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EXPE.OQ - Q3 2025 Expedia Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to the Expedia Group Q3 2025 financial results teleconference. My name is Alex, and I'll be the operator for today's call. (Operator Instructions)

For opening remarks, I will now turn the call over to VP, Investor Relations, Rob Bevegni. Please go ahead.

Rob Bevegni - *Expedia Group Inc - Vice President of Investor Relations*

Good afternoon, and welcome to Expedia Group's third quarter 2025 earnings call. I'm pleased to be joined on today's call by our CEO, Ariane Gorin; and our CFO, Scott Schenkel.

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. Unless otherwise stated, all growth rates are on a year-over-year basis and any reference to expenses exclude stock-based compensation.

We will also be making forward-looking statements during the call, which are predictions, projections and other statements about future events. These statements are based on current expectations and assumptions, which are subject to risks, 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-Q, 10-K, and other filings with the SEC. Except as required by law, we do not undertake any responsibility to update these forward-looking statements. This call is being webcast on the Investor Relations section of our website at ir.expediagroup.com. A replay will be archived on our site for 30 days. A slide deck containing financial highlights has also been posted on our IR website.

For today's call, Ariane will begin with a review of our third quarter results and an update on our progress against our strategic priorities. Then Scott will provide additional details on our third quarter financial performance and guidance. After our prepared remarks, we will turn the call over to the operator to begin the Q&A portion of the call.

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

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

Thank you, Rob, and thank you all for joining us today. Our third quarter results exceeded both our top and bottom line expectations, reflecting an improved demand environment, disciplined execution, and progress on our strategic priorities.

We grew bookings 12% and revenue 9%, while expanding our EBITDA margin meaningfully. We're building solid momentum across the company with clear proof points that our strategy is working. The market was healthy in the quarter with an acceleration in the US and continued strength in the rest of the world. We saw longer lengths of stay and longer booking windows, both signs of a stronger consumer. Based on our results to date and ongoing trends, we're raising our full year guidance, which Scott will cover shortly.

In the third quarter, we grew booked room nights 11% and expanded our hotel share globally. In the US, room nights were up high single digits, our fastest growth in over three years. Nights were up low double digits in EMEA and high teens in the rest of the world, including over 20% in Asia.

We drove continued momentum in B2B and in advertising. B2B bookings increased 26%, marking our 17th consecutive quarter of double-digit growth, while advertising revenue was up 16%. Our Consumer Brands grew bookings 7% with double-digit growth outside the US and particular strength in Europe. Expedia remained our largest and fastest-growing brand, while Hotels.com and Vrbo both improved sequentially, posting year-over-year growth in room nights and bookings.

Our strong performance was supported by progress in advancing each of our three strategic priorities, all of which continue to be accelerated by AI. I'll begin with our first priority, delivering more value to travelers. Our brands are personalized travel companions that are with travelers at every step of their journey from trip planning to booking, adding and changing and beyond.

A year ago, we set out to sharpen the value propositions of our three big brands. We've better aligned product, supply, marketing and loyalty for each brand, and it's paying off. On product, we released new features to drive better traveler experiences. For Vrbo, we made it easier for travelers to find the property that's just right for them with new recommendation experiences and improved property comparison tools.

On Expedia, we launched new design flows in the lodging search and post-booking paths. Coupled with enhanced recommendation models, these have led to double-digit growth in vacation rentals and record attach rates. Since the beginning of the year, we've integrated AI into our products at key moments that matter from AI filters to property Q&A, guest review summaries, and our service agent. And these features are driving engagement and getting even more effective with time.

On supply, we provide travelers a broad assortment of inventory to choose from at competitive prices, and we're constantly improving both. Last quarter, we sourced more great deals for our travelers than ever before. We tripled the number of properties funding deals in our summer sale. And on Vrbo, over 20% of our bookings were on partner-funded promotional rates, a new capability we launched in the spring. Both of these illustrate the power of our flywheel.

Supply partners participate more deeply in our marketplace. We deliver more value to travelers and in turn, we drive incremental demand back to these same partners.

Loyalty is another powerful way we deliver value to travelers. With One Key, travelers get both immediate discounts and earn One Key Cash for future trips. Active members were up mid-single digits. And across the board, One Key is driving more repeat and more direct bookings, growing fastest with Silver members and above. We recently launched two important loyalty capabilities on Vrbo and Hotels.com. For Vrbo, we introduced

member deals, giving our members access to better rates. And on Hotels.com, we introduced Save Your Way, a high-value program that gives travelers flexibility to choose how and when they save.

Turning to our second priority, investing where we see the greatest opportunities for growth. B2B had another fantastic quarter. We grew share with existing partners and added new partners. We released new tools to help our partners more easily identify promotional rates and also launched a new AI-powered trip planner. Specifically in our travel agency business, we've grown the number of agencies we work with, expanded our agent loyalty program, and added features like new payment options, all of which have contributed to over \$3 billion of bookings year-to-date. Looking ahead, we see further opportunity across our B2B business, and we'll continue investing to drive growth.

On advertising, we delivered a strong quarter with a record number of active partners, and we continue to be one of the highest returning channels for our advertisers. We're using AI to make our ads more relevant while also injecting it into partner tools like our new ad portal that has improved targeting and measurement capabilities.

Finally, on growth opportunities. AI-driven search is transforming the way travelers discover and plan their trips. We're moving fast and deliberately to ensure our brands show up wherever travelers are. We're making good progress on Answer Engine Optimization even as traffic today remains small. And we're forging tight partnerships with leading tech companies like Google, OpenAI, and Perplexity. We were a launch partner with ChatGPT's apps, and we'll continue to experiment with new Gen AI experiences.

Beyond the volume that comes from them, these early integrations are keeping us at the leading edge of evolving technology and customer behavior, learnings we're bringing directly back into our broader business. No matter where a traveler starts their discovery journey, we're confident that they'll ultimately choose to book with the brand they trust and know we will be with them along their whole journey, including when something doesn't go as planned. This remains a key differentiator for our business.

Moving to the third pillar of our strategy, driving operating efficiencies and margin expansion. We expanded margins by over 2 points in the quarter, thanks to our continued operational discipline and volume leverage. I'm particularly pleased that we delivered our fourth consecutive quarter of improved marketing productivity in our consumer business.

AI provides an opportunity for step function improvement in our team's efficiency and effectiveness over time. We're already seeing the benefits in our product, technology, and customer service teams from enhancing developer productivity to improving resolution speed on servicing to highlight just a couple of examples. We've created expert squads that we're embedding across our teams to accelerate adoption, and we see a lot of potential ahead.

In closing, we delivered a strong third quarter. The demand environment improved, and we advanced our priorities. While we saw continued momentum in October, we're keeping a close eye on economic indicators and remaining focused and agile amidst a dynamic macro environment. As we enter the final quarter of the year, we have real confidence in our ability to execute and create value for all of our stakeholders.

I want to thank our team for their hard work, thank our partners for their trust in us. And with that, I'll turn it over to Scott.

Scott Schenkel - Expedia Group Inc - Chief Financial Officer

Thank you, Ariane, and good afternoon, everyone. I'm pleased to share our third quarter performance, which beat the high end of our guidance range with bookings up 12%, revenue up 9%, and EBITDA margin expansion of over 2 points. Our outperformance was driven by solid execution across our company and a stronger-than-expected US market. Versus our expectations, we sustained strong demand throughout the quarter and higher lodging and air prices. As Ariane mentioned, the acceleration in our B2B business was significant tailwind that helped drive our performance.

Our booked room nights were up 11%, driven by our strongest US night growth in over three years and sequentially, acceleration across all our main regions and core brands. Also worth noting, B2C hotel room night growth in Europe was also the highest we have seen since the first quarter of 2023.

Overall, as we look at travel, demand for premium travel has performed well, accelerating from Q2 and then was bolstered by resilient demand at the lower end as well. Gross bookings were \$30.7 billion, up 12%, including a 1 point benefit from foreign exchange. Revenue of \$4.4 billion grew 9% and had a 2.5 point benefit from foreign exchange, roughly 1 point more than expected.

Bookings growth exceeded revenue growth primarily due to book-to-stay timing as the majority of our revenues are recorded at the time of stay, not when the booking takes place. Advertising revenue grew 16%, posting another double-digit quarter. We see significant opportunities for continued growth, including increasing penetration outside of North America, B2B, and monetizing on more areas of our sites.

Moving to our segment performance. B2C gross bookings of \$21.3 billion accelerated 6 points to 7% year-over-year, driven by performance both domestically and internationally. B2C revenue of \$2.9 billion grew 4%, driven by improved market demand, advertising, and insurance. B2C EBITDA margins were 41%, up approximately 4 points from last year. This was driven by significant marketing leverage achieved through ongoing optimization of marketing spend.

Margins were further supported by our continued discipline in managing cost of sales and overhead as well as growth in our high-margin advertising and insurance revenues. B2B gross bookings were \$9.4 billion or 26% with broad-based growth across all regions.

Rapid API was our fastest-growing product and the largest contributor to growth. As a reminder, Rapid connects Expedia Group's powerful lodging supply and content with larger travel partners such as travel management companies and other OTAs. Our Travel business, which is our solution for offline travel agents, also grew 25%.

B2B revenue grew 18%, posting yet another strong quarter, which is below bookings growth primarily due to book-to-stay timing. B2B EBITDA margins were 29%, flat year-over-year as we prioritize investments to support the continued growth of B2B.

Turning to group profitability. We delivered third quarter adjusted EBITDA of \$1.4 billion, a margin of 33%. The 2 points of adjusted EBITDA margin expansion was driven by revenue and expense leverage, particularly within direct sales and marketing in our B2C segment. Adjusted EPS of \$7.57 grew 23% faster than EBITDA due to share repurchases.

Moving to our cost structure. We leveraged meaningfully across all our categories. Cost of revenue was \$373 million, down 3%, leveraging 1 point as a percentage of revenue, driven by efficiencies in payments and customer service.

Total direct sales and marketing expenses were \$2 billion, up 7%, driven by B2B. As a reminder, commissions paid to our partners are included in the direct sales and marketing expenses for B2B and recorded at the time of stay. We saw significant leverage in our B2C business with direct sales and marketing down 4%, leveraging over 0.5 point as a percentage of gross bookings. Overhead expenses were \$620 million, up 3%, while leveraging almost 1 point on revenue, benefiting from the actions we took to reduce our cost structure earlier in the year.

Now turning to our cash position. We ended the quarter with \$6.2 billion of unrestricted cash and short-term investments, and we remain committed to maintaining debt levels consistent with our investment-grade rating.

Free cash flow on a trailing 12-month basis was \$3 billion and reflects the strength of our operating model and disciplined execution of our strategic priorities. At quarter end, we had \$1.8 billion remaining in our share repurchase program after utilizing \$451 million in the quarter to repurchase 2.3 million shares of our common stock. This brings our total shares repurchased in the last three years to 44 million, which reduces our share count by 22% net of dilution.

Turning to our outlook. We are raising Q4 and full year guidance. For Q4, we expect gross bookings and revenue growth of 6% to 8%. Gross booking includes an estimated 1 point benefit and revenue includes a 1.5 point benefit from foreign exchange at current rates. Adjusted EBITDA margins are expected to expand by approximately 2 points with a minimal impact from currency at current rates.

As Ariane indicated, we saw continued momentum in October, but we are monitoring economic indicators within a dynamic macro environment. As a reminder, the moderation in our Q4 growth is driven by lapping the 6-point bookings and 7-point revenue acceleration experienced in Q4 of last year.

For the full year, we expect gross bookings to be up approximately 7%, revenue up approximately 6% to 7%, and EBITDA margins to be up approximately 2 points versus last year. We will provide our full year guidance for '26 on our Q4 earnings call. We have built strong momentum on margin expansion with the year-to-date adjusted EBITDA margins up close to 2 points, enabling us to drive the highest margin expansion we have had in three years.

Looking ahead to 2026, we expect further margin expansion, albeit at a more moderated pace than what we drove in 2025 as we continue our cost-out efforts and invest behind our growth initiatives. Regarding capital allocation for the balance of 2025, we expect to continue repurchasing shares roughly in line with levels over the last couple of years.

In conclusion, we are pleased with our third quarter results and our outlook for the fourth quarter. We are encouraged by the momentum we're building across our strategic priorities, which will position the company to drive long-term profitable growth. Now let me open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Eric Sheridan, Goldman Sachs.

Eric Sheridan - Goldman Sachs Group Inc - Analyst

Maybe I'll ask a two-parter on B2B. So you've had a very strong year in B2B. How should we be thinking about the building blocks for medium-term growth of the amount of supply and partnerships you already have in B2B as driving organic growth? And how are you thinking about continuing to grow the array inside the B2B business against potentially a competitive environment in the category as well, looking out over a multiyear view?

Ariane Gorin - Expedia Group Inc - Chief Executive Officer

Yes. So look, clearly, we had an exceptional quarter in B2B. And as I said in my prepared remarks, we've been consistently growing faster than the market, 17th consecutive quarter of double-digit growth. The performance is driven by a combination of great supply, strong technology, and a base of long-term partners who rely on us and who trust us as they're building their businesses.

In terms of the building blocks of future growth, I would think of it as a mix of signing new partners and growing existing partners, both the existing partners as they grow their business and as we expand and enhance our product offerings.

Lodging continues to be the core of our business -- B2B business today, and we're increasingly excited about the potential with other lines of business, car rentals, advertising, insurance and the like.

And I'd just end by saying, look, this is a pretty diversified business. We've got 65% of it that's outside of the US, so it's quite geographically diverse. In terms of the types of partners we work with, we work with offline travel agents, online travel agents, corporate partners, airlines, bank and credit card companies. And so put it in the context of an over \$3 trillion travel industry, we think that there's a lot of growth potential ahead, and we'll continue to invest in it.

Operator

Mark Mahaney, Evercore ISI.

Mark Mahaney - *Evercore Inc - Equity Analyst*

I'm going to try to sneak in three questions. Scott, you talked about being able to continue to expand margins going forward. Just talk about what the sources are of a big picture in the next couple of years, what are the biggest sources of margin expansion?

And then Ariane, two questions just related to Agentic commerce. So one is, is the quality of the signals that you're getting, the leads you're getting from places like ChatGPT, Perplexity, Gemini, are they kind of equivalent to all those performance leads the company got in the past?

And then could you just talk about in e-commerce, there's this expectation that we could really see an inflection up in online purchasing because you're going to much more personalize the service potentially. I think that will happen. I would think in travel, the opportunity is even greater given how much more personalization iteration there is in the travel purchase process. But do you agree with that? Or have you already seen signs that agentic tools and greater personalization can inflect up overall travel demand and fulfillment?

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yeah. Let me take the first one. The way I think about the margin rate expansion that we've done and that we expect in the -- can expect in the future, it's really on the legs of a number of different initiatives. The first, the most clearly continuable for the foreseeable future is sales and marketing for B2C. I think the team has done an excellent job of optimizing our scaled performance channels, improving metric capabilities, redeploying between channels, focusing on incremental returns and ROIs, I think they've done an excellent job, and I can foresee that happening for a while.

Cost of sales, we continue to get sharper, whether that's using AI or whether that's tighter management of expense controls and better cloud cost dynamics that we're working on. Those are two very large ones. Overhead is also key as we continue to focus on our overhead cost population and what we're going to do to kind of continue to ratchet that down while getting revenue expansion to get the leverage.

And then there's a mix dynamic between ads, insurtech and things like that, that help out as well. So I think we've got multiple legs of the stool to drive cost out of this business to get leverage and drive margins up.

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

Yes. So the second question about the quality of the leads from the Gen AI search. First, it's still early days. And so the volume of traffic is still relatively small, even if it's growing quickly. And the quality seems good. There's going to be a question of how do we make sure that as those leads come through, we understand well enough the context of the travelers so that we can give them a personalized experience, which will then lead to more conversion. But it's early days. And what's exciting is that we're in it and we're learning and we're in the integration. So I feel good about that.

In terms of your question about is AI going to help with personalization and get an inflection, we're already seeing that the use of AI in our products is helping us get more personalization and is driving growth. I talked about changes we made in the flows of the Expedia product for post-booking on attach, it's those flows plus stronger recommendations through AI that are driving record attach levels. Ranking models are also going to get more personalized. So I absolutely think that in our own products, we have an opportunity to better personalize and to give travelers better experiences, which is going to lead to more trips.

I also wouldn't discount the importance of using AI and personalization and marketing. How can our marketing get more effective using AI. And finally, even for our partners, we're injecting AI into our partner experiences, whether it's supply partners or advertisers, and that's helping improve their content and their targeting, which ultimately gets them a better experience in our marketplace. So I'm very optimistic.

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

If you look at -- I was going to say, Mark, I think a couple of other things internally. As we think about deployment of AI internally, and I use the customer service example. Our virtual agents resolve over 50% of traveler queries. And when human support is needed, it delivers concise summaries to the agent, reducing our service cost per transaction. And we see this potential as we look forward as well. So we think it continue to expand. So I think we see it both externally and internally across our business.

Operator

Anthony Post, Bank of America.

Justin Post - *Bofa Merrill Lynch Asset Holdings Inc - Analyst*

Just want to go back to the replatforming you went through. It was a couple of year process. It was pretty disruptive. Now that you're over that, how is that helping you potentially compete better?

And then second part of the question on the Vrbo and Hotels.com brands, which are presumably on that platform, how are they doing this quarter? And can you see a further uptick next year on kind of recovering those brands?

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

So as you said, we went through quite a replatforming sort of from 2021 through early 2024. And we are leveraging some of the capabilities that we built to get more scale across our brands. So if you think about data, we now are able to -- we're on one common data platform. When you think of our lodging path, as we have a common lodging path, for example, across Hotels.com and Expedia, as we're getting the learnings of what drives conversion, we quickly have that across both of their brands.

If you think about the loyalty program that we rolled out across all three brands, it was because of the platforming work that we're able to have one customer identity and allow travelers to earn and redeem across all of the brands.

So those are real advantages for us. Now I talked about 1.5 years ago when I stepped into the role, the challenges that we had, which was how do we take all of the platform work we've done and then tune it to each of the three brands and their own value proposition. And that's the work we've been doing the last 12 to 18 months. And that's what's driving the strong performance that we had from Hotels.com and Vrbo in the last quarter.

So if you take, for example, the loyalty program, it's running off of the same platform, but now we introduced a feature like Save Your Way for Hotels.com or in Vrbo, it didn't have access to member rates and now it's got access to member rates.

So I would say if you look at the performance of Hotels.com and Vrbo, both of which were strong in this quarter, some of that came from platform work that we've done, but then a lot came from the work that we've been repositioning those brands and executing against that.

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yes. I would add to that just real quickly. I think the dynamic across platforms within B2C was very strong. It wasn't just performance of one of the brands, it was across all three of the brands. I think another data point that kind of -- that the platforming dynamics and other initiatives that we have going on that Ariane talked about is proof points that it's working.

Operator

Lee Horowitz, Deutsche Bank.

Lee Horowitz - *Deutsche Bank AG - Research Analyst*

So maybe one on marketing and one on just B2C. So you guys have seemingly turned the corner on direct marketing leverage on B2C. I guess given that corner has been turned, do you expect to be able to sustain that into next year, presumably you do given the margin commentary. And I guess, if you do, I guess, how are you thinking about being able to control that outcome in a world where you have two competitors that seem to be talking up their investments in US hotel?

And then second, just on B2C broadly, obviously, hit a high watermark here. Understanding the comps in the 4Q are a little bit tricky. Is there anything sort of in the number this quarter that would make us believe that what you're able to achieve this quarter is not sustainable on the go forward, particularly as brands like Vrbo and HCOM continue to make progress?

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yes. Let me take the first one. I think a couple of dynamics, and I won't rehash the points that I made that the teams have been working on internally. But I think it's all about being agile because the other dynamic around whether the returns and the reallocations and productivity that we're getting within the marketing channels is how are your sites and your experiences performing. And if those get better, your ROI should start to get better and you can lean in. And so we're ready to kind of lean in and we're ready to continue to get productivity like I've talked about, depending on the competitive situation as well.

But I think if we get conversion up further, if we get better traffic metrics, if we get more customers coming in, we certainly could have the opportunity to lean in and drive more volume. At the same time, we can also work on the cost-out dynamic that we've been talking about. And certainly, if things change competitively, we would do the same.

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

Yes. And then let me pick up on each of the three brands and what gives us confidence. We talked a bit about the replatforming. And I would say there was a number of years of tech migrations on Vrbo. And this year, we've been releasing new product features that are bringing the value of being a vacation rental pure play to life. So just a few examples.

On supply, how we're improving our assortment and prices and quality. Last year, we talked about adding the multiunit inventory. And this year, we rolled out the promotion suite. As I shared in my prepared remarks, 20% of our bookings last quarter were on a promotion suite that we only rolled out in the spring this year.

In terms of the product, we're leveraging AI to personalize property content to summarize guest reviews, all to make it easier for travelers to find their perfect match. Actually, last month, we introduced the Loved by Guests badge to highlight the top 10% of our properties. And we're doubling down on trust and reliability. So just last week, we expanded Vrbo Care to reassure guests that we've got their back if a problem arises. So I think those are going to be foundational to the performance of Vrbo going forward.

If I take Hotels.com, it grew at its fastest pace in over two years, and that's really a function of the work we've done this year in relaunching the brand, adding product functionality and launching Save Your Way. And it's really solidifying its value proposition as a hotel-only pure play. And then finally, our Brand Expedia, which is our biggest and fastest-growing brand, I talked about work we did or work we have done to drive up attach. We're at record levels of attach in the product and there's still more opportunity ahead. As we added more airlines this year with Southwest and Ryanair, that's improving the value proposition.

As we created a new lodging path where we're separating hotels and homes, that's allowing us to grow vacation rentals. And we know that while we grew low double digits outside of the US, there's still a lot of opportunity for us to grow outside of the US. So look, we're just really looking at where are the opportunities that we see in the business to grow, how do we execute on them, while at the same time, being very mindful of where we're spending our marketing dollars.

Operator

Ken Gawrelski, Wells Fargo.

Ken Gawrelski - Wells Fargo Securities LLC - Equity Analyst

Sorry about that. Technical difficulty there. Sorry about that. Can you talk about -- as you think about the alternative accommodation market going into over the next 12 to 18 months, could you talk about the evolving kind of competitive dynamics, maybe as some would characterize it as a bit more mature. Could you -- and do you think that the integration with hotels inside kind of the search window within alternative accommodations will become the norm? And could you just talk about where you are in that process?

Ariane Gorin - Expedia Group Inc - Chief Executive Officer

So Vrbo, as I said, is a vacation rental pure play, and we're excited about the features that we've built and we're launching that are strengthening its value proposition as a trusted vacation rental pure play. Then as you say, in Brand Expedia, we're now integrating vacation rentals into the lodging flow. And we're being measured in doing it because we want to make sure that there's a great traveler experience and that they're going to find the lodging option that works for them. And we're seeing good results.

And I will add that we're now starting also to distribute vacation rental through our B2B partners. So certainly, when I talk to vacation rental owners, they're excited about the fact that now in addition to bringing them volume and demand from Vrbo, we're now opening it up on Expedia and our B2B partners.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - Oppenheimer & Co Inc - Analyst

Just circling back to B2B, can you give us an update on how you're looking in competition there and what you're seeing in terms of contracts and a renewal cycle?

Ariane Gorin - Expedia Group Inc - Chief Executive Officer

I'll say I've been in our B2B business for over a decade. And I feel like every year, we're saying there's so much competition from all these different places. And the truth is in any business, there's always a lot of competition and our team needs to go out there and put our best foot forward, make sure that we're delivering a lot of value to our partners. We're staying close to them.

And look, there will be some deals that you win and some deals that you don't. But over the long term, I'm very confident in our value proposition, and we continue to innovate in order to respond to the demands that our partners have.

Operator

Conor Cunningham, Melius Research.

Conor Cunningham - *Melius Research LLC - Equity Analyst*

One of your competitors spends a lot of time talking about direct to just solidify their position long term. And presumably, you're seeing an uptick in direct bookings as well given the fact that like things are accelerating and marketing efficiencies are getting better. But I was just hoping that you could level set on where things are in terms of your B2C business? And then what's a reasonable medium-term target as you continue to flex that efficiency on the marketing side?

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

Our direct business is about two-third of our bookings in our consumer business come direct. Now obviously, some of that is from our loyalty program, some of it is just travelers coming back direct. And we're always looking for where can we bring in travelers from outside of our ecosystem, what channels, where do we need to be present because you really do want a balanced set of where you're getting your travelers from. But today, two-third is direct.

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yes. And I think what we've seen in the recent quarters is conversion in our direct channels has started to tick up. And while it's not necessarily where we want it to be, and we see room to continue to improve, the dynamic of seeing it go in the right direction is positive. I think both for whether it's our site or whether it's our apps, there's a lot of benefit that the team has been driving, and we feel good about that.

I think overall, you kind of mentioned traffic. And I would just say we did see good traffic in Q3. It was nicely ahead of Q1 and Q2. And I think that the teams did a very nice job within the traffic channels, balancing the spend levels and shifting to higher growth, higher returning channels, which is why you saw some of the expansion in the margins, particularly in B2C.

Operator

Kevin Kopelman, TD Securities.

Jacob Seed - *Cowen and Company LLC - Analyst*

This is Jacob in for Kevin. Could you talk more about the acceleration you saw in US room nights? Any drivers to call out?

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Sure. Well, I mean, you saw room nights were 11%. It's the strongest in three years or over three years with some nice acceleration across our main regions and all of our brands as well. So that was high single digits in the US, low double digits outside of the US. Of note, 20% -- north of 20% in APAC, as Ariane called out, and B2C strength in Europe as well. So very nice expansion in line or better than market in many areas, and we feel good about where we stand with room nights. Do you want to add?

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

Yes, I would just say in the US, it was both across the consumer business and the B2B business. So it's really -- it was across the board.

Operator

Deepak Mathivanan, Cantor Fitzgerald.

Deepak Mathivanan - *Cantor Fitzgerald LP - Research Analyst*

So first, Ariane, on partnership with OpenAI and potentially other AI assistants, how are you sort of approaching it strategically to ensure that you get the best opportunity for branding and driving repeat traffic back to Expedia assets while also maybe supporting a seamless booking experience for consumers, particularly if these systems start to become more and more agentic over time. How are you balancing the trade-offs?

And then second question, maybe for Scott. The preliminary commentary on 2026 margin is very helpful. Can you talk a little bit about the primary investment areas for next year so we can kind of get a sense of the scope of these investments?

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

So we're thinking about these partnerships as great ways to attract people to our brands. As I said, there are really two things that we need to do. One is all the work on Answer Engine Optimization and making sure that not only are our brands showing up when people are having conversations, but also that the content that's showing up accurately reflects the strong value propositions of our brands. So that's one thing that we're spending a lot of time doing. And then the second is these direct integrations that then drive traffic back to us.

And as anything we do, it's critical that the travelers have a good and seamless experience when they get handed off over to us. So look, as I said, we were one of the launch partners with ChatGPT. The teams worked really closely together in getting that integration together, and that's the approach we will take as opportunities like this arise. I would just end by saying it's a fast-moving space. I think this is an area where it's really important to be on your front foot, getting learnings, experimenting because a few months down the road, it may look different than it does right now.

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yes. Deepak, to your question on '26. I mean, we'll go deeper on Q1 and '26 guidance in February, but a couple of things for '26 to maybe underpin what you're looking for. In '26 and the longer term, you should expect us to continue to focus on our core three strategic priorities that Ariane talked about in her script for the last year. We're going to invest in our growth opportunities across our businesses and continue to focus on operational efficiencies, including our focus on marketing leverage, cost of sales and overheads. So that will kind of frame out if you think about where we're going to invest and where we're going to get productivity, but we'll go deeper next quarter.

Operator

Naved Khan, B. Riley Securities.

Naved Khan - *B. Riley Securities Holdings Inc - Equity Analyst*

Two questions from me. One on Vrbo. Ariane, how do you feel about the growth in Vrbo in the US relative to where the market is growing? Did you -- are you growing faster or in line with the market? And then the second question I have is just on the outlook for the fourth quarter. So there is some amount of uncertainty around government shutdown and the impact potentially on price and whatnot. What are you baking in, in terms of your guidance? And how should we be thinking about that risk?

Ariane Gorin - *Expedia Group Inc - Chief Executive Officer*

Yes. So just on Vrbo in the US, Vrbo all up, we grew bookings and room nights in the quarter, and we believe we maintained or perhaps even grew our market share in the US.

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yes. So Q4 guide, let me talk a little bit about that and then touch on the government shutdown and the flight cancellation dynamic. So first off, just to level set again, the GBV and revenue growth target for Q4 is 6% to 8% with 2 points of margin expansion, and we feel good about that. We feel confident we can hit that. The October remains strong.

So similar to Q3, we got out of the gate strongly, and we feel good, but we are very clear, and I think everyone is clear that the lapping gets tougher in November and December. In fact, we saw a 6% to 7% increase in November and December last year. So we expect that there's going to be some dynamics where our growth will start to slow.

When we're thinking about the next few weeks, and we're all -- let me step back for a second. As part of guidance, we always try and make sure that we are prepared for a dynamic environment and events like these. And so we try to some extent, make sure that we've seen the latest, we're factoring those in, and we're moving forward in a way that's clear. And that would include in how we deploy marketing funds or how we make investments or cut costs. The market remains dynamic. And in the US, just to be clear, we haven't seen a change in trend yet, but we're watching very carefully, and this weekend will be a critical one as we head into that.

So we're watching the government shut down very closely. And as I mentioned in my prepared remarks, our outlook already reflects the stable trends we saw in October, factors in the 6 points of lapping from the prior year acceleration in November and December. And we're always thoughtful about our guide and how we factor in room for unknowns like this type of thing.

So within our construct for Q4, we feel good that we can absorb Air in particular, because if you think about Air, Air Q3 -- revenue for Q3 to put it in context, was \$101 million or around \$300 million year-to-date. And it remains our major -- and Air remains a major priority for us to continue to expand our presence, both on a stand-alone basis as well as bundling.

But with already one-third of our revenue booked from Air in Q4, even a significant reduction in \$100 million run rate for Q4, we should be able to absorb all or most of that in our outlook. So we factor these types of things in when we think about guidance, particularly in dynamic environments like this.

Naved Khan - *B. Riley Securities Holdings Inc - Equity Analyst*

(inaudible - microphone inaccessible)

Scott Schenkel - *Expedia Group Inc - Chief Financial Officer*

Yeah. No, no, the other thing I'd just add at the end there is, look, as Ariane mentioned, the key differentiator for our business is being there for the traveler along their whole journey.

So as customers go through the next couple of weeks or hopefully shorter, we're there when something goes -- doesn't go as planned. So we'd like -- while we, like everyone, hope for a fast and safe resolution of the situation, no matter what, we'll be here for our travelers.

Operator

Tom Champion, Piper Sandler.

Thomas Champion - Piper Jaffray Inc - Analyst

Just curious if you could provide us an update on kind of the international in the US travel dynamic and maybe particularly from Canada and if that's normalizing and kind of your outlook into next year?

Ariane Gorin - Expedia Group Inc - Chief Executive Officer

In terms of corridors, look, it was healthy across the board. Inbound travel to the US was nearly back to levels of last year, not quite, but it was nearly back to levels of last year. Europe to the US growth year-over-year has recovered from the second quarter. APAC to the US has accelerated from the second quarter. Canada volume into the US remains pressured, though it did improve as the quarter progressed.

Operator

At this time, I will now turn it over to CEO, Ariane Gorin, for any further remarks.

Ariane Gorin - Expedia Group Inc - Chief Executive Officer

Yes. Thank you all for joining today's call and also for all the questions. We delivered strong results this quarter ahead of our expectations. As we enter the final quarter of the year, we have strong confidence in our ability to execute and to create value for all of our stakeholders as the global one-stop travel marketplace for every traveler, every partner and every advertiser. Thank you all.

Operator

Thank you all for joining today's call. You may now disconnect your lines.

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