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Expedia Group, Inc. (EXPE) CEO Peter Kern on Q2 2022 Results - Earnings Call Transcript

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EPS of \$1.96 **beats by \$0.40** | Revenue of \$3.18B (50.69% Y/Y) **beats by \$192.14M**

Expedia Group, Inc. (NASDAQ:[EXPE](#)) Q2 2022 Earnings Conference Call
August 4, 2022 4:30 PM ET

Company Participants

Harshit Vaish - SVP Corporate Development, Strategy and Investor Relations

Peter Kern - Chief Executive Officer

Eric Hart - Chief Financial Officer

Conference Call Participants

Eric Sheridan - Goldman Sachs

Kevin Kopelman - Cowen

Naved Khan - Truist Securities

Lee Horowitz - Deutsche Bank

Tom Champion - Piper

Deepak Mathivanan - Wolfe Research

Lloyd Walmsley - UBS

Brian Fitzgerald - Wells Fargo

Justin Post - Bank of America

Ron Josey - Citi

Jed Kelly - Oppenheimer

Operator

Good day, everyone and welcome to the Expedia Group Q2 2022 Financial Results Teleconference. My name is Brika and I will be your operator for today's call. [Operator Instructions]

For opening remarks, I will turn the call over to SVP Corporate Development, Strategy and Investor Relations, Harshit Vaish. Please go ahead.

Harshit Vaish

Good afternoon and welcome to Expedia Group's earnings call for the first quarter of 2022 that ended June 30. 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 view as of today, August 4, 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 words such as we plan, we expect, we believe, we anticipate, we are optimistic or confident that or other 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 reconciliation of non-GAAP measures to the most comparable GAAP measures discussed today in our earnings release, which is posted on the company's Investor Relations website at ir.expediagroup.com. And I encourage you to consistently visit our IR website for other important information. Unless otherwise stated, any reference to expense exclude stock-based compensation.

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

Peter Kern

Thanks, Harshit, and good afternoon everyone and thank you for joining us today. Let me begin by saying that we were very pleased with our financial results in the quarter on the back of a continued recovery in all markets and products and our expanding margins. We've seen strong consumer demand for travel this summer and are encouraged that travel remains a top spending area even as other parts of the economy seem to be showing cracks.

We posted our highest ever lodging bookings this quarter on the highest revenue and adjusted EBITDA for any second quarter and we continue to further strengthen our liquidity with a strong free cash flow and the early redemption of an additional \$1 billion of debt. We delivered these strong results despite the current macroeconomic backdrop and the limitations and disruptions we've seen in air travel around the world.

Of particular note, while domestic flight capacities have recovered close to 2019 levels, international flight capacity is lagging with long-haul capacity still down roughly 30%. While these disruptions and shortages don't appear to be abating soon, we do look forward to when these long-haul capacities return as this has always been a relative strength of ours.

Now moving on to my main topic of the day. For the last few quarters, we spent a lot of time talking about the transformation of our technology platform and how that will enhance both our B2B and B2C businesses going forward. And last quarter, I took time out to explain in greater depth, how we were pursuing our B2B strategy, driving travel as a service to partners of all sizes. But as investors digested our Q1 results, it became very clear to us that we needed to clarify our B2C strategy and begin to provide incremental data to help you understand what metrics we think are important to measuring our success in pursuit of this strategy.

In particular, there's been a lot of interest in the shifts in room night share, as travel has recovered. And whether something has changed in the market, or if it is just a temporary shift, as we put more of our attention into our technical transformation and attracting the right mix of consumers. Today, we hope to answer this more directly and give you a better understanding of our strategy and tactics, as we evolve our consumer business.

As for the backdrop, I think by now you all have a decent understanding of how the mix effect domestic versus long-haul international or geo mix for example with the robust recovery of EMEA in Q2 can cover share results. And I also believe you are well acquainted with the fact that we've divested or shut down a number of noncore businesses, shedding certain volume over the last two years, whereas some competitors were buying business and thereby adding volume.

So today, I'm going to focus more narrowly on how our long-term consumer strategy is impacting these short-term share issues. To be clear, we have been evolving our consumer approach from being largely transactionally focused, where we and the industry spent virtually all of our time, tuning our products for maximum arbitrage and performance marketing channels and spending more and more money on intermediaries, to a future where we build longer-lasting direct relationships with loyal high-lifetime value customers. This means that we have not chased all traffic available in performance marketing, no matter the cost and instead have focused on the pockets of consumers, we think will drive the highest long-term value and the best future shape of our business.

To give you more perspective on why it's so valuable to focus on these types of consumers I'd like to give you a few facts about our biggest OTA brands. Over the last 18 months in our Expedia and Hotels.com brands, loyalty members drove approximately 3x the gross bookings per customer and over twice the gross profit per customer and twice the repeat business as compared to nonmembers.

Similarly, app users drove over 2.5x the gross bookings per customer, 2.5x the gross profit per customer and 2.5x the repeat bookings versus non-app users. And of course when we combine the two and have loyalty members who also book through the app, you get the highest production of any customers. Given these core drivers our entire company is focused on getting the right customers in the funnel and then turning them into loyalty members and app users.

And while both will accelerate as we deliver on our platform with better features better personalization and with one overarching loyalty program. I'm pleased to highlight that we are already seeing strong traction. For example in Q2, '22 alone we grew new loyalty members 33% compared to Q2, 2019. Similarly on the app side new app downloads grew 58% in Q2, '22 versus Q2 2019.

Not surprisingly therefore, our direct business continues to grow with almost 2/3 of our B2C gross bookings in Q2 generated from traffic that came to us directly. And really this is just the beginning. With improving products and features including our price tracking product for flights which has been a huge engagement driver in the app and with the rollout of loyalty to all of our customers next year, we will be able to drive much more direct engagement with our customers.

That being said it's also important to remember that lifetime value and travel does not come through the numbers instantly because of the frequency of travel for most consumers. While we have been gaining ground building up our base of high lifetime value customers and are confident in their ability to drive future velocity, it is not as quick twitch as buying transactions through Google and other meta channels.

In the coming quarters, we will continue to update you on these important core drivers of our future success and provide any additional disclosures that may help you measure and understand our progress. For example, starting today we have added an incremental disclosure of room nights on a booked basis. This disclosure should not only give you a better sense of our trajectory, but should also help you better understand our marketing spend.

But to be clear it is not the complete picture. Ultimately what you need to understand is that we are spending against the profit we derive from the market. And while we may currently look less efficient on even a booked room night basis compared to booked gross profit, we are still spending below historical levels. We have done this while allocating more money to channels that drive direct traffic and the kind of high lifetime value of consumers we seek.

It is early days even for this but we know we have the best creative in the category and a great plot to acquire app customers and believe strongly in these veins of opportunity.

Now as anyone forget while we've been making the transition from volume at all costs to the right volume with the right long-term characteristics we have also been going through a massive technical transformation as we move to a single platform. Transitions like this always entail certain short-term versus long-term trade-offs. The perfect example of which is our migration of Hotels.com onto the Expedia stack.

We accelerated this over the last two quarters because the benefits of being able to optimize across our largest two OTA brands on the same stack are massive. But to be clear migrations generally disrupt customer patterns and can impact conversion in the short term. And we were no exception. We had to make some choices to prioritize speed over perfection. The really good news is that Hotels.com front end is now nearly fully migrated and we've been freeing up engineers who can now turn their attention to optimizing the full stack.

This is just one example of the many choices we make every day to trade modest short-term disruption for significant long-term growth. And frankly we are more excited every day by our progress the acceleration of the transition and what is still to come.

So in summary, we know we are massively improving our technical position. We know we are engaging more customers in our membership programs and our apps and we know both will drive significant improvement in our business. And in general, we are willing to give up short-term unprofitable volume for longer-term sustainable growth. Because we know that at any given moment a large portion of the traveling public is up for grabs searching around for the best travel options.

The industry literally serves billions of searches and customers every year and rarely has engendered true loyalty. Traffic has never been an issue in travel. It's always been a question of retention. We mean to once and for all change that dynamic by providing a product and set of services, worthy of customer loyalty and ultimately, we intend to spend much less of our time and money chasing them over and over again in the wild.

Of course, in the meantime, we will look for every opportunity to grab back share where it makes sense and where we are bringing the right kind of traffic at the right value. As fixated as some of you may be on share, I can assure you we are more so. Our competition has been very promotional and highly geared to performance marketing, but we are determined to build our business in a better way. And we fully believe that as we build our base of high lifetime value customers, we will be able to buy the right customers more efficiently and grow revenue and share far more quickly and profitably than we ever have.

Let me end by reverting to our core theme. We are evolving all things in the business to a place of better customer-oriented products and capabilities, better service and understanding of our customers, personalization and ultimately, building what we believe will be the best and stickiest product in the industry. And all of these advancements also, benefit our B2B business, which continues to grow at an accelerated rate.

Just this quarter we had a variety of wins. We now power Delta Airlines car rental offering along with hotel, which we have powered for some time and we've already seen significant benefit to our partner. We've become the exclusive provider of hotel supply to Avios, the rewards program for all the airlines under the IAG flag. And while we continue to find new ways to add value to classic travel partners, we have also expanded into emerging pools of captive consumers.

To wit this quarter, we proudly partnered with Bilt, which has the first ever loyalty program for renters and we now power their travel portal. And as we continue to power old and new partners, we are also looking for new capabilities to externalize to expand our Open World platform product suite.

Late last year, we externalized our travel ads platform that allows travel suppliers to advertise to our consumers. With this externalization, we are expanding the reach for our travel advertisers and the scope of what we power for our demand partners. This quarter alone we added travel as to multiple template partners. We continue to see enormous potential for travel as a service and the continued growth of our product lineup will help fuel our ambition to power the whole industry.

So in closing, we had a record financial quarter and we added more loyalty members and app customers than ever before all while continuing to make huge progress on our technical transformation. We're grateful to our employees, our customers and our partners, who are helping us change the industry.

And with that, I'll pass it on to Eric for financials.

Eric Hart

Thanks Peter. The second quarter was strong on multiple fronts, and I am pleased with the financial results that the business continues to generate. Before I dive into the numbers, let me preface that I'll provide our reported numbers and growth rates as well as like-for-like growth rates that exclude Egencia's AmEx GBT and the non-lodging elements of our Chase relationship. I will go through that last one as that is a new adjustment.

Chase is a value B2B partner and our relationship remains strong. But as of February 2022, we stopped powering their non-loss business, which consists of air and car. However, we continue to power their locking business, which has performed well. While the non-locking business was significant on a gross booking basis, it was not material to us on profitability.

And as a reminder, we completed the sale of Egencia's AmEx GBT on November 1, 2021 and our EPS business entered into a 10-year lodging supply agreement with AmEx GBT. We believe these like-for-like numbers are more reflective of the actual performance of our business.

Moving on to the P&L. Total gross bookings for all products were up 1% on a like-for-like basis and down 8% versus Q2 2019 on a reported basis, which was a sequential improvement as compared to Q1 down 9% on a like-for-like basis and down 17% on a reported basis. Like-for-like gross bookings growth was driven by an improvement in lodging bookings and ADR is well above 2019 levels.

We've seen a continued recovery across all our geographies and main product types with particular strength in North America. Total lodging gross bookings, which were the highest we've ever had, were up 9% on a like-for-like basis versus Q2 2019 and up 8% on a reported basis.

Now for the monthly walk. On a reported basis, lodging gross bookings were up 9% in April, up 9% in May and up 5% in June. As for July, we saw some choppiness early in the month, likely due to airport and airline disruptions. But in the back half of the month, we have seen strong performance similar to the rest of Q2. All in, we expect July to land in line with 2019 levels.

Currently we are seeing a robust summer with Q3 lodging bookings pacing ahead of 2019. The same is true for pacing for the remainder of the year, but it's still early with the majority of bookings for the back half of the year yet to be made. We remain optimistic and as Peter mentioned, we will continue to monitor bookings and other leading indicators closely and adjust our actions accordingly.

Total revenue was up 5% versus Q2 2019 on a like-for-like basis. On a reported basis, revenue was \$3.2 billion up 1% and a sequential improvement from down 10% on a like-for-like basis and down 14% on a reported basis.

Direct sales and marketing expense was \$1.5 billion up 12% versus Q2 2019 levels as we continue to spend into the recovery to capture demand. As Peter mentioned, we increased our efficiency on marketing expense as a percent of book to gross profit. As part of our strategic focus to build a direct relationship with travelers, we continue to allocate spend towards higher lifetime value channels such as pay at installs and brand creatives.

Moving on to overhead. Costs were \$551 million, a sequential increase of \$18 million from Q1 2022 and were approximately \$170 million or 23% lower than Q2 2019. Adjusted EBITDA for the quarter was \$648 million, the highest second quarter in our history and was up 20% versus Q2 2019 on a like-for-like basis and was up 14% on a reported basis. Adjusted EBITDA margin for the quarter was 20% over 230 basis points higher than the 18% adjusted EBITDA margin in Q2 2019.

This quarter I also wanted to call out the other expense line which was a loss of \$385 million. This was primarily driven by a mark-to-market loss on our minority equity investment in American Express Global Business Travel, which we received in exchange for our equity interest in Egencia. The loss is due to the reduction of GBT share price since the company became public in May 2022 through the end of Q2.

We continue to bring long-term believers in AmEx GBT and is the leading corporate travel management company in the world led by a terrific management team. And additionally, corporate travel has been rebounding faster than many anticipated and our supply deal with GBT continues to perform very well.

On to free cash flow, which showed a \$1.5 billion in Q2 on a reported basis. Excluding the change in restricted cash primarily driven by the change in Vrbo's deferred merchant bookings, free cash flow was approximately \$1.3 billion.

As it relates to our current cash position we have \$8 billion in total liquidity, which includes \$5.6 billion of unrestricted cash on hand as of quarter end, which provides us ample cash to operate the business.

We remain committed to maintaining our investment-grade rating. And consistent with this in May, we announced the early redemption of our senior notes due 2023 and 2024 totaling approximately \$1 billion. Post this redemption we have no notes maturing until 2025. Since May of 2021, we have repaid over \$2.9 billion in net debt and preferred equity.

Regarding our capital allocation strategy we had a strong track record of returning capital to shareholders and we believe our stock remains undervalued. As we get more clarity on the macro picture we will accordingly reevaluate our options including potential share repurchases.

In closing, we are pleased with the results we achieved this quarter. I believe executing on our strategy will yield a stronger direct relationship with travelers and improve our overall financial performance further.

Operator, we are ready for our first question.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from Eric Sheridan of Goldman Sachs. Your line is open.

Eric Sheridan

Thank you so much for taking the question. Maybe coming back to all the disclosure and framing strategy around B2C which I think was really helpful for investors. Can you talk a little bit whether it's either qualitatively or quantitatively about how we should be thinking about longer-term marketing ROI or gross profit per booked room night.

I'm thinking about ways in which you could generate additional leverage in the model beyond some of the margin targets or margin framework we've talked about before coming out of the cost-cutting exercises during the pandemic just a bit better framing on what might that do for sort of returns for the business over the long-term? Thanks.

Peter Kern

Sure. Thank you for the question. I'll certainly try to put a little more color on it. Ultimately, as we drive towards high lifetime value customers and moving our customers into these high value positions in app in membership et cetera and up the membership ladder. We believe that we'll be able to use our marketing capital more efficiently through a variety of channels, including loyalty, including CRM and a variety of ways to drive more direct relationships.

And ultimately, we believe we're going to get better and better at being able to buy the right kinds of customers out of the market. We are trying to do that now. We are doing it, I would say, with fairly remedial tools, but we are getting better and better as we get better at a more granular understanding of each customer and each customer's potential LTV and what channels they come from.

So we're on that journey to basically drive lifetime value broadly, but also ultimately understand lifetime value in a very granular way, so that we can then, again, be buying that lifetime value out of the market in the most efficient way as we can.

We think we're doing that now. But admittedly our tools are somewhat remedial. As we get all of our customer accounts together. You've heard us talk about consolidating data, consolidating the one loyalty plan across everything.

As that loyalty plan reaches everybody, as we have one identity for every customer we are going to get better and better at understanding LTV and understand each customers' performance and that's going to allow us to get a lot sharper on how we acquire traffic and who we acquire.

So, ultimately, we are looking to drive more efficient acquisition of the right kinds of customers. And as I've said on a couple of calls, that doesn't mean we're necessarily planning to spend less money, it means we expect to get more value out of the money we spend.

And if we get really good at it, we may be spending more money and buying just more and more value out of the marketplace. So that is our ultimate goal. I think, there's lots of tools we have already to drive LTV, but we're going to have many more and a better understanding of how to buy the right kinds of customers out of the market as time passes.

Eric Sheridan

Great. Thank you.

Peter Kern

Sure.

Operator

Thank you. Your next question comes from Kevin Kopelman of Cowen. Kevin, your line is open.

Kevin Kopelman

Thanks a lot. I was hoping you could drill down a little bit more on how you view the current travel booking environment that you're seeing quarter-to-date, given you did see some of that choppiness early in the quarter, but then it sounds like growth has come back quite a bit since then. Thanks.

Peter Kern

Yes, sure. Eric can chime in. I'll give you my thoughts. I think we've seen -- as Eric referred to, we saw some choppiness in the early part of July. As you all know there's been a lot of disruption in North America and in Europe in airports.

There have been the Heathrow capped how many flights could go in and out. There's been a lot of noise and a lot of cancellations. And we think that's probably responsible for a lot of it, obviously, in a time of weird macro backdrops. We're all looking for ghosts.

But with the strong rebound over the last few weeks of July, we feel like it was more temporary than anything and we're seeing better resilience and similar strength, as Eric has said, compared to earlier in Q2.

So we're optimistic. Again, the summer period looks strong. There's no real let up that we've seen, other than what we reflected in July. And beyond that, there's still a lot of bookings to be had, but we're optimistic.

Kevin Kopelman

Could you -- and also just as a follow-up, could you touch on puts and takes for EBITDA in the third quarter, given it's the -- it's typically the largest profit quarter for the year? Thanks.

Peter Kern

Yes. Maybe, I'll let Eric take that, but I think he may be having some technical difficulties.

Eric Hart

Yes.

Peter Kern

Eric, you're there?

Eric Hart

Over here, you got it. Okay. Kevin can you hear me okay? Okay.

Kevin Kopelman

Yes.

Eric Hart

As you mentioned, Q3 is our seasonal high from an EBITDA perspective. If I -
- if we look at Q2, we feel good about where EBITDA came in, call it, in the aggregate or the quantum and then also seeing the leverage that I mentioned in my prepared remarks.

And we continue to operate the business in a very similar structure, if you will. So we feel good about the quarter. As I also mentioned, our pacing also looks and when I say pacing the forward bookings or whatever language one wants to use on what's on the books already for the coming periods, that's also above 2019.

Now, the bulk of the transactions still need to occur over Q3 or Q4 for that matter, but thus far, feeling pretty good about the trends that we're seeing. And then just adding a layer of comments on the – what Peter went through is, we continue to remain in an environment where there's more volatility in trading that I have necessarily seen in the business historically just given the pandemic and COVID and variants that come along and now disruption.

And so there are periods, where you might see more volatility than we've historically seen, but the consumers continue to be resilient and continue to prioritize travel in their spend. And as Peter mentioned, and I mentioned earlier, the back half of July and early part of August, was back to similar levels of Q2.

Kevin Kopelman

Great. Thanks, Eric. Thanks, Peter.

Eric Hart

Thanks, Kevin.

Peter Kern

Thanks, Kevin.

Operator

We now have a question from Naved Khan of Truist Securities. Please go ahead, when you are ready. Your line is now open.

Naved Khan

Great. Thank you. Just a quick clarification maybe. So the monthly trends you shared for 2Q and into July. Are they like-for-like, or are they on a reported basis? How should we understand them? And then on the – maybe Peter so you said that, the Hotels.com tech integration is complete. Are there any early results you can share with us in terms of any kind of benefits you might be able to drive from that?

Eric Hart

Hey, Naved, I'll take the first part of that, and perhaps Peter you take the second one. They are on a like-for-like basis. So, that is giving you a sense for what we believe is the more accurate representation of the trajectory of the business. And again, just for everyone clarification, it's essentially taking out Egencia, the Chase non-lodging components and then also the lodging service agreement that we have with Amex GBT, so that it gives you a sense "for our core business" and what the trends look like given the puts and takes that we've had given the changes that we've made over the last few years.

Peter Kern

And I'll take the H.com question. So the short answer is, we've mostly seen the disruption and not much of the win yet. Obviously, as I mentioned, the engineers we're now freeing up to optimize the stack is are highly valuable to us, and we expect now to get wins not only on the H.com stack, but on the beta the Expedia stack at the same time.

So the whole idea is been broken into two different stacks. We've had engineered, we've needed twice as many engineers to work both stacks. And we've been – any test any wins any improvements are made on one stack or the other and not necessarily carried across, or not necessarily working the same across.

So now that, we get more on to the same stack, every time we get a win, it's a win for everybody. And it's a win for much more of our traffic. So the opportunity to now have one consolidated place where we can do that is massive. And we are just getting going now that, we've moved so much of the front end, we can put those engineers on the work and we can start to get lift across not only for commercial, but Expedia the portfolio brands, and everywhere else that runs on that stack.

And ultimately, we will all be on the same front-end stack. And then every iteration every test and win every opportunity to make the product better, we'll go to all our customers and we'll get the benefit across the biggest space. So that's what we're driving to Naved and early days in that particular bit. But I will say, the disruption was somewhat less than we expected, which is good and the opportunity is enormous. So, we're putting people on it now and we're starting to get those benefits. But it's very early days.

Eric Hart

Yes. Hey, Naved, I want to just clean-up my quick remarks, because we actually have both in there both on a like-for-like, and on a reported basis. So let me just be really clear. We provided both numbers, which is the 9% on a like-for-like basis for total lodging gross bookings, and then the 8% on a reported basis. And then the WACC, itself is on a reported basis just to make that clear.

Naved Khan

So, let me just maybe understand that better maybe for July. So you shared the trends and how July started out weak and sort of picked up towards the back end. Is that on a reported basis, or how should we look at that?

Peter Kern

Yes. That's reported.

Eric Hart

Yes. That's on a reported basis.

Peter Kern

All the monthly are on a reported basis.

Naved Khan

And that's lodging bookings only, right?

Eric Hart

Correct. Just to make sure you heard me.

Naved Khan

Great. Thank you. Thanks.

Eric Hart

Thanks.

Operator

Thank you. Our next question comes from Lee Horowitz of Deutsche Bank. Your line is open Lee.

Lee Horowitz

Great. Thanks for the question. Appreciating that long-haul capacity still remains constrained. Can you guys comment at all on what you're seeing in terms of urban travel trends either in the quarter or into 3Q, or are you still seeing kind of robust accelerated recovery there? And is it fair to think that you guys still kind of remain below 2019 levels within this travel quarter?

Peter Kern

Yes. I would say to the first part, Lee, yes, cities have been coming back pretty strong. If you've been traveling this summer you've probably seen it particularly in Europe. And the strength is -- it's not as strong as beach and other things that have been, but it is materially coming back.

So, as I mentioned in the beginning we've seen improvement kind of everywhere in every product. It's different by geo and it's different by urban and non-urban. But everything has been going up into the right and urban has recovered substantially. I think you can tell from our numbers that in various spots we are not buying bad business.

So, I'm not going to go into breaking out which places that is per se but urban has been growing nicely for us and it's been growing nicely for the whole industry. So, I think Cities are back. And certainly this summer there will be plenty of urban travel.

Lee Horowitz

Great. And one follow-up if I could. In the past you guys have talked about struggle in terms of bringing on as much headcount as you may have liked. I guess given maybe some of the ground slack in the labor market would you say that that's no longer a problem, or are you still trying to kind of ramp in and having some I guess the word loss in terms of bringing new headcount in media?

Eric Hart

Yes, I can take that Peter.

Peter Kern

Go ahead.

Eric Hart

Yes, I would say we continue to trend below both our forecasted and candidly, what we want to do from a new hire perspective. So, I would say that that continues to persist. Obviously the market is dynamic at the moment. So, it's something that we're watching to see if there's greater accessibility of talent if you will. There's also continues to be some wage inflation challenges as well which I think you're probably hearing across a lot of these calls. So, we haven't seen that necessarily come through at this point, but it's something that we are watching closely.

But I will also say from a recruiting standpoint, I do think our strategy and our execution on our story does resonate quite well as we are recruiting. We are excited about what we're trying to accomplish. We're just doing that within a broader context of a challenging environment. And not that I wish ill on any people out there from a layout perspective or whatever else, but I think there could be an opportunity for us to ramp some of that hiring over the coming months.

Now, with that said, there is a lot of uncertainty out in the environment. We are like everyone else looking at our head count and making sure that we are prioritizing accordingly putting people on our highest priority items and looking at our open headcount to make sure that we're making the appropriate investment decisions.

So, it's dynamic like a lot of the other aspects of the business but we continue to have success in recruiting talent but not necessarily at the levels that we want to relative to our priorities. Peter not sure if you want to add anything to that?

Peter Kern

Yes, I would just add Lee that as we continue to make progress on our technical transition. We're constantly solving problems and freeing up people to work on new things. So, it's kind of we're solving it two ways, which is we're looking for talent in the market to help fill open roles where we need people and every day we're also kind of freeing up capacity that can work on the next thing.

So, we're moderating it that way. And ultimately as I've said before we're going to get more efficiency out of the machine over time. So, balancing that trajectory is something we're always looking at.

Lee Horowitz

Okay. Thank you, both.

Peter Kern

Thank you.

Eric Hart

Thank you.

Operator

Thank you, Lee. Our next question comes from Tom Champion of Piper. Please go ahead when you are ready, Tom.

Tom Champion

Hi. Good morning. Thanks for taking the questions. Just curious if you could talk a little bit about Vrbo and the alternative space and whether or not you encountered any supply constraints in the summer with inventory?

And then second maybe you could just talk a little bit more about new partnerships in the B2B business and very strong revenue and EBITDA in the segment. Just your thoughts on that sustainability. Thank you.

Peter Kern

Sure. Thanks, Tom. So a couple of highlights I guess on Vrbo. I mean, first of all, the business continues to be strong well above 2019 levels. We've seen some demand -- sorry, supply constraints in our best markets. I think Southeast beaches in the US and such, but we have been adding supply at an accelerating level and actually in our strongest markets like US beach, et cetera. We've been adding supply faster than our main competition.

So we feel pretty good about that trajectory and we're getting better at that kind of all the time. So in our strongest markets again we're adding supply, but there were constraints. There were markets sold out this summer for sure, and we'd love to have more supply in those places.

As far as new partnerships go, I'd love to name a bunch of names.

Unfortunately, in some cases we are constrained by our agreements with our partners, but we've seen really good growth in our B2B business and our B2B pipeline. We think there's a lot of products that we can help our partners with. And as our products get better all the things, I was talking about even with the Hotels.com, Orbitz front-end change that's not just getting on to one stack. It's also componentizing all the front-end modules, so that we can more easily use them and we use them for our partners to create their travel products on the front end.

So there's a lot of opportunity in all the work we're doing to make the products better for our partners, and to externalize new things that we haven't externalized before, like our service capabilities, or our machine learning capabilities, or our fraud capabilities. So we're working kind of two tracks, which is we want to drive more value into our partnerships that we already have with the products already available, and we want to externalize lots of new products that we think will be valuable to the partners we already have and to a much wider base of partners.

So, both of those things are going. There's lots of exciting things happening on both fronts. And most excitingly when we deliver things like we did with our new car deal with Delta or many others, they deliver more value for our partners. And that means, it's a good product, that makes our partners more successful, and us more successful. So I think it's one of those places that's really a great symbiotic situation, where we can use our technology and our supply to drive better outcomes for all our travel partners. And it really sort of turns those into partnerships instead of just the classic supply deals and other things we've always had.

So we're excited. We think the growth -- there's plenty of growth there. I don't think it's like linear and just accelerates. I think we'll have new products that roll out, new exciting things that come. We'll have some big new partnerships that come over time. And each of those will add to it. And ultimately, the more products we can externalize, I think, the more partners will have and that's what we're most excited about.

Tom Champion

Thank you.

Peter Kern

You bet.

Eric Hart

Thank you.

Operator

Thank you. Our next question comes from Deepak Mathivanan of Wolfe Research. Please go ahead when you are ready.

Deepak Mathivanan

Hey, guys. Thanks for taking my question. Sorry to jump on the monthly trends again. Given that it's kind of staying near sort of 10% about 2019 levels, is it sort of fair to assume that the volume recovery from kind of the pent-up demand that we saw over the last few quarters is somewhat now behind us, and it's a more normalized growth environment driven by more marketing and sort of like the product and some other partnership efforts that you mentioned just now? Are there any markets geographically maybe where recovery could still be significant? How do you kind of think about the growth from here to take it much higher about 2019 levels? Thanks so much.

Peter Kern

Yes, I'll take a stab Eric, and maybe you can follow. I would say, Deepak that there are still plenty of markets that have not fully recovered. APAC for one, Latin America for another. And then within certain geographies there's still -- there are still places that are not as robust.

But -- so there's plenty of opportunity. I think there's no sign that what we've seen as the robust recovery now won't continue for the foreseeable future. As Eric alluded to there's -- no one knows quite what's happening with the macro environment and when and if that will impact travel. But so far everything looks pretty strong.

So I think there is still opportunity for growth from our perspective. The pie is enormous, right? I mean, we and the other big OTAs eat about I don't know 15% maybe of the global travel market, maybe a bit more of the big ones our main big competitors. So there's a lot of pie out there.

And I think we have lots of opportunity in the strategy I was trying to describe to continue to grab high-value travelers that we can add to the pot and drive our business and stack them up. So we think there's plenty of recovery to be had. I don't know macro global travel is definitely still way under 2019 levels, because so many geos are not caught up yet and that long-haul air et cetera but ADRs have been very high. So we've seen escalated numbers driven by that. But there's definitely a fair amount of consumption in the world that's not back in the market.

Eric, I don't know if you want to add anything?

Eric Hart

No.

Peter Kern

Okay. Thank you, Deepak.

Deepak Mathivanan

Great. Thank you so much.

Peter Kern

You bet.

Operator

We now have Lloyd Walmsley of UBS. Please go ahead when you're ready.

Lloyd Walmsley

Thanks. Two questions if I can. First on the marketing side, it looks like there was a bit of deleverage in the quarter and just looking at direct marketing per booked room night. It's up by my math, I think 28% year-over-year. Is that just a function of bidding up because of the higher ADRs or something going on a brand campaign? You guys mentioned efficiency improvements on like a gross profit basis. So if you can just explain that a little more?

And then just second one on the product side, you guys talk a lot about improving the product and doing driving more direct from product improvements. Wondering how does adding hotel supply and localizing that supply fit in as a priority in the product strategy? Are you guys rebuilding supply acquisition team like where does that fit in? Thanks.

Peter Kern

Yeah. Maybe I'll take that in reverse order, Lloyd. So on the supply side, yes, supply plays an important role both in terms of breadth, in terms of pricing competitiveness and in terms of transaction if you will. Different kinds of discounts, different kind of our member discounts, package discounts other things. So supply plays an important role.

We are, yes, we have been ramping our acquisitions, but we've also been ramping something we've been trying to do for a long time, which is our self-service capabilities so that suppliers can more easily sign on. I don't know if you remember in the past, but it always took us a lot longer to sign up partners partly because we had the merchant model but also it was just harder and more cumbersome. And we are working tirelessly to try to change that and try to bring more people on board and self-serve. So that of course gives us scale beyond just hiring back up market management and people to acquire properties. So that's one line of work that we are absolutely focused on and driving.

On the deleverage side, I would say yeah you have to look at all the cost of marketing all up, which includes other things besides what you see in the marketing line, including loyalty and pricing moves et cetera. And then we look at our booked GP, our GP we're deriving from the bookings, we're booking and we are getting -- when you compare those two things, we are getting leverage in that number. You can't really look at room nights because you're missing other mix issues and you're missing some of these other components with loyalty et cetera, which is why some of our competitors appear to be getting leverage but they're really getting deleveraged because they're discounting more and being more merchandise and aggressive on the promotional side. So we're getting leverage out of that collective and others are not.

Eric Hart

Yeah. Hopefully, you can hear me okay. Peter, if I can a thumbs up.

Peter Kern

Yeah. Yeah. You're back on. Go for it.

Eric Hart

Thank you. Yeah. And so Peter spent a fair amount of time and I did well just around the gross profit and looking at it from a holistic perspective. But I do want to just make sure that I reflect and we reflect that we have said that we are going to be a couple of things. One is aggressive in marketing spend and the recovery. So to the extent that we see opportunities to acquire the types of travelers or customers that Peter mentioned, we are going to push into that and are seeing nice returns from that perspective. And then two is, the profile of the travelers and customers that we're acquiring because of a mix shift of marketing into longer-term relationships such as brand marketing or creative, as I mentioned and then also app downloads that we're essentially building cohorts over time that have a higher lifetime value, but also can take longer to hit the P&L if you will. So there's a timing aspect to it. So again, gross -- both gross profit, we feel good and we feel that that is healthy. Two is, we do want to be aggressive in marketing given the rebound from the pandemic. And then three is longer spend profiles from a mix standpoint in our marketing spend.

Lloyd Walmsley

Got it. Okay. Thanks.

Eric Hart

Thanks, Lloyd.

Operator

Thank you. We now have a question from Brian Fitzgerald of Wells Fargo. You may proceed with your question, Brian.

Brian Fitzgerald

Thanks. Maybe a bit of a follow-on to Lloyd's question. As you look ahead into 2023 and the implementation of the Digital Markets Act in the EU, just wondering if you could offer any thoughts in terms of how that could change the marketing environment for you potentially benefit the business from a marketing perspective? Thanks.

Eric Hart

Yeah. Thanks for the question. I appreciate it, Brian. It's a very dynamic environment. As you can imagine, there's international tax treaties that are being negotiated. They're DST taxes that are ebbing and flowing if you will. That ultimately, it is something that we're watching. We're building it in of course where we need to. Don't necessarily have a crystal ball on it. But ultimately, I believe that we won't be the only ones that are impacted if you will on a per geography basis. And it will impact pricing and ultimately what the consumer may end up paying in the end. And so, I don't foresee at this time any detrimental impact to our ability to acquire the types of customer relationships that Peter and I have both spoken to, but it is a very dynamic environment and something that we're spending time on in Washington.

Operator

Thank you. We now have Justin Post of Bank of America. You may proceed with your question.

Justin Post

Great. I appreciate the other booked night disclosure and I think that has been the overhang last quarter. A couple of questions around that. So as you're presumably trying to get better customers, what have you seen on return rates so far, since you've changed your strategy? And are those higher? And second, what time frame is the Board or the management team holding the marketing group to start showing better leverage on that line? Thank you.

Peter Kern

Yeah. I would just say -- so a couple of things. We don't really disclose repeat rate, but I'll state the obvious which is you heard what I said about the repeat rates of members of app users and how much direct business we have. So I think it's safe to assume that you can follow the trend lines of where that's headed as we continue to build these higher value higher repeat rate customers into our base. As for the time frame, we want to drive leverage in marketing broadly and long term, but it's not just up to marketing, the effectiveness of the product I think Lloyd asked about supply, the effectiveness of supply. All of those pieces play a part in marketing efficiency having the right product on the shelves, the right high converting product for the customer. And again, all the things we've talked about and moving them into the right products into membership into app et cetera.

So there's a lot of pieces that fall together. Right now, we're interested in investing in the right types of customers that build that base of high lifetime value customers. And as long as we can do that in an efficient way, and again, as we look at all our spend, all up, we are doing that more efficiently right now as against book value. So we're very happy to keep investing in that.

Over time, we will get better and better at finding those pockets, as I said on a more granular level. But right now with the blunt instruments we have, we are driving app membership all of it and the right kinds of customers into the funnel as best we can and we will get sharper and sharper on that over time.

So I don't think there's a -- we're not saying okay by the end of 2023 we have to pull x many basis points out of marketing. We're saying that as long marketing can drive the right base of customer -- high-value customers into the machine. And as long as the machine is getting better at converting them into the types of customers we want, we're winning and we want to keep driving that.

Eric Hart

And just – sorry I can just add to that as well quickly. Just around we've announced and launched some new products at our EXPLORE conference and then subsequently are ramping those. And just a couple of examples on how we can drive engagements with our travelers and customers and the relationships that one example of that is our price tracking product that we rolled out relatively recently. And early days, it's quite positive what we're seeing. We're seeing good uptake and people signing up for it. We're seeing great open rates when we send notifications and then seeing very strong return rates as well.

So again, it is of course about our ability to generate transactions from customers so that we can deepen our relationship but we now have new tools that we have developed that we are rolling out that are showing great promise and engaging those customers along the way in their journey.

And then subsequently you can imagine after that first transaction that just gives us more and more opportunities with an increasing number of customers using the app which is the multiplier as Peter talked about and being a member which is the multiplier on the amount of – the depth of the relationship and a number of transactions. So that all of those are adding up for us to increase our number of customers or share of wallet and ultimately drive the business in a profitable way.

Justin Post

Great. Thank you. Maybe one follow-up. You do see take rates up from 2019. And I was wondering if the strategy is driving higher value customers that maybe spend on different types of hotels, or is that just more timing related? Thank you.

Eric Hart

You have the typical seasonal component on take rates. But what I would say is there a number of different moving parts. We've got a higher mixed North America the Vrbo to Hotel relative to some of our historical numbers, which I think we've talked about in previous quarters. We also have a slightly higher margins on Vrbo itself just given some of the take rate decisions that we've made over the last few quarters. And so that revenue margin has benefited from mix so more lodging or less air.

So I would expect that to come down just to revert somewhat back to the mean. But there are promotional activities as Peter talked about that we're not necessarily as aggressive or making different choices along the way and balancing that with marketing spend. That will continue to be dynamic. So feel good about the take rates. They are higher. They have – some of that is because of mix. We should expect some of that to come back down but we feel good about the absolute level where we landed.

Justin Post

Great. Thank you.

Peter Kern

And I think – sorry I was just going to add in if you look at our ADRs, we've driven quite strong ADR growth and I think stronger than some of our competitors at any rate. And part of that is driving the right customers, driving the right products. And as Eric says, being less promotional. And we think that's evidence of that as compared to what's going on in other places.

Justin Post

Great. Thank you.

Eric Hart

Thank you.

Operator

Thank you, Justin. We now have Ron Josey of Citi. Please go ahead as soon you're ready, Ron.

Ron Josey

Great. Thanks for taking the question. Peter I just wanted to follow up on your comments around grabbing back share and the mix shift to direct. Can you just help us understand over time or talk to us how this has just evolved over time and maybe the mix of direct between mobile web and app and I think I've heard you use the term we've got blunter instrument several times today, I think as we talk about moving upstream to LTV. Just talk to us about how these instruments could become sharper? What are you looking for? What needs to happen to be more efficient as we attract these LTV customers? Thank you.

Peter Kern

Yes. So to be specific, and I don't want to underwrite our instruments, but our goal is true granular understanding of every customer's lifetime value, and the difference of where those customers emanate from and what actions they take that indicate and drive, higher lifetime value. That is the holy grail of understanding customer value, and trying -- and getting super sharp and efficient on buying, as best you can all the right customers.

Right now, we've given you some basic ideas, which is we know members perform much better. We know app users perform much better. We know, if they have both they performed much better. But that obviously, is a broad brush, not the finest brush you can have. And we ultimately want to have a very fine brush, so that we can know, if we find people in a certain performance channel, they're more likely to perform a certain way, maybe by geo, maybe by product that they come in on et cetera.

So we want to have all that scope of information, and that involves understanding all our customers in a common way. As we've talked about many times, we have data on our customers that were in silos, because they were Hotels.com customers, or Expedia customers or Vrbo customers or Orbitz customers, or you name it. And as we continue to consolidate the data, as we continue to consolidate those customer files and as we get everybody essentially into one broad loyalty program, we will be able to understand customers at a much more granular level and that will give us more tools.

I'm not saying our blunt tools, aren't good tools. They're just not as fine, as we can someday hope to get to. And then, as we add personalization on top of that, we will have a bunch more drivers that allow us to trigger more high LTV events. So, there's a lot of opportunity in that still to come. We're doing lots of good stuff now, but it will get better and better over time. And as far as grabbing back share, and mix shift to direct, we basically said, as I alluded to in general, we're willing to give up unprofitable short-term traffic for longer-term gains. That involves buying somewhat different kinds of traffic.

As Eric alluded to, we've been much more leaned into a cap acquisition and other opportunities where we know there's more value. And that involves again, making short-term trade-offs whether it's in technical transitions where we have to give up something in the short-term, to move faster. So we've been willing to do that, and give up some of the historically highly unprofitable, the last incremental performance marketing customer purchase.

So that's kind of what we've been going through. But we're getting better at understanding and being able to drive member sign-up. We were never that great, at getting sort of the owned sign-ups as honed as we wanted to do, getting the owned app downloads going faster. So every time we make that better, we see more opportunity then to drive into okay, now we can acquire this set of customers and they'll perform better, because we can get them into these high lifetime value activities and then we get more value -- drive more value out of them long term.

So that's what I'm talking about, in terms of grabbing back share, where we can grabbing back opportunities. And these things are not perfect. And as we see veins to drive, we are looking for more and more veins to drive, that will drive growth and ultimately drive share.

Q – Ron Josey

Very, helpful. Thank you, Peter.

A – Peter Kern

You, bet. Thanks, Ron

Operator

Thank you. I would like to hand back to -- our final question will be from Jed Kelly of Oppenheimer. Please go ahead.

Jed Kelly

Hi. Great. Thanks for sneaking me in. Just two if I may. One, can you talk about how the stronger US dollar, could benefit your long-haul international business potentially into next year? And are you developing any strategies around that given your higher North American base? And then two, just Peter you mentioned, you're seeing stronger Vrbo supply gains over your largest competitor. Can you talk about where that's coming? Is that coming more from the property managers or individual homes? Thank you.

A – Peter Kern

Sure. I'll take the last one first. So those gains have been sort of broad. We have a very good presence with the property managers. We always have. I think we're probably the – certainly, in North America, we're the preferred partner, for most of them or many of them. But I think what we've been focused on is really driving a systemic approach, to adding supply in the places where we have the highest demand, where we know we can drive performance for our supply partners the homeowner or the management company. Certainly, successful management companies that acquire more properties, become managers of more properties is a great vein for us because they're already working with us. They know how to work with us, and they can put those properties into the system. But we are also adding direct homeowners, at a pretty strong basis. So it's kind of both veins. There's no, we're all in on one or the other. We're trying to find the right supply and the right markets, whoever happens to be managing that or owning that. And then as far as the US dollar goes, I would say, long haul again remains -- as I mentioned in my opening remarks remains considerably down still. Those planes are -- there's 30% -- less airlift. And I think in U.S. to EMEA and EMEA to U.S. it's about down 20%.

And if any of you have traveled you've seen that prices are through the roof. So the airlines have been fairly content to run with less capacity and higher RevPAR which makes sense revenue per air mile.

But I think over time as that comes back there will be demand. I think the U.S. dollar being strong given our strength in the U.S. and continued demand patterns which seem to want to travel considerably still augurs well for international travel and long-haul travel.

I think the only constraint is just what's pricing going to be and how much airlift is there really in those channels. But strong U.S. dollar definitely is a good sign for U.S. international travel. So -- and that's always been a strong suit of ours.

So we hope that continues to be a strong opportunity. And into 2023, we'll see what happens with the dollar and with the recessions or not around the world, but we're optimistic about how that trade is working right now for us.

Jed Kelly

Thank you.

Eric Hart

One quick thing to add as well which is not necessarily your question but I think it might be helpful to you all which is just around -- we didn't spend a lot of time in this call on constant currencies or FX impacts to our P&L just given our weighting to the U.S. market to your question, but if we did adjust on a constant currency basis as compared to 2021 our EBITDA would have been 4% higher in Q2.

Yeah. So there we've got a slight detriment or knockdown in our EBITDA. So we would have had slightly higher EBITDA margins and would have had 4% higher EBITDA on the quantum of dollars as well.

So again not your question, I do think we've got an opportunity from a marketing perspective all else equal with a strong dollar sending U.S. residents or Americans into Europe, but there's also some adjustments or some impacts to this quarter as well.

Jed Kelly

Thank you.

Eric Hart

Thank you.

Operator

Thank you. That concludes today's call. You may now disconnect your lines. And have a nice day.

