May 7, 2021

Expedia Group

Important disclosures can be found in Appendix

April Lodging Bookings Reach Over 80% of 2019 Levels; Expedia Leaning Into Brand Marketing (Cleveland Research)

Key Takeaways

NEAR-TERM PERFORMANCE: 1Q gross bookings were down 48% vs 2019 levels, improving 20 points from 4Q down 67%. Lodging bookings (hotel + Vrbo) made significant progress through 1Q, led primarily by the US and Vrbo, and progressing from January at half of 2019 levels to March only 20% off. April improved further, again led by the US. 1Q room nights and revenue (reported on a *stayed* basis) made less progress. Room nights were 54% below 2019 (improved 6pts vs 4Q) and lodging revenue was 46% off (improved 12pts vs 4Q), again supported by growth in revenue per room night attributable to higher mix of Vrbo room nights (higher ADR vs hotel) and N America. For context, the U.S. was 80% of total Expedia revenue in 1Q21 compared to 57% in 1Q19. Total bookings remain suppressed by flight bookings, which we estimate were down 60% vs 2019. Air revenue was stable Q/Q at 80% off 2019 and air tickets sold remain significantly pressured.

VRBO: Management noted Vrbo was "in very positive territory" and supporting total numbers. The company believes Vrbo gained share in key markets globally and has recently been focusing on supply acquisition (attracting new hosts) in markets where demand is exceeding supply. Management specifically noted Vrbo hosts make more than Airbnb hosts on average for comparable listings (as mentioned in recent advertising). Looking forward, the company plans to continue "spending more to get the story out there" and has high expectations for a new marketing campaign rolling out in late May. The company is committed to distributing vacation rental inventory through more OTA brands (i.e. Expedia, Hotels.com, etc) as well as funneling demand through Expedia Partner Solutions. The key issue here historically has been properly merchandising this inventory alongside hotels to enable a high converting/frictionless customer experience.

SHIFT IN MARKETING STRATEGY: Expedia communicated a shift in attitude toward marketing spend over the last 90 days. Beginning late 1Q and moving forward, the company plans to "lean into the wave ahead" and believes this is the best path forward even if they may be too early. Put another way, Expedia said they now want to "be ahead of the demand" compared to the prior bias of "leaving some money on the table." Specifically, Expedia has become more inclined to use brand marketing which may not translate into as immediate results, which is evident through a recent Brand Expedia campaign and upcoming Vrbo campaign. Expedia also continue on a path to more efficient performance marketing spend. Management noted 75% of total SEM spend is now on a consolidated tech & data platform, up vs. 15% at year-end 2020. The company believes greater efficiencies in performance spend (operating less in silos, better understanding geos) should free up additional dollars for brand spend. As it relates to talent/people, management noted they are investing here (changed equity/bonus structure) as it is essential to building good tech tools/products to get more efficient.

EGENCIA/AMEX DETAILS: Expedia agreed to sell 86% of Egencia to Amex GBT this past Tuesday, May 4th. Under the terms of the arrangement, Expedia will keep 14% of the combined company which they estimate is worth $750M, implying a valuation of roughly $5.4B. EXPE highlighted 3 core components of the deals rationale: (1) the combined entity provides a "best-in-class" suite of services to corporate customers; (2) a 10 year lodging supply agreement between the combined co and Expedia Partner Services (EPS) greatly enhances throughput on that system; (3) the disposition of the majority of Egencia puts EXPE in a "great position to focus on B2C and B2B businesses and our core technology platform" which allows EXPE to "get simpler" and more agile. Management notes the supply agreement (with EPS) alone would have "generated in excess of $60M in EBITDA at 2019 volumes." The deal is expected to close in 9-12 months.

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Full Conference Call Notes

Current Trends & Outlook

- We have benefited greatly in our vacation rental business and our domestic US business
- Other parts of the business still remain challenged
- Summer looks strong, particularly in the US
    - Booking trends are well above 2019 levels for leisure destinations (beach, mountains, etc.)
    - That goes for both vacation rentals and conventional lodging
- Improvement continued through 1Q
    - Lodging bookings were down high 40%s in late January
    - That has moderated to down around 20% in March and improved further in April
- We still don't know what seasonality will look – fall and winter are still unknown
- Too early to predict how trends will change travel behavior going forward
- Off a very small base, we're seeing healthy demand for the holiday period as well
    - Starting to see it extend away from 0-7 days into more healthy distribution
    - Similar story on the Vrbo side as well
- US domestic travel itself cannot get us back to where we used to be on a standalone basis.
    - We've very strong in big cities and in international travel, neither of which have been doing well
    - US domestic travel is higher than US domestic travel used to be and was in 2019
    - We're not disclosing the US market
    - Carrying the weight for a lot of other markets that are still closed, frankly.

Vrbo and Vacation Rentals

- Continue to lean into that business
- We have grown share in all our strongest markets
- Invested heavily in marketing and in acquiring hosts
    - It has been successful – we are driving it as fast as we can
    - We're focused in the most high-traffic areas where we need and can sell as much new inventory as we can get
    - Introduced a new product called the Fast Start Program
    - Takes successful hosts (from Airbnb) and launch quickly into Vrbo
    - Put them high in the sort and allow them to start up their business with us
    - Vrbo hosts make more than Airbnb hosts on average
        - Great opportunity for people to monetize their assets
        - We think owners are increasingly becoming aware of that
    - All our stats make for a great sales story
    - We just have to get it out there – and we're spending more to get that story out there
- Seeing some compression in summer
    - So far, we have seen replacement as a pretty good solution
    - If people can't find something, they'll find something nearby (increasingly in resorts and in conventional lodging)
    - In summer leisure destinations, we see very strong conventional lodging numbers
- Last quarter we went off the Google meta product for vacation rentals
    - This quarter, we pulled back from other vacation rental meta players
    - So far the results (returns, direct traffic) have been as good or better than we could have hoped
- Vrbo is doing great and the US particularly strong
- Long-term plan for Vrbo or vacation rentals is to have them available through all our brands
    - We think distributing inventory through Expedia Partner Services is a meaningful opportunity

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- We don't disclose the number of properties live on our other OTA brands
- It was higher in Q4 than Q3, and it's higher in Q1 than it was in Q4
- We also continue to increase the number of OTA brands where we're distributing that inventory
- Ultimately we need to improve the customer experience
- It is a different product with a different use case
- Different operational flow and customer experience
- It is our full intention to continue to invest behind that user experience

Marketing

- Past few quarters we've taken a relatively conservative bias
  - Rather leave a little money on the table than get too far out over our skis
- In the course of Q1, we have sort of changed that bias
  - We moved more towards investing and getting in front of the wave of demand we think is coming
  - That's taken the form of a number of brand marketing rollouts
    - Expedia campaign, Orbitz campaign, Later this month Vrbo summer ad campaign
    - Pushing to differentiate brands and focus each brand on who their market is
- We will be more up-funnel
  - Believe we can do better and do more on the brand-building side
  - It takes time sinking in that brand proposition and getting everybody focused on your name
  - Then it starts to pay rewards in performance marketing
- Our whole value proposition is we believe we can do better on the performance marketing side.
  - Starting to see some wins form combining performance marketing teams
  - Brought in a new leader from the outside
  - Today 75% of SEM spend is now on a new consolidated technical and data platform, up from 15% at YE20
  - As we get more aggressive, we're seeing our share go back to historic levels or higher
  - By doing so we can free up capital to up funnel and push into the brand side
  - We will test more things and get smarter
- Our goal is getting to the point where we can build algorithms to maximize for multi-brand and do things we've just never been able to do before
  - Starts with strong brand and really performance marketing teams
  - For the first time, once we get all these things consolidated, it's going to be a fair fight
  - We'll be in a position to outperform the competition in a way we just haven't been for a long time

Loyalty program changes

- We felt there was huge opportunity with Brand Expedia to drive loyalty
- Felt like we were leaving a lot of customers on the side because of how we made them sign up
- Customer experience is much better as a loyalty member
  - Get to see loyalty rates, in general, they consume more
  - The returns loyal customers are higher than the returns on non-members
- Really just opening up a window for customers to see the benefits of loyalty earlier
- Think there's nothing but upside for both Expedia and the customer

Egencia Deal

- Highlights 3 core things
  - 1) find best opportunity for all our businesses
  - 2) signed a long-term lodging supply agreement with Expedia Partner Services
  - The supply agreement would have generated in excess of $60mm in EBITDA at 2019 volumes
  - 3) simplify our company

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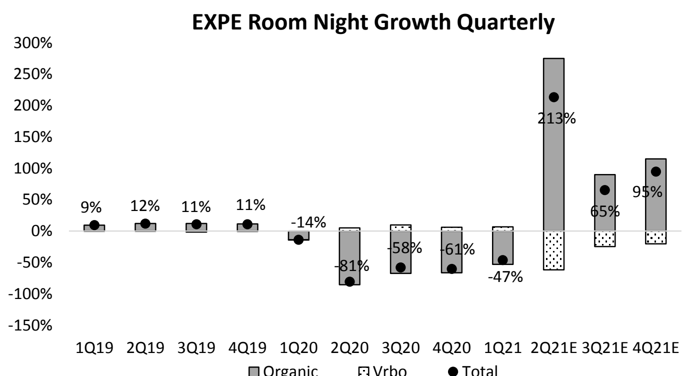
- We have 14% ownership in the combined business, estimated at $750mm in value
- We anticipate the proposed deal would close in 9 to 12 months

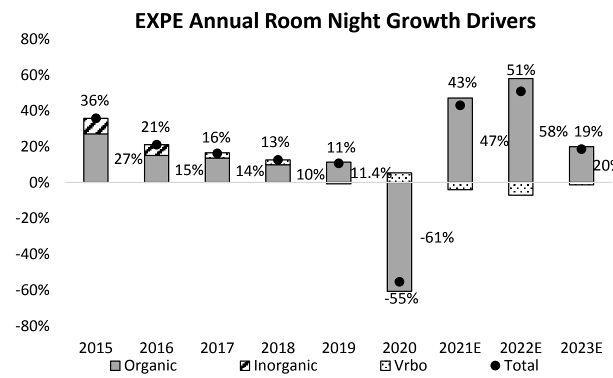
Cost Savings

- Still expect $700mm to $750mm of fixed-cost savings relative to our 2019
  - Have achieved $700mm on a run-rate basis
  - Confident we will realize largely all of this target cost savings by the end of 2021
- Still expect $200mm variable cost savings based on 2019 volume levels
  - Payments platform, conversations platform to reduce customer service costs, lower variable cloud costs
  - Expect to realize these savings by end of 2021
  - Will not fully evident until more normalized business levels

Key Charts



Source: Company Filings, CRC



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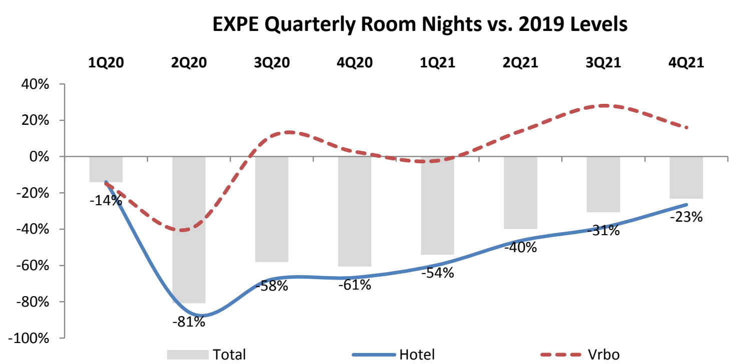
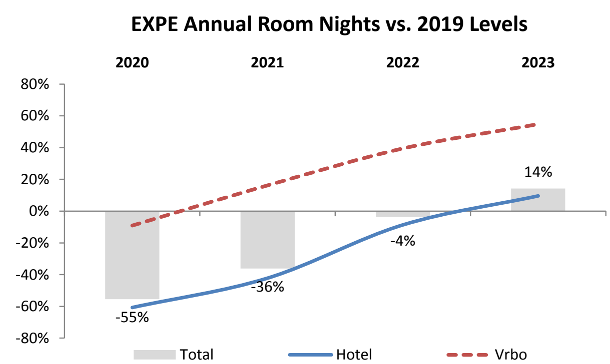


Source: CRC Estimates



Source: CRC Estimates

Appendix

Disclosures: *We, Vince Ciepiel and Matt Varabkanich certify that the views expressed in the research report(s) accurately reflect our personal views about the subject security(s). Further, we certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in the research report(s). CRC and its principals have investments and own a minority interest in a fund manager which may or may not have a position in this security in the funds it manages and oversees. Cleveland Research Company provides no investment banking services of any type on this or any company. Proprietary research and Information contained herein which forms the basis for findings or opinions expressed by Cleveland Research Company may be used by Cleveland Research for other purposes in the course of compensated consulting and other services rendered to third parties. The information transmitted is intended only for the person or entity to which it is addressed. Any review, retransmission, dissemination or other use of, or taking of any action in reliance upon, this information by persons or entities other than the intended recipient is prohibited. If you received this in error, please contact the sender and delete the material from any compute. Member FINRA/SIPC.*

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