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EXPE.OQ - Q2 2024 Expedia Group Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, everyone, and welcome to the Expedia Group Q2 2024 financial results teleconference. My name is Elliot, and I'll be your operator for today's call.

(Operator Instructions)

For opening remarks, I'll turn the call over to Senior Vice President, Corporate Development, Strategy, and Investor relations, Harshit Vaish. Please go ahead.

Harshit Vaish - *Expedia Group Inc - Senior Vice President, Corporate Development, Strategy, and Investor Relations*

Good afternoon, and welcome to Expedia Group's second quarter 2024 earnings call. I'm pleased to be joined on today's call by our CEO, Ariane Gorin; and our CFO, Julie Whalen. As a reminder, our commentary today will include reference to certain non-GAAP measures. Reconciliations of these non-GAAP measures to the most comparable GAAP measures are included in our earnings release. And unless otherwise stated, any reference to expenses excludes stock-based compensation. We will also be making forward-looking statements during the call, which are predictions, projections, or other statements about future events.

These statements are based on current expectations and assumptions which are subject to risks and uncertainties that are difficult to predict. Actual results could materially differ due to factors discussed during this call and in our most recent Forms 10-K, 10-Q, and other filings with the SEC.

Except as required by law, we do not undertake any responsibility to update these forward-looking statements. Our earnings release, SEC filings, and a replay of today's call can be found at our Investor Relations website at ir.expediagroup.com.

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

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

Thanks, Harshit and thank you all for joining us today.

I have been CEO for about a quarter now, and have spent most of my time in three areas. First, refocusing our team on the basics and execution to accelerate growth in our consumer business; second, sharpening our long-term strategy; and third, making sure we have the right leadership team in place. All with the goal of delivering better experiences to travelers and more value to our partners. I'm really pleased to already see signs of progress as demonstrated by our second quarter results.

We grew room night by 10% and grew gross bookings and revenue by 6% versus last year. This was at the high end of our expectations and was driven by substantial improvement in Vrbo, as well as continued strength in Brand Expedia, in our Advertising business and in our B2B segment. We also executed well in controlling our costs, with cost of sales and overheads both declining year over year.

The travel environment was healthy in the second quarter, and like the last few quarters, we saw stronger demand internationally relative to the US. Compared to last year, we grew room nights mid-single digits in the US, low-double digits in Europe, and in the high-teens for the rest of the world.

Prices held up for both Hotel and vacation rentals, but we saw continued pricing pressure for Air and Car. In terms of trends so far in the third quarter, we've seen some softness in demand, and Julie will provide more details on this in a few minutes. But, regardless of the market environment, we're focused on executing what's in our control and what we know will drive long-term value.

Now, let me talk a little bit about the second quarter results themselves. In our consumer business, we grew gross bookings by 1%, which was an improvement of nearly 400 basis points in the first quarter. Our focus on the basics, traffic, conversion, attach rates, and marketing efficiency is showing solid early results. The traffic growth across our three core brands which are Expedia, Hotels.com, and Vrbo accelerated sequentially by roughly 500 basis points, and conversion rates continue to improve. The percent of bookings through our apps also increased, up over 500 basis points year on year. And in terms of attach, multi-item trips grew by 9% compared to last year. And this is important because when travelers buy more than one product from us, they're getting more value, so they're more likely to repeat.

On marketing, excluding our investments in Vrbo and international markets, our consumer business showed some year-on-year marketing leverage in the second quarter. Brand Expedia continued its strong performance with booked room nights up nearly 20%, while Vrbo improved meaningfully from its Q1 low point and exited the quarter back to modest growth. Vrbo's recovery continued from higher marketing spend, better supply, and Vrbo specific product releases.

Look, we certainly have more product work to do on Vrbo, in particular on our app, but we're encouraged with our progress and the sequential improvement in the business. Vrbo also benefited from more cross shoppers from our One Key loyalty program. Nearly 30% of travelers that earned OneKeyCash on either Brand Expedia or Hotels.com and then redeemed it on Vrbo, were completely new to Vrbo, so One Key is a great source of new travelers for the brand.

Also, One Key hit its first year anniversary in the US this summer. We're super pleased to see our large, growing member base enjoy the flexibility to earn and burn OneKeyCash across our three core brands and get great tiered member discounts. Customers who redeem OneKeyCash or use member discounts repeat more often, so this gives us a lot of confidence that the benefits of One Key will build further over time.

This summer, we're hitting two more milestones in the program. In July, we launched a co-branded credit card with Wells Fargo and Mastercard in the US, and expect this to reinforce the value proposition of One Key. We're also launching One Key in the UK in the third quarter. Like the US, the UK is a market where all three of our big consumer brands are present.

Beyond the UK, though, we're pausing further international rollout of One Key. Most international markets have only either Brand Expedia or Hotels.com operating at scale, with limited Vrbo presence. So, we're going to take the time to tailor our value proposition for these markets. In addition, this should minimize further near-term disruption to Hotels.com which was the brand most impacted by One Key's US rollout. More importantly, and as a reminder, all our loyalty members worldwide on our legacy Expedia and Hotels.com programs continue to benefit from the improved member discounts that we launched last summer.

Finally, we made good progress on our international expansion. As an example, in May, we launched Expedia point of sale in UAE and Saudi Arabia. Though it's early days, we've been pleased with the results so far.

Turning to B2B, we had another strong quarter with bookings growing 20%, though like last quarter, this was a 200 basis point deceleration. All of our partner segments grew well. And as always, while we on boarded new partners, a significant portion of the quarter's growth came from existing partners. A couple of highlights from the quarter were the renewal of our lodging deal with Trip.com and a new partnership with Cathay Pacific using our white label template.

Moving on to supply, which powers both our consumer and B2B segments, we continued to improve our offerings. For flights, we just signed a partnership with Ryanair and will soon add their supply to our marketplace. In vacation rentals, we grew our supply double digits while removing properties that weren't providing acceptable guest experiences, and we sourced more listings with flexible cancellation policies and discounts. All of this reinforces the Vrbo value proposition. We're also investing in more powerful tools, what we call our visibility boosters, to help our supply partners attract the travelers they want. More hotels are using these tools to fill hotel rooms and our revenue from these products grew over 40% in the first half of this year and that's a great win-win.

Before I turn the call over to Julie to talk about our financial results and guidance, I want to touch on our path forward and where I'm focusing our teams. Improving the performance of our consumer business remains our biggest priority. We're capitalizing on our tech investments for the last few years, while at the same time, digging into what product capabilities and configurations we need to strengthen Vrbo and the Hotels.com brands.

We're getting surgical in identifying drivers of repeat behavior in addition to loyalty and app usage, whether it's burning OneKeyCash or adopting AI-enabled products like price predictions. We want all of our core brands, Expedia, Hotels.com, and Vrbo to have clear value propositions and drive healthy growth, and we're making adjustments to ensure we have the right focus. In B2B, after 12 quarters and over 20% booking growth, we expect continued normalization and we'll continue to invest in our technology, supply, and partnerships to extend our lead in the segment.

Finally, we continue to execute with cost discipline everywhere. On cost of sales, we've reduced spend and improved gross margins substantially over the last several quarters. We're exploring additional opportunities to rationalize our marketing spend and on overhead we're using technology and AI to further boost productivity.

In closing, I'm encouraged by our second quarter results and I'm incredibly proud of and thankful to our employees who rallied together and are working tirelessly to deliver on our ambition, to help travelers around the world experience great trips and create lifelong memories.

And with that, let me hand it over to Julie.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Thank you, Ariane, and good afternoon, everyone.

We are pleased with our second quarter results including double-digit room night growth, a sequential acceleration in our B2C business driving gross bookings to 6%, and EBITDA margins expanding approximately 70 basis points in the first half.

As far as the financial details for the second quarter, total gross bookings of $28.8 billion were up 6% versus last year driven by total lodging gross bookings, which grew 8%, led by our hotel business growing 11% and the improvement in our Vrbo business. We were happy to see that we have held or grown hotel gross booking share in virtually all of our key markets. In our Vrbo business, we saw a significant acceleration as we moved through the quarter, which drove our total gross bookings sequential acceleration of approximately 300 basis points from the first quarter.

Revenue of $3.6 billion grew 6% versus last year, led by our B2B business, Brand Expedia, and our advertising business. Total revenue margin was flat year over year as the uplift from advertising growth was offset by fewer stays given the lower gross bookings in the first quarter, the shift of Easter stays into the first quarter, and the contra revenue arising from pricing actions. As a reminder, pricing actions from prior periods negatively impacted both revenue and revenue margins this quarter as it is recorded as contra revenue at the time of the stay. Cost of sales was $358 million for the quarter, and $45 million, or 11% lower versus last year, which, combined with our strong revenue growth, drove approximately 190 basis points of leverage as a percentage of revenue year-over-year.

We continue to see our ongoing initiatives are delivering transactional efficiencies. Direct sales and marketing expense in the second quarter was $1.8 billion, which was up 14% versus last year. Sales and Marketing deleveraged this quarter as a percentage of gross bookings primarily due to higher commissions to our partners from the strong growth in our B2B business which grew over 20% as well as the planned ramp in marketing spend in Vrbo and international markets to drive incremental growth.

As we have stated previously, commissions paid to our B2B partners are in our direct sales and marketing line and are more expensive as a percentage of revenue than our B2C business. However, because they are generally paid on a stayed basis to contractually agreed upon percentages, the returns are more guaranteed and immediate.

In our B2C business, we saw some deleverage this quarter as we reinvested back into our Vrbo business and our international markets to drive improving growth in global market expansion. Excluding these investments we saw some marketing leverage in our B2C business in the second quarter.

Overhead expenses were $606 million, a decrease of $21 million versus last year, or 3%. This resulted in approximately 165 basis points of leverage, primarily driven by lower people costs in product and tech from our actions to rationalize our headcount as well as the timing of both new hires and other salary related costs across our key growth areas of the business. We remain committed to driving efficiencies across our P&L and we're pleased to see that the cost actions we have taken, as previously announced, continue to drive savings across capitalized labor, cost of sales, and overhead costs.

On the bottom line, we delivered strong second quarter EBITDA of $786 million, which was up 5% year over year with an EBITDA margin of 22.1%, deleveraging slightly, for approximately 15 basis points year over year. Our first half EBITDA margins, however, expanded by approximately 70 basis points year over year which exceeded our expectations due to strong expense management, despite the impact from our pricing actions and our investments in marketing.

As far as our EBIT performance which includes the impact of stock-based compensation, depreciation, and amortization, we delivered $475 million of EBIT with a margin of 13.3%, delivering approximately 20 basis points of expansion year over year in the second quarter and 95 basis points of expansion in the first half.

The additional 25 basis points of expansion as compared to EBITDA is driven by leverage from stock-based compensation from flat year-over-year cost as well as leverage from depreciation that grew slower than revenue. Our year-to-date free cash flow remained robust at $4 billion, up 4% year over year, driven by our strong first half EBITDA growth and lower capital expenditures.

Moving on to our balance sheet. We ended the quarter with strong liquidity of $8.7 billion driven by our unrestricted cash balance of $6.2 billion and our undrawn revolving line of credit of $2.5 billion. Our debt level remains at approximately $6.3 billion with an average cost of 3.7%. Our gross leverage ratio at a further reduced 2.3 times, continue to make progress towards our target gross leverage ratio of 2 times driven by our ongoing strong EBITDA growth.

In addition, our strong cash position enabled us to repurchase $1.2 billion, or 9.2 million shares year to date. We continue to believe that our stock remains undervalued and does not reflect our expected long-term performance of the business. As such, we expect to utilize the strong cash generating power of our business and our remaining $3.6 billion share repurchase authorization to continue to buy back our stock opportunistically.

Moving now to our outlook for the rest of the year. While we accelerated our gross bookings throughout Q2, entering the third quarter, we have seen a more challenging macro environment and a slowdown in travel demand, consistent with recent commentary from others in the travel industry. And while we saw flat ADRs on a like for like basis in Q2, we saw a decline in July stemming from FX headwinds and from consumers trading down to lower priced properties. And we've also seen more continued softness in air ticket prices.

In addition, we have seen some headwinds from new pricing display regulations that kicked off on July 1 in California, and we are monitoring it closely. These factors collectively drove weaker than expected growth across both our consumer and B2B businesses in July and are influencing our outlook for Q3 and the full year.

Given this backdrop, we expect third quarter gross bookings and revenue growth to be in the range of 3% to 5% versus last year. And, as a result of the range of possible top-line growth and our marketing investments in Vrbo and our international markets, we expect approximately 100 basis points of deleverage to our third quarter EBITDA and EBIT margins versus last year.

As for the full year, we expect gross bookings to be at the low end of our previously communicated range of mid- to high single digits at approximately 4% and revenue growth to be 2 points higher at approximately 6%, with our earnings outlook holding at EBITDA and EBIT margins relatively in line with last year.

In closing, we are pleased with our performance and the acceleration we saw in our Vrbo business during the second quarter. And while the more recent market environment is challenging, it is this ongoing execution against our growth initiatives, combined with our strong financial position to give us confidence in our long-term opportunity to deliver profitable growth.

And with that, let me open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mark Mahaney, Evercore ISI.

Mark Mahaney - *Evercore ISI - Analyst*

Two questions, please. First on Vrbo. It sounds like that's started to recover to growth exiting the quarter. Any thoughts on what that trajectory is like? And I know you've got headwinds going into the back half of the year but if you can isolate out the headwinds, just talk about what that growth recovery path looks like. And then real quick hit on advertising revenue, expectations for how that's trending? Are you able to maintain the growth you've had there. And I think that was solid 20%.

Thanks.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah. I mean, for Vrbo, obviously, it's hard to make that call right now because we're staring at this July trends. But certainly, our expectation is to drive that business to growth and get it back to where it used to be. And so as we said, we saw substantial acceleration as they move from the beginning of the year. So basically, as we ended the quarter with some modest growth but now we're in this moment in July, where it's a little bit hard to read the business. But certainly, long term, that is our expectation.

As far as the advertising business, I mean, that business is on fire. We have got a lot of opportunity with that business to continue to drive its growth. I mean, if I think if you look back, it's been at least in the high 20s for a while now and we don't have any reason to believe that that's going to significantly change going forward.

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

And I would just add that on the advertising business, when the market gets soft, actually, you could imagine that some of our supply partners will want to spend more in advertising where they know that the travel demand is going to be. So as we're looking at how the market evolves, obviously, I think our teams will be looking at how can we help our supply partners in getting the volume.

Operator

Eric Sheridan, Goldman Sachs.

Eric Sheridan - *Goldman Sachs - Analyst*

Thanks so much. Maybe two questions, if I could, a bit more of a bigger picture in nature.

In terms of the role of CEO that you've now had for a couple of months, wanted to know if you could just reflect on some of the key learnings you've had and go a little bit deeper on the turnaround of some of the brands like Vrbo and Hotels.com. And what you've learned about the ability to possibly speed up some of that recovery or some of the aspects that might take longer pieces of time to implement leaving the side or isolating some of the macro variables from your insights there.

And then the second, you come out of the B2B business. As you continue to move out of B2B and into this broader CEO role, what do you think remains relatively underappreciated or misunderstood about the B2B business, now it sits inside Expedia?

Thank you.

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

Thanks for the questions, Eric.

In terms of the consumer business, as I stepped in, I think I had always appreciated the work that we had done on the platform that was going to allow us to accelerate innovation across the board. So for example, in the second quarter, we were able to release flexible date search in all three of our big brands at the same time. And we wouldn't have been able to do that, had we not done the platform work.

That being said, when we did the work to move Vrbo and Hotels.com onto our common front end, we did give up some of the things that made those brands a bit more unique. On Vrbo, collaboration was a big -- it was something that was used a lot in Vrbo. And when we migrated it, the good thing was we got the trip planning collaboration onto Brand Expedia but we lost some of the functionality in Vrbo.

Now the good news is, we've added a bunch of it back and there's still work to be done. But it just meant that we went through a period of time in the migration where we moved back. Similarly with Hotels.com, when we moved to One Key, we downplayed an advantage that Hotels.com had. It had a really big differentiator in its loyalty program.

So the good news is that both of those brands have great brand awareness, have people who love to come back to them. But I've just realized it's going to take work to get them back to where we want. And so as I think about the months and the quarters ahead, it's how do we take all the capabilities that we've built in the platform across the board on a horizontal basis and figure out what needs to be configured or built differently for Vrbo and Hotel.com. But overall, I feel good about that. It's just -- it's going to take some time to get there.

And I would also add for Hotels.com, it will benefit as we go back into international. Hotels.com is a brand that's got great brand recognition in places like the Nordics and elsewhere. And what we've seen in these early days of leaning back into some of those international markets is that we're seeing good results.

In terms of the B2B business and what's maybe misunderstood or underappreciated. Funny, when I took on the business about 10 years ago, I remember thinking, what are the moats around it, what's differentiated around it. And what I have concluded over the years is it's a combination of things. You have to have really great supply and we have great lodging supply. We're doing a lot of work to get B2B-specific lodging supply. You have to have great technology, an excellent sales team, super partner relationships, and be very hungry and aggressive and be open to a lot of partnerships.

So I just -- I guess the way I think of it is, there is a massive travel industry. What is at $2.3 trillion. Our own brands have a small part of it. And so with the B2B business, we could really look to what is all the innovation we have in our company that can help power all of the other travel players out there.

Operator

Lee Horowitz, Deutsche Bank.

Lee Horowitz - *Deutsche Bank - Analyst*

Two, if I could. So you clearly have a number of marketing priorities ahead of you as you look to take share in Vrbo, lean back into international markets, while also facing some building ADR pressures as you called out which have their own margin impact. I guess with that in mind, how do you think about the levers that you have at your disposal to drive margin expansion on a go-forward basis given those investment priorities?

And then maybe, Ariane, another one on the B2B business. I guess, how do you think about the interplay between B2B and B2C? Is there a world where the success of your B2B business can actually prove cannibalistic to your B2C business? If you help partners create super compelling travel rewards programs, presumably that's a piece of the pie that core Expedia doesn't have access to any more. How do you think about managing those two in that environment?

Thanks so much.

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

Okay. Thanks for the question, Lee.

Julie, do you want to take the first one and I'll take the second.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Sure.

So from a leverage perspective, obviously, we have been able to do a really great job with cost of sales, where costs have actually been down year over year, much less leveraging. And while over time, that will start to moderate because obviously, that can't go on in perpetuity. We still expect to drive incredible leverage on that line. We've got a lot of opportunities to continue to drive efficiencies there across our merchant fees and our operations, whether it's on AI and technology and all sorts of things that we're looking at to further drive efficiencies there.

At the same time, you can see, although this quarter is a little bit of anomaly, we did have overhead that was down to last year as well. And so we're still -- we did several cost actions as we announced earlier in the year and so we're benefiting from those. That's helping that line drive leverage to help the total P&L. And certainly, we are very focused on looking at every line in the P&L to see what the opportunity is and how we can go after it. So we can take that money either deliver it to the body or to reinvest it in the business.

We did say this year, however, that as you alluded to, we are making the investments in marketing in Vrbo and international markets because we want to reinvigorate those businesses. And clearly, by what we saw in the second quarter, it works. So it's important that we continue to do that and keep that momentum going. So as we've guided to and as we said, this year, we don't expect much leverage. But longer term, we're certainly not guiding to '25 at this time.

But longer term, we absolutely expect to have margin leverage going forward because all of the things that we're investing and driving towards to bring in more direct traffic should enable us to get more leverage on the marketing line in addition to all the good work we're doing on cost of sales and overhead. And if I think I've said before, if you could see the Brand Expedia P&L, who is the least disrupted brand, it's doing just that. And we've got strong top of line-growth and we've got strong marketing leverage. And so it's something that we're working towards with the other brands to get there over time.

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

And then on the second question on B2B and B2C.

So I would say, in the geography -- there are certain geographies in which our B2C brands aren't very present. And so it's obvious that anything we're doing in B2B there is going to be incremental. But it's true that there are many geographies in which we have both businesses and consumers go to many different places for travel.

Of course, I think any travel company would love to have consumers only come to them. But consumers sometimes will shop for personal travel on their favorite OTA, hopefully, one of ours, they might have business travel where they're using their corporate travel bookings tool. They maybe in an airline program and have loyalty points and want to spend those points.

And so we see the opportunity to power the technology and inventory in every one of those cases. And it's actually a big value driver that we bring to our supply partners because we make it easier for them to reach demand not only through us but also through our B2B partners. And fundamentally, I think that it just forces our own B2C brands to be even more competitive and to up our game.

Operator

Trevor Young, Barclays.

Trevor Young - *Barclays - Analyst*

First question. Can you just expand a bit on the cadence of growth throughout the quarter? Was it steady and then July saw the step down? And was there any nuance around that step down in July across geos?

And then second question, more of a bigger picture one. We're now a few quarters in from the completion of the tech platform migration. What gives you confidence that all the transformation work that you've done in the past few years is working and will pay off?

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

Julie, do you want to take the first one? I'll take the second.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah, sure.

In the second quarter, we basically saw comps accelerating and that's because, as we've said, the main accelerating driver was Vrbo. And so we basically came from a low, so to speak, at the beginning of the year and accelerated by quarter and was the main driver to drive the full acceleration of the business. So we saw accelerating comps in Q2 and then like I said, in July, there's just a lot going on that's hard to understand with precision. And so we saw this noise in the P&L in our business. And really, when you look at it from a geo perspective, to answer your question, it's a lot in US that we're seeing. We're seeing a couple of other areas but mostly it's US focused.

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

In terms of the replatforming, as I said earlier, it's really unlocked a lot of capabilities that we didn't have before. One of them, for example, is our testing platform. Already this year, we've done more tests on Vrbo than we did all of last year. So our test velocities have really gone up. Because of the platform migrations, we've been able to put something like One Key in place where we have a view of a customer across all of our brands. We -- as I said, we're able to release the ability to do flexible date shopping in the second quarter across all of our brands. So there are a number of, I would say, e-commerce basics that we're able to roll out across all of our brands without having to do the work multiple times.

Now going forward, what we're digging into is where are there configurations or maybe even some brand-specific features that we need to build on top because it's true that the last few years, so much of our capacity went to rebuilding some of the foundations and to migrations.

Operator

Conor Cunningham, Melius Research.

Conor Cunningham - *Melius Research - Analyst*

Just on B2B, I think your growth in the quarter was over 20%, a pretty tough comp in process. But I think in the prepared remarks, you mentioned a deceleration. Just curious if you could unpack that a little bit, what's driving the slowdown.

And then just on the implied guide for fourth quarter, I realize that you don't have a lot of visibility but can you just talk about how you see the booking window evolving from here?

Thank you.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yes. So on B2B, yes, we've seen a little bit of deceleration. And as you alluded to, of course, we're still at 20%. So it's still really a strong business. And we alluded to the fact that as global demand normalizes, that business would see some of that growth come down as it also normalizes. So that's not too unusual for us to see.

Obviously, in the July period that we've alluded to, they also are impacted by a lot of the dynamics that I mentioned as far as what's going on in July. And so they can have a little bit more of an impact than what was just the global normalization but we're really excited about that business. Ariane spoke about it. There's just so much opportunity there. And given our leadership position and all the opportunities we see going forward, it should continue to drive strong growth. It's just that we've got this moment right now where we're seeing some of this macro impacting it. But the underlying health of the business is incredibly strong.

As far as the booking windows, it's interesting, we have been seeing for a while now in our B2C hotel business that the windows have actually been expanding slightly year over year. But as we entered July, they actually or during the month of July -- they actually shortened just a little, not a lot but just a little bit in that month. And that's the first time we've seen that in a while. On the Vrbo side, they've been shortening for a while and they're just doing a similar thing. So there wasn't anything material that changed in July but we did see a little bit of that in the hotel side of things.

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

And maybe I'll just add a little bit on the first part on B2B. As Julie said, B2B is a much more geographically diverse business than our consumer business. And so over the last few quarters, it's really benefited from a lot of the travel demand, in particular, in Asia. And so the deceleration we've seen a couple -- for the last couple of quarters which still was a very strong growth, was coming from the normalization of that growth in particular in Asia. Now as Julie said, as we headed into July, we saw some slowdown and that was more with the US part of the business.

Operator

Naved Khan, B. Riley.

Naved Khan - *B. Riley - Analyst*

I just wanted to double click on the annual guide, Julie, a little bit. So I think the prior guidance was mid-to-high single digits for both bookings and revenue and now you're guiding to revenue of 6% and bookings were 4%. And you also noted some weakening in the airfare. So I'm just trying to figure out how I should think about the lodging business. You talked about ADR weakening. So room night is going to grow faster than maybe the 6% or just give us some goal post there or just your thoughts on how to think about the lodging business and room nights and ADRs.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah. I mean, fortunately, we haven't -- we don't guide to that level by the line item. And obviously, all of that has been assumed in the numbers that we have presented here for the full year. But certainly, everything I mentioned impacts the lodging business. So there will be an impact to that on all those metrics for the lodging business but we're not providing guidance on those right now.

Naved Khan - *B. Riley - Analyst*

Okay. And then I have a follow-up on the cost side of things. So of the restructuring that you announced earlier this year, how much of that has been action and how much has yet to follow in the second half?

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah. The majority of that has been actioned. There were some that we took action on in Q1, some that we took action on Q2, and so that's why you're seeing the favorability in overhead because you're getting the full quarter of the Q1 action and then you're getting the additional Q2 action that's coming through.

There's a little bit that's left on that but not significant. But of course, it doesn't mean we're stopped looking at every single line and where we can find efficiencies elsewhere. It's just on that particular cost -- cost action that we mentioned, we're almost through it.

Operator

Kevin Kopelman, TD Securities.

Kevin Kopelman - *TD Securities - Analyst*

Thanks a lot. Just one.

So quickly on the macro. You called out ADR softness. Are you seeing any softness in nights? And then could you just give more color on how you're managing the B2C advertising expenses in the second half given the backdrop?

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Sorry, you said -- can you repeat the first part of the question?

Kevin Kopelman - *TD Securities - Analyst*

The first part was on the macro softness that you're seeing quarter to date, you called out the ADR softness but are you also seeing a slowdown in underlying nights activity -- particularly with stays.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah, we are in particular stage, you said.

Kevin Kopelman - *TD Securities - Analyst*

Well, just (multiple speakers) separating out the window versus how much we actually look like they're going to be traveling.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah. No, we're definitely seeing a reduction in nights. I mean it's not just a booking window play, if that's what you're talking about or just an ADR play. There's definitely, as we said, there's been some softening in travel demand which is impacting the transactions side of it. But it's a combo of all, right? I mean there's certainly -- all those other factors are also true.

As far as your B2C advertising expense question, I mean, obviously, that's what our plans are been assumed that's from the guidance that we gave and we said that we are guiding to on the year EBITDA margins to be relatively in line with last year. So we're managing to that, while still investing in Vrbo international markets.

And so certainly, we will be looking at advertising, seeing what makes sense relative to the top line and any other variable costs associated with that depending on where that top line goes. But that what we're managing to is the full year EBITDA margins relatively in line with last year.

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

And I would just remind you and as Julie said, obviously, looking very closely at what are the macro trends, what are the demand trends, where do we want to spend in marketing and advertising. And we look at marketing, promotions and pricing and loyalty all in the same bucket to then say which of these is going to be most effective given the environment.

And then even within marketing, are we going to put money more into performance or into social or into other channels. And I spent a lot of time with our marketing team just looking at where we're getting the best returns, where we're leaning in, where do we need to pull back and the like.

Kevin Kopelman - *TD Securities - Analyst*

And you noted maybe rationalizing some marketing spend. What were you referring to there? If you could share any more color?

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

So we -- I mean, one of the things we've been doing in the last bit of time is really interrogating every dollar of our marketing spend. And for example, looking at nonworking versus working marketing spend, understanding the returns on each because we -- especially if we're going into an environment that is a bit more volatile, it's just so important that every dollar. We understand the returns when we're investing more in international and Vrbo, we need to be making up for efficiency elsewhere.

Operator

Ken Gawrelski, Wells Fargo.

Ken Gawrelski - *Wells Fargo - Analyst*

Just two, if I may.

First, could you've talked about the EXPLORE Conference in May a lot about your marketing plans -- not your -- your advertising and media plans, I should say, not your marketing plan, sorry. Could you talk about opportunities, not necessarily in the short term but over the next one to two years, how you can continue to grow that business robustly and what the opportunities look like?

And then second is just more tactical. As you think about the One Key expansion to the UK. Do you expect that to be a material and how material do you expect that to be on Hotels.com in the back half of the year?

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

Thanks for the question. Let me start with the first one. So you're right, we talked about the travel media network at EXPLORE and we're really excited about the opportunity to grow advertising and to bring value to our advertisers.

Today, a lot of our advertising business happens on the shopping and booking moments of the travel funnel. So when someone's in the search results or when they're in the booking process, there's not as much when they're in the dreaming and very upper funnel and there isn't as much, for example, in post booking. So we think that there's an opportunity there.

We also think that there's an opportunity to expand in the number of partners who are using our advertising tools. So whether it's the sponsored listings and having more hotels or airlines using sponsored listings or new products that we can bring to destination, management organizations think that there's a lot of growth and opportunity there as well.

I'd also call out that we're doing some interesting work on providing more tools to these advertisers. So making it easier for them to self-serve on some of our advertising products, self-serve on getting -- letting us do more of the targeting for them, we're about to introduce some video into our ads which we think will make those perform better. So I would just say for the long term, we think there's a lot of opportunity here.

On the question about One Key and expansions in the UK, I don't think it's going to have a material impact at the company level. Certainly, we've learned from the One Key rollout in the US on how to treat the higher value of Hotels.com customers who might feel like they're getting a down-step in their value and we're using that in the UK but I think at a company level, it's not material.

Operator

Richard Clarke, Bernstein Society Generale Group.

Richard Clarke - *Bernstein Society Generale Group - Analyst*

Just a question on the pause on the rollout of One Key. Does that mean that the Hotels.com buy 10 nights, and get 1 free, that will remain in all markets, apart from North America in the UK? And is that awkward to your supply partners that they've got to deal with you in multiple different loyalty schemes. And what does it mean for your B2B rollout? I think One Key was one of the things you were offering as part of the B2B rollout. So how would that affect the rollout of B2B in non-US, non-UK markets?

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

Yes. Thanks for the question.

In terms of whether the Hotels.com 10 for 1 will remain the same outside of the US and the UK, the answer is yes. It's a simple program. For now, it's remaining that way as we work to figure out what would the path forward be.

For our supply partners, our hotels, for example, it's completely transparent to them. They participate in member deals where they provide different levels of discount for different tiers of members and we actually translate that into our Hotels.com rewards program. So if I'm a hotel, I'm able to reach those Hotels.com rewards members, whether they're in a country that has the existing 10 for 1 stamps or whether they're in the US.

In terms of B2B, actually, One Key is not rolled out to the B2B business. That's a business where we're providing inventory and technology but a lot of our partners have their own loyalty program. You may be thinking about -- we've talked about rolling out One Key to our advertising partners and allowing them to use some of their advertising dollars to accelerate One Key earn for their hotels.

And that, again, won't really make a difference. They can do that in the US and the UK. It won't be something that we can do outside of that. But again, this is why we are going to take the time to think about what is the value proposition for our loyalty programs in countries where we only have one big brand at scale.

Operator

John Colantuoni, Jefferies.

John Colantuoni - *Jefferies - Analyst*

Two quick ones from me.

First, on the 3Q outlook, does your outlook for the third quarter assumes there's a recovery in night in August and September relative to July?

And second question, just talk to some of the pricing reductions you started making last quarter and how that impacted conversion. And now that you're seeing some trade down, whether you might have to lean in a little bit more there.

Thanks.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

Yeah. As far as the first question on the 3Q outlook, we have not baked in any upside or something in September. We've looked at obviously run our various scenarios and what the information that we have based on what's happening in July and ran that out as to where we think the quarter will land.

Certainly, it's also you have to take into consideration for revenue at least what happened in prior quarters because then the stays come to fruition in the third quarter. So we already have some of that data and that's just going to play out. But certainly, based on all the new data in July, we've just run our scenarios and let it play out for Q3 accordingly but there wasn't any step-up in September that we assumed.

As far as the pricing actions, yes, we had made a call, you probably remember from last quarter that we had done some pricing actions towards the end. That then we're going to be coming into this quarter, we did see that come in. And we only do those pricing actions if we get the returns. And so certainly, they are driving conversion for us. And so as we have been doing, we're going to continue with that, going forward as it is a good returning marketing lever for us.

Operator

Jed Kelly, Oppenheimer.

Jed Kelly - *Oppenheimer - Analyst*

Just going back to the B2B opportunity. Is there any way you can give us a backlog or just frame like the amount of contracts you think are up that can potentially drive growth there?

And then just on Vrbo, just thinking of the fourth quarter marketing strategy, that's usually when you have like a large brand campaign. If this softness continues, can you just talk about how that impacts your marketing strategy?

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

So on the first one -- so thanks for the questions.

On the first one, I'm not going to share details about the pipeline. What I will say is we're thoughtful about which deals we want to bid for. I think often when you have an B2B team, it's as important which deals you decide not to bid for and which ones you decide to bid for. And we have a super experienced team, a great business development team that's being thoughtful about where do we want to play and where do we not.

I'd also say that growth can come from finding new partners but growth also comes from our existing partners. So sometimes you might have a partner that we're powering three of their points of sale and then they decide that they're going to expand into another couple of countries and it's incumbent on our team to make sure that we're the ones powering them as they're growing their business.

So when you think about the B2B business, it's not just what the pipeline of new business, it's also what are all the actions we're doing in our existing partners in order to either win share or to just grow along with them.

Julie Whalen - *Expedia Group Inc - Chief Financial Officer*

As far as the Vrbo marketing strategy, certainly, we learned from last year that you don't want to pull back too much on the marketing spend because Q1 -- sorry, as you're entering in Q1 is a really big time for Vrbo. So that's part of the reason why we're even guiding in Q3 to pressure on EBITDA because we want to continue investing in Vrbo for that very reason because we're investing for the longer term. And so we would continue to invest in Vrbo.

I mean, obviously, it depends if there's some massive level of softness that all things are off the table. But we're not expecting that but it's not how we've been guiding. And so our expectation is we continue to invest into Vrbo and that's assumed, obviously, within our margin guidance on the year to be relatively in line with last year.

Operator

Ron Josey, Citigroup.

Ron Josey - *Citi - Analyst*

Maybe, Ariane, a follow-up to your comment there on investment in marketing. I thought the 20% growth in room nights in Brand Expedia was a really key highlight. So I wanted to understand just the drivers here, maybe a little more on geographic mix. And really, the benefits from the advertising side of the brand continues to evolve.

And then I think I heard you say conversion rates improved in the quarter as in multiproduct attach rates. And so again, just wanted to dive a little bit deeper on the product to hear how the funnel, how transactions are going on Expedia overall.

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

As you said, I mean, Brand Expedia has been a great highlight for us. And it's also what gives me confidence because it was the least disruptive of all of our brands and it's the brand that's gotten all of our innovation going into it. We've also, over a number of years, really built up the brand value there. We spent quite a bit in marketing over time and now we're seeing leverage with it because we have a great app installed base, strong repeat, a great member base, and the value proposition on Brand Expedia to shopping and booking multi-item trips, whether it's directly through the package path or buying a flight and then later coming back and buying a hotel at a discounted rate is really strong for travelers.

So I would just say, in general, we feel good about it. It's still to my liking too US focused. I mean, as is our whole consumer business, we'd like to see more growth internationally. But as you say, Expedia is really a highlight, so thank you for the question.

Operator

I will now hand the call back over to Ariane Gorin for closing remarks.

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

Okay. Well, so I just want to thank you all again for joining us. Julie and I appreciate the questions. I just want to leave you with the thought that, we know the environment is becoming more volatile. But regardless, we believe we have a lot of opportunity ahead. We have great consumer brands that travelers love, a differentiated B2B business, diverse supply, the strongest it's ever been and a really powerful tech platform. So as we look to the future, we're going to use these assets to drive profitable growth.

Thank you, all.

Operator

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