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EXPE.OQ - Q4 2020 Expedia Group Inc Earnings Call

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OVERVIEW:

EXPE reported 4Q20 YoverY revenue decline, excluding the impact of contra-revenue related to third-party travel insurance, of 62%.

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PRESENTATION

Operator

Good afternoon. My name is Katrina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Expedia Group Fourth Quarter 2020 Conference Call. (Operator Instructions) Thank you.

I would now like to turn the call over to Patrick Thompson, Senior Vice President of Corporate Finance.

Patrick Thompson - - Senior Vice President of Corporate Finance

Good afternoon, and welcome to Expedia Group's financial results conference call for the fourth quarter ended December 31, 2020. I'm pleased to be joined on the call today by our CEO, Peter Kern; and our CFO, Eric Hart.

The following discussion, including responses to your questions, reflects management's views as of today, February 11, 2021 only. We do not undertake any obligation to update or revise this information.

As always, some of the statements made on today's call are forward-looking, typically preceded by words such as we plan, we expect, we believe, we anticipate, we are optimistic or confident that or similar statements. Please refer to today's earnings release and the company's filings with the SEC for information about factors which could cause our actual results to differ materially from these forward-looking statements.

You will find reconciliations of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's Investor Relations website at ir.expediagroup.com. And I encourage you to periodically visit our IR website for other important content.

Unless otherwise stated, all references to cost of revenue, selling and marketing expense, general and administrative expense and technology and content expense exclude stock-based compensation. And all comparisons on this call will be against our results for the comparable period of 2019. Please note that depreciation expense is now reported in a separate line item, and prior periods have been restated to reflect this change.

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

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

Thank you very much, Pat, and good afternoon, everybody. Thank you for joining us. I'll be fairly brief as the fourth quarter, of course, kind of reflected what the rest of the year looked like and so much as it was a bumpy ride. COVID news dominated, of course, everything in travel. And I would say that we saw a mixed world of some optimism coming from the vaccine rollouts beginning mixed with obviously very bad news on case loads across the globe, closures in many countries, restrictions all over the various geographies.

So with that as the background, we're happy to turn the page on the year and move into '21. I will say that on the whole, as you saw in our release, booking trends in the fourth quarter pretty much near the third quarter at about down 60% for total gross lodging bookings, net of cancellations. That did moderate towards the holiday season and the end of the quarter, and we saw that moderate into the high 50s down. And that has -- that improvement has seemed to continue through January. And in the latter part of January, we've seen down in the high 40s.

So the trends are generally good, although very bad overall, going in the right direction. But I would caution everybody that we continue to expect it to be bumpy as this is a story of a thousand different geographies and a thousand different fact sets around the virus and, of course, vaccine rollouts, et cetera.

We did see that improvement overall, driven by Vrbo, not a big surprise. That continues to be a terrific use case with the whole home market being very attractive, family travel being very attractive in that form. And North America generally has been a relative bright spot, of course. Our relative strength in North America certainly helps us in that.

So we continue to hope and expect the vaccine rollout to drive consumer confidence and drive things forward. But we certainly are not trying to predict what consumer sentiment will be as the buyers changes over the ensuing months. So we continue to expect a bumpy ride. We are watching for what governments are doing, what the rules may be on international travel or things like travel passports, et cetera, with the goal just of making that process as seamless as we can for our travelers and getting people back moving again. We know there's a lot of pent-up demand, and we certainly want to serve it as much as we can.

With that market background in mind, in the fourth quarter, we were investing more heavily in marketing. This was intended to get ahead of what we thought would be the coming demand from the vaccine rollouts, but it was largely focused certainly on the upper funnel brand marketing side on Vrbo, where we knew there was a lot of momentum. And as I've said before on these calls, we are using this moment to try to drive as much brand recognition and long-term value into the brand over time. So we pushed into Vrbo.

On the performance marketing side, which we view as more of a quick twitch muscle. We have continued to be relatively conservative. Again, we saw lots of closures happen across the globe. Those closures drive massive cancellation spikes. And they can make performance marketing very unattractive very quickly when it goes the wrong way. So we have been relatively conservative.

And in that vein, we have actually removed Vrbo from Google's vacation rental meta product. Again, our focus is as much as possible on driving direct traffic, driving incremental profitability from all our performance marketing. And as we see opportunity to remove unprofitable activities, we do that. And as we leg back into a more normal market, we think we'll be able to drive more into the upper funnel, more direct traffic and be much more calculated in performance marketing.

On the rest of the marketing side, and this is really about brand differentiation and geographic differentiation, I've talked about this before, but we continue to focus on driving whatever brands make sense, wherever they are in the globe. So for example, we have leaned heavily into our Wotif brand in Australia, a company we bought years ago. It's a very strong domestic brand in Australia, particularly associated with domestic travel, which has been the primary use case. And we're seeing good reaction from the market by doing that. And we are looking at that everywhere. That goes for Vrbo as well, which is not a global brand. It has strength particularly in North America, but there are parts of Europe where we have other brands that are stronger. Australia, we have another brand called Stayz that's stronger. So we are leaning into those and seeing good growth across all our alternate accommodation brands in our strong markets.

Longer term, I would just point out that, in addition to driving that brand neutrality, if you will, we are also intending to drive alternative accommodations through our OTA brands. We haven't -- we've been saying that for a long time. We are now highly focused on doing it. It's not ready to roll yet. We do, do it, but it is not -- the consumer experience is not yet where we want it, but we are highly focused on driving that in the future. And that will be the way we attack markets where we don't have an existing Vrbo or other alternative accommodation brand.

And then finally, we continue to do work on the marketing side on just brand differentiation and segmenting the market. And Brand Expedia, our biggest pool of OTA brand, will be rolling out in the spring with a new campaign focused on essentially the complete trip. Brand Expedia is the most complete OTA, and we are going to focus on people who are trying to book multiple things, more complex trips. We think there's a big opportunity there. And the brand has not sufficiently landed that message over the years. So we are optimistic about our new approach to that.

On the other side of the house and perhaps the most important place we are investing our time, energy and calories, which we've talked about frequently, is the tech platform. That continues to be a key focus of ours. I just want to point out, this is an area froth with opportunity for us. It will be years of mining that opportunity. 2021 is an important year where we expect to have significant delivery on important steps forward on simplifying our tech platform. And we are keenly focused on that, along with being focused on turning ourselves into a Tier 1 tech company and looking for and building systems to find and retain and recruit great talent and retain our great talent that we have and build Tier 1 tech enterprise that focuses keenly on solving consumer problems and our business partner problems. And we think we're well on our way to that.

And finally, I'll end with something that's a little less easy to calculate by revenue or margin, but I think it's equally critical to the success of our enterprise going forward, which is that at the tail end of this year, we re-landed, reset our company mission, purpose and values with an emphasis on travel being a force for good, bringing people together, broadening horizons and strengthening connections. And we think, obviously, in this time and place that the U.S. and the world is in, that is obviously an important role we play in the world. But we want to bring that to everything we do, everything we do in the product, and really express that through the experience.

And in doing that, we also acknowledged as a company that what we do has impacts on the environment, and we are refocusing ourselves on effects that travel creates on the environment, particularly and initially around tools and information to help our travelers and help our suppliers make better choices to help drive better outcomes for the environment so that's an important push for us.

And then finally, we've made some bold, ambitious goals for ourselves around diversity and inclusion in terms of our workforce. And it really goes beyond our workforce because we really want to express that through travel as well. There are many people who have challenges in having successful travel outcomes. We have not done enough to help all people in that. And we want to drive that through everything we do every time we roll a product out, every time we think about building a product and the consumer experience. And we intend to drive that through the business.

So with that, I'll just close by saying expect things to be bumpy for a while. I don't think this is linear, what we've been going through. And I don't think we should expect it to become linear. We are optimistic that when consumer confidence comes back, when people feel confident that the vaccine rollout is going well, that they will be able to travel. We clearly see demand, and I think we're just going to power through it. And when consumers are ready to travel, we're going to be there.

And with that, I will turn it over to Eric. Thank you.

Eric Hart - *Expedia Group, Inc. - CFO*

Thanks, Peter. Thank you, also, for joining the call as well. Coming into 2020, we've talked a lot about driving margin expansion as being one of our key priorities, and we're pleased to have made significant progress in a number of areas along those fronts.

The first I want to touch on is on a fixed cost basis. We talked since start of the year a range of \$300 million to \$500 million. We upped that during the year last year and then upped it to \$700 million to \$750 million range. We now believe that we will be at the higher end of that \$700 million to \$750 million range for fixed cost savings relative to our 2019 exit rate. We have achieved approximately \$675 million on a run rate basis. And we expect to realize largely all of the cost savings by the end of 2021.

As mentioned previously, when projecting for, do keep in mind that we will have annual increases and expect to invest in areas of the business where we see attractive opportunities as well.

On the variable cost of revenue side, we remain on track for over \$200 million in annual savings based on 2019 volume levels. The 3 key drivers are improved economics through our payments platform, expansion of our conversations costs and lower variable cloud costs as well. Similar to the fixed cost initiatives, we expect to realize largely all of these variable cost savings by the end of 2021. Although given the costs are volume-based, the savings will not be fully evident until we reach more normalized business levels.

Shifting to our Q4 results. I wanted to start by providing details on 2 onetime items that distorted our P&L and reduced adjusted EBITDA by approximately \$65 million.

First, we recognized approximately \$125 million of contra revenue related to third-party travel insurance due primarily to higher pandemic-related cancellations. We restructured our commercial terms and recorded the expense in Q4 so that we will not impact our unit economics of those products and also our P&L going forward. Excluding this impact, the Q4 revenue decline improved by 4% to 62% year-over-year. We continue to believe insurance products are a key part of our offer and also provide terrific customer experience and protection for them going forward to continue to -- we plan to continue to invest in that area. And when you look at 2020, the insurance line of business was profitable despite the adjustment that we made and despite substantially less revenue.

The second one time change was a favorable adjustment to personnel costs. Given the impact to our business in 2020, we decided to shift cash bonuses, which we accrued at 50% throughout the year to equity this year for the vast majority of our employees. As a result, in Q4, we reversed approximately \$60 million of bonus expense that accrued in the first 3 quarters of the year. The related cash savings will come in Q1 of 2021 when bonuses are typically paid.

We recognize the majority of this bonus benefit and overhead expenses. Excluding the bonus accrual reversal, overhead expenses declined 31% year-over-year in Q4, similar to the year-over-year decline in Q3. The bonus reversal had minimal impact on cost of revenue, which declined 47%, and the disposal of Bodybuilding.com provided approximately a 5% benefit.

Moving generally on to bonuses. We also made the strategic decision this quarter to shift our compensation structure away from annual cash bonuses going forward with the vast majority of our fully funded annual bonus program being converted to salary. We anticipate approximately \$50 million in extra quarterly payroll costs starting in Q2 of 2021 relative to Q1 2020, mainly due to this change.

Moving on to marketing efficiency. We have been investing more in brand spend, Peter mentioned that, to drive direct traffic at the top of the funnel, while at the same time, operating at higher ROI in variable channels. We believe this approach, along with the benefits of unifying all of our retail marketing data and technology, will enable us to be much more strategic in how we balance volume, profitability in both the short and the long term.

As Peter mentioned, we leaned particularly heavily into additional brand marketing to Vrbo to take advantage of the demand in alternative accommodations, and we have continued to prudently wade back into performance marketing, where we see demand. Overall, the efficiency initiatives we've executed during COVID will enable us to emerge from the disruption leaner, faster and with improved margins.

In total, adjusted EBITDA was negative \$160 million in Q4. And when normalizing for the 2 nonrecurring items I just walked through, it was negative \$95 million.

On to free cash flow. It is typically negative for us in Q4 due to seasonality of our profit and working capital and as such was negative this quarter as well, Q4 as well, 513 negative -- negative \$513 million on a reported basis.

Moving on to cash. We ended the year with total unrestricted cash and short-term investments of \$3.4 billion, which is about \$1 billion lower than we ended Q3. During the quarter, we repaid the remaining \$650 million outstanding on our revolver which accounted for the majority of the change in cash. We head into 2021 in a strong liquidity position, with the \$3.4 billion in cash and an essentially untapped \$2 billion revolver. As the business recovers over the next few years, we remain committed to deleveraging back to our historical capital structure.

Turning to 2021. While we remain optimistic about the vaccines and look forward to travel recovering, as Peter mentioned, visibility on what the recovery will look like and near-term trends remain low at this point. Given the current trends and typical seasonality, we do expect a significant adjusted EBITDA loss in the quarter. As a reminder, Q1 is historically the lowest revenue and profit quarter of the year.

In terms of 2021 forecasting, just to give you a bit of insight on costs, overhead costs are the part of the P&L where we have the most visibility. We expect overhead costs in Q1 to be similar to Q4 before the impact of changes to the bonus accrual. We expect overhead in Q2 to step up by approximately \$50 million, principally due to the shift away from bonus compensation that I mentioned earlier and a lapping of temporary COVID-related savings from 2020.

In closing, while there is considerable uncertainty remaining on what the recovery will look like, we feel good about where we are from a margin expansion. We feel good about our liquidity position. And we're confident that we're taking the right steps to accelerate in the recovery.

With that, thank you, and Katrina, we're ready for our first question.

QUESTIONS AND ANSWERS

Operator

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

Eric James Sheridan - UBS Investment Bank, Research Division - MD and Equity Research Internet Analyst

Maybe 2 follow-ups on alternative accommodations. When you're seeing the strength there, can we get a little bit better sense of whether that's coming through the branded sites and apps for what's already in the marketplace? Or is that coming through the core Expedia brand? Can we understand a little bit better how you're thinking about conversion and including more alternative accommodation inventory within the Expedia brand? Or do you think that might be as you optimize for outcomes as demand returns?

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

Yes. Thanks, Eric. Happy to address that. So just to be clear, the vast, vast, vast, virtually all of the success in alternatives and Vrbo has been through the branded Vrbo sites or, as I mentioned, some of the sub-brands that are specific to countries. We have a very modest business in the alternative space that happens through our OTAs. It has been a less than satisfactory product that we are working on aggressively, but it is a small, small part of the business.

We do believe, though, that in time, that can be an important part of the business, particularly when you think about markets where Expedia or Hotels.com or any of our OTAs might have strong brands, but Vrbo is basically nonpresence as a brand. So we think that's a scenario where being

able to pipe that through is really valuable. We think even in markets where they overlap, there can be use cases where customers are coming into Expedia or another brand and could absolutely want an alternative accommodation and want to see that option revealed as against hotel and other kinds of options.

And then I would just add that -- well, you didn't ask it, I think there's -- we believe there's a big opportunity for alternative accommodations through our B2B partners, which it is not currently really piped to do. So those are all opportunities to continue to expand on the alternative space and I think to take advantage of what we have in terms of supply, but what we don't necessarily have on the brand side to drive it in certain markets.

Operator

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

Naved Ahmad Khan - *Truist Securities, Inc., Research Division - Analyst*

Yes. Maybe just a quick clarification. On the lodging trends that you called out here in terms of January into like 50s and maybe 40s recently, is it fair to assume that most of the improvement versus Q4 is driven by the U.S. and not much of a change in other geos?

And then with respect to Vrbo, you guys used to break it out separately, and then more recently, you've been consolidating. Is this -- does it make sense for you to, again, start to share more details with investors so that maybe they can -- we can give more credit to performance in that -- in the business?

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

Okay. I'll take those questions in order, I guess. First of all, the -- I would say the lion's share of the improvement, yes, is due to strength in North America compared to other places. I mean it is a tale of many stories, and different markets have come back at different rates. But I would say in terms of any big drivers, North America has generally retained more willingness to move around, people engaging in more travel. Less -- we haven't had government shutdowns in the way that we have in other places. So yes, I would say North America is probably the bulk of the story over that month or so.

The answer to your second question, no, we don't intend to break it out, not because we don't want to make all of your lives easier but because we believe it's one business. Essentially, as I mentioned about piping Vrbo content through the OTAs, we view this as if another product that a traveler will want. It's not -- obviously, it's having a great moment. And we're glad that we own it, and we believe we can ride some of the success travelers being exposed to the product type in a new way. But we view it collectively, and we view it as one business that we're driving whatever the best outcome for the consumers and driving that outcome across all lines of business. So we think this separation has been artificial effectively, and we're not planning to report it that way in the future.

Operator

Next question, we have Brian Nowak from Morgan Stanley.

Brian Thomas Nowak - *Morgan Stanley, Research Division - Research Analyst*

I have 2 guys. The first one, curious to hear about how have your conversations and your relationships with your hotel suppliers sort of evolve throughout the crisis and then the recovery? And sort of what are some of their tension points that you're really hoping to solve better through the recovery than maybe you have in the past?

And the second one, I know you've done a lot of great steps to sort of improve data sharing and sort of optimize processes. Any new examples of areas you found where you weren't sharing data enough or sort of other ways in which you've been able to optimize the business more coming out than you were previously?

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

Yes. I might sort of smash those 2 together a little bit, which is relations have been quite good with the hoteliers. I think we're all aligned and hoping and working towards helping them come out of it. We've renewed a number of agreements without much debate.

And I think our focus has been really on doing more to help the hotelier, as you alluded to, through data. But some of the examples include things like optimized distribution, which we've talked about before where we essentially become the wholesale distribution point for a number of hotels. We've done this with a few chains now. And that gives us an opportunity to help them clean up the marketplace, where they might have a wholesale market that is perhaps being abused by some players and driving the wrong outcomes for them. And with our technology and with our approach, we can help clean that up for them. And we think that's a net positive for both of us.

Similarly, we have been sharing more data. We're working hard on new tools to provide more data to drive real-time decision-making for hoteliers so that they can optimize revenue in better ways. And of course, we're doing our part to try to drive and improve the product so that we can sell higher value rooms, room types, up-sell product, et cetera, so that we can help drive ADRs and overall revenue.

So there's a lot of work going on. I think we're tightly aligned in wanting the hotel to come out and be successful. I think the hotels understand and appreciate the role we play in a rebound. And it's been quite a good environment and good relationships all around, and we're all working hard to try to rebuild the market.

Operator

Your next question comes from the line of Lloyd Walmsley from Deutsche Bank.

Lloyd Wharton Walmsley - *Deutsche Bank AG, Research Division - Research Analyst*

Two, if I can. First, it sounds like you're making some big moves like pulling Vrbo out of Google metasearch. As you think about performance marketing coming out of the pandemic, any other big shifts you'd call out strategically? And kind of how do you see direct marketing spend as a percent of revenue maybe when we get back to a normalized environment?

And then just second one, if we go back to when you took over, I mean, Barry had some pretty harsh comments about the work-life balance at Expedia. Curious, what have you all been doing to kind of change the culture at the company. How is morale holding up given a tough travel environment and all the changes going on? Anything you can share there would be great.

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

Yes. Well, maybe I'll tack those in reverse order. Thanks for the questions, Lloyd. I think morale is quite good. I think people are energized. I think in the early days, there was fear of survival and all those kinds of things. We're long past that. I think we are trying to drive a performance culture, a culture that gets a lot done. And we've shrunk the company considerably in terms of manpower. So people are working hard. People are tackling big issues.

This replatforming of our entire tech stack, it's a big undertaking, and there's a ton of work going on there. There's a ton of work going on with suppliers, as we just talked about; ton of work going on for the customer. So I think morale is quite good. We're trying to build a culture where

people who want to win and want to thrive feel inspired to do their best work. And I think that's what we're doing. Does that appeal to everybody? Maybe not, but that is what we're driving. And I think there's a lot of energy behind that.

So I would say morale is good. People are engaged. People feel good about our new mission and our purpose, and I think we're all aligned behind that.

As far as the performance goes, and Eric, jump in, if you want to as well. But I would say, we're very sharp-minded about it in the sense that we're happy to invest in anything that drives incremental profitability, good revenue and good profits. And we're not keen to kind of continue on a path of just continuing where investment was not productive. So we didn't find investment in the Google VR product particularly incremental. We didn't think the customer experience was particularly valuable. And we are, of course, also in a period where we're seeing great direct traffic for Vrbo. So we found other ways and, in our view, more profitable ways to drive traffic.

As far as the rest of performance marketing goes and performance marketing for hotels and meta, et cetera, the different products for the consumer, it's a different proposition and clearly has historically had value for the consumer. I think we feel like we will continue to play at it. I think we will continue to improve at it.

I've talked before about how we've smashed together our performance marketing teams, where we're wiring all the data streams. We're pushing towards multi-brand algorithms and things we haven't done before. So we think we're going to get much better at it in terms of being able to optimize for the portfolio and continue to use it hopefully very effectively.

But right now, there are no -- I wouldn't say there are big tectonic shifts in what we're seeing as to how we would apply that money other than we're going to be very clinical about it in terms of looking for and driving the best veins of profitability we can, wherever they are.

Eric Hart - Expedia Group, Inc. - CFO

Yes. This is Eric. Thanks for the question. And just on the marketing as a percent of revenue, just to touch on that, we're not at this point solving for a specific percentage. Ultimately, we're in this COVID period. And so we're, as we talked about, wading prudently into performance channels and then investing in brand where we think it's appropriate, particularly on Vrbo.

But as Peter mentioned, there's just a ton of work that's going on, for example, in performance channels, leveraging our overall data, multi-brand bidding, as Peter just mentioned, but ultimately trying to understand as well lifetime value and incrementality as well. And so those are new muscles, in particular, given the scale -- the way we're running the business now and the scale of the data that we're aggregating together. So I think there's more to learn there.

And then on the brand side, that just has a very different profile than performance in that it has longer return periods. And so we're confident to invest behind the brands, obviously doing that behind Vrbo. We expect to do that even more in some of our other brands as we narrow in on specific value propositions in line of product behind those and then the marketing associated as well.

So a long-winded way of saying we don't have a specific percentage that we're solving for now. But we're certainly spending a lot of time trying to improve on the marketing side and the value proposition and related marketing.

Operator

Your next question comes from the line of Kevin Kopelman from Cowen and Company.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Great. I just had a couple of follow-ups. So I was hoping to drill into some of the improvement that you've seen in the January trends as the declines have gone from the high 60s to the high 40s at the end of January. So what do you see as the key drivers there? And did you get a sense if the decline in COVID-19 cases and the vaccine rollout were having an impact on the consumer demand there? And then what kind of -- within that, what kind of growth rates did Vrbo experience in January?

Eric Hart - Expedia Group, Inc. - CFO

Peter, do you want me to take this one? Go ahead.

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

Jump in anywhere, Eric. But I would just say, Kevin, that broadly, as I mentioned, the improvements were in North America, and Vrbo was a strong part of it. It's hard to say whether it's correlated to the improvement in cases. That tends to be -- sometimes you think everyone should be feeling better and it doesn't show up and sometimes you feel the opposite. But I would say that Vrbo tends to be long-dated. The summer, obviously, is a strong opportunity for the Vrbo use case, and we're seeing people lean into that as the year opens up.

And so by and large, the blending towards that. We have seen some improvement in conventional lodging, again, particularly in North America. But I would say, it's a little bit of a Vrbo continued health and even amplified health going into the summer months, et cetera, and a little bit of improvement in the more conventional spaces. And I don't think we'll break out exactly how good it was, but Vrbo has been strong. Eric, I don't know if you want to add anything.

Eric Hart - Expedia Group, Inc. - CFO

Yes. The only add that I'd add to that is just around -- and you touched on it, which is the booking windows and what we've seen is a bit of a bifurcation, which we've talked about before. But historically, during COVID, we saw a shortening of booking windows. We've continued to see that on the conventional lodging or on the hotel side of the business. But what we've seen is Vrbo elongate again and look much more like we would have expected to see in any other year, which gets back to the summer bookings that Peter is mentioning.

And so I suspect -- we know there's pent-up demand. People want to travel. And I think people have confidence that they're going to be able to travel at least domestically using the U.S. as an example. And so they're starting to book those summer months now.

Kevin Campbell Kopelman - Cowen and Company, LLC, Research Division - MD & Senior Research Analyst

Great. Very helpful. And then on kind of a follow-up on the last question and along those lines. How has -- how should we think about ad spend kind of playing out? You've seen the bookings picking up as a base case, should we just kind of assume that ad spend is trending in kind of similarly on a year-over-year basis? Or do you see having to spend ahead of demand in that kind of rebound scenario? How has that played out at the start of the year?

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

Yes. I think we definitely don't want to be behind. So if anything, we'll certainly invest in getting -- capturing the demand. I think, as Eric mentioned, there's this funny thing that happened where stay dates and book dates were much closer together for a large part of 2020. If '21 starts to look more normal, which it seems to be doing, then we'll start to see that expand again. And I think in that vein, you may see us investing in capturing that demand even if that demand is not staying for some time.

And so you may see some dislocation, I would expect, or bumpiness in the numbers in terms of when the marketing spend is versus when the revenue recognition is, but we certainly don't plan to be back on our heels. We -- as I mentioned, we have a strong campaign that we're working on for Brand Expedia. We've got -- we've certainly consistently stating we'll stay in the Vrbo upper funnel work on brand; Hotels.com, the same. So I think you'll see that continue, and we will continue to lean in as we believe the market and demand is opening up, no question.

Eric Hart - *Expedia Group, Inc. - CFO*

And yes. And Kevin, just one quick add on that. Hopefully, it's helpful as well. And Peter mentioned it briefly, but just around the revenue recognition, just a reminder for everyone, when it comes to lodging, that we recognize that revenue at the time of stay, generally speaking. And as we mix into Vrbo with their longer booking windows, particularly in the summer, then you're going to see more of that revenue on the transactions that we're -- a lot of those that we're seeing now, get pushed out into the later months.

So then when you go back to look at marketing, it's a bit bumpier, to use Peter's word, just because we're spending now elevated in Vrbo in lots of different ways where the revenue may be more down the line.

Operator

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

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

Great. I guess, just wondering if you're seeing anything in your traffic for your core businesses that give you any optimism on the summer, very front-end planning or through some of your other sites that you have. Are you seeing any uptick there as people start looking forward to the summer?

And second, do you have any thoughts on how you're doing market share-wise in the industry right now, especially in alternative accommodations? But just overall, how do you feel about how your market share is trending right now?

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

Yes. I'll take that one first and then me come back to the other question. But I would say, to be specific in the question, in alternative accommodations in our strong markets, we believe we have seen very good share and share growth relative to our competition. But I would say, overall, each of -- we and our main competitors have different good guys. We have a very good guy with Vrbo and the use case and where we have supply and where people are wanting to travel.

But conversely we also and conventionalizing have a heavy -- a strong presence in major cities and international travel, both of which obviously have been hurt equally. I could point to any one of our competitors who has the inversion of that and has -- is better in secondary cities, et cetera, maybe better in alternative accommodations in markets where we don't even have a presence. Some of those markets have shut, some of those markets are strong. It's a tale of many stories.

So I think as it comes to share, we think we're doing well, where we're strong, certainly in alternative accommodations and overall in North America. But there are certainly competitors who have better solutions for certain use cases, and they're seeing benefit from that. So I think it's really -- I would caution anybody to get too excited about share one way or the other during this because the dislocation really creates a bunch of unique stories. And you can -- I would think one could get fooled by a trend that's not a trend. It's just a moment of how people are using travel right now. So -- but we have gained and we're happy about that and -- in our strongest markets and, in particular, in VR.

I think your other question was on traffic. The answer is we see a lot of booking. It's not entirely clear that it's all for the summer or for -- which -- not -- I don't think there's anything that tells you there's something specific people are searching for, for specific timezone. But we are seeing interest in the holidays already at the end of next -- at the end of this year. It's still relatively small, but stronger than it had been a year ago.

We're seeing trends like that. Some are very strong in alternatives are still highly muted in conventional lodging. And I would just say there are a lot of things we're seeing that contra being what people think is going on. We see a lot of interest in cities in terms of quick share and people looking -- not necessarily booking, but there's plenty of people looking to travel to cities and other things. So I think it's -- I think that the looking is not yet indicative of a pattern of booking, but there's tons of interest for sure.

Operator

Your next question comes from the line of Brian Fitzgerald from Wells Fargo.

Brian Nicholas Fitzgerald - Wells Fargo Securities, LLC, Research Division - Senior Analyst

One housekeeping maybe and then one other one. Just to confirm the -- that 500 bps of contra revenue related to the COVID claims and the third-party insurance, that was not added back to EBITDA, I think I heard that.

And then trivago talked yesterday about the trend towards apartment hotels and chains getting into that as transient and group business may struggle to come back or slower. Any thoughts on how hotel inventory might lean into that leisure or long-term stay for pneumatic workers or your thoughts on how you guys would benefit from that trend?

Eric Hart - Expedia Group, Inc. - CFO

Yes, I can -- thanks for the question. I can take the first part. It was contra revenue, as mentioned, and it was not added back to EBITDA. I think I just gave in the upfront portion just what the EBITDA would have been if we would have taken that out or adjusted for it.

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

And I'll just -- yes, Brian, I'll just say, haven't given a tremendous amount of thought. I think we've seen hotels historically try to play at in the alternative space in different ways. Hasn't been a particularly large part of anybody's business. No man's made it into a big success, really. I think many of these trends, I think most of the hotel industry thinks, will be relatively short-lived, then they'll be back at it in a conventional way.

But I'm sure we'll see experimentation there. I don't think it particularly favors or disfavors us. We play in virtually every product class. And if we can help hoteliers sell those kinds of longer stay, apartment-type stay products through Vrbo, we're certainly delighted to do that. But I don't think for us, it's a trend one way or the other that will -- that is particularly good or particularly bad. I think it's just maybe a slight shift for some hoteliers, but not a big difference for us.

Operator

Your next question comes from the line of Stephen Ju from Crédit Suisse.

Stephen D. Ju - Crédit Suisse AG, Research Division - Director

Okay. So Peter, maybe go back in history a little bit. I think part of the pain point for Vrbo in the past when it was a public company was to make sure you don't get de-ranked in the search results because of duplicative content, I think as you try to integrate, say, Abritel's inventory onto

Homeaway.com or Vrbo.com. So as you work to integrate the Vrbo content itself onto your OTA properties, is a potential traffic loss or degradation something that we need to worry about in the future?

And I guess, what do you think you need to do to address from a consumer experience standpoint for that seamless integration of inventory, so that to the consumer, they are more willing to pick either/or or maybe more the alternative accommodations on Brand Expedia?

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

Yes, thanks. It's a good question. And to the first part, I think, yes, there's lots of stories in the panels of those of us who play in the world of Google, et cetera, of being de-ranked and things and a lot of learnings gone into that. Obviously, we'll have to watch that as we roll it out.

But I think you shouldn't think of this necessarily as a peanut butter approach. Not all lodging is sort of parallel. So if someone's looking for a hotel to people in Paris, offering them an apartment for 10 people, not necessarily a solution or a house in south of France. So I think there will be different solutions. I think we're working through what the consumer experience should be. Some of our competitors have done well putting those things next to each other. But again, it's particularly when they can sort of match up relatively the use case, so the small apartment versus the small hotel room.

When -- right now, Vrbo is largely oriented towards the whole home experience mostly in secondary places, vacation places, et cetera. So it's really a question of as you get those opportunities and you want to go to the beach somewhere, how do those things line up, how does the product reveal it in an attractive way and not confuse the consumer, et cetera. So it's really an end-to-end. So we have to do, which is what -- how does the consumer want to digest it, how can we service the right things for them and then how do we give them the benefit of the information and the service and all the things one might be used to in a home rental that are different when you rent a hotel room essentially.

So there's a lot of work going into that. I don't have an absolute answer for you, except we know that there is demand. We know that there's a question of getting discovery in places where we don't have brands. We know there is demand from our B2B partners. So we know there's opportunity, but we still have work to do to make sure the consumer experience makes sense.

Operator

Your next question comes from the line of Douglas Anmuth from JPMorgan.

Douglas Till Anmuth - *JPMorgan Chase & Co, Research Division - MD*

Peter, you mentioned that Vrbo isn't global and you have other VR brands in Europe, for example. Just trying to understand what you're doing to build out Vrbo more there or are you content letting some of the other brands do more vacation in those geos?

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

Yes. I think where we have strong brands, we are perfectly content to drive those brands. I think we have opportunity to drive them with the same techniques that we have created and made effective in Vrbo, whether that's from our creative, our approach to performance marketing, et cetera, et cetera. So there's no reason we can't take a brand like Stayz in Australia and drive that through. And there is no little benefit to absolutely turning it into Vrbo.

That being said, there are some markets where we have converted to Vrbo, and we are going to invest behind that brand. And we'll do that in some places as well. So I think you'll see a combination of places where Vrbo is the right answer. You'll see a few places where we're content to use some strong local, long-dated brands that have real brand awareness and stickiness. And then as I say, we'll use our other OTA brands and other things to drive it in places where neither exists and where we don't think it's worth trying to start a brand from scratch.

Operator

Your next question comes from the line of Richard Clarke from Bernstein.

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

Just at the top of the call, you mentioned using alternatives in B2B more. Just wondering what that will look like. Is that going to be a sort of white label product? Or how would you see that coming through?

And if I can just ask another one. With the charge you've taken this quarter and the pandemic in general, is there any sort of change in the way you think about the flexibility of that to consumers that's changing kind of looking into next year and the uncertainty continues?

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

Eric, do you want to take the second one first?

I'm sorry.

Eric Hart - *Expedia Group, Inc. - CFO*

No. Yes. I'm sorry, I'm happy to take it. Well, we're constantly trying -- I think we've got a number of initiatives to build out more insurance and assurance products. It's one of the areas that we think is -- consumers want it. They're telling us they want it. We have some offerings there. We think we can expand those offerings. We've got a great team that's going up and executing against it. So I would say generally, we think it's a great product for everyone all around, and we're going to invest around it and innovate around the offerings.

From a flexibility standpoint, that's certainly something that's top of mind for us. I don't think it necessarily dips into insurance itself. But of course, we've looked at the terms associated with those, and those have been modified relative to the situation that we're in, i.e., whether you have COVID or been exposed and so on and so forth. And so there's adjustments that have been made to those policies to make them relevant.

But generally speaking, we're trying to make sure that we give offerings. We communicate flexibility. Most of our products have flexibility built to them in one form or another. And we're making sure that we're promoting those on the site so that customers can make appropriate decisions. I hope that's helpful.

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

Yes. Thanks. And I'll just say, Richard, on -- as to B2B through our -- excuse me, alternatives to our B2B partners, I'll remind everyone that we have a quite healthy B2B business. It takes many forms, including powering rewards programs, powering regional OTAs in places where we are not, in some places where we are and even offline travel agents. And we think there's a lot of use cases in all of that for alternative accommodations. We have not been wired to do it, goes to our tech platform that I talk about frequently. And -- but we believe when we can do it, there will be significant demand opportunities in those vectors.

So it could take the form of a white label product in certain kinds of circumstances. It could equally take the form of being part of a broader template where we power everything in our rewards program, and that's flights and conventional and alternative. Right now, because the alternative product has not been strong even in our own OTAs, we just don't have a product offering that's particularly compelling for our B2B partners. So that's coming as we build the flexibility into our platform and as we master the alternative accommodations on our own OTAs. We just see it as an opportunity in the space.

Eric Hart - *Expedia Group, Inc. - CFO*

Yes. And just to add to that, I mean, there's certainly demand from our B2B partners for that inventory. And as Peter said, that can get distributed based on different types of B2B partners, whether that's a rewards program, et cetera. That could be template. That could be API. And we just got to make sure that we have, on the template, the right experience; and on the API, the right data that folks need to be able to incorporate it into whatever site or however we're powering it.

Operator

Your next question comes from the line of Mario Lu from Barclays.

X. Lu - *Barclays Bank PLC, Research Division - Research Analyst*

So just curious to hear your high-level thoughts on capital allocation with \$3.4 billion of cash on hand. Do you see this environment as one where you might find some value via M&A, where it might make some strategic sense despite still waiting for a recovery? And the second one, you guys are removing Vrbo listings from Google. Any color you could provide on what percentage of bookings came from that historically?

Eric Hart - *Expedia Group, Inc. - CFO*

Yes. I can take the first part, Peter, which is, I think our focus continues to be for the moment on stabilization and recovery. I think we've gotten through the stabilization, and we're in that recovery phase, if you will, and call it, the early innings of that. So I do think that we feel like we're in a great position, as mentioned, with the \$3.4 billion plus the \$2 billion on the revolver.

But I -- from a capital allocation standpoint, I want to make sure that we can invest behind our brands and feel comfortable we'll be able to take whatever level of risk we decide to do so that we can be relevant in that recovery and be in that conversation with consumers.

When it comes to the debt side of the house, which you didn't ask, obviously, we paid the \$650 million off on the revolver to get that back up to the \$2 billion. But at this point, I would say we're in that recovery phase and not obviously looking to return capital. But down the line, I suspect we will want to take down our debt, get back to investment grade, all the good things we've talked about in previous quarters. And then we could talk about how do we think about returning capital.

Now more specifically on your question on M&A, I would say we're more in an opportunistic posture at this moment. We've got a strong legacy in M&A as a company, as you will know. We are certainly out and having conversations and seeing what might be opportunistic, if you will. But right now, I would say we're primarily focused on ourselves and making sure that we get our data platform right, we got our marketing right, we can invest behind the business.

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

Yes. And I would just cap that answer with our historical M&A, which was successful also, is what made us as complicated as we were as a company. And we are keen to make sure we don't make those mistakes again. It doesn't mean we will never buy something, doesn't mean that we won't find opportunities, but we are not -- that is not going to be the core of what drives us.

And then on the Vrbo question, Google VR was not particularly significant. And we concluded that it was not additive, which is why we made the move we made. And so it's not -- it wasn't like we set a substantial part of our business and just took a shot across the bow. We just believed it was not a particularly critical piece of our business and was not adding value, and we made a decision.

Operator

We will now take our final question coming from the line of Andrew Boone from JMP Securities.

Andrew M. Boone - *JMP Securities LLC, Research Division - Director & Equity Research Analyst*

One of your alternative accommodation competitors talks about kind of the exclusivity of their listings. Can you talk about any of your efforts there to expand your alternative accommodation listings? And I think you guys historically have talked about lack of inventory in more price-sensitive areas. Can you just give an update there?

And then secondly, as we're seeing the first signs of recovery, can you just provide an update on your marketing tech stack and whether you guys feel like you're ready to lean in there?

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

Sure. So I would say on the listing side, we and our competitors have a fair amount of exclusivity. Sometimes that's because of geography, sometimes that's because it's tight. It's a bunch of different things that drive it. We're not spending a huge amount of time trying to figure out how to just -- how to make our inventory entirely exclusive. We're trying to spend our time building the category. I think that's probably broadly true for them as well.

As far as increasing inventory, it hasn't been a particularly great market for doing that between home turnover, between people living in their second homes and other things. It's been a challenging time. We have seen some compression in certain markets that we serve, and we are focused on expanding inventory in those places.

But because of the challenges broadly in the market, we haven't just been willy nilly trying to grow supply all over the place. So we are focused on the places where we know there's lots of demand, where we know there's compression as a first order of business. And over time, as the market normalizes and we see an opportunity to attract good quality content, we'll be back in the market doing that.

As far as far as the tech stack goes on marketing, we're making lots of progress every day. Are we where we want to be yet? No. Are we going as fast as we think we can? Yes. And we're making improvements every day. So I think, again, converting all of our brands to one common tech stack, one common set of data, one common set of analytics, is a big list. We've been doing it throughout this crisis, and we're still doing it. And -- but we are beginning to reap real benefits.

And I think by the time,-- I think you said now that we're coming out of it, I'm not sure how to measure that. But if we are indeed coming out of it, it's probably not going to take 10 months or 3 weeks. It's going to take a while over the course of this year. I'm sure we'll be coming out of it, and hopefully, we'll be back to some more normal level. And I hope we will be in a good place in terms of the tech stack. We are a long way ahead of where we were and we will continue to make progress every day. So it depends when that recovery comes, but we're making really good progress.

And I think that's it. So again, thank you all for your time. I hope you all stay safe. Hopefully, we can all get back to traveling soon. You probably miss it as much as we do, and look forward to talking to you again. Take care.

Eric Hart - *Expedia Group, Inc. - CFO*

Thanks, everyone.

Operator

Thank you, presenters. This concludes today's conference call. You may now disconnect. Have a great day.

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