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EXPE.OQ - Q1 2024 Expedia Group Inc Earnings Call

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## OVERVIEW:

Company Summary

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

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

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## PRESENTATION

### Operator

Good day, everyone, and welcome to the Expedia Group Q1 2024 Financial Results Teleconference. My name is Lauren, and I will be the operator for today's call. (Operator Instructions) For opening remarks, I will turn the call over to SVP, Corporate Development, Strategy and Investor Relations, Harshit Vaish. Please go ahead.

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

Good afternoon, and welcome to Expedia Group's First Quarter 2024 Earnings Call. I'm pleased to be joined on today's call by our CEO, Peter Kern; our CFO, Julie Whalen; and our incoming CEO, Ariane Gorin.

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](http://ir.expediagroup.com). And with that, let me turn the call over to Peter.

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

Good afternoon and thank you all for joining us today. As you all know by now - this will be my last earnings call. I'm excited to be handing the reins over to Ariane and we have reserved time for her to share some thoughts after Julie so you can get a sense of her ambition for the company going forward.

Ariane and I have been working closely these last few months to make sure she can take over without a hitch, and I just want to say I'm truly excited to see how she and our team bring this company forward and accelerate on top of everything we have built over these last several years.

As for the quarter, we saw a healthy but more normalized market environment for travel globally. North America remains the slowest growing geography relative to major international markets, but the gap is closing now that we are largely past the pandemic driven recovery. Adjusting for geo and product mix, prices held up in general for lodging but were under continued pressure in the Air and Car business.

Against this backdrop, our results for the first quarter of '24 met our guidance with a revenue and EBITDA beat but less robust gross bookings. Julie will get into the details, but revenue and EBITDA performance benefited from our mix of business, a strong performance in our Advertising business and our decision to invest more in pricing actions as opposed to direct marketing.

As for gross bookings, our B2B business continued its strong performance, and our B2C business excluding Vrbo was in line with our expectations. Unfortunately, that only partly made up for a slower than expected ramp up for Vrbo post its technical migration. As we discussed last quarter, we had pulled back on Vrbo marketing in the second half of last year while we went through our migration - and while we have been ramping that spend and the product has been improving, we have seen a slower than expected recovery.

Based on this and the overall trends in our B2C business so far in Q2, we expect growth to be lower than what we had initially anticipated for '24. We are therefore lowering our full year guidance to a range of mid to high single digit topline growth, with margins relatively in line with last year. We still expect to see broad improvement across '24 in our B2C business, with the best early indicator being the conversion gains we have seen driven by higher test velocity and feature roll-outs. Behind that we will continue to invest in Vrbo and our international growth markets to reignite those flywheels to set us up for continued growth in the years to come.

All in all, I'm pleased to say that while momentum is not yet back consistently in all the business lines, we are improving every day, wanting to optimize all of our new capabilities, and I have tremendous faith in our teams ability to extract the full potential of what we have built.

With that I will just close by expressing my profound appreciation to all our teams at Expedia for their dedication throughout our multi-year, often painful, transformation journey. When the returns from this work are fully realized, we will owe this determined bunch of people a great debt of gratitude.

I also want to thank all of you-our-existing shareholders, the analysts covering us, and the broader investor community - who have been with us along this sometimes bumpy journey. There's a reason most companies don't undertake transformation on this scale, and it takes patience and a commitment to understanding to come along for this journey. I'm very appreciative of all the constructive engagement over the years, and it has been a pleasure working with all of you. So with that, over to Julie.

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

Thank you, Peter and good afternoon, everyone. Let me start with the key metrics for the first quarter. Total gross bookings of \$30.2 billion were up 3% versus last year. Growth was driven primarily by total lodging gross bookings, which grew 4%, led by our hotel business growing 12%. This

strong hotel growth was partially offset by the ongoing softness in our Vrbo business that while improving is taking longer than expected to fully recover.

Revenue of \$2.9 billion grew 8% versus last year, led by B2B, Brand Expedia, and our advertising businesses. The Revenue strength was driven by higher revenue margins which increased over 50 basis points, from a product and geo mix during the quarter, increased advertising revenue which contributes to revenue but not gross bookings, and the pull-in of stays in Q1 driven by the Easter shift.

Cost of sales was \$356 million for the quarter, and \$55 million or 13% lower versus last year, which, combined with our strong revenue growth, drove approximately 310 basis points of leverage as a percentage of revenue year-over-year. We are pleased to see our ongoing initiatives delivering transactional efficiencies.

Direct sales and marketing expense in the first quarter was \$1.7 billion, which was up 11% versus last year. Sales and Marketing deleveraged this quarter as a percentage of gross bookings primarily due to the commissions to our partners as a result of our strong growth in our B2B business, with growth of 25%.

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, we also saw some marketing deleverage this quarter as we reinvested back into our Vrbo business to drive improving growth and our increased investments to drive our global market expansion one of our key strategic growth initiatives this year. Overhead expenses were \$611 million, an increase of \$23 million versus last year, or 4%, leveraging 95 basis points.

We were able to drive our costs below our revenue growth, particularly in our Product & Tech operations. And now that we are done with the major boulders of platform migration, we remain committed to driving further efficiencies across our P&L. To that end, in February, we announced cost actions that will impact approximately 1,500 employees through this year. We expect that these actions will unlock substantial savings on an annualized basis across capitalized Labor, cost of sales and overhead costs.

And, as a result of all of these factors, we delivered strong first-quarter EBITDA of \$255 million, which was up 38% year-over-year with an EBITDA margin of 8.8%, expanding over 190 basis points year-over-year. This was higher than expected given the higher revenue we delivered and the leverage to the P&L that provides, along with lower cost of sales, both of which more than offset our marketing investments to drive future growth.

It is also important to note that EBITDA also benefited from a decision we made to invest more in pricing actions as opposed to additional direct marketing. These pricing actions are reflected in the P&L when the stay occurs. As a result, these investments will instead impact future quarters as contra revenue when the stays come in.

Starting this quarter, in addition to EBITDA, we are providing additional disclosure around our EBIT performance, which includes the impact of stock-based compensation, depreciation and amortization. In the first quarter, EBIT was negative \$59 million with a margin of negative 2.1%, an improvement of \$51 million or 205 basis points versus last year. The additional approximately 15 basis points of expansion as compared to EBITDA is driven by leverage from stock-based compensation.

Our first quarter EBITDA growth enabled us to generate another quarter of robust free cash flow at \$2.7 billion. The year-over-year decline in free cash flow is associated with timing changes within working capital, which includes lower deferred merchant bookings primarily driven by the softness in Vrbo bookings this quarter.

Moving on to our balance sheet. We ended the quarter with strong liquidity of \$8.2 billion driven by our unrestricted cash balance of \$5.7 billion and our undrawn revolving line of credit of \$2.5 billion. 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.

Our strong cash position enabled us to continue repurchasing shares with over \$780 million, or approximately 5.7 million shares repurchased year to date. And we continue to believe that our stock 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 remaining \$4.1 billion share repurchase authorization to continue to buy back our stock opportunistically.

As far as our financial outlook, given the lower than expected growth in gross bookings in the first quarter, and the trends we are seeing so far in the second quarter in our B2C business, in particular in Vrbo, we are lowering our full year guidance to reflect the range of possible outcomes on the top line while we continue to invest in marketing to drive growth for Vrbo and international markets. As such, we believe our top line growth will now be in the range of mid to high single digit growth with EBITDA and EBIT margins relatively in line with last year.

In the shorter term, we expect our second quarter to deliver top line growth in the mid-single digits, which reflects a sequential acceleration in gross bookings from the first quarter as we expect Vrbo to continue to improve from our marketing investments. We expect revenue growth to be lower than the first quarter growth rate given the lower gross bookings in the first quarter, the pull forward of Easter stays into the first quarter and the contra revenue arising from pricing actions.

And with this revenue growth, along with our continued investments in marketing to drive growth, we expect some pressure in our second quarter EBITDA and EBIT margins versus last year. However, when combined with our first quarter outperformance, we expect EBITDA and EBIT margins to be relatively in line with last year to slightly above in the first half.

In closing, despite the lower guidance, we remain committed to the long-term opportunity that our transformation has given us to deliver profitable growth and shareholder returns. And with that, let me turn the call over to Ariane.

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Thanks, Julie. And thank you, Peter, for your leadership over the last 4 years, and for all I've learned working closely with you. I joined our company 11 years ago and most recently led Expedia for Business. This includes our B2B and Advertising businesses, both of which have consistently delivered double-digit growth. I also led our global supply teams that source inventory for our whole company, so I know our industry very well. And, having lived in Europe for the last 23 years, I've seen first-hand opportunity for us in international markets.

My immediate priority as CEO is to work with our teams to accelerate our growth, and to sharpen the longer-term strategy for our consumer business. Since our leadership announcement in February, I've spent time getting to know our consumer business in more detail. It's undergone extreme transformation over the last few years, from technical migrations and changes in our loyalty program, to changes in how our teams operate the business - so we've dealt with a lot of turbulence.

While we built new capabilities like our common front-end, we have less development capacity to build new features, and this, in turn, impacted the competitiveness of some of our brands and products. Expedia, which was our least disrupted brand, benefited a lot from our investments and has grown very well, while Hotels.com and Vrbo, which were the most impacted by our migrations, aren't where we'd like them to be.

To get the acceleration we want from our consumer business, we need to focus on the basics - driving traffic, increasing conversion, and expanding our margins through higher attach, take rates and more efficient marketing. Ultimately, this is going to come down to having great products and great brand value propositions.

Our platform now allows us to innovate at scale, and we're running more tests and seeing the benefits of AI across all of our brands. Which is great. But we're still learning to use all of this most effectively. For example, a recommendation algorithm gets smarter faster because of our scale, but it has to be trained on the differences between a traveler shopping on Vrbo compared to one on Expedia. And tests that work on one brand may behave differently on another. While we still have some work to fully complete our tech platform, moving forward we'll dedicate more of our development capacity to building great traveler experiences and making up for lost time.

Looking ahead, while it's going to take somewhat longer than we'd anticipated to see the benefits come through in our numbers, the investments we've made rebuilding our consumer business will pay off. Our new tech platform gives us a solid foundation to grow our business. And we also have other real strengths to build on. We're leaders in the B2B segment and just posted another fantastic quarter, and there's still a big opportunity to win share.

Our advertising business is big, differentiated and growing, and I equally see lots of opportunity ahead here. We have strong relationships with our supply partners, and great supply for our travelers. And of course, our consumer business is the market leader in the U.S., with well-recognized and loved brands. And we're starting to get traction as we move back into international markets. As you know, we're also focused on driving efficiencies, and we'll continue to look carefully at every dollar we invest.

So, in closing, we have great consumer brands, a leading B2B business, a powerful platform and what I think is the best team in travel. We have lots of work to do to realize our potential, and I couldn't be more excited about the opportunity ahead. And with that, let me open the call for questions.

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## QUESTIONS AND ANSWERS

### Operator

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

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

Wishing you the best going forward, Peter, and congrats on the new role, Ariane. Peter, maybe can we come back to Vrbo for a minute and just how do you think about that asset compared to where the competitive landscape is across travel and shared accommodation specifically?

And when you think about leaning into investments to potentially accelerate Vrbo and improve its positioning, what kind of signals are you guys as a team looking for to know it's the moment to sort of lean in behind some of those investments to get it back to more normalized growth?

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

Sure. Thanks, Eric. And for everyone's benefit, I've asked Ariane to chip in where she'd like along with these questions, in addition to whatever you have specifically for her.

But specifically to Vrbo, the way we see it is we are very strong in our core business of Vrbo, which does not compete with shared accommodations, it does not compete directly with some of our competitors in some geographies and some cities, and we are really focused on just being excellent in our space, which is the whole home space in certain markets where we have the right to win and a strong brand and strong supply, et cetera. So that is our core focus for now. We could always -- Ariane may expand that remit at some point, but that's where we're focused now.

As far as what we're seeing, as we talked about before, our spend down in the back half of last year, the migration we've been through obviously had a lingering impact on the product, and first quarter is an important quarter for Vrbo, so it's unfortunate that it wasn't as strong as we wanted there. But we are seeing real improvement in the products and we're leaning into investment to sort of spin up the flywheel to just get it going again.

So it's not so much that we see any flaws in it. It's just got to be re-spent into. And because VR is not as performance marketing-driven, we don't have that ability to just go into Meta and other places and ramp everything up. We've got to spend on brand and build it, and that's taking some time to lean back into. But we feel very good about the progress. We're hopeful that it continues, obviously. And we feel really good about the product improvement.

So we will continue to invest behind that, but what we're really looking for is we know the spend is working, we know we're driving improvement, and it's just a question of how far, how fast and what's the timing and the seasonality differences, et cetera. But that's what we're spending into this year to get it back on a growth trajectory.

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

And I would just add, again, yes, we have deep belief and conviction in Vrbo and also our other brands of Expedia and Hotels.com. We do sell some alternative accommodations on those brands, so we also have an opportunity to go after that market with those brands as well.

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**Operator**

Our next question comes from Lee Horowitz from Deutsche Bank.

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

Great. I guess previously, your guidance for the full year seemingly expected share gains across your largest business lines. Is there any change to that view, given sort of the more cautious outlook for the full year? Or is this really all Vrbo-centric?

And then relatedly, when you think about the acceleration you're seeing in your non-Vrbo B2C business, what's ultimately going on there? Is it the market? Is it just the stacking of the things that you're doing? And how do you get comfortable that, that acceleration can sustain through the balance of the year?

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

Yes. So let me take a crack. Thank you, Lee, and then Ariane and Julie can jump in. But I would say that what we see in Vrbo and -- sorry -- so there were 2 questions, the non-Vrbo piece and the Vrbo piece. On the non-Vrbo piece, we've been making improvements in the product consistently. HCOM went through a migration a while ago, but still, we are making improvements and getting it back to -- on the best footing we can.

So we are seeing continuous improvement in the product. We are seeing big wins across the platform, whether it's coming from machine learning or other areas that are -- that we can deploy much faster across the entire slate of apps and products. So we're getting wins. We're getting product wins. We're getting conversion wins.

So that's what gives us confidence. And all of that ultimately leads to better conversion, more efficient marketing and everything else. So we would like everything to go faster, but we are feeling good that we are making progress on the non-Vrbo business.

On the first question -- sorry, Lee, the first part about Vrbo again? Can you repeat it? Oh, share gains. I'm sorry. I got it. I came back to it. On the share gain front, we're actually, other than Vrbo, seeing good share gains in our core hotel business across North America and all our major focus markets, or virtually all our major focus markets.

So in the hotel business, we're seeing really good product gains, and we feel quite good about that. Vrbo is its own thing. So when you look at lodging all up, Vrbo has obviously given up share, and both Airbnb and Booking are both in the VR space, particularly in those city-centric other kinds of accommodations, some much of which we don't compete in.

But if you just look at hotel lodging, we're making really strong gains there. And in all our other product lines, again, we continue to improve on product, we continue to believe those products will pay off, and we feel good about where they're going.

**Operator**

Our next question comes from Richard Clarke from Bernstein Societe Generale Group.

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

Just you mentioned you're deciding now to pivot towards more price investment. Just wondering, is that backing up One Key? Is that going into the loyalty? And maybe overall, what's just leading to that decision to do that rather than more marketing?

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

I'll take a piece and Ariane can jump in. I would just say, we've said it before, but we look at all our marketing, all our things to drive consumer behavior as one big bucket of capital. So that's direct sales and marketing, it's the pricing work we do, merchandising work, and it's our loyalty spend.

So what we saw was an opportunity, what we've been seeing is an opportunity to drive more into the pricing vein, where there have been good returns. We've seen good opportunity there. And this is basically just a way to modify prices, taking value out of our margins to drive more velocity, acquire more customers and do it more efficiently. So it's really just a rebalancing, a little bit, towards pricing, and that's what we've done.

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

And I would just add, as Peter said, we think about those buckets of pricing, of loyalty and of marketing sort of as all buckets that we can use to invest where we see opportunities. And going forward, we'll continue to do that. So which of those 3 will drive the most growth, whether it's in international, regardless of what brand it is, I think the teams have a very dialed-in view of where they can invest in order to get the best return.

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

Maybe just a follow-up on whether this is going into One Key program disproportionately, maybe matching one of your peers which has a more, I guess, price-oriented loyalty program rather than points loyalty program.

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Well, what I would say is part of our One Key program does include tiered member discounts. So if you're a silver member or a gold member, you'll get better discounts. And those are actually supplier-funded discounts. Those are when our hotels, for example, want to get access to the more valuable members who travel more, who spend more. So I don't know if that's what you're referring to, but that program is a supplier-funded program, and it's one of the benefits of One Key.

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

Yes. I think, Richard, just to think about it as clearly as we can give it to you, there's 3 opportunities. There's what Ariane just described, which is we've been able to get our customers more benefit, more tiered benefits, all of that provided by our suppliers akin to some of what you've seen from some of our competition. We also have discounting we do specifically that I mentioned to win on price and acquire customers efficiently.

And then in One Key itself, we have the opportunity now, which is awesome, to allow us to give benefit to One Key customers to create activity, create shopping, to give them incentives and other things. So there is a bit of that, that goes through that as well. But the big buckets are really the pricing and the core loyalty that are still strong, and those are the largest buckets of spend.

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

And just to put a pin on it, obviously, we made the decision based on what is the best return. I mean at the end of the day, that's what we do. We look at everything and what are we going to get the best return for our spend, and at this moment, we saw that the pricing actions were going better than any other options.

And so obviously, it creates some noise in the P&L that you're seeing, but because it doesn't get impacted to the P&L until you actually have stay, so it's a little bit of a timing situation, but at the end of the day, that's what we're focused on, is driving the best return.

**Operator**

Our next question comes from Trevor Young from Barclays.

**Trevor Vincent Young** - *Barclays Bank PLC, Research Division - VP*

Great. Ariane, I think you commented that Hotels.com isn't where you'd like it to be. Can you expand on that a little bit and what you hope to achieve with that brand? And then bigger picture, what are the areas or opportunities you get most excited about beyond the next few years? Is it something like experiences in a more holistic interconnected trip? Is it AI driving a better consumer experience? Or something else altogether?

**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Okay. Trevor, thank you for the question. Look, let me just start by reminding you that we run our consumer business as a whole portfolio. And so we invest behind where we see the best return. And so in some cases, that may mean some brands versus others. And Hotels.com was the most impacted by our migrations. And as I said, it's not where we want it to be. It's not growing.

And again, it was impacted by a number of things. So the first was the product migration, which, when we went through it, obviously had an impact on its performance. The second was we made a big change in the loyalty program. We're very excited about what One Key can and will deliver, but it's true that for Hotels.com, it is a bigger change in the loyalty program with less earn.

Also Hotels.com was the most international of our brands, so over the last few years as we've leaned less into international, Hotels.com has been impacted. And then as I said, when you have the change in the product, we were getting better returns, for example, on Expedia, so leaning in there.

The good news is that, one, we're seeing really great conversion gains on the lodging path, which, of course, benefits Hotels.com. Two, as we go back into international, because Hotels.com is our lead brand in a number of those countries, we're going to see good growth there. So I think the ambition is to get Hotels.com obviously benefiting from the platform and international growth.

And just in terms of what I get excited about, look, there are a lot of things. I think probably AI and opportunity with AI, and especially now with our platform, given that we have one platform across all of our brands so we can move faster in the way that we're learning, I think, is going to have a bigger opportunity than ever to deliver personalized experiences for travelers.

So of course, I can tell you I'm excited about advertising, I'm excited about B2B. There are a lot of parts of our business. But I think fundamentally, it's how is technology going to allow us to deliver traveler experiences that are truly personalized. And when we do that and as we're doing that, I think that will really differentiate us.

**Operator**

Our next question comes from Conor Cunningham from Melius Research.

**Conor T. Cunningham** - *Melius Research LLC - Research Analyst*

Just back to One Key for a second. Can you just level-set with how that's performing today? I realize it's still really early, but the -- with the slower than expected results in Vrbo and in Hotels.com, is there any implications on the potential slower ramp on international as you look to do that this year, maybe into next year as well?

**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

So I'm happy to -- look, on One Key, as you know, we launched it last summer, and the goal was to get more members, have them repeat more and see them shopping across our brands. In terms of member growth on our loyalty programs, new membership is up 40% year-on-year, and we're really pleased with that. And we're seeing good repeat rates.

And when it comes to cross-shopping, what we've actually seen is that 25% of people who have redeemed their One Key cash on Vrbo, who had earned that cash on either Hotels.com or Expedia, are completely new to Vrbo. So I think that really sort of reassures us in this idea of being able to capture more trips from travelers because of the One Key program. And we will be -- we are looking to roll it out internationally later this year.

**Operator**

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

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

So 2 questions. Maybe just on Vrbo. Can you maybe talk a little bit about if the issues you are kind of trying to solve for more of a top line -- sorry, top of the funnel traffic? Or is it conversion? What exactly are you kind of trying to refine? And what gives you the confidence that the rebound can ultimately come through on Vrbo?

And the second question I had is around international market. So I think you talked about kind of going into some new markets this year, and you were spending ad dollars in those markets. Wondering when we can start to see sort of the P&L contribution from those new markets.

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

Sure. Let me take that. So first of all, it's -- for Vrbo, it's largely a traffic issue. So as I mentioned, we spent down last year while the product was going through migration. That has 2 effects, which is, while it's migrating, it's not converting as well, and we're not spending as much to build awareness through that time.

As we're now rebuilding awareness, we're seeing benefit. The product itself is actually converting very well and improving very quickly because it is getting the benefits, as Ariane mentioned, of the single stack, right? All the -- many of those things that have won on our other products, are winners for Vrbo, and so we're getting more benefit more quickly.

So conversion continues to improve and is in good shape. We've got to rebuild back the traffic. And as Ariane said, One Key is helping with that. But One Key for itself in Vrbo, Vrbo customers don't travel 10 times a year typically. They travel once, if once, a year, sometimes once every 18 months or 2 years.

So the benefits of the One Key program, which we think is a key differentiator for Vrbo, take even longer to accumulate and create that flywheel over time. So we're building into those things. We're focused on traffic and building just general awareness back and general traffic back, and we're making solid strides. It's just not as fast as we had expected.

On the international side, we've seen quite good returns in all the places we've pushed into. We've tried a number of different ways in, now that we have the product improved, leaning more into performance marketing in some places, leaning more into brand in other places. But we're seeing broadly good response. We think it's contributing. It's just that North America is so large that it's hard to see in the numbers.

But that's why, as Ariane said, we started building into it this year. We're pushing back into international, and it's meant to drive long-term growth for many years to come. And as these markets succeed, we will continue to invest in more markets where we think we have the right to win, and win back share.

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

We have seen some short-term wins. And Peter is right, it's going to take a while to really see it in the P&L from your perspective because there's an investment time period, you have to build it up to get the return. But in international markets, in small ones like Brazil and Scandinavia, where we launched new campaigns, we did see double-digit growth on our brands there. So that's already reflected in our numbers, but they're not all in the total, we are seeing the benefits flow through.

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**Operator**

Our next question comes from Kevin Kopelman from TD Securities.

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**Jacob Hunter Seed** - *TD Cowen, Research Division - Research Associate*

This is Jacob on for Kevin. For Ariane, on the B2B side, can you comment on concentration within B2B, how large your top few customers and how many customers do you have? And also I wanted to know if there's (inaudible) impact for regulatory changes from Google, any positive benefits there?

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Okay. I think -- it was a little bit hard to hear, but I think the first question was about the B2B business and customer concentration. So let me take that one first. Look, we don't disclose information, obviously, about sort of the concentration of our customers, but what I will say is the B2B business is quite a mix of some very large partners, think of banks, think of some airlines, and also a very long tail of travel agencies, for example. So I would say it's a well-balanced business.

One of the things that's really nice about the B2B business is it's not only balanced in terms of customers, but it's very balanced geographically and in terms of what types of partners we work with. I think this -- what was -- oh, the second part was about changes to...

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

Sorry, say that again?

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**Jacob Hunter Seed** - *TD Cowen, Research Division - Research Associate*

Yes. Any benefits you're seeing from the regulatory changes from Google in Europe?

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

In terms of our core B2C business? Not really, no. I think -- yes. I think Google is still trying to push back. They've introduced some new things in the hotel funnel with Carousels and other things. So as much as we're hoping for help from regulators where we operate within the bounds of what they're doing, and they continue to operate pretty much how they have in terms of looking for new ways to monetize and push SEO traffic down, et cetera. So no, no real noticeable impact.

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**Jacob Hunter Seed** - *TD Cowen, Research Division - Research Associate*

One more on traffic on how big the (inaudible)?

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Sorry, it's really hard to hear.

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**Jacob Hunter Seed** - *TD Cowen, Research Division - Research Associate*

On direct traffic, is there any -- can you provide any commentary on that?

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

I don't think we provide commentary on that. I'd say about 2/3 of our business remains coming from direct traffic, and we've seen strong improvement in the app, which we -- as you probably recall, we've been pushing into for several years, I think, 600 basis points improvement in how much of our business came through the app.

So that continues to be a vein we're pushing into and obviously something we're focused on for the future in terms of just driving more and more direct traffic. Obviously, One Key, we expect to help with that over time. So there's a lot of things going into driving that over time, but so far, the improvement's been good.

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**Operator**

Our next question comes from Ron Josey from Citigroup.

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**Robert Valdes-Rodriguez** - *Citi - Analyst*

This is Robert on for Ron. One question for you on GenAI. Can you guys share some of the learnings maybe following the launch of EG Labs last year? What are some of the products you guys are most excited about? I guess at what point do you expect these products to come to market and start to change the way users search for travel?

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

Yes. We've done a lot of experimentation in GenAI, obviously, user-facing as well as within the company from an efficiency standpoint, from customer service, all kinds of places. And I won't steal any thunder, but Ariane and the team will be announcing a lot of really cool new things at our EXPLORE Conference in 10 days or 2 weeks.

But basically, it is early days as far as the search approach goes. It's still pretty modest in terms of how many people use it, certainly in terms of its impact on conversion or anything else. But early is good in the GenAI space because it gives you time to experiment and learn, and we've learned a lot, and that's going to guide to a bunch of new things that our customers are going to see in the coming year.

So there's a lot of new impact from it. There's also a lot of impact, as we've talked about before, from old-fashioned machine learning driving all kinds of wins across the product. And as I mentioned, much more at scale because they can be deployed much more readily across all brands and across different lines of business.

So we're having really good wins, I would say, from ML and AI, but the coolest, newest things we really think will impact consumer behavior and experience are still coming and Ariane and the team will get to tell the world about those in a week or so.

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Yes. I would just add, as Peter said, we're excited to share some things in a couple of weeks at our partner conference. And again, in addition to what we're doing for travelers, there's a lot of work that we're experimenting with for partners.

How do we help partners use GenAI to better show their inventory in our apps or in our brands? How do we allow them to use GenAI to improve their advertising with us? There's work, as Peter said, with our customer support organization. How do they use it to be more effective?

Our development teams, even our commercial teams are looking at, are there pilots for how we can use those to be more effective as well, so I think it's really going to touch every part of the internal organization as well as how travelers search and book.

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**Operator**

Our next question comes from Mark Mahaney from Evercore ISI.

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

Can I ask 2 questions? First is, any new thoughts on further managing or paring down costs? Where are you in terms of kind of rethinking reengineering the cost structure? It may well be that you finished all that sort of work, but just asking.

And then secondly, I think it's been a while since you've talked about what percentage of your products that are sold, units, services that are sold, are bundled? Do you have an update on that? And what I'm particularly interested in is whether things like AI, particularly mobile apps, have really led to a greater ability to cross-sell travel products, to bundle travel products, in a way that wasn't the case in the past.

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

Mark, thanks for the question. I'll take the cost question. I would say that literally, we are just getting started. So I mean, we did have an announcement back in February where we had impacted about 1,500 associates. We're still on the journey of that. We haven't done all of that yet.

You can see some of the savings already coming through in the P&L within cost of sales and within overhead and also within capitalized labor. And there's more of that to come. It should be substantial savings on an annualized basis. Again, hitting all 3 of those lines, of course, cap labor, you won't see in the P&L, even in EBIT because the capitalized software is amortized over 3 years, but you'll see it billed as we continue to move forward.

But I think even as Ariane said, we're looking at every single line to drive efficiencies. And so we have kicked off a few projects to go through and really sort of push on the P&L. So we think there's an incredible opportunity to drive cost efficiencies, and obviously, as we deprecate more systems, we come out of this other side of the migration side of it, there's going to be a lot of opportunity to bring the cost down going forward.

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

And I'm happy to take the second part about products that we bundle. Look, we don't disclose what percentage of our business comes from packages or from cross-sell. But what I would tell you is, one, a unique value proposition of the Brand Expedia is our package path and this ability to dynamically bundle an air ticket with a hotel and the like. And we're seeing really good results as we continue to lean into the package path, and we think it's a great value proposition.

And then when you think about sort of the cross-sell and attach, which again has always been one of our strategies, I mean, for as long as I've been at Expedia Group, it has been. It is true that with machine learning, you can get a lot smarter in understanding what is the next best thing to propose to a traveler. What are they most likely to attach, given what we know about them, given what we know about what they're doing in that trip plan? So I think we have lots of ambitions around cross-sell and attach and what machine learning can do to help us there.

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**Operator**

Our next question comes from Ken Gawrelski from Wells Fargo.

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**Alec Bondolo** - *Wells Fargo - Analyst*

This is Alec on for Ken. I appreciate the question. B2B has grown faster than the overall corporate growth rate for a while now. A question we get from investors a lot is how to think about the long-term growth rate.

It seems like there's been some transient benefits to the business, whether it's been the recovery of corporate travel or exposure to Asia Pacific. And so when we normalize for those factors, I guess, how do you think about B2B growth over the medium to long term?

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**Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Yes. Look, we're not sharing projections of how we see things long term. I guess I would just remind everyone that there's a huge market out there for travel. And our B2B business serves a lot of different types of partners, whether they're airlines, whether they're banks. Last year, we launched a partnership with Walmart. We work with off-line travel agencies. We work all over the world.

So I would just say even if it has certainly been growing at a very fast clip for the last few years, we continue to have big ambitions for that business. And as we think about our investments in technology, in our supply, and in our teams and our partner relationships, I think we've got really great assets to continue being leaders in B2B.

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**Operator**

Our next question comes from Jed Kelly from Oppenheimer.

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

Great. Can you just sort of dive into some of the mechanics around the recent head count reduction? How much of that is coming out of capitalized software versus how much can be reinvested into marketing?

And then in your hotel segment, great to see double-digit growth. Can you talk about how that's trending in North America relative to international?

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

Sure. I'll take the cost actions question. We have not broken out in detail how much is impacting each line. As I mentioned, you can see it within cost of sales improvements, you could see it in the overhead improvements, you can kind of deduce how much of that is due to that. But you can also see it in our cap labor, in our capital expenditures, at least this quarter, how they've come down. A significant portion of that is associated with capital labor.

I think the reason why we didn't want to unpack it all, especially this year, is there's a lot of moving parts. Like I said, hitting across 3 lines, cost of sales, overhead and capital labor. Most of it or a significant piece of it is capital labor, and it is a partial year for the savings. And as you asked, we are going to be taking some of that savings, which is implied within our guidance, and reinvesting it back into marketing. But on an annualized basis, on a go-forward basis, it's substantial and will hit across those 3 lines.

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

Yes. And I'll just jump in on the hotel segment. I mean, obviously, a couple of things to keep in mind. It's all our businesses. As Ariane mentioned, our B2B business has more exposure to international, so that has some of the better tailwinds, has been in international. Our international investments have been doing well, but that's a fairly small part of our B2C business and all.

So the short answer is yes, hotel segment is growing more outside the U.S. just because of tailwinds. But we are growing it in the U.S. and we are taking share in the U.S. So both are good. We'd obviously love it if the U.S. had tailwinds of 10% macro growth, but it doesn't. But we are growing and we are growing share in the U.S., and as I mentioned, growing share in most of our focus markets. And then B2B benefits from a little more geographical diversity into Asia and LatAm and other places that are growing a bit faster.

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**Operator**

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

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

I just want to dive in a little bit more on Vrbo. Obviously, huge customer surge during the pandemic. And then it looked like your app strategy of getting apps distributed was working. So just kind of what's not meeting your expectations? Is it the paid channel or is it reactivating customers that -- to kind of higher repeat rates? And what's the plan to fix that?

And then second, can you provide any detail on the mix of Vrbo versus core, how that's trending? I think people are coming up with their own estimates whether it's down or not, but we would love some commentary to help us with that.

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

Yes. Well, I'll do the bad news first. We can't help you with the splits. We don't break out the business that way. But I'll talk about the beginning part, which is, yes, we saw a huge pandemic surge. That was great for customer acquisition. It was great for the Vrbo business. And to be clear, we are still well above 2019 levels even as we sit today.

So the category has seen a boost. It has sustained the boost. I think what -- when you get to what we're not happy with now is just we went through, as we've said many times, we have to go backwards to go forward. On Vrbo, that meant changing the product, going through the migration. And for us, it meant that we didn't think we could spend our money efficiently on Vrbo while we were going through that.

So we are winning back customer -- we're winning back new customers with new marketing as we push in with investment. We have to get customers back who may have gone through the bumpy period of migration. But also VR is fairly flat in North America right now in terms of demand. So again, we don't have the tailwinds of just a growth driver that was there.

Now we do believe we have the best product. We do believe One Key makes it the most valuable. We do believe we have great supply. And so it's really getting the customers back in. And One Key, on that point, gives us a really good tool to attract not only Vrbo customers back, but as Ariane mentioned, customers from Expedia and Hotels.com, where we have a much bigger base of total humans and customers in those pools, to bring them into Vrbo and see the benefits of staying within our universe of products.

So we have a lot of tools to use. We're just really putting them to use now again, now that we're past the migration, now that we know the product experience is what we want it to be. And we will keep making it better. But it's at a place where we're happy with it, and we can invest behind it, and we know the returns will come through and the product will be sticky when customers get to us.

So that's really what we're -- that's the backdrop, and we're just investing into that backdrop, and we've got to keep driving it. We gave up some ground, clearly, and now we have to win it back.

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#### **Operator**

Our last question comes from Tom Champion from Piper Sandler.

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

Ariane, the business remains in transition, and it seems to be maybe a difficult period. I'm just curious how you think about your priorities over the next quarter or 2. Tactically, where are you going to allocate your time and really focus first?

And then for Julie, I'm wondering if you can just elaborate a little bit on the margin commentary for full year and your expectations. There's a head count reduction. The tech stack being migrated would seem to be a cost savings. Where are you going to be investing such that margins will be more similar to last year versus maybe improving?

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#### **Ariane Gorin** - *Expedia Group, Inc. - Incoming CEO and President of Expedia for Business*

Thanks, Tom. Look, on the next quarter or 2 -- like let me say, even if I've been in this business for 11 years, stepping into the CEO role is a new perspective. And so I will listen and learn with our teams over the months to come. I think we have set really solid foundations. And as I said in my prepared remarks, one thing is helping the teams get back to the basics of traffic and conversion and delivering the acceleration that's implied in our guidance.

So there's going to be a part of it which is helping the team focus on execution in the short term to deliver our acceleration, and then also sort of listening and learning and figuring out if there are places that we may need to adapt or adjust anything to really deliver on our long-term growth.

So I would say lots of time with our teams internally. Obviously, lots of time with partners and the like, and again, I think I'm fortunate that we have a really great team here that's all motivated to want to win. So I'm looking forward to spending time with them in a couple of months to come.

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

And then on the margins question, now going to relatively in line with last year as opposed to margin expansion, it's really a function of where we end up in the range of possible outcomes on the top line. Because we're still generating cost of sales leverage, we're still generating overhead leverage, we're still motivated, obviously, to get back to marketing leverage.

It's just a function of where we see the ramp-up in the back half and what spot on the top line we end up being at. And so we want to make sure we give ourselves enough room to be able to make the investments that we need to make in Vrbo to reinvigorate that brand, and in our international markets to obviously support our growth initiative to expand outside the U.S. And so that gives us that opportunity.

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

Thank you, everybody. I think that's our last call. Thank you, operator. I think we're finished.

**Operator**

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

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