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Booking Holdings, Inc. (BKNG)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to Booking Holdings' Third Quarter 2026 Conference Call. Booking Holdings would like to remind everyone that this call may contain forward-looking statements, which are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These forward-looking statements are not guaranteed of future performance and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially from those expressed, implied, or forecasted in any such forward-looking statements.

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We ask that you please limit yourself to one question so that we can give as many analysts as possible an opportunity to participate. And now I'd like to introduce Booking Holdings' speakers for this afternoon, Glenn Fogel and Ewout Steenbergen. Go ahead, gentlemen.

Glenn D. Fogel

Chief Executive Officer, President & Director, Booking Holdings, Inc.

Good afternoon, and thank you for joining us today. I am pleased to report that our teams delivered another quarter of strong operating performance with results exceeding the high end of our guidance across each of our key financial metrics. These results reflect the resilience of travel demand and the work our teams have done to strengthen our products and services. While travel trends can fluctuate in the near term, we remain focused on making travel easier, more connected and more personalized. This quarter, we continued to advance several priorities that support that goal. Let me begin with AI, which is creating significant opportunities to better serve travelers and partners while strengthening our business. We believe this is the most transformational time for industries since the dawn of the Industrial Revolution. Particularly in travel distribution, AI is opening up new ways for people to discover, plan, book, and manage travel.

The technologies and the way people use them are evolving quickly. We are actively testing AI across the traveler journey, learning from real-world usage and scaling the capabilities that create the most value for travelers and partners. We have made tangible progress across our brands over the last several months. For example, at Booking.com, we're expanding AI tools that help travelers explore destinations in greater detail at the top of the funnel. We also continue to advance our agentic capabilities, enabling customers to cancel a booking or get answers about their stay without having to contact customer service. Early testing is showing encouraging customer satisfaction results and fewer escalations to our service teams.

Agoda launched its new AI Assistant, which is now live across 21 markets and helps travelers move from an initial idea to a bookable trip using Agoda's live selection of accommodations, flights, and activities. At Priceline, we continue to develop Penny, it's AI travel assistant, and bring more of Penny's capabilities into the main Priceline experience, so more customers can benefit from them. These experiences show the difference between recommending a trip and actually enabling someone to book it seamlessly. Whether it's comparing locations, photos, room choices and prices, we can combine the ease of an AI assistant with the information, live inventory, booking capabilities and service of our platforms.

We're also excited to see the birth of new AI native experiences beyond our existing brands. In September, we launched Lola, which helps people access unique travel, dining and event inventory across platforms beyond our company through a conversational experience and a membership model. A few weeks later, we launched Vayo, a proactive AI travel agent designed to help travelers from initial planning through booking and beyond. It can bring existing reservations from a traveler's email history into one place and use that history to create more personalized offers and suggest ways to fill gaps in an itinerary. Vayo also continuously monitors prices and stays engaged after booking, alerting travelers to changes and helping them adjust their plans along the way. These platforms are testing grounds.

We can explore new AI capabilities, iterate quickly, and apply what we learn across Booking Holdings. Our established brands give us the scale to bring successful capabilities to our partner and customer bases. This combination allows us to pursue several approaches and direct resources toward the experiences that prove most useful to travelers and partners. Alongside these investments, our partnerships give us additional ways to reach travelers wherever they choose to engage.

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We continue to work with leading technology and AI companies, including Meta, OpenAI, Google, Anthropic, and Amazon. OpenTable's native integration with OpenAI has become one of the brand's fastest-growing channels from a small base. And OpenTable recently debuted as the first dining partner with Meta's Muse personal agent. And Agoda is live on Muse as a launch partner in Asia, connecting Muse directly with Agoda's new AI assistant.

Finally, AI is helping us operate more efficiently. We use it to help customer service teams handle routine requests, accelerate product development, and improve our internal processes. As an example, in the third quarter, customer service costs declined despite higher booking volumes, while satisfaction remained high. We're also seeing higher engineering productivity while the cost per merge request continues to decline. These are real efficiency gains we are seeing today. And we believe AI can deliver more over time.

Now, let me turn to the value we provide to our supplier partners. As the benefits of these AI improvements that we're bringing to our traveler customers have been built on the foundational relationships we have developed with our suppliers over many years. Independent hotels and alternative accommodation partners generate the vast majority of our room nights at Booking.com. Another way to look at this is the 10 largest global hotel chains account for only a low double-digit percentage of room nights at Booking.com. So, many of our partners do not have significant resources. The value we provide to them is to improve their business by enabling them to have incremental travelers from around the world at lower cost. And by providing services and expertise, they may not be able to develop on their own. For example, small and even medium-sized accommodation providers are generally not able to efficiently market themselves globally.

Our brand and marketing reach supported by years of investment in machine learning and AI helps connect partners offers with travelers across markets and channels. Partners benefit from that reach without upfront marketing costs, paying us only when they earn revenue from a room night that might have otherwise gone empty. To help our partners, we provide them with sophisticated data and tools to better understand travel demand patterns and improve their performance. And we provide different products, like Genius, that offer them opportunities to be more competitive. Our value goes beyond just showing a property to a traveler with advice on how to display it to improve conversion. We provide payment services.

We provide customer service in over 40 languages with both AI agents and people available around the clock. Our dedicated partner service teams are on the ground across the world, working directly with properties to help them improve their operations. Local knowledge matters. Traveler preferences, payment methods, and regulations vary widely from one market to another. Payments are a good example. Travelers want to use methods they know and trust, even when those methods are unfamiliar to the property where they are staying. Today, we can process more than 100 payment methods in over 50 currencies. That helps properties welcome guests from around the world without having to manage that complexity themselves or lose bookings because they cannot accept a traveler's preferred payment method. This combination of global reach and local expertise supports our growth in markets where we see significant opportunity.

The US and Asia are two such important priorities. In the US, we have mentioned in the past seeing significant room to grow over the long-term. We've invested in product, supply, brand, marketing, and in technology to build a stronger offering over the past several years, and our progress is clear. We have outperformed the broader market in terms of room night growth for the last three years as we have deepened direct engagement and more travelers have chosen to book multiple parts of their trip on our platform. These results reflect the consistent execution of our strategic priorities and reinforces my confidence in the opportunity ahead. Asia is another important area of growth. Its many distinct markets call for local execution, and we believe Booking.com's global reach and Agoda's local expertise position us well to deliver it.

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Across the region, we continue to invest in products, payments, marketing, distribution, and supply relationships that reflect how people travel in each market. As we discussed last quarter, that can mean adapting payment options, working with local properties, or reaching customers through the social and messaging platforms that they use every day. These investments help us better serve travelers and partners, while supporting our long-term growth in the region. Across all of our markets, we are focused on building relationships that extend beyond a single booking. We want to help travelers with more of their trip and give them more reasons to choose us again for the next one.

Our Connected Trip efforts and Genius Loyalty Program are central to that goal. Travel can be fragmented. A trip may involve accommodations, flights, ground transportation, and attractions, often with different providers. By bringing these pieces together, we can engage travelers earlier, help with more of their trip, and seek to build a stronger relationship over time. Genius adds value for travelers and encourages them to return to Booking.com, and we are seeing progress on both. Connected Trip transactions, where a traveler books more than one travel vertical with us for the same trip, grew 3 times faster than Booking.com's overall transactions from a relatively small base. Those travelers also tend to return more frequently.

Higher-tier Genius members plan further ahead, return more consistently, and book directly at a higher rate than non-Genius travelers. Over the last 12 months, Level 2 and Level 3 members represented more than 30% of Booking.com's active customer base and accounted for a high 50% share of room nights, up from a year ago.

In closing, our teams executed well in the third quarter, delivering solid results while advancing the priorities I discussed today. I want to thank them for that work. The pace of change in technology is accelerating, and therefore the pace of change in travel is also accelerating. AI is creating new ways for people to discover and plan trips, compare various travel options, and do it all in an easier way.

And we are building quickly to continue to help shape that future. Through it all, though, our mission remains the same to make it easier for everyone to experience the world. We have spent years building the brands, partner relationships, and services that help us deliver on that mission. We help travelers turn ideas into trips that they can book with confidence, and our services help our partners welcome customers from around the world. However a traveler begins their travel inspiration and planning, we see opportunities to make the whole travel process better, easier, with less frustration and anxiety.

In the end, it comes down to providing more value to both sides of the travel marketplace. That is the work our teams are focused on, it is why I am confident in the future of Booking Holdings.

With that, I'll turn the call over to Ewout to discuss our financial results and outlook.

Ewout Lucien Steenbergen

Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

Thank you, Glenn, and good afternoon, everyone. I will now review our results for the third quarter and provide our current thoughts for the fourth quarter and full year. All growth rates are on a year-over-year basis, and the reconciliation of non-GAAP to GAAP financials can be found in our earnings release.

I'm pleased to report that room nights, gross bookings, adjusted revenue and adjusted EBITDA all exceeded the high end of our guidance for the third quarter. We delivered profitable growth in a complex macro and travel environment, while investing in our long-term priorities. Our results reflect the fundamental strength of our global business and the continued focus and discipline of our teams.

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Travel demand was resilient in the quarter, although we saw some moderation towards the end of the period. Prices increased as we saw constant currency ADRs up approximately 3% year-over-year, primarily driven by Europe, but also by the US and Asia. We saw a slight expansion in the booking window in Europe and at the global level, while the booking window in the US modestly contracted. Average length of stay increased year-over-year for our business outside Asia, as Asia domestic travel outpaced international travel by the widest margin of any region.

Now let's turn to our third quarter results. Room nights grew 7%, up from the 5% in the second quarter driven by an improvement in international travel from bookers in Europe and Asia, while domestic room night growth was stable at a higher level. Globally, domestic room nights grew high single digits and international room nights grew mid single digits. We continued to navigate the indirect impacts of the conflict in the Middle East, with elevated airfares and reduced capacity on certain routes weighing on long-haul travel demand.

Looking at room night growth by booker region: Europe grew high single digits, with domestic room nights up high single digits. Asia grew high single digits, with domestic room nights up low double digits. The US grew mid single digits, driven by domestic room night growth. We were pleased to see another consecutive quarter of direct channel growth in the US.

Rest of World grew mid single digits, which was stable from the second quarter as we continued to see growth from bookers in the Middle East. Over the past four quarters, our B2C direct mix remained stable in the mid-60% range as room nights booked through the direct channel continued to grow in line with the rest of the business, while the mix of room nights coming from direct visits to our websites and mobile apps increased year-over-year. LLM referrals have accelerated over the last several weeks, but still account for significantly less than 1% of Booking.com's room nights.

Organic referrals increased following the release of the latest ChatGPT models, which improved citation rates and drove more traffic to our platforms. Paid referrals are also growing as we continue to partner with OpenAI by expanding into additional markets, and testing and refining our approach. The mobile app mix of total room nights over the past four quarters was in the high-50% range, up from the mid-50% range a year ago, and the mix of Booking.com room nights booked by travelers in Genius Levels 2 and 3 was in the high-50% range, which also increased from a year ago.

What is particularly encouraging is behavior of travelers who engage with Booking.com across all three dimensions: booking directly, using our mobile app, and participating in Genius Levels 2 and 3. Room nights booked by this cohort grew meaningfully faster than those booked by other travelers, both in the third quarter and year-to-date. These trends reinforce our confidence in the investments we're making to deepen our direct relationships with travelers. And we believe our broader selection of accommodations, flights and attractions, together with progress in payments, the Connected Trip and more personalized and proactive AI-powered experiences, will give travelers even more reasons to choose us and return for future trips.

Alternative accommodations represented approximately 37% of Booking.com's room nights, up about one percentage point from the third quarter of 2025, with room night growth of 7%, improving from 4% growth in the second quarter as we saw an acceleration across all of our major regions. We also saw alternative accommodation listings growth accelerate to 9%, which is an encouraging signal for our future growth in this category.

In our other travel verticals, flight tickets increased 19% year-over-year, a strong acceleration from the second quarter and ahead of the broader market, despite continued pressure from elevated ticket prices and reduced

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capacity on certain routes. Attraction tickets grew 24% year-over-year, also an acceleration from the second quarter.

Importantly, Connected Trip transactions growth accelerated to almost 20% year-over-year, and represented a low double digit mix of Booking.com's total transactions. This share has increased substantially over the past few years as we have expanded our supply across travel verticals beyond accommodations. We expect further increases as we deliver more personalized and GenAI powered experiences and bring these offerings together more seamlessly through our Genius loyalty program. Our data shows that travelers who book with us across multiple travel verticals return more frequently, reinforcing our confidence in the Connected Trip opportunity.

Our total merchant gross bookings represented approximately 75% of total gross bookings, up about three percentage points year-over-year. Our merchant payments platform is a key enabler of our Connected Trip vision, providing travelers with a more seamless and flexible booking experience, helping partners accept customers' preferred payment methods, and generating incremental contribution margin dollars for our business.

Total gross bookings increased 10% year-over-year, or approximately 11% on a constant currency basis. Constant currency gross bookings growth was approximately four percentage points higher than room nights growth, primarily reflecting the higher constant currency ADRs and the contribution from flights and other verticals. Adjusted revenue increased 9% year-over-year, or approximately 10% on a constant currency basis. Adjusted revenue as a percentage of gross bookings was about 15 basis points lower year-over-year, due to a higher mix of flight bookings and the timing of bookings versus travel, partially offset by higher revenues from facilitating payments.

Marketing expense increased 11% year-over-year, slightly faster than gross bookings, driven primarily by faster growth in B2B affiliate marketing expenses. Excluding our B2B affiliate business, our B2C business had marketing leverage in the quarter as we continue to aim to grow our topline metrics faster than marketing investments. Adjusted sales and other expenses were 2.0% of gross bookings and were a source of leverage. Efficiencies in third-party customer service, supported by AI-enabled tools, more than offset higher payment expenses associated with our increasing merchant mix.

Disciplined cost management continued to support operating leverage in the quarter. Adjusted fixed operating expenses increased 6% year-over-year, reflecting actions we have taken to manage our cost base. As our use of generative AI scales, we are applying the same cost discipline, including price caps on higher-cost models and model routing simpler tasks to more cost-effective models. For example at Agoda, our blended cost per million AI tokens declined by more than 25% between June and September.

For the company overall, developer productivity continued to improve, while cost per merge request declined double digits. These gains are helping us deliver new capabilities faster, including several Glenn highlighted in his opening remarks. Adjusted EBITDA of approximately $4.6 billion grew 9% year-over-year. We delivered 9% adjusted revenue growth while expanding our adjusted EBITDA margin slightly to 47.0%, including stock-based compensation as an expense, a powerful combination of growth and profitability that underscores the strength of our business model and disciplined execution.

Adjusted EPS of $4.66 per share increased 17% year-over-year, faster than adjusted EBITDA growth, helped by a 7.5% reduction in our average share count. We continue to execute on our Transformation Program and remain on track to achieve the full $650 million in annual run-rate savings in 2027. We incurred approximately $23 million of transformation costs in the third quarter, the majority of which were excluded from our adjusted results.

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Now on to our cash and liquidity position. Our third quarter ending cash and investments balance was $16.2 billion, compared to $17.7 billion at the end of the second quarter. During the quarter, we generated free cash flow of $1.1 billion, which was impacted by a working capital decrease driven by a $3.6 billion seasonal unwind of deferred merchant bookings. We also returned $2.4 billion to shareholders, including $2.1 billion of share repurchases.

During the first nine months of 2026, we returned $10.5 billion of capital to shareholders, including $9.5 billion of share repurchases. We remain committed to a disciplined capital allocation framework, investing behind the highest-return growth opportunities across our business while also actively returning capital to shareholders and maintaining a strong balance sheet.

Moving to our thoughts for the fourth quarter, the travel environment is mixed. As I mentioned earlier, we saw some moderation in global demand trends towards the end of the third quarter, driven by international travel. Domestic travel continues to hold up as we are seeing travelers take shorter trips and choose destinations closer to home. In October, a number of external factors have also affected demand, including disruptions to travel to and from the Middle East, the conflict's broader indirect effects such as elevated airfares, and localized unrest in certain European cities. Our guidance reflects these near-term disruptions and assumes that both the direct and indirect impacts of the Middle East conflict on travel persist through the end of the year.

Our guidance also assumes recent FX rates for the remainder of the year, including the Euro-US dollar exchange rate at $1.12. We estimate changes in FX will negatively impact our fourth quarter reported US dollar growth rates by about 2 percentage points. For the full year, we estimate changes in FX will positively impact reported growth rates by about 1 percentage point for gross bookings and about half a percentage point for adjusted revenue. We currently expect fourth quarter room nights to increase between 1% and 3%, reflecting the toughest prior-year comparison of 2026 and the uncertainty around the impact of recent events on travel demand.

We currently expect gross bookings to increase between 2% and 4%, or between 4% and 6% on a constant currency basis, which is higher than room night growth due to higher constant currency ADRs and flight ticket growth. We currently expect adjusted revenue to increase between 0% and 2%, or between 2% and 4% on a constant currency basis, slower than gross bookings due to flight bookings mix and differences in the timing of bookings versus travel, partially offset by higher revenue from payments. We currently expect adjusted EBITDA to be about flat year-over-year, or up about 2% on a constant currency basis, and to be impacted by increased planned investments behind our long-term strategic priorities, including expanding capabilities across non-accommodation verticals such as flights, attractions, and dining; advancing our AI capabilities; and enhancing our underlying technology infrastructure and platforms. We expect these investments to be partially offset by marketing leverage.

For the full year, on a reported basis, we continue to expect gross bookings, adjusted revenue, and adjusted EBITDA to be up high single digits, and adjusted EPS to be up low to mid-teens. At the high end, this outlook is broadly in line with our long-term constant currency growth ambition of at least 8% for gross bookings and adjusted revenue, and 15% for adjusted EPS.

In conclusion, our third quarter results demonstrated the resilience of our global platform and the disciplined execution of our teams in a dynamic environment. We continue to focus on key areas that we believe can further strengthen our long-term growth outlook, including expansion in key markets, deepening traveler relationships through Connected Trip and Genius, creating greater value for our partners, and advancing our approach to AI. As agentic AI evolves, we're taking a multi-pronged approach: first, building our own AI-agent powered

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experiences; second, participating in new distribution channels that bring incremental demand at attractive economics; and third, using AI to improve customer service, developer productivity and operating efficiency.

We believe Booking Holdings is well positioned to win as the landscape evolves. Our confidence is grounded in the capabilities that matter when inspiration turns into an actual trip: extensive supply, real-time price and availability, trusted brands, attractive loyalty programs, payments and service capabilities, and longstanding relationships with travelers and partners. We believe these will create economic value both within our own platforms and through emerging channels, supporting sustained growth and attractive returns over time.

With that we'll now take your questions. Operator, will you please open the lines.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Doug Anmuth with JPMorgan. Please go ahead.

Doug Anmuth

Analyst, JPMorgan Securities LLC

Q

Thanks for taking the questions. I have two. Just first on the tangible AI progress that you're seeing in brands, obviously good to see the customer service cost efficiencies. Is there anything that you can share in terms of some of the top-line benefits perhaps that you're seeing around either conversion rates or frequencies or just other ways to quantify? And then on those accelerating AI referrals in recent weeks, are you seeing any differences in some of the newer agents like Muse and Grok Bot relative to, what you saw previously with kind of the other LLMs?

Ewout Lucien Steenbergen

Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

Hello, Doug. Good evening. This is Ewout. First on some of the tangible AI progress. There are four key categories where we see some positive early indicators. So, let me explain that and give just a couple of examples around that.

First, we're seeing higher engagement. So, examples here are Booking.com's daily AI search visitors are up 10 times with trip search in the third quarter compared to the second quarter. And second example here is our new Vayo platform users are connecting their e-mail and we're seeing strong conversational engagement with Vayo at the moment. Second area is higher conversion. So, couple of examples again, Priceline's Penny and Agoda's AI Assistant users have converted at approximately twice the rate of non-users. Third area, higher booking value. We see Agoda's AI Assistant users have an average booking value of approximately 20% higher than non-users. And the fourth category is incrementality. So, again, some examples. OpenTable's native integration with OpenAI has become one of the brand's fasting growing channels and had in September, 190,000 seated covers. And then OpenTable's agentic interactions with Muse and other horizontal agents have brought a significant number of completely new customers to our platform. So, four key areas where we see improvements and really positive indicators, higher engagement, higher conversion, higher booking value and incrementality. It's early days, but we're encouraged by the momentum. And we really think these are really nice positive uplifts on these metrics.

In terms of your question around referrals from LLMs versus the newer horizontal agents, what we're seeing that this traffic is still very small in aggregate. So, nothing is really jumping out there in terms of one that is growing

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faster than another. So, it's still very small. Yes, we have seen some acceleration in the recent weeks, but it's still significantly below 1%. I also would like to point out that the vast majority of the traffic is coming to us and that is based on third-party data sources. So, we're not missing out on the traffic, but it's still really small.

Operator: Your next question comes from the line of Mark Mahaney with Evercore ISI. Please go ahead.

Mark Mahaney
Analyst, Evercore ISI

Q

Thanks. Two questions, please. I know, you've got this partnership with Muse with Agoda in Asia. And just what's the – just talk a little bit about the strategy of, you've got three sort of global brands. Why work with Muse with Agoda versus one of the others?

And then the marketing deleverage in B2B, and I think that's been the case for a quarter or two or three. I think, you're leaning into this as a channel. Could you talk about any signs of tractions, of success, more momentum you're getting just in the B2B segment? Thank you very much.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

Hi, Mark. Why don't I take the first one, and I'll let Ewout, will take the second one. So, it's interesting which agreements with whom we get done first and priorities, et cetera. Look, I think, the important thing to recognize is we are working with everybody all the time. Some things are going to happen faster than others. Some things are getting completed faster than others, but you should not think just because we have Agoda getting the launch in Singapore is somehow more important than what we end up in US with Muse or anyone else. Please don't – please don't misinterpret that. And I have confidence that we'll have great relationships with all the players and not just the ones that you know of now, because we know there are a lot more coming down the road.

Operator: Your next question...

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

And Mark, with respect to your second question, with respect to B2B marketing deleverage. So, let me point out the following. So, we are pleased, of course, with third quarter marketing leverage for B2C. And also, of course, pleased with the growth of our B2B business volumes. So, specifically your question about B2B, yeah, that is a business that is getting more focus and attention internally. I think, you know about our plans that we're launching on January 1, a combined B2B business. So, you will also see then more details about the numbers, because most likely we'll break that out going forward.

What is happening there is if the business is growing and they are reporting more revenues, usually the commission structures are based on a rev share. So, therefore also the rev share and the commissions are going up, and that is flowing through the marketing line. But that's for a good reason, because if that is going up, it means that from an economics perspective, it's also very healthy for the company.

Operator: Your next question comes from the line of Matt Cost with Morgan Stanley. Please go ahead.

Matthew Cost
Analyst, Morgan Stanley & Co. LLC

Q

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Hi. Thanks for taking the question. I'm sure you've seen data out there showing that a lot of the commercial activity that's happening on these early agents is skewing toward travel. And I guess, to the extent that you're seeing that come to your brands, should we view that as something that is just a convenience for people who are going to book travel already? Or is there an aspect here whereby removing friction from a very complex purchase process that may actually be incremental demand that's engendered by these tools? Thank you.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

So, that is an interesting thing, and we are seeing the data you're mentioning. Lots of people using these personal agents or any form of AI to do travel discovery. It's easy, it's interesting. People like to do travel discovery throughout all the time. Doesn't end up with a lot of bookings, as Ewout mentioned, that we're getting. The referral numbers are pretty darn small, and we believe we're getting a good number of the total number out there.

So, what does it mean for us though? Over time, it may end up being another, perhaps significant way that we get business the way we've gotten business in the past from other people who had a front door discovery. It may be making it easier for people, less friction to try and learn what they need to do. So, perhaps we end up with things that are actually going to convert at a higher rate. We believe it's important enough that we're coming out with things like Vayo, like Lola, and all our brands coming out with things too. So, people can come to us first.

And look, what I really want to do is complete our Connected Trip using AI to make it easier, provide more value to the consumer so that when they are thinking of travel, they're always want to come to us first. Now we know we're not going to get everyone, but we absolutely believe that we should with the technology capabilities that we have, with the capital we have, with the resources we have, with the relationship with the suppliers, so we can help provide more value to the consumer. And of course, that customer service that is so important, being able to make people able to trust that when they come to us, they're going to be able to have the best experience in their travel. Those types of things are really important.

I believe this is actually a wonderful thing that there could be much more of a fragmentation of the way people are beginning their discovery, such that enables us to actually be able to obtain customers at a lower cost. We could see that happen.

Ewout, anything you want to add to that?

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

Just to say one more thing is strategically, of course, these new channels are important for us because it gives us an opportunity for diversification of third-party channels. And that ultimately will drive some economic advantage to us. We have been talking about that in the past, but I think that is already really showing up in practice because clearly there are many AI platforms now, many AI tools, agentic tools out there. They're still figuring out their economic model. They haven't really come to a conclusion there because the competition is very high. And we get the vast majority of the traffic because they like to connect to aggregators. That is much better for them. And that is good for us. But from an economics perspective, the diversification looks like it's going to be a positive for us at the end.

Operator: Your next question comes from the line of just – oh, I'm sorry, of Alex Brignall with Redburn Atlantic. Please go ahead.

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Alexander Robert Lyon Brignall

Analyst, Rothschild & Co Redburn

Q

Thank you very much. I'll ask a follow-on on that previous question. It's something I've asked in the past about fragmentation. You're obviously seeing some B2C leverage. If you could talk about the components of that, that would be very helpful. And then I sat over here in Europe, we have obviously – and specifically continental Europe seen the DMA impact on Google's search results which have thrown a bit of a spanner on what they can display when people search for travel. I wonder if you could give us some thoughts on that and how it might affect your numbers. Thank you.

Ewout Lucien Steenbergen

Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

Alex, with respect to our B2C leverage, nothing is different than what we have always done. We're managing that in a disciplined way. We see two advantages that are flowing through. One is we're always trying to drive up higher ROIs in our pay channels. And then also what we are seeing is that the direct traffic is up at the same time. So, both in combination are helping us to achieve B2C marketing leverage in the third quarter. And also, we are looking at the possibility to deliver on marketing leverage in the fourth quarter as well. So, this is always our standard, what we're going after. Glenn, do you want to take the question about Europe, the DMA and Google?

Glenn D. Fogel

Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

Yeah, I'll talk a little bit about that. Right now, we don't see any great advantage from this change. Obviously, it's early, et cetera. We haven't seen anything in terms of numbers change. I know some people have been talking about that. Oh, it's going to be such an advantage for the OTAs. I hope it is. I haven't seen it yet. We'll see.

What's interesting, though, since you mentioned DMA, it gives me an opportunity to talk about something I don't see a lot of people writing about. And that talks about the regulatory framework in many parts of the world, particularly in Europe, and how these personal – these horizontal personal agents are going to be able to do things or not, what sort of access they're going to be allowed to have in terms of personal information, what the requirements are going to be, what's going to be allowed in being a commerce platform, along with being an advertising platform. It's very complex. There's a lot of regulatory stuff out there, whether it be the DMA, or the EUAIA, or the DSA, or the VLOP laws, or you get into the UK, and I saw something that one of the senior executives, I think, it was out of the Treasury, it was regarding the FCA, I think, in terms of being able to allow to do monetary things in use or not. I think, there's parts of the world where the adoption of these horizontal personal agents may be much slower than is anticipated. And we'll see what that may mean. For ourselves, we don't know, but it is interesting that I don't see a lot of people talking about that.

Operator: Your next question comes from the line of Justin Post with Bank of America. Please go ahead.

Justin Post

Analyst, BofA Securities, Inc.

Q

Great, thanks. A couple on agentic. I think, in addition to economics, one of the concerns is they might be preferencing direct sites versus OTAs. Are you seeing any evidence of that? And what can you do to really improve your relevance in AI results? And then second, just thinking about the cost increases in Q4, I think, there's some questions on how you're thinking about investment in 2027 and what that could do to your algorithm. Any help with that would be very helpful. Thank you.

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Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

So, I'll talk a little bit about the first question. I'll let Ewout talk about investments going forward. So, it's interesting you say that, because I haven't actually – I've heard some of that, but I see other things too, where the OTAs are actually getting a greater advantage right now. Here's the end, the real story is, and this is the way we believe we need to play it, is you got to provide more value, whether it be to a human traveler, or to the agent, such that the agent – we want that agent or that person to be using us, looking at her cell phones, we want her transacting with us. If we are able to do that in the long run, we will have a competitive advantage. And that's really the way it is.

Now, one of the things that we provide is to the small independents, and Ewout mentioned a little bit about that, how a very small percentage of our business comes from the big hotels, and so much is the small, medium-sized ones, who don't have the resources, who absolutely are afraid that in the new world, they won't be seen at all. But that's okay, because we're there to provide them what they need. That's what we've been doing for the almost 27 years I've been at this company, is providing value to our partners, being able for them to get incremental travelers, because they could not, whether it was 20 years ago, go online and have a website, or then they don't have an app, or now it's how do I show up in an LLM? How is an agentic horizontal going to find me, see me or whatever? We are there to provide it for them. And we do it at a risk-free rate. Essentially, they don't have to pay anything unless they get ahead in the bet. And that's what we are able to do for them. So, I absolutely believe that we have an advantage. This is a great time for us now, being able to use our technology, all these things to be able to provide even more value to both the travelers and the partners. And I see the future is very bright.

So, Ewout, do you want to talk about investments needed to achieve all this?

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

Yes, Justin, let me give some commentary about the fourth quarter and you also asked about 2027. So, first about the fourth quarter, our philosophy is to make disciplined investments for the long-term of the company, while also protecting profitability in the near term. So, from a big picture perspective, I think everyone knows that we have already industry-leading EBITDA and EBITDA margins, and that is on a fully loaded basis. So, we're not capitalizing a lot. We have a fully loaded expense base, including stock-based compensation. We don't understand how people are pulling that out. That's the real cost of running your business. At the same time, we also have strong execution and discipline regarding the delivery on our productivity programs, efficiency targets, operating leverage. And that is then offset by increased investments in strategic initiatives, and those were planned in the fourth quarter at a higher level, but obviously we have attractive business cases underneath. I also would like to point out that our full-year EBITDA margins, we expect to be stable. So, with respect to 2027, it's a bit too early to provide commentary, we'll do that in February with our fourth quarter results, but what I can say is that we remain confident with respect to our long-term growth outlook and we will stay disciplined how we are planning to invest in the business also next year and in the future. Maybe one thing to throw out for 2027 and this is not related to cost, but more on the commercial side it's a very early directional indicator, so it's still subject to change like cancellations and others, but if you look at our on the book statistics for the first half of 2027, that actually looks healthy. So, that gives us confidence in the outlook for next year.

Operator: Your next question comes from the line of Ron Josey with Citi. Please go ahead.

Ronald Josey
Analyst, Citigroup Global Markets, Inc.

Q

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Hey, thanks for taking the question. You know, Glenn, I wanted to go back to your comments on just applying the learnings from Lola and Vayo and sort of using Booking's platforms as the testing grounds, just talk to us about the metrics and such you're looking for from those tools and the other AI tools that you have before applying the learnings. And then we sort of just talked about it, but I'd love to hear your thoughts on just the value of the supply that Booking has as agents become a larger part or potentially larger part or a new front door for the internet overall. So, just the value of a Booking supply. Thank you.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.
A

Hi, Ron. So, in terms of what we use in terms of learnings and why we started up two greenfield operations to be able to come up with a new agentic way to do our travel business in two different ways, two different companies doing different, having – and they're not the same. You're probably reading about what they're doing. The way we do this is seeing what customers like, what is converting well, what people are signing up for, whether or not, for example, at Vayo, will they take an e-mail? Will they have the whole e-mail history in the thing or not? Well, we've learned that actually, yes, most will, which is really good to know. And that's how we do it. Now, in terms of the actual specific metrics, I'm not going to go around and get into the details of how we're going to do it. But obviously, when we see things that are working, that is such a value to bring to the much bigger companies, Booking, Agoda, Priceline, and being able to transfer that so that they can then take the advantage of doing that. It really is a wonderful place to be when you have the capabilities, the capital, the resources, the number of people that you can afford to do this type of agile, creating new things, and being able to test it out. And then test bed type stuff, come bring it back when it's working, or don't bother. And it didn't hurt you because you tried it on a much bigger platform and it wasn't working. So, that's on that one.

In terms of supply, what is the value?

I'd make sure I got you right, Ron. If you're asking what value do we provide to the supplier in a new AI world, is that – was that the question?

Ronald Josey
Analyst, Citigroup Global Markets, Inc.
Q

Well, more like the other way around. So, in other words, when we do our searches on Muse, we see Bookings show up, whether we're looking for a hotel in Panama City, Panama, or in Paris, for example. And so, Booking inherently is always there. And I think that's because of the supply, but I wanted to get your thoughts there.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.
A

Oh, yeah, why are we showing up more there than others? You know, that's a hard thing to say. I think, we have a lot of theories about why the models are choosing us. We believe it has a lot to do with the level of the content, the reliability of it, the value that the – the way the models go look through and see what value this content provides. Truth is though, there is no handbook out how do you show up more in an LLM? How do you show up more in a personal agent or not? In the end, what we really want is what I said earlier though, and this is being able to provide the more value. So, the agents, when agent to agent, our agent, they're talking to the personal agent, the horizontal, and really being instantly giving all the reasons It's better, and it's not just price, of course, all the elements that we've talked about over the last 40 years or so about what we provide to the traveler and to the partner that that is the best place to do this travel in such a way that the horizontal agent recognizes it and is recommending or saying, do it here because this is best. That's what we want to achieve.

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Operator: Your next question...

Ewout Lucien Steenbergen
Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

And if I can add a few elements there, Ron. I think, brand credibility is a very important element. So, I think that's why those horizontal agents want to work with us because it gives them instant credibility being associated with our brand. As I said before, they like to partner with aggregators. It's going to be very expensive for them to connect to 4.7 million properties directly and get all the information about real-time data, pricing, availability, so they can get that through us and immediately have also the possibility in the future of a potential monetization model with us. So, those are a couple of reasons why we think that we are showing so much up on those platforms.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

And just to add to Ewout's point, if these horizontal agents do go down the route of some type of monetization that is not dissimilar to what we have been doing over the last two decades, we'll be even in a better position.

Operator: Your next question comes from the line of Benjamin Black with Deutsche Bank. Please go ahead.

Benjamin Black
Analyst, Deutsche Bank Securities, Inc.

Q

Great, thank you for taking my question. So, Genius has become a much larger part of your transaction mix. So, can you dig into how you're thinking about the next evolution of the program and how you can deepen loyalty without maybe in becoming more reliant on supplier-funded discounts. And then maybe a follow-up on the [ph] 8.8.15 (00:54:35) framework. You know, as AI begins to drive real efficiencies across customer service, across engineering, across other parts of the cost base, does 15% still seem like the right long-term sort of EPS algorithm, or is there a scenario where AI-driven operating leverage allows you to outperform that framework without even driving faster top-line growth? Thank you.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

Thanks, Benjamin. I'll take the first. I'll let Ewout take the second there. You know, it's – to be fair, repeat that first one again. It gives me a little more time to think exactly how I want to answer it.

Benjamin Black
Analyst, Deutsche Bank Securities, Inc.

Q

Yeah, it's really about Genius and how you're thinking about evolving it from here. It's already become a much larger part of your transaction mix.

Glenn D. Fogel
Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

Yeah. All right. So, here's – and I've kind of teased this out a little bit in the past. I just want to be very careful what I say. We are going to improve Genius. It's going to be an even better program down the road. I absolutely believe, and I said earlier, I said it several times now, the issue, the importance of providing value, providing value to that traveler, and it's also value to the partner. Genius works right now very well because the partner is funding a lot of it, and it's getting a good ROI out of that. And of course, the traveler's getting a great deal too, because

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again, a lower cost for their holiday. So, it works both ways. But there are a lot of other ways we can improve upon that tremendously. There are other things that travelers want, and maybe the partner will be willing to give it up either at no cost because there's very little marginal cost to them, or perhaps they'd be willing to do it at a lesser cost that we can help work with. These are ways we have to think about down the road is how do we continue to make sure that we are giving more value and in a way that travelers who use us get even more value because they use us. Loyalty, spend more with us, stay with us more, do things more with us, get more benefit, continue to do that in a way that it creates a flywheel effect and continues to grow. Now I'm not going to give away when we're going to bring out what or what they're actually going to be. But I absolutely recognize the importance of continuing to come up with a differentiating value that enables us to continue to show up as the better way for the traveler to use us and for the partner to participate. And Ewout, I think, the question about the algo is yours.

Ewout Lucien Steenbergen

Executive Vice President & Chief Financial Officer, Booking Holdings, Inc.

A

Yeah, Ben, with respect to the [ph] 8.8.15 (00:57:17) and the benefits from AI that might flow into that. I think, it is a little bit too early to tell you exactly how we will see that changing our long-term algorithm. But what I can say is that we're already moving from experimentation to measurable operating value across the company coming from AI. So, in a couple of areas, first, we are fundamentally improving the travel experience for our traveler customers. Think about engagement, think about conversion, think about booking value, think about incrementality and some of the examples that I gave earlier during this call. Then we have been speaking before about the benefits, for example, in customer service, where the average cost per booking are coming down and the customer satisfaction remains high. And also in our engineering groups, where the average cost per merge request are coming down in a significant way. And then the third area is our head count growth has been very minimal over the last two years, and that has been mostly in lower-cost locations like our Center of Excellence in India, where we also can find great talent. So, we're pleased that we're already seeing some tangible results, but it is a little bit too early to exactly determine in which way that will impact our long-term algorithm.

Operator: We have time for one last question, and that question comes from the line of Meredith Jensen with HSBC. Go ahead.

Meredith Prichard Jensen

Analyst, HSBC Securities (USA), Inc.

Q

Good afternoon. Thank you. I just have one question a little bit related to the last, but potentially a smaller piece to the pie. But if you might talk about a little bit of the changes in the distribution landscape and how it might open some new doors for Booking and hotel suppliers in ways that they could collaborate, particularly around loyalty programs and guest recognition. So, if you could, I know, Glenn, you've spoken a little bit about this in the past in interviews and I would just love some updated thoughts. Thank you.

Glenn D. Fogel

Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

So, Meredith, so I make sure I understand your question. You'd like to know a little bit more about how in terms of recognition for the suppliers in the process or were you talking more for the travelers?

Meredith Prichard Jensen

Analyst, HSBC Securities (USA), Inc.

Q

If there's the loyalty program connectivity between some of the hotel programs to, if they book through Muse and Booking is the connector, how that kind of could play out over time because everything's moving so quickly.

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Glenn D. Fogel

Chief Executive Officer, President & Director, Booking Holdings, Inc.

A

It is. It absolutely is. And, that's one of those interesting questions in terms of networks and how do you create a loyalty program so you have more and more people who want to participate in it. It gives more value. We all know the value of a network and the more nodes you have, the exponential increase in the value of that network. So, absolutely talking with hoteliers, talking with every travel player, and non-hotelier players, non-travel players, people outside the travel ecosystem, and figure out ways again in these types of loyalty programs you can actually though give more value to both the person, who is participating, the traveler, and anyone who's on the other side supplying some type of service or product. We absolutely believe that's an important part of helping build out and ensure that the Genius Program remains one of the most valuable programs there is and the reason people will want to come. And again, I don't want to give away too much of what we're building down the road, but we absolutely understand the need to continue to provide more value to both sides of that network. Is that helpful?

Meredith Prichard Jensen

Analyst, HSBC Securities (USA), Inc.

Q

Yes, thank you so much.

Glenn D. Fogel

Chief Executive Officer, President & Director, Booking Holdings, Inc.

Thank you. Well, I guess that was our last question. So, let me conclude. First, as always, I want to thank our employees for their dedication and strong execution. I thank our shareholders for their continued support. And of course, I've got to thank the travelers and the partners who place their trust in us every day. I and we together, we are so excited about the role AI is going to play in travel. And I'm absolutely encouraged by the progress we are making across our strategic priorities. Look, we're going to continue to navigate this near-term uncertainty with the discipline we've always had, and we're going to be investing thoughtfully in the opportunities ahead. Our people and the capabilities we continue to develop gives us the confidence in our ability to continue to play a leading role in shaping the future of travel and delivering lasting value for our shareholders. Thank you very much and good night.

Operator: Ladies and gentlemen, this does conclude today's conference call. Thank you for your participation and you may now disconnect.

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