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EXPE.OQ - Q4 2021 Expedia Group Inc Earnings Call

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## OVERVIEW:

EXPE reported that 4Q21 total revenue declined 17% vs. 4Q19.

## CORPORATE PARTICIPANTS

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**Jon Charbonneau** *Expedia Group, Inc. - IR Director*

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

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## PRESENTATION

### Operator

Good day, everyone, and welcome to the Expedia Group Q4 2021 Financial Results Teleconference. My name is Emily, and I will be the operator for today's call. (Operator Instructions) For opening remarks, I will turn the call over to IR Director, Jon Charbonneau. Please go ahead.

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**Jon Charbonneau** - *Expedia Group, Inc. - IR Director*

Good afternoon, and welcome to Expedia Group's financial results conference call for the fourth quarter ended December 31, 2021. I am 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 10, 2022, 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 work 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](http://ir.expediagroup.com). And I encourage you to frequently visit our IR website for other important content.

Unless otherwise stated, any references to positive revenue, selling and marketing expense, general and administrative expense and technology and content expense exclude stock-based compensation.

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

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

Thank you, Jon. Good afternoon, everybody, and thank you for joining us. Let me start off with a few broad comments about what we experienced in the fourth quarter, which I would say, even though we had to deal with a meaningful Omicron wave and a bunch of disruption in travel, and of course, that was not great for travelers worldwide, it was encouraging in many ways. And I think what we observed most notably is that the issues that involved were really issues of inconvenience. There were border shutdowns. There were planes out of service because pilots and crew were sick, things of that nature, but there was far less consumer fear over traveling. And really, it was an issue of the inconvenience of the health issues.

What we believe will come from this, presuming the next waves continue in ever lightening way, is that the world has essentially gotten accustomed to the pandemic. It will enter perhaps an endemic stage. And governments and industry, et cetera, will adapt much more easily as the next waves come, and in turn, this will continue to disrupt travel less and less. And certainly, the consumers have remained willing to travel throughout. And with the return of staff to the air and the relief of border issues, we are seeing a solid return to travel. Eric will take us through the numbers and the trends, but suffice it to say that we are pleased to see that bookings have strongly rebounded since opening, anywhere the Omicron has tapped out. And certainly, we're seeing that broadly across our biggest markets.

I've talked before about mix effects, and I won't belabor those, except to say it continues to be real. Certain areas are doing better than other areas, more challenged than other parts; geos -- certain geos are more difficult than others. But in general, we feel good that big cities have not recovered as much yet, and that is a good guide for us. International travel is still yet to return as strongly. That is another good guide for us. So we feel like directionally, the things that are -- will be coming back generally benefit us and we're looking forward to the days of those returns.

With that said, I'm not really prone to doing retrospectives, but we are starting to focus much more on the future of our business and what we're going to deliver instead of how we manage COVID day-to-day. And I thought it would be useful perhaps to just reflect on where we've been and where we've taken the company over the last couple of years since we entered COVID.

So first of all, the thing you've all observed and clearly have liked is that we've been able to simplify and make the business more efficient. And it's easy to observe and it's important -- obviously, there are more important things to our long-term future, but I'll spend a minute on simplification.

We've been able to use our push for new technology solutions, our push to reorganize the company in a more single-goal fashion. We've optimized third-party spending and tools and many things, and we've become a much more efficient enterprise, in fact, today. And I should mention, as you know, we've also shut down or sold off certain businesses that we believed were noncore.

As a result of that, we're running the company now with roughly 10,000 fewer people than we were at the end of 2019, which is a great credit to the people who are here, who have driven a ton of hard work towards that goal of really running the company in a smarter, more efficient, better way.

So that's been the big push there. And I would say that as we still face challenges of hiring people. We're like all the tech companies, but we have had a great influx of terrific talent. I think that momentum is increasing. And that mix with the great talent we have has really created -- put us in a great position as we move forward. And as we start to move to really being focused on delivery of new tech, new experiences and improving the traveler experience as our core fundamental goal.

But as I say, efficiency is not the story here. Efficiency is a great thing we've been able to achieve, but the real story of our future is about what we're doing to drive the business forward.

So just to break that into a few parts. On the demand front, as you know, we've combined our multiple brands working in silos into one unified house of brands with a singular focus on driving travelers to the right product at the right time. This strategy is built on superior creative, making the brands make sense together, buying together in an efficient way and, of course, using performance marketing along with brand to really drive a more efficient way of bringing travelers into our universe.

We believe we are well on our way to that journey. Hope you enjoy our Super Bowl ads in a few days. I think they're terrific. But it is a unified strategy that's about really delivering end-to-end, a great demand generation strategy that is efficient and we believe can drive better outcomes in the future for us.

We also believe, as you know, that loyalty will play an important role, and we are bringing our loyalty programs together. And that will begin to take shape over the course of the year and I think, pay dividends for years and years to come, and we're excited about that.

On the technical front, now this has really been the heart and soul of what we've been working on, which is getting to a singular platform so that we can drive a velocity of innovation for travelers and for our partners and really take travel to the next iteration for the online app-based travel business.

We've been on this journey for a while. We've talked about how we're moving multiple stacks into a single stack. That's more than just like efficiency story or anything else. It's really about building it at a set of micro services with APIs that can be externalized and can more easily be used internally to drive these great outcomes for our travelers and our partners. And when I say travelers, I really mean all travelers because for the first time as we build this out, we will be able to create innovation in our stack that impacts all our travelers, our B2C travelers, our B2B travelers all in the same moment. So when we make an improvement in the checkout path or we make an improvement in the app, all those benefits will inure to the traveler wherever they come from, and it will be able to drive real impact instead of the siloed way we used to have to work our way through it.

So I think it's a really important step for both how we run our business, how much innovation and velocity we can bring to the travelers and partner experience, and frankly, just generally, how we innovate and drive the entire industry forward.

We're really excited about what's coming. It's a big year of delivery for us, but there are amazing things coming, we think, for the traveler, from the discovery elements to the service elements and everything in between. And again, that will inure to the benefit of all travelers in our ecosystem.

And finally, on the B2B side, which is really now an amalgamation of our B2B partners who drive demand and our partners who bring us supply, and more and more, we see that as one universe. We combined those teams into one group that essentially can have a 360 relationship with any partner, and therefore, any partner can benefit not only from selling into our platform, but also taking services out of our platform. And we think that approach is going to be really powerful. We've kept very close to our partners over the pandemic. Obviously, we've kind of shared challenges and opportunities. And we've renewed a lot of deals across lodging, air and car. And most of these deals have come with expanded capabilities where we've delivered more for our partners and we believe help them drive their own businesses to better outcomes.

We're excited about this partnership approach. It's no longer just about supply or just about can we drive them in, it's really about can we make our partners' businesses better, and we're keenly focused on that.

So to close, I'll just say we never count COVID out. We've dealt with a fair number of body blows over the last couple of years, but the industry has proven and resilient. I think demand has proven even more resilient, and we expect a significant rebound. And while we're excited to ride the rebound, the important thing for us is really delivery. We have to deliver on all the promises we've made about how we're going to improve the product, traveler experience and how we're going to continue to run an efficient and effective business.

And I would just say, ultimately, we believe in the reigniting of travel. We think we're going to play a central role in it. We're not content to just sit back and ride it. We want to be important in driving the future of the industry. And we believe we can bring that not only to travelers, not only to our own business, but to the entire travel ecosystem, and that is what we will be focused on this year.

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

**Eric Hart** - Expedia Group, Inc. - CFO & Chief Strategy Officer

Thanks, Peter, and thanks, everyone, for joining the call. I too am optimistic around the travel recovery this year. And along with Peter, I'm excited to see us deliver more for travelers and partners.

With that, I'd like to start by providing an update on booking trends. While we witnessed a notable pullback due to Omicron in December, which continued into January, I'm encouraged by the improvement we have seen in recent weeks.

Overall, in the fourth quarter, total gross bookings for all products, net of cancels, were down 25% versus Q4 of 2019, a slight sequential improvement versus third quarter. And when compared to 2019, we have continued to see a mix shift towards lodging, and more specifically Vrbo versus air. Given the continued volatility of the recovery due to Omicron, again this quarter, we are providing monthly detail on our total lodging bookings net of cancels, which includes hotel and Vrbo. For October, it was down 4% versus 2019. It was down 5% in November, 27% down in December, down 11% in January, with trends improving throughout January and with us up versus 2019 in the most recent weeks.

From a geography perspective, this improvement has been driven by the U.S., followed by EMEA, while APAC and LatAm are lagging.

Now on to the P&L. Total revenue was down 17% versus Q4 2019, roughly the same level of decline we saw last quarter. As a reminder, we closed the Egencia deal on November 1. In the quarter, Egencia contributed \$29 million in revenue. Note this does not include revenue tied to the 10-year lodging supply agreement our EPS business entered into with GBT.

Revenue margin for the fourth quarter was 13%, down from 16% last quarter, largely due to typical seasonality. On sales and marketing, direct spend in Q4 was roughly \$875 million, down 12% versus Q4 2019 levels compared to 19% decline last quarter. As you know, Q1 is a seasonal low point for EBITDA given the timing disconnect between higher marketing expense ahead of summer travel and lower stayed room nights in Q1. And this timing impact could be further amplified this year due to lower sales in Q1 due to Omicron and our spending into the recovery based on the recent improvements in trends we're observing.

Moving on, overhead costs, excluding Egencia, in both periods was up \$23 million versus Q3 2021, primarily driven by the lower ability to capitalize labor in the fourth quarter. Looking ahead to this year, as we compete for great talent, we anticipate higher-than-normal annual compensation increases, which take effect on April 1.

In total, adjusted EBITDA was \$479 million, up \$1 million versus 2019 levels despite revenue down 17%. This marked the third consecutive quarter of positive adjusted EBITDA and our highest Q4 EBITDA ever. And I believe the fourth quarter performance further illustrates how we are running a much more efficient business versus prior to the pandemic.

On to free cash flow, which totaled roughly \$142 million in Q4 on a reported basis. Excluding the change in restricted cash, which is primarily driven by the change in Vrbo's deferred merchant bookings, free cash flow was \$35 million.

Now shifting to the balance sheet. In 2021, our debt refinancing yielded approximately \$80 million in annual interest expense savings, and paying off the full \$1.2 billion in preferred stock last year saves us approximately \$115 million in annual dividend payments -- payouts. More recently, we informed the holders of our 650 million eurobond last week of our intention to pay off the notes at the beginning of March, which is 3 months ahead of their maturity date. This allows us to save approximately \$5 million in net interest expense this year or \$19 million annually while also improving our leverage ratios. Overall, we are pleased to have maintained our investment-grade rating through the pandemic and remain committed to deleveraging while also looking for ways to further reduce our cost of capital.

In closing, despite the continued impact of pandemic in 2021 and most recently from Omicron, I'm encouraged by the continued progress made last year to reshape the company to further improve our financial position going forward. As mentioned, I am optimistic about the travel recovery this year and excited to see how this year unfolds for the company.

With that, Emily, we are ready for our first question.

## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question today comes from the line of Kevin Kopelman from Cowen and Company.

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

First, I want to ask about the loyalty program. Can you give us more details on when you expect to roll out the consolidated loyalty program, how that might change? And if you can give us a sense of how important your loyalty programs are today and maybe where they could go.

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

Yes. Thanks, Kevin. Well, I'll say a couple of things. First, this is an ongoing effort. As recently this quarter, we just revamped our Expedia loyalty program to create a construct that we think is better for travelers and kind of directionally in where we're headed more broadly for a loyalty program. But there is a lot of migration going on. We're migrating the old stack, as I talked about. We're migrating the brand front ends onto one set of rails. And we are rebuilding our loyalty platform to accommodate one broad loyalty construct that can serve all the different brands.

And so the big difference that's coming is really that the loyalty program will cover all our brands, all our products, and you'll be able to earn and burn across all of them, which is a great innovation. All the research shows that it's the most important thing to customers is having the breadth of products. And so we think it's going to be a great win for them. All the details are still being worked out on exactly how that policy and planning will work, although I think the Expedia construct is more or less in line with where we're headed in terms of how points work, et cetera.

But it will take the better part of this year to get all those pieces lined up. And of course, a rollout of the loyalty program, including converting loyalty people over from one to another and adding it to front ends that haven't had it in all of those pieces, it's not just like you flip one switch. It's a switch after switch after switch.

So I think it will take us the better part of this year to be -- really have the product where we want it and be starting to convert everybody over to it. But -- so I think next year will be the big impact year of the whole stickiness and totality of loyalty. But I think it's a big year for us as we build into it. And hopefully, we'll be moving some of the program over that in the course of this year.

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

And if I could just ask about the latest trends. You noted that lodging is now up in the last week versus 2019. Can you talk about how that might play out given cities haven't fully come back yet and international travel is still certainly not fully back given the restrictions are not up yet?

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

Yes, sure. Well, I think, look, there's a lot of benefit in that for us in the sense that historically, big cities and international have been an area of strength for us relative to some of what we've seen during COVID like domestic travel into tertiary markets, et cetera, which have been historically weak.

On the other hand, we benefited greatly. Vrbo has been super strong. It's benefited from the leisure travel and the longer-term travel of vacation around, some people liking that during COVID where they can isolate with their families, et cetera. So it's a little tricky to predict. But I would say broadly, the stuff that's left to come in many ways favors our strongest areas. So I think that's positive. But the mixes have been hard to predict over time. And so I don't want to get too -- get too much into prognosticating, but I think we've got some good runway ahead in where the puck

is going. Mixed 2 metaphors there. But -- and we feel good about that. You never know what the back-end unintended consequences are, but I think being positive now and with everything that's left to come is making us feel pretty good.

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**Operator**

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

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

Great. Two questions, please. Maybe just one on the comeback in travel. As it continues to build in '22, how do you see the mix of direct versus paid traffic coming to your platform? Can you maybe just touch on the opportunities between the different levers that you have to pull between CRM versus branding versus performance channels?

And then maybe just another one on capital allocation. So you continue to deleverage and also you have kind of gotten preferred out. How do you kind of see the scope for M&A opportunities here and maybe other use of capital, like share buyback? Just maybe talk about that a little bit.

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

Sure. I'll go first and be able to come back in travel. I think -- I'm glad you mentioned CRM. We have so much opportunity to improve our direct relationship with consumers. We've historically fished out of the big ponds of Google and Meta, et cetera, and brought customers in, and candidly, not done a good enough job in retaining those customers and making it sticky and making sure the experience is good.

We are keenly focused on bringing travelers in now, making sure they enjoy all the benefits of what we have to provide, member pricing, loyalty, et cetera, and that they get a better app experience, better CRM which we are rebuilding like everything else. And we really focus on retaining them and keep them coming back as often as possible directly. It doesn't mean we don't expect to use performance marketing in all the usual channels, but we want to be able to derive much more long-term value from those customers we acquire and then in turn keep.

So we hope very greatly that the denominator will be expanding. We'll just be bringing in more travelers, and that more and more of them, we will be able to create direct relationships where they are coming back. They recognize the benefits we give them in price and service, discovery and everything else. Obviously, there's more to come there because as the products improve and the experience improves, it all gets easier and that flywheel presumably turns faster. But that is our focus, and that is what we hope to derive from this. We're not projecting what percentage will be what, but it is very closely tied to all the work we are doing to drive the traveler experience.

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**Eric Hart** - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Great. And I'll take the second part of the question around capital allocation. I know we've talked about it in previous quarters and I think our message remains the same. We are keenly focused on cleaning up our balance sheet, if you will, given the disruption that we've experienced over the last couple of years. That includes delevering the business. We've talked about the preferreds that we paid off. We've talked about the Eurobond we're paying off, and we're going to continue down the path of delevering which, of course, can take the form of growth in the underlying EBITDA, but also -- and pay down debt as appropriate.

We want to lower the cost of capital as well. In my prepared remarks, I talked about a couple of areas where we are quite significantly reduced the cash flow required to service, whether it's the preferreds or different debt instruments. We're keenly focused on maintaining investment grade and quite proud that we've been able to do that over the last couple of years given the amount of disruption that we've had. And then a slight other lens on that as well is, if Peter's talking about the growth opportunities ahead of us and the opportunity for the company and want to make sure that we are enabling that as best we can so that we can go as fast as we can in achieving that vision.

Specifically on 2 components that you mentioned on M&A. We're always open for business. Even during the heart of COVID, we were open for -- to business to a certain extent, but obviously, that wasn't necessarily the right opportunity or the right time as things coming up, but we are looking at different opportunities opportunistically and a few themes that we're thinking about.

And then on buybacks, I think you can look at our long history. It's something that we have done regularly and consistently. I fully suspect that we will get back to that at the right time and something that we will think about over the coming months. But again, we're going to observe COVID. We're going to clean up the balance sheet, if you will, and all the components that I've talked about, that's where we're focused right now.

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

Yes. And I would just add just to close that one out that on the M&A front, we're much more focused. It has to fit with our long-term strategy, our platform strategy. It has to integrate. We're not going to be just buying things because they're good deals, we're going to buy things that fit our long-term strategy to drive what we're trying to drive if we buy it.

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**Operator**

Our next question today comes from Eric Sheridan from Goldman Sachs.

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

Maybe just teasing out more on the capital allocation front, but bringing it back to margins. Peter, Eric, can you help frame for us -- I know you've laid out before that you've exited sort of the efficiency program that you laid out from a couple of years ago. And there's obviously investments against your ambition you feel you need to make in '22 and '23 to capture some of that growth.

But how should investors think about elements of where there is leverage driven by volume that can flow through the model over the next 12 to 24 months versus areas where you want to take incremental margin or incremental leverage and invest it back because you're playing sort of the long game over the next 3 to 5 years against the bigger travel opportunity? Just some of the variables that could flex margin leverage one way or another in the next 24 months.

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

Sure. Thanks, Eric, and I hope you're well as well. We -- the way I think you should think about it is this, we have -- as I mentioned, there's a lot of work still going on in building the platform to getting the platform right. When those things are right, they will drive further efficiencies.

So when you say we've exited the program, it wasn't like a program with a goal that we ended and said we're finished. This is an ongoing drive for us to create the most efficient enterprise we can, which is not about taking people out, it's about being efficient in how we work, what we work on, how technology aids us, et cetera. There are lots of places where, for example, I'll give you one, service. We continue to build the best service technology, I believe, in the industry and scale it consistently. We are building skills across the enterprise, so that customers can service their own issues themselves and easily. It's an ongoing process. But the benefit of the efficiency borne of those improvements has not really been seen because COVID has had this enormously elevated service demand on the industry. So as we normalize out to historical propensities for service calls, et cetera, et cetera, there is real benefit down the road on how we do that.

Now you alluded to there are places we are "investing" in. I mean that is really just our way of saying we are pushing to drive this innovation and drive us across these bridges as quickly as we can. And if we have -- if we need to invest more in people and resources to drive some of this innovation, we will do it. But the innovation in and of itself will drive incremental efficiency.



So I don't think this is a long-term like -- this is a long-term sideways to down -- or I should say, expanding margin story, we believe, driven by the technical efficiencies that the product will drive. And if there's some bumps in the road as we get there, we have to flex up to drive on innovation faster, we may do that because we think it's the right thing for the traveler and for our partners. But overall, there's still much more opportunity to become more efficient over time for margins to expand, and we believe that's what we will continue to drive towards.

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**Operator**

The next question comes from the line of Lloyd Walmsley from UBS.

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**Lloyd Wharton Walmsley** - *UBS Investment Bank, Research Division - Analyst*

Two questions, if I can. First, any update on just the marketing integration consolidating data and ops into a unified group, like any early learnings there? And then secondly, can you kind of help us parse out the strong ADR growth? Like how much of that is a function of HomeAway growing in the mix? And I guess, more importantly, like what are the puts and takes of how you see ADRs migrating over the course of the year? Like is this still a big tailwind because like-for-like channel pricing is going up? Or there's like a shift back to core hotel to offset that? Like how do we think about ADRs over the course of the year?

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

Thanks, Lloyd. I'll take the first part. And by the way, watch the Vrbo ad this weekend. So you start saying Vrbo instead of HomeAway. But the -- on the marketing integration, we've made a lot of progress in moving along on the marketing integration and the data and analytics and measurement, et cetera. I'd say we're virtually all the way there, not quite all the way there, and the learnings have been coming.

Eric and I see reports weekly about where we're winning, where we're learning things where we're testing things. There's no silver bullet, like "Oh, we found this, and it's going to win everything." It's really a game of 1,000 different wheel tests across 100 geos across 5 product groups, et cetera, et cetera.

So all of it is incrementally getting there. We're feeling quite positive about a number of things we've been testing and learning. We've pushed heavily into mobile and other areas where we found the opportunity. We're pushing into new products, in social products and other things where we found opportunity that is sort of tantamount to performance marketing in certain ways. So there's a lot of interesting learnings going.

The reality is until things normalize, it's going to be really hard to measure us on this because you can't see what normal is anymore. And even for us, it's hard to see what normal is. And a lot of these new tests, new algorithms are learning on these very volatile traffic patterns because of COVID, et cetera.

So I think we feel good about the technical progress the teams are making about the way they've plotted out their course of learning and testing. And there's no question it will inure to our benefit. But being able to identify a single thing or a single win or how to quantify it is really hard to do at this moment. So I think you have to wait for the collective good to roll through our P&L, and hopefully, you'll see it as things normalize.

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**Eric Hart** - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

And on the ADR side, I'll give a sense for a look back and then a look forward. Obviously, I won't go into the details, but to help you frame it. When you think about the historic -- core ADRs, they continue to be strong across both hotel and Vrbo. I think you can see that across some of the other industry companies or metrics. And then our mix, in particular, has benefited from more weighting to the U.S., more weighting to Vrbo, more weighting to vacation destinations where there typically are higher ADRs. So our high ADR performance, if you will, is a mix of both core ADRs and the mix that we've had over the last quarter and prior to that as well.

Moving forward, we do expect core ADRs to remain strong. We think this is going to be a strong rebound travel year. We obviously have lots of bookings already going into the summer period where we can see the ADRs are holding up quite well. And -- but I do think you need to look at when you look at the -- take the core into the projection of our business. Presuming some of our other areas of our business come back, it's still going to be a mix. We're going to go into some primary markets that have some higher ADRs. We're also going to mix into Europe a bit more, particularly APAC when it starts rebounding, LatAm, so on and so forth, more in the hotel and presumably Vrbo, not predicting any degradation in Vrbo but just from a mix perspective. And so as you project that ADR for us, I expect that will normalize to a certain extent over time. But again, it's on the back of 4 underlying strong medias.

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**Operator**

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

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

Great. First question, can you help us at all with summer booking paces, whether lodging or in total, versus either '19 or last year?

And then second, I don't know if you can help us at all, but just thinking about Vrbo as a percent of the total. I imagine it's grown a lot over the last couple of years. But if you could help us think about where that could be today.

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**Eric Hart** - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

Yes, I'll take that one. Thanks for the question, Justin. So Vrbo continues to perform well overall. We see strength against 2019. We see strength against 2021. Obviously, I'm not going to go into the specific details of those, but the brand and the product category are both doing quite well.

When you asked about summer bookings or paces, we're seeing ourselves up against both of those time periods that I just mentioned, both 2019 and 2021. So it's not only that the category is slowing up, but I think it continues to win share, if you will, in this market.

Hotel on the other side is recovering. It's not quite at the levels that we would have seen in the past. We suspect if the recovery continues that there'll be a catch-up somewhere along the line, we don't know.

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**Operator**

Our next question comes from Deepak Mathivanan from Wolfe Research.

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**Deepak Mathivanan** - *Wolfe Research, LLC - Research Analyst*

Great. Just a couple of ones. Can you talk about the hiring plans and head count levels for 2022? Do you feel like you're in a good position with respect to head count right now and generally well prepared for demand recovery across various products? Are there also any notable wage inflationary trends that you're seeing currently?

And then second question on variable marketing efficiencies on the direct marketing side, can you help us maybe in a qualitative way to kind of understand how much efficiencies you're seeing on the direct marketing side because of all the brand rationalization efforts and things you have done in the last couple of years? It's kind of easy to see the fixed cost savings. But given the moving pieces of the business, particularly due to geographical mix and product mix, it's a little bit kind of tricky to see the direct marketing efficiencies that you're seeing. So maybe you can qualitative touch on that, that would be great.

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

Yes. Thanks, Deepak. I'm glad you find it tricky, too. We also do given everything that's moving around. And as I mentioned, it's one of the challenges in trying to quantify for you or anyone or ourselves exactly how much progress we've made in terms of marketing efficiencies because the traffic patterns are so volatile, mix is so different, et cetera.

I mean you just take something like air as an example, the air market has changed considerably. It's largely domestic, very relatively international. We've historically been strong in international. We've improved how we're approaching it, as you say, across our brands. We've consolidated spend. We've learned a lot about the multi-brand approach, but it hasn't really paid off yet in, for example, international air because there's just not much of it.

So the short answer is, we made a huge amount of progress as I said, in terms of tools, in terms of data, in terms of insights, in terms of being able to test and learn across a much broader swath of our enterprise. But being able to quantify really how much better it is in basis points or something that would give you a projectable marketing efficiency is still very challenging.

We believe it's much better. We believe we are in a much better positioned to capitalize on the future state of normalcy. But there's no question the tools and the capabilities are in a much better place, but we have to pay that off and demonstrate it to the world and ourselves. And it's in process, but it's going.

So I think we feel very good, but we acknowledge it's difficult for you all to see it. And we're just going to have to wait for things to normalize, so you can see the benefit.

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**Eric Hart** - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

And I'll take -- thanks for the question, Deepak. I'll take the first part on the hiring plan. And I'm going to expand your question so just more overall from an overhead perspective and just perhaps help a bit on some of the moving parts as you look into next year and to help you model it out.

I think first off, in Q4, we were a bit lighter on expected people costs. We do have plans to continue hiring around some of our initiatives as we go into next year we want to if -- do recall that we had 1 month of Egencia in Q4. So that was something that you would want to model out, which I discussed in my remarks.

Our T&E discretionary, et cetera, continues to be lower than once we start getting back into normal business travel in whatever form or shape that takes, et cetera, going forward.

On your question on wage inflation, as I mentioned earlier, I do expect that we will have higher-than-expected compensation increases this year. And again, as a reminder, this will go in on April 1.

And as we talked about on previous calls, there are some investments that we are making in the business. We are excited about a number of different opportunities to accelerate the growth in a number of different areas. Of course, we're being prudent, very positive ROI, going to track those relentlessly along the way, but that could increase to a certain extent as well. Hopefully, that helps you.

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**Operator**

Our next question today comes from Stephen Ju from Credit Suisse.

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

Okay. So I think it's been some time since we've seen these types of metrics, but anything you can share in terms of what percent of the Vrbo inventory has now been integrated into Brand Expedia and the other outlets? I mean, ultimately, you want to present the traveler with more choice and improve the overall shopping experience. I think the last time we talked about this, you guys are still kind of in the experimental phase and trying to see how much of a better shopping experience you could drive. But sort of any sort of perspective on that would be helpful.

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

Yes, sure. Thanks, Stephen. I would say we are still building to it. It is a core part of our plan. And by the way, it's not simply so that we can provide it to our own travelers. It's also so that we can provide it to our B2B partners so that they can provide it to their travelers. So it's a quite interesting and substantial opportunity, we believe.

We do have it integrated. It's not a great integration, but we do have it integrated into Expedia and Hotels.com. The issue has been, it only works among other things, not being a great product experience is what -- the main thing we have to fix. But also, it does not have an approach that works for the properties that you have to reserve and then we have to -- they're not instant book, the ones where we have to go to the owners and see if they are okay for the booking. That is a construct. That is not part of what is currently possible in the Expedia brand or the Hotels.com brand, et cetera.

So it's kind of a 2-part thing. One is we want to improve the product experience for the traveler and make it a better integration, make it easier to book, make the content more usable, easier to understand, so the travelers can make the decisions. And then we want to expand the universe of the type of properties that can be available through those pipes. And that is where the big -- where another big expansion and the idea comes.

Those are both in the works. They will take some time. I would say they're not our highest priority, but they're far from our lowest priority. They're big, important thing. We have teams working on it, and we will -- we expect to continue to see improvement.

We have a lot happening on the front end of the product this year in terms of integrating a number of our brands to the same front-end rails and a lot of opportunity to improve those experiences and roll out a new app construct, et cetera. So all of those -- you have to obviously, order of operations question, but as those things roll out, this experience will get better and better, and we believe will become a bigger feature of the business.

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**Operator**

Our next question comes from Mario Lu from Barclays.

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

First one on cancellation rates. I believe the lodging numbers you provided earlier was (inaudible). So I was just curious, was it much higher in 4Q and early in 1Q due to Omicron? And if so, do you think those that cancel could potentially be a tailwind to future bookings?

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**Eric Hart** - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

On cancellation rates, as you read more in the newspaper, generally, the cancellation rates go up. So yes, we saw cancellation rates go up and particularly in the December time period and the early part of January when Omicron was impacting the business as some people didn't necessarily feel safe and comfortable traveling, and we certainly saw cancellations increase.

If I extend to a longer period of time, obviously, if you go back to 2020, cancellation rates went up exceedingly. They were coming down over time, still elevated relative to historical levels. Just safety concerns people come down with COVID individually and can't travel, whatever else, again, saw it spike up in December and then coming back down again. Following a similar path to what I was just mentioning on the (inaudible).

On the tail end of future bookings, I think you're asking the level of pent-up demand or how many people would postpone, will they rebook if they cancel. I think that's hard to tell. But I would say, just generally speaking, I think everyone feels in a similar way, which is when people can travel, they are going to travel and they're going to travel quite consistently throughout the year if they're able to do so, maybe more than they have in the past. To rebook, if you will, but only time will tell. But I would say we're certainly optimistic.

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

Great. And then just second question in terms of remote work and longer duration stay, the lodging side of business. Have you guys seen that kind of drive bookings already at Vrbo or even the core business? And then how long is the opportunity do you think that is in the long term?

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

Yes. This hasn't been a big theme for us. You've probably noticed on our call. I know some others have a different view of that. It's an interesting thesis and certainly as people have more flexibility to travel, we hope they fill up their flexible time with travel.

In terms of Vrbo, we haven't quite seen the distortion. We've heard others talk about in terms of long stays or things like that. It's moved somewhat, but it's not as noticeable for us. And I think it's an interesting and good potential tailwind if people have more time to travel. But we'll see when people get back to work. We'll see when schools back in, et cetera, how much flexibility everybody gets.

We don't think it matters. We think there's tons of pent-up demand, as Eric says. And if there's more days to be away, terrific. That will be good for us. And I think that will be selective, but a good general trend on some portion of society, and we're looking forward to that.

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**Operator**

Our next question comes from James Lee from Mizuho.

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**James Lee** - Mizuho Securities USA LLC, Research Division - MD of Americas Research & Senior Internet Sector Analyst

Great. So it looks like everybody is expecting normalized travel trends with the mix shift to urban and international markets. And Peter, I was hoping you could comment on this. If home accommodation continues to gain traction in urban markets, how do you feel about your supply in Vrbo? Any plans to increase ahead of demand?

And I guess my second question relating to maybe additional levers in improving efficiency. I know you guys may have talked about this in the past. Will you consider consolidating all your hotel brands under Expedia?

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

Thanks, James. Appreciate the questions. I think on the first question, which is supply in major cities for Vrbo, it's never been a great strategy of ours. It's never been a huge focus of ours. We do have some in some big international cities. Again, I think much less for the one-night stay kind of thing and much more for the family vacation, that sort of thing. We think there's opportunity there, and we will continue to follow the demand trends. And as I've mentioned, we've been focused on not just sort of buying supply across the universe in everything and really being much more targeted and where the demand is and where we can get return for the homeowner. So we'll continue to do that.

But Vrbo is not in the same way like some of the other choices focused on being a replacement for hotels in cities. We have a lot of great hotel partners in all the major cities of the world, and we see them coming back more strongly, and we think that's where the business is going to be for now. Of course, we want to continue to expand Vrbo wherever it makes sense and that we'll certainly look at cities where it makes sense.

As far as the brands, I would say this, it's on the brand team to figure out the best way to consolidate the brands in a construct that makes sense for the traveler. This isn't a construct that makes sense for us or we think it's cool, it's about what makes sense to travelers and why and how they need different products to do certain things. If over time, we conclude that we need fewer brands. I'm not sure it will be all under one, but we may conclude we need fewer more certainly, that we're going to lean into fewer, if that makes sense, we will do that. But that's what the brand team is working on now.

We've got new brand propositions for all our major brands rolling out soon. And I think over time, we will figure out what is right for the traveler. And certainly, as we integrate our loyalty programs, it is going to bring the brands much closer together and put us in a much more simplified position to decide whether fewer makes sense, et cetera, and have everybody still caught up in our web of loyalty and all the good things and good products we bring to the market.

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#### **Operator**

Our next question comes from Jed Kelly from Oppenheimer & Co.

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

Great. Nice work over the last 20 months. Just 2 questions, if I may. Just how should we view Expedia relative to the Google risk going into '22, which is looking like a nice demand environment relative to 2019?

And then Peter, you talked about you really can see nice margin expansion longer term for Expedia. Do you have like a long-term margin target you guys are kind of shooting for above 25%, 30%? Can you help us there as well?

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

Yes. Thanks, Jed. Those numbers sound pretty good. But I would say this, we don't have a number. And that is because, candidly, we are getting smarter about what is possible as we continue to roll out unified technology, unified solutions. We don't yet know the quantum of benefit that you get in conversion and other things that allow you to be more efficient on the marketing side because the product is working better.

There's a lot to learn. I mean I know you all look at the competition and try to reference that. But I think, look, we believe all of these pieces add up to benefits that drive more growth and higher margins. And that's what we're focused on. So as the product improves, as the underlying technology platform improves, as that serves more partners, et cetera, all of those things get better and scale brings efficiency.

So I think we're just going to continue to drive it. It's in our core now to continue to drive it. And I hope those numbers are achievable. And when we get there, we get there. So I don't think it's about putting some random number that we're guessing at what's possible out there. I think we're just driving it as we can.

As far as the Google risk goes, I don't -- maybe I'm saying, but I don't consider it a Google risk. Google is Google. We operate in that market. We do everything we can to optimize that market. And we work closely with them to try to figure out better ways to optimize that market. And we have some interesting ideas percolating at the moment.

But ultimately, as I alluded to, when we pull all those people out of the Google market, we have not done a sufficiently good job of retaining those travelers as long-term customers. And that's on us because of the products, because of competitive issues -- because of all kinds of things. And we are literally addressing all of those things at once.

I believe that each of them multiply each other make us collectively stickier between a better product and better loyalty and broader loyalty and better marketing that helps their traveler understand the benefits we provide and getting them to enjoy the benefits we provide more readily, et cetera. So I think we believe that Google can stay Google. I always say Google is a shark. You should expect the shark to be a shark. It will keep doing what it does. We operate in their marketplace, and we have to do our part of optimizing the marketplace. We have a lot of room to do better, and that's what we're focused on.

And I'm pretty sure they don't want to be in a business of taking service calls and dealing with travelers and actually being a customer company. They just want to be a search engine. So I think we're in a pretty good spot.

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#### Operator

Our next question comes from Tom Champion from Piper Sandler.

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

Peter and Eric, I was wondering if I could ask a question around the new customer cohorts. And I'm just curious whether they resemble pre-pandemic behavior or if you're seeing any new or divergent trends out of your newer customers. And then maybe Eric, for you to ask question around margins. It looks to me like 4Q margins were up 300 basis points, give or take, over 2019. I'm just wondering if that's a good guidance for thinking about the margin potential for the next couple of quarters, kind of the near-term outlook. Any thoughts around there would be really helpful.

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

Tom, it's Peter. I'll go first. In terms of cohorts, again, I think it would be a mistake to draw too much from anything that's going on right now. As I mentioned, patterns are much different, the volatilities and ebb and flow of cancellations and other things are much different. What we're more keenly focused on is looking at cohorts in terms of engagement with the app, how that changes as we make improvements in the product, et cetera. I think there, we're seeing the directional things we hope to see. We have a lot, a lot, a lot more to deliver. So it's early days, but our focus is really on that.

I don't think we've seen any new patterns that are either alarmingly good or bad in terms of how travelers act, how many of them go on to the Google and Meta world versus come direct. I mean, direct -- most travel companies benefited from mix to direct, but that was only because there was less demand in the open seas.

I think as demand continues to rise, there's not really any reason to imagine that, that will be greatly distorted except for the example, we do a good job of, again, getting travelers to the app, getting them locked into our ecosystem, getting them understanding the benefits. So that's what we're focused on. And I think anything else, frankly, to -- it'd be wrong to draw any conclusions based on the volatile times we've been in. So we'll see as things normalize, but we'll let you know if we see that.

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#### Eric Hart - Expedia Group, Inc. - CFO & Chief Strategy Officer

Great. Tom, thanks for the question on the margin side. I'm not going to go into specifics on the number of bps in 1 quarter versus another. But of course, we are pleased to see Q4 2021 standpoint, the margins that we did have relative to the volume where we were down 17% from a revenue standpoint and then from 2019 EBITDA numbers, so pleased from that perspective.

I guess a few things that I would urge you to consider is, one, if there is significant seasonality in the business. So you have to look at Q1 versus Q2, 3 and 4 and if there's a significant different curve from a booked and stayed basis. Booked is obviously driven by marketing and net expense; and then the stayed basis, where the revenue comes from lodging perspective. So just make sure that you're keenly aware of that seasonality. Gave some information earlier around overhead and various components that you can model into the business as well.



And then 2 other quick comments is on the margin, we are going to be aggressive from a marketing spend perspective, as we talked many times in this call already. We are optimistic about this year in the return of travel, presuming nothing else comes out of left field, if you will. And we're going to be aggressive, and we're going to spend into that recovery.

And then lastly, I know we touched on it a little bit earlier. But just from a variable cost perspective, we have -- every time there's one of these disruptions, their long duration of calls with customers with complex issues to sort through and a real cost savings associated with variable costs really can't be seen yet. We are increasingly using technology to solve customer traveler problems, more consistently using that technology. And that's being clouded a bit because of those more challenging call volumes. And so I suspect that we'll see some of those savings come in as we get to a more normal period. So hopefully, that helps you with the modeling.

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#### Operator

Our final question today comes from Richard Clarke from Sanford C. Bernstein.

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

So just a question running into the summer. I guess coming out of the financial crisis '09, the Expedia and the other players probably benefited from a prolonged recovery, maybe too much supply relative to demand. If this summer is very, very strong and we have a lot of demand relative to supply, do you see any danger the hotels or your private rentals play the platforms off against each other a little bit or look to other channels?

And then second question, a little bit more simple. But in Q3, I think you talked about your marketing costs being quite high because of the Delta variant coming very late in the quarter. You could sort of say the same pattern happened here. Omicron came quite late in the quarter. So does that distorted the marketing spend in the quarter at all with committed spend earlier on?

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

I'll take the first one, and then Eric can cover the marketing costs. Thanks for the question, Richard. I would say you could have made the same argument during COVID when there was compressed demand in a number of places. We did not see what you're alluding to in terms of suppliers playing off. I think, as I said, we have a common challenge. We're all working together for every hotel in Miami, there's another one in New York that was suffering and many big chains, et cetera, own hundreds of hotels across good and bad markets. And I think we're all in it together.

As I said in my beginning remarks, we're in it to try to help them optimize their business as much as optimizing ours. And I think there is definitely a shared sense of we can all build this better together.

So I think there will be a lot of demand if there will be some compressed places. I think there will be enough places to go that the demand will find an outlet. And I think we provide unique services in terms of people being able to find things, discover where they want to go, find alternatives, et cetera, and provide a great value for our supply partners, including the many things we do for them beyond just allowing them to supply on our platform or with the partners in demand generation of other products or technology, et cetera. So I think it's my sincere hope that our supply partnerships or our partnerships more generally are going to get bigger and broader and more beneficial to both sides over time.

And this isn't going to be the classical site for who's got a little leverage for the last nickel on a given day. So I don't think we'll see that. I think we'll see everybody trying to benefit from the upward trend and riding it together. And some of our partners will get their direct traffic. We'll get our direct traffic and everybody will do the best they can with those travelers. So that's what I expect.



**Eric Hart** - *Expedia Group, Inc. - CFO & Chief Strategy Officer*

And then, Richard, on the second part of your question on marketing costs, we did see a similar dynamic this quarter as well, just given the Omicron impact, towards the latter end of the quarter, end of December perhaps to a lesser extent, but again, a similar dynamic.

And I would split it again into 2 components. The first is around performance marketing. Those are fine-tuned machines that ultimately are driven by the underlying search demand and whether that's across Meta channels, Google or wherever else. And so as people stopped searching for traffic and/or booking traffic, then the number of clicks and associated marketing expense naturally comes down with it.

On the brand marketing side, we stated, of course, in Q4 through -- all the way through December, so you are likely aware, brand marketing spend becomes much more fixed as you get closer to the time of being deployed. And then secondly is we had a hypothesis is that for each variant that comes along, the impact is going to be shorter, and it's going to be shallower. And that's ultimately what we have seen with Omicron is that we effectively were impacted for approximately a month, maybe a little bit more than that where it was more like 2, 2.5 months with the Delta variant.

So we felt that we should continue to invest in performance as it was there, we would go after the demand and we stay the course on marketing.

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**Operator**

Those are all the questions we have time for today. So I'll now hand back to the management team for any concluding comments.

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

I guess I'll just say thank you for joining us. I hope you all travel this summer, and you know where to find us if you need to travel, and we'll talk to you next quarter. Thank you.

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**Operator**

Thank you, everyone, for joining us today. This concludes our call. Please disconnect your lines.

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