authorization announced last quarter to continue buying back our stock opportunistically.

As it pertains to our first quarter outlook, last year our first quarter was very strong, And we therefore are facing some tough comps in the first quarter of 2024. Additionally, to start the year, we have seen continued pressure in Air due to reduced pricing levels from increased capacity and the grounding of the Boeing fleet, as well as some pressure in our Vrbo brand, as Peter alluded to earlier.

As a result, we expect our gross bookings growth in the first quarter to be in the low to mid-single digits and our revenue growth to be in the mid-single digits. In addition, we expect some EBITDA margin compression consistent with the levels we saw in Q1 last year. As we move throughout the year, we expect our growth rates will increase due to conversion gains from product improvements, the continued stacking of high ROI customers accelerated further by momentum building in our One Key loyalty program, and higher traction in our faster growing global markets.

So, in closing, I am really proud of what our team has been able to accomplish through the successful execution of our multi-year initiatives, which enabled us to deliver one of the strongest financial years on record here at Expedia Group. Yet it feels that we're just getting started. With most of the heavy lifting behind us, we are now better positioned than ever to go on the offense. And this, combined with our strong financial position, should enable us to continue to deliver long-term profitable growth and shareholder returns. And with that, I would now like to open the call for questions. Thank you.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Naved Khan from B. Riley.

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

Yes. Thanks a lot. And Peter, I will miss you on these calls after the Q1 call. But I had a few questions, one on Vrbo. With the migration complete, I think you talked about sort of the app update kind of taking some time. And a little surprised that it's still -- been seeing some weakness in January. Just give us some color on what exactly is the reason for that. And you've talked about some sort of green shoots, so give us some commentary there. And then maybe on the -- on One Key. Can you just talk about maybe -- where maybe the learnings are. Are you satisfied with the retention and the conversion so far? And how much room do you see for improvement from here on? And also in terms of international rollout, I think previously, you talked about first half for that. Is that still on the cards?

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

Yes. So 3 good questions. Lots of material there. Thanks, Naved. And you can call me anytime if you could miss my voice. The -- first, on Vrbo. I would say if you think about what we were doing at the tail end of last year, we were pushing to 100% migration on the app, everything moved over. And I think as we told you, everybody, these steps come with expected conversion degradation because you can't get everything to par. It takes forever. You have to move everything to start working on the new product.

So we did that. I'd say that degradation was broadly in line or slightly better than what we hoped, but it was still there. And when you're doing that, you obviously are not investing as heavily in terms of marketing because you're marketing people into a less converting product. So you kind of tend to back off on that spend because the spend becomes less efficient. As you now get to a place where the product is ramping back up very quickly and we've clawed back much of the conversion, which is, I think the green shoots you're referring to, so we're actually gaining much faster than, at least in my tenure, I've ever seen us gain back in terms of one of these transitions. And the product is basically virtually back to the same levels of conversion. Now we can push back in and spend again.

There is a little bit of a lag there because you've been underspending, if you will, for a bit, waiting for the product to get to where it's converting as strongly. Now we are spending back up, so it will take a little time to get the engines fully operational, if you will. But it's more or less a sequence we expected to happen. It's just you're seeing it in our numbers now.

As far as One Key goes, I think you said, am I satisfied with what we're seeing. I'd say I'm satisfied. It's still early days. I mean we're seeing a lot of the indicators we want to see. As I alluded to, cross-shopping is good. We're seeing one of the things we hope to achieve was getting HCOM -- Hotels.com customers who had fewer than 10 stamps, people who hadn't gotten to earn anything yet, to be more engaged with the product. And we're seeing their repeat rates improve and their business improve.

We're starting to see Vrbo customers earn and now burn their One Key rewards not only on Vrbo but other places. But again, those cycles are a bit long. So it will take longer for the millions of people who have now earned One Key Cash on Vrbo, who didn't used to, to come back and spend it because they may not rent a house for 6 months or a year. But that is -- we're laying in that opportunity with our customer base, and then we're crossing that opportunity across the brands. And we're seeing good signs of cross-shopping and people starting to use more brands, so that's all consistent with what we hoped. But this isn't -- it's not a switch you flip. When you talk about travel timing, many people only travel once or twice a year. So it takes a little time, and we're building that in. So all good so far, but looking forward to it being even much more impactful over time.

And then international expansion, we're not detailing which countries we're doing exactly when, for competitive reasons. But One Key will roll out. We will push back into a number of markets that were historically pretty strong for us and have stayed reasonably strong, but we just think we have a lot of opportunity. And then we will have some tests into some markets that we haven't been as invested in historically where we think there's opportunity with the new product, new marketing approaches, et cetera. So a lot of exciting opportunity on the international front. It doesn't -- it's not all dependent on One Key. We think there's opportunity regardless. But in the markets where it's relevant, where we have multiple brands that have high brand awareness, we will be moving -- we will be launching One Key there, and we think it will only enhance that.

Operator

Our next question comes from Kevin Kopelman from Cowen.

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

Yes. First of all, Peter, congrats on your tenure. We'll definitely miss you on working with you on the calls. I did want to ask a question on that. Could you let us in to your thought process a little bit? Or any color on your decision to step away and the timing?

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

Yes, sure. I mean, I think I tried to capture it in my comments. But when this started, the idea was for me to come in for a period of time and sort of right the ship, put us where we want it to be, and then build the team and make sure we have the people to take it forward for the next generation as it were. And the transformation turned into a bigger -- I bit off more than I thought I was going to, and it was a bigger job than I thought it was. And I had my doubts a year ago, but we've made so much progress. And as I stared at -- and the Board and I stared at, should I go further, et cetera, I love this company, I love the category, I love my team, we've built an amazing group here. But I built it so that they can take it forward. And there's never a right time, but hopefully, this is a good time to transition.

We're fortunate to have Ariane. We're fortunate to have all the people around her that we brought in or have been here many years. And I just think the company is ready, and I'll be here until May. I'll be busting my butt till then. I'm not -- I don't know how to do it a different way. But -- and look, we still -- transformations are never done. The work is never done. There isn't like an end date and it's like, good, we did #100 on our list of 100 things to do. But we've just made so much progress that I think the company is in a good place for it, and it felt like the right time for everybody.

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

Understood. And if I could just ask a quick follow-up on Naved's question on Vrbo. Could you walk us through what that looks like as you pass through Q2? Is it fair to think about that as an easier comp once you anniversary the initial platform upgrade? And what the time frame could be to get that back to flat and then growth?

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

Yes. I think basically, you can assume we anticipate growing out of this consistently across the year. Fourth quarter will be higher than third quarter, higher than second quarter, higher than first quarter. So we expect to continue growing. I think as I alluded to, conversion is now basically back to where it was before we did all this. But we didn't do it to get to even, we did it to get to materially better. And now Vrbo can benefit. And the reason it's going as quickly as it is, is we have lots of winning tests, if you will, that we used on the broader OTA platform that are also winners for Vrbo. So we're able to take a lot of our winning experiments, move them over to Vrbo and get that humming again and -- but we continue to go further. And as I alluded to, our ability to multiply our test-and-learn capacity in a material way, both in speed and in breadth, is really changing how we do things.

So now when we have tests -- many of our tests, we launch across all our brands, across all our platforms, all devices, and we just couldn't do that before. So the speed of improvement, we expect to continue to accelerate. That will enhance all the brands, but Vrbo is the one that has a hole to dig out of. They were the most recent hole to dig out of. And so we expect that to continue to grow. We expect the investment back into the brand to continue to have impact. We expect the cross-shopping effect of having the HCOM and Expedia customers being able to use their One Key Cash on Vrbo to have an effect. So all of that, we expect to continue to build throughout the year. But we shot our own foot off on purpose late last year. We pulled back on spend because we thought that was the rational thing to do given the conversion situation. And now we're leaning back in. And it's really as simple as that, except we expect to improve faster in product. And I still think we have the best-in-class marketing, full stop, in our category. And when we go back on offense, it will take hold and both of those things will work together.

Operator

Our next question comes from Eric Sheridan from Goldman Sachs.

Eric James Sheridan - *Goldman Sachs Group, Inc., Research Division - MD & US Internet Analyst*

I'd love to ask more of a big picture one. Now with One Key in the market and elements of the re-platforming behind you, how should we think about some of the things you talked about in the prepared remarks about unified product offerings and being more innovative in the way you go to market and retain customers and drive direct traffic? And how we should be thinking about some of the product road map that you're most excited about and the mixture of both growth that could come from those initiatives versus investments that still need to be made?

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

Yes. I mean I'd say broadly, working backwards, I don't think -- there are investments of time, calories to be made. But in terms of investments of money and capital, I think we're on the other side of that hill, and we expect to be able to do things more efficiently going forward. But if you talk about One Key and the product it's offering, as I say, like One Key is a great way to create stickiness within our environment. But you might have heard me mention that we have finally migrated all our CRM, virtually 100% of our CRM and the brands, to our new unified messaging platform. That platform allows us to do things much faster, to communicate with customers. So whether we have One Key benefits, whether we have new offerings in One Key, whether they are One Key bonuses, all the things we can use to merchandise and keep people and use One Key to be the glue that keeps members sticky.

And remember, members get more than just One Key. They get member discounts in the product. And in many of the products, we're expanding that every day. We now have deeper discounts for silver and gold, and so there's just a lot of things to keep them in. But it's important to be able, obviously, to communicate with them in the most modern ways, and that's what our new single messaging platform allows us to do. And then you add on to that -- and this kind of goes to the broader point, as we've woven -- we've improved the products, we've added new features.

But I'd say -- you said, what am I most excited about? It's really machine learning and AI plumbed into essentially the entire product experience because what that gets you is effectively a personalized experience for every customer. And that's from the front-end basic shopping flows, as I mentioned, to post booking to CRM and everything else. And the more we can connect and now that we have a single identity for our customers and now that we can use that data to give them the best experience, we're seeing some of our best wins now. Just as algorithms improve and learn and new versions come out, whether it's to optimize pictures or content or what you see in what order or what filters are applied, like those kinds of things that we can now do at scale, that is what I'm most excited about.

I mean we have lots of cool features. We have all kinds of things going on to improve the air shopping experience, the package shopping experience, you name it. But really, at its core, I think having plumbed in the AI and ML, we can now do so much more, so much more quickly. And it will feel to the consumer like a much more customized experience that's relevant to them. And I think that's inherently sticky in a way that, frankly, travel products have not historically been in our space. So that's what I'm most excited about.

Operator

Our next question comes from Lee Horowitz from Deutsche Bank.

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

First, Peter, congrats on your tenure. Thanks again for the crazy couple of years, and congratulations on all that you've accomplished over that time period. Maybe just sticking with Vrbo as we think about it in 2024. I guess, one, how do you feel about the overall health of the alternative accommodations industry? Do you think there may be some continued pricing headwinds in, say, core vacation rental destinations as travel patterns continue to normalize and perhaps some macro weakness plays through? And then secondly, can you provide any thoughts on how the competitive set for Vrbo has evolved over the past couple of years? Maybe as you've taken your foot off the gas and how maybe this shift in competitive landscape, if it is happening, is informing your strategies to get this business back to humming again?

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

Yes. Sure, Lee. And thanks for your thoughts. It has been a couple of crazy years. The -- I would say a few things, sort of working backwards. I think, obviously, we've seen VR continue to be healthy even as -- even post pandemic as habits have shifted. However, there's like VR within VR. So urban has done better. We are not heavily weighted to urban. As you know, some of our competitors are. I think that's what you mean by the evolving landscape. Obviously, Airbnb has always been there. Booking has been doing more with that product, again, largely as best we can tell, focused in benefiting from the urban side of VR or alternative accommodations. We're still squarely situated in our core markets.

We haven't made a big decision to pivot to urban. But one of the things that's enabled by all the migrations we're doing that will come this year, we have a bunch of multiunit VR inventory on our OTA brands that is not on Vrbo. And we still have some Vrbo content that is not on our OTA brands. So there's still opportunity to do more in sharing the inventory we already possess. We've had no shortage of finding inventory. And I think housing market issues and other things probably make that macro easier now. It's really just changing habits. Now our hedge against renting a mountain house or a beach house is, of course, renting a hotel or resort room as the alternative. And we've participated very well on that, and we feel good about our position there.

But I think we feel very good about Vrbo. We needed to get the product to a new place. We are now firmly on that journey. I don't think we gave space to anybody. I think we have a good brand. We have an improving product that I have no doubt will be best-in-class, and we just have to get back on offense. And again, this is one of those places where you had to take a pause, go slow to go fast. And the slow part always hurts a little. But if you don't do it, you can never go fast. So we're in a good spot now, and I think we just have to accelerate out of it. And I don't worry about the supply situation. And I don't really think we're losing ground to other competitors who have some super sticky product. And over time, we should have the stickiest product because our product comes with loyalty, and our loyalty is usable across any travel product. So I think that's a winning combination. We just got to keep pounding it home now. And now that we have the product to get behind, we will do that.

Operator

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

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

Great. I guess a couple for Julie. You gave us the 11% growth for lodging and 18% for hotels, so we can kind of solve for Vrbo. But can you give us any range of what percent your alternative accommodation nights are or bookings, just so we can -- not have too big of a range there? And then second, last year, you were very clear, double-digit top and bottom line. I think you said similar growth on the top line and then margin improvement. I mean, is that kind of saying double digit for both? Or do you want to clarify kind of the growth rates at all?

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

Sure. On the first one, we haven't -- and I think recently, we haven't given out what percent is our Vrbo piece of the business. But I think when we bought the company, there was some -- and obviously, numbers that were provided at that time. You could do some extrapolation on the growth rate and get pretty close probably. So I don't think there's anything else that we would give out today from a disclosure perspective on that front.

On the guidance perspective, we basically have said, as you alluded to, that we are planning to grow relatively in line with our growth rates from this year, which is about, call it, 9.5%, 10% in GBV and 10% on revenue. And then we said with margin expansion relatively in line, which we're calling about 75 basis points for expansion this year. So that's how I would take it. I mean relatively in line to us, plus or minus 100 or so basis points, but that's how I think -- I'd think about it, that it's both for GBV and revenue.

Operator

Our next question comes from Jed Kelly from Oppenheimer.

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

Yes. Just going on to your overall marketing strategy, just by watching TV, I still see you're still marketing to a lot of the brands, Hotels.com, Expedia. And do you start to pivot those brands more into One Key? Can you talk about that? And then can you just talk about your comments on streamlining expenses? Sort of what's the strategy behind that move?

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

Yes, sure. Thanks, Jed. So on the marketing front, yes, in the U.S., you will see all the brands advertised. It used to be far more brands. We're down to those core 3, and we believe in those 3. I think we're still trying to find the balance between can they be advertised as one? Or do they need to be advertised as 3? And what is the best way to penetrate? So I would think of that as sort of a -- we're on our own learning journey about what we can do and how we can help people see them as a family of products that work together. And we continue to try to optimize, be it on television, which is what you're seeing, or in programmatic or frankly even in metasearch and so forth. So we're constantly working to see what the optimum way to drive those are.

But I will say in the rest of the world, we have made very conscious decisions of where we will maintain one brand or if we think it's worth at 2 or 3 brands and what we will do there. And we will lean heavily into -- it's a high bar for there to be more than one. There has to be real brand affinity and other things that are driving that continuation of the second brand. So especially now that conceivably, any of our brands could have all or any lines of business and that's not that hard for us to do.

So the opportunity to take, for example, a market that is a predominant Hotels.com market and potentially add car and air and other packages and other things is within our gift now. And so we can make quite different decisions about do we need to be in with Expedia just to have air or something else? So that's really a big opportunity for us and allows us to simplify how we think about those decisions and, in some ways, not replicate some of the complexity we've made for ourselves over the years. So that's a work in progress, but all those things are effective, and we're working to optimize all the time on the best way to communicate that. Maybe Julie can say something about the expenses.

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

Yes. So on the streamlining of expenses, I think we've been saying all last year that, obviously, during the transformation phase, we've ramped up in expenses. We've had duplicate systems, legacy systems, while we're still building out the new system, and all the costs that are associated with that across the board from cloud and licensing and maintenance and things like that. And so we have said, as we come out of this transformation phase, that we think there's opportunity to deprecate systems and redeploy resources and find cost savings throughout the P&L.

And so this is our first sort of stab, if you will, at that. And so you'll see things across the board coming out as we move throughout the year in cost of sales, in overhead. And to the extent that obviously crosses over into capital expenditures, you'll see some of the pressure coming off, at least the growth rates there. And if not, like in -- also in absolute dollars. But that's simply what that represents. We're obviously not going to go into a lot of details today, but we did purposely say that we will give you more information sort of later this quarter and as we move throughout the year on that as we give you more of the details associated with it.

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

Yes. And I would just add. That's always been the plot that we wanted. This wasn't just to build cool new things. This was also to build them the right way and be efficient in how we did it. And that's the opportunity that the transformation has also provided for us, and we're excited to be on that side of it too, not just from an experience standpoint but from an efficiency standpoint.

Operator

Our final question comes from Mark Mahaney from Evercore ISI.

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

Okay. I'm sure these questions have been covered, but if I could ask again, please. Of these 2 initiatives, the re-platforming of the brands, particularly the Vrbo brand, and then the One Key strategy, is it -- I assume these are more like snowball events. Have you already seen an impact on the business or on demand, cross-selling, retention, acquisition from these so far? Or would you -- if not, could you lay out expectations of when we would?

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

Yes, Mark. I'll give you a quick answer. I think we sort of addressed some of it already. But basically, the Vrbo transition to the unified stack is more of just an execution thing. I think what it gives us is the opportunity now to accelerate Vrbo in terms of feature and test-and-learn and grow faster, as I mentioned, to the rest of the group. We dug a hole, we knew we would. When we moved it to the new stack, the conversion would go down. We have been digging out of that hole. We're about back to par, but we didn't do it to get to par. We did it to accelerate far past that. And now we have the opportunity in Vrbo, riding on the same rail as the other brands, gets the benefit of all the testing, shared testing opportunities that we -- winners that we found in other places and so forth. So we're excited about the progression of that product, but it had to go through the bad to get to the good.

As far as One Key goes, I also mentioned, we feel very good about the early indicators. Yes, there is more cross-shopping. Yes, we're seeing more repeat from certain pools of customers that we thought would benefit from this like Hotels.com customers who had less than 10 stamps in our old system and people, if you will, who hadn't earned any benefit. Now they have benefit and they're coming back more, and that's what we want to see. But as I also mentioned, while millions of people have earned One Key Cash on Vrbo, a small percentage of them have re-spent it. And that just has to do with the cycles of the booking windows for Vrbo and that people rarely book more than once or twice a year, so we've got to get those -- we expect to see those people back in. That's why I've said we've built up this value, and now that value needs to be realized as they come back direct later as they use that One Key Cash across other brands with more cross-shopping. Like that's the dream.

And of course, getting Expedia and Hotels.com members to use their One Key Cash on Vrbo, which we've also seen. But again, those cycles aren't every month. People do that once or twice a year. So we're seeing good early signals, but it's all building and that's why I'm excited. Like it's going to be a slow build, but it's going to be a great, sticky thing for us over time. And again, we'll keep more and more -- as we get more of the right people in, as we keep more of them and as they get to use all of our products and again we capture more wallet share from them, that's what we're pushing for.

Thank you, everybody. I think that was the last question, operator. Is that right?

Operator

That's correct.

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

Okay. Thank you, everybody. Appreciate your questions, and we'll see you in May. Take care.

Operator

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